

PROSPECT CAPITAL CORP

Form 10-K

August 28, 2018

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended June 30, 2018

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

Commission File Number: 814-00659

PROSPECT CAPITAL CORPORATION

(Exact name of Registrant as specified in its charter)

Maryland 43-2048643

(State or other jurisdiction of (I.R.S. Employer

incorporation or organization) Identification No.)

10 East 40th Street, 42nd Floor

New York, New York 10016

(Address of principal executive offices) (Zip Code)

Registrant's telephone number, including area code: (212)

448-0702

Securities registered pursuant to Section 12(b) of the Act:

| Title of each class | Name of each exchange on which registered |
|---------------------|---|
|---------------------|---|

| | |
|---|-----------------------------|
| Common Stock, par value \$0.001 per share | NASDAQ Global Select Market |
|---|-----------------------------|

| | |
|--------------------------------------|-------------------------|
| 6.25% Notes due 2024, par value \$25 | New York Stock Exchange |
|--------------------------------------|-------------------------|

| | |
|--------------------------------------|-------------------------|
| 6.25% Notes due 2028, par value \$25 | New York Stock Exchange |
|--------------------------------------|-------------------------|

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the Registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes No

Indicate by check mark if the Registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past

90 days. Yes No

Indicate by check mark whether the Registrant has submitted electronically and posted on its corporate Website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T

(§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the Registrant was required to submit and post such files). Yes No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company

(Do not check if a smaller reporting company)

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

The aggregate market value of the common equity held by non-affiliates of the Registrant as of December 30, 2017 was \$2.200 billion (based on the closing price on that date of \$6.74 on the NASDAQ Global Select Market). For the purposes of calculating this amount only, all executive officers and Directors are “affiliates” of the Registrant.

As of August 28, 2018, there were 364,962,655 shares of the Registrant’s common stock outstanding.

Documents Incorporated by Reference

Portions of the Registrant’s definitive Proxy Statement relating to the 2018 Annual Meeting of Stockholders, to be filed with the Securities and Exchange Commission, are incorporated by reference in Part III of this Annual Report on Form 10-K to the extent described therein.

Table of Contents

| | Page |
|---|------------|
| <u>Forward-Looking Statements</u> | <u>1</u> |
| PART I | |
| <u>Item 1. Business</u> | <u>2</u> |
| <u>Item 1A. Risk Factors</u> | <u>26</u> |
| <u>Item 1B. Unresolved Staff Comments</u> | <u>59</u> |
| <u>Item 2. Properties</u> | <u>59</u> |
| <u>Item 3. Legal Proceedings</u> | <u>59</u> |
| <u>Item 4. Mine Safety Disclosures</u> | <u>59</u> |
| PART II | |
| <u>Item 5. Market for Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities</u> | <u>59</u> |
| <u>Item 6. Selected Financial Data</u> | <u>63</u> |
| <u>Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations</u> | <u>64</u> |
| <u>Item 7A. Quantitative and Qualitative Disclosures About Market Risk</u> | <u>100</u> |
| <u>Item 8. Financial Statements and Supplementary Data</u> | <u>102</u> |
| <u>Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure</u> | <u>216</u> |
| <u>Item 9A. Controls and Procedures</u> | <u>216</u> |
| <u>Item 9B. Other Information</u> | <u>218</u> |
| PART III | |
| <u>Item 10. Directors, Executive Officers and Corporate Governance</u> | <u>218</u> |
| <u>Item 11. Executive Compensation</u> | <u>218</u> |
| <u>Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters</u> | <u>218</u> |
| <u>Item 13. Certain Relationships and Related Transactions, and Director Independence</u> | <u>218</u> |
| <u>Item 14. Principal Accountant Fees and Services</u> | <u>218</u> |
| PART IV | |
| <u>Item 15. Exhibits and Financial Statement Schedules</u> | <u>219</u> |
| <u>Signatures</u> | <u>256</u> |

FORWARD-LOOKING STATEMENTS

This report contains information that may constitute “forward-looking statements.” Generally, the words “believe,” “expect,” “intend,” “estimate,” “anticipate,” “project,” “will” and similar expressions identify forward-looking statements, which generally are not historical in nature. However, the absence of these words or similar expressions does not mean that a statement is not forward-looking. All statements that address operating performance, events or developments that we expect or anticipate will occur in the future—including statements relating to volume growth, share of sales and earnings per share growth, and statements expressing general views about future operating results—are forward-looking statements. Management believes that these forward-looking statements are reasonable as and when made. However, caution should be taken not to place undue reliance on any such forward-looking statements because such statements speak only as of the date when made. We undertake no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, except as required by law. In addition, forward-looking statements are subject to certain risks and uncertainties that could cause actual results to differ materially from our historical experience and our present expectations or projections. These risks and uncertainties include, but are not limited to, those described in Part I, “Item 1A. Risk Factors” and elsewhere in this report and those described from time to time in our future reports filed with the Securities and Exchange Commission.

The forward-looking statements contained in this report involve a number of risks and uncertainties, including statements concerning:

- our future operating results;
- our business prospects and the prospects of our portfolio companies;
- the impact of investments that we expect to make;
- our contractual arrangements and relationships with third parties;
- the dependence of our future success on the general economy and its impact on the industries in which we invest;
- the ability of our portfolio companies to achieve their objectives;
- difficulty in obtaining financing or raising capital, especially in the current credit and equity environment;
- the level and volatility of prevailing interest rates and credit spreads, magnified by the current turmoil in the credit markets;
- adverse developments in the availability of desirable loan and investment opportunities whether they are due to competition, regulation or otherwise;
- a compression of the yield on our investments and the cost of our liabilities, as well as the level of leverage available to us;
- our regulatory structure and tax treatment, including our ability to operate as a business development company and a regulated investment company;
- the adequacy of our cash resources and working capital;
- the timing of cash flows, if any, from the operations of our portfolio companies;
- the ability of the Investment Adviser to locate suitable investments for us and to monitor and administer our investments; and
- authoritative generally accepted accounting principles or policy changes from such standard-setting bodies as the Financial Accounting Standards Board, the Securities and Exchange Commission, Internal Revenue Service, the NASDAQ Global Select Market, and other authorities that we are subject to, as well as their counterparts in any foreign jurisdictions where we might do business.

PART I

Item 1. Business

In this report, the terms “Prospect,” “we,” “us” and “our” mean Prospect Capital Corporation and all entities included in our consolidated financial statements, unless the context specifically requires otherwise.

General

Prospect is a financial services company that primarily lends to and invests in middle market privately-held companies. We are a closed-end investment company incorporated in Maryland. We have elected to be regulated as a business development company (“BDC”) under the Investment Company Act of 1940 (the “1940 Act”). As a BDC, we have elected to be treated as a regulated investment company (“RIC”), under Subchapter M of the Internal Revenue Code of 1986 (the “Code”). We were organized on April 13, 2004 and were funded in an initial public offering completed on July 27, 2004. We are one of the largest BDCs with approximately \$5.84 billion of total assets as of June 30, 2018.

We are externally managed by our investment adviser, Prospect Capital Management L.P. (“Prospect Capital Management” or the “Investment Adviser”). Prospect Administration LLC (“Prospect Administration” or the “Administrator”), a wholly-owned subsidiary of the Investment Adviser, provides administrative services and facilities necessary for us to operate.

Our investment objective is to generate both current income and long-term capital appreciation through debt and equity investments. We invest primarily in senior and subordinated debt and equity of private companies in need of capital for acquisitions, divestitures, growth, development, recapitalizations and other purposes. We work with the management teams or financial sponsors to seek investments with historical cash flows, asset collateral or contracted pro-forma cash flows.

We currently have nine strategies that guide our origination of investment opportunities: (1) lending to companies controlled by private equity sponsors, (2) lending to companies not controlled by private equity sponsors, (3) purchasing controlling equity positions and lending to operating companies, (4) purchasing controlling equity positions and lending to financial services companies, (5) purchasing controlling equity positions and lending to real estate companies, (6) purchasing controlling equity positions and lending to aircraft leasing companies, (7) investing in structured credit, (8) investing in syndicated debt and (9) investing in consumer and small business loans and asset-backed securitizations. We may also invest in other strategies and opportunities from time to time that we view as attractive. We continue to evaluate other origination strategies in the ordinary course of business with no specific top-down allocation to any single origination strategy.

Lending to Companies Controlled by Private Equity Sponsors - We make agented loans to companies which are controlled by private equity sponsors. This debt can take the form of first lien, second lien, unitranche or unsecured loans. These loans typically have equity subordinate to our loan position. Historically, this strategy has comprised approximately 40%-60% of our portfolio.

Lending to Companies not Controlled by Private Equity Sponsors - We make loans to companies which are not controlled by private equity sponsors, such as companies that are controlled by the management team, the founder, a family or public shareholders. This origination strategy may have less competition to provide debt financing than the private-equity-sponsor origination strategy because such company financing needs are not easily addressed by banks and often require more diligence preparation. This origination strategy can result in investments with higher returns or lower leverage than the private-equity-sponsor origination strategy. Historically, this strategy has comprised up to approximately 15% of our portfolio.

Purchasing Controlling Equity Positions and Lending to Operating Companies - This strategy involves purchasing yield-producing debt and controlling equity positions in non-financial-services operating companies. We believe that we can provide enhanced certainty of closure and liquidity to sellers and we look for management to continue on in their current roles. This strategy has comprised approximately 5%-15% of our portfolio.

Purchasing Controlling Equity Positions and Lending to Financial Services Companies - This strategy involves purchasing yield-producing debt and control equity investments in financial services companies, including consumer direct lending, sub-prime auto lending and other strategies. These investments are often structured in tax-efficient partnerships, enhancing returns. This strategy has comprised approximately 5%-15% of our portfolio.

Purchasing Controlling Equity Positions and Lending to Real Estate Companies - We purchase debt and controlling equity positions in tax-efficient real estate investment trusts (“REIT” or “REITs”). NPRC’s, an operating company and the surviving entity of the May 23, 2016 merger with APRC and UPRC, real estate investments are in various classes of developed and occupied real estate properties that generate current yields, including multi-family properties, student housing, and self-storage. NPRC seeks to identify properties that have historically significant occupancy rates and recurring cash flow generation. NPRC generally co-invests with established and experienced property management teams that manage such properties after acquisition. Additionally, NPRC purchases loans originated by certain consumer loan facilitators. It purchases each loan in its entirety (i.e., a “whole loan”). The borrowers are consumers, and the loans are typically serviced by the facilitators of the loans. This investment strategy has comprised approximately 10%-20% of our business.

Purchasing Controlling Equity Positions and Lending to Aircraft Leasing Companies - We invest in debt as well as equity in companies with aircraft assets subject to commercial leases to airlines across the globe. We believe that these investments can present attractive return opportunities due to cash flow consistency from long-term leases coupled with hard asset residual value. We believe that these investment companies seek to deliver risk-adjusted returns with strong downside protection by analyzing relative value characteristics across a variety of aircraft types and vintages. This strategy historically has comprised less than 5% of our portfolio.

Investing in Structured Credit - We make investments in collateralized loan obligations (“CLOs”), often taking a significant position in the subordinated interests (equity) and debt of the CLOs. The underlying portfolio of each CLO investment is diversified across approximately 100 to 200 broadly syndicated loans and does not have direct exposure to real estate, mortgages, or consumer-based credit assets. The CLOs in which we invest are managed by established collateral management teams with many years of experience in the industry. This strategy has comprised approximately 10%-20% of our portfolio.

Investing in Syndicated Debt - On a primary or secondary basis, we purchase primarily senior and secured loans and high yield bonds that have been sold to a club or syndicate of buyers. These investments are often purchased with a long term, buy-and-hold outlook, and we often look to provide significant input to the transaction by providing anchoring orders. This strategy has comprised approximately 5%-10% of our portfolio.

Investing in Consumer and Small Business Loans and Asset-Backed Securitizations - We purchase loans originated by certain consumer and small-and-medium-sized business (“SME”) loan facilitators. We generally purchase each loan in its entirety (i.e., a “whole loan”) and we invest in asset-backed securitizations collateralized by consumer or small business loans. The borrowers are consumers and SMEs and the loans are typically serviced by the facilitators of the loans. This investment strategy has comprised up to approximately 1% of our portfolio.

Typically, we concentrate on making investments in companies with annual revenues of less than \$750 million and enterprise values of less than \$1 billion. Our typical investment involves a secured loan of less than \$250 million. We also acquire controlling interests in companies in conjunction with making secured debt investments in such companies. In most cases, companies in which we invest are privately held at the time we invest in them. We refer to these companies as “target” or “middle market” companies and these investments as “middle market investments.” We seek to maximize total returns to our investors, including both current yield and equity upside, by applying rigorous credit analysis and asset-based and cash-flow based lending techniques to make and monitor our investments. We are constantly pursuing multiple investment opportunities, including purchases of portfolios from private and public companies, as well as originations and secondary purchases of particular securities. We also regularly evaluate control investment opportunities in a range of industries, and some of these investments could be material to us. There can be no assurance that we will successfully consummate any investment opportunity we are currently pursuing. If any of these opportunities are consummated, there can be no assurance that investors will share our view of valuation or that any assets acquired will not be subject to future write downs, each of which could have an adverse effect on our stock price.

Our Investment Objective and Policies

Our investment objective is to generate both current income and long-term capital appreciation through debt and equity investments. We focus on making investments in private companies. We are a non-diversified company within the meaning of the 1940 Act.

We invest primarily in first and second lien secured loans and unsecured debt, which in some cases includes an equity component. First and second lien secured loans generally are senior debt instruments that rank ahead of unsecured debt of a given portfolio company. These loans also have the benefit of security interests on the assets of the portfolio company, which may rank ahead of or be junior to other security interests. Our investments in CLOs are subordinated to senior loans and are generally unsecured. We invest in debt and equity positions of CLOs which are a form of securitization in which the cash flows of a portfolio of loans are pooled and passed on to different classes of owners in various tranches. Our CLO investments are derived from portfolios of corporate debt securities which are generally risk rated from BB to B.

We may also acquire controlling interests in companies in conjunction with making secured debt investments in such companies. These may be in several industries, including industrial, service, aircraft leasing, real estate and financial businesses.

We seek to maximize returns and minimize risk for our investors by applying rigorous analysis to make and monitor our investments. While the structure of our investments varies, we can invest in senior secured debt, senior unsecured debt, subordinated secured debt, subordinated unsecured debt, convertible debt, convertible preferred equity, preferred equity, common equity, warrants and other instruments, many of which generate current yield. While our primary focus is to seek current income through investment in the debt and/or dividend-paying equity securities of eligible privately-held, thinly-traded or distressed companies and long-term capital appreciation by acquiring accompanying warrants, options or other equity securities of such companies, we may invest up to 30% of the portfolio in opportunistic investments in order to seek enhanced returns for stockholders. Such investments may include investments in the debt and equity instruments of broadly-traded public companies. We expect that these public companies generally will have debt securities that are non-investment grade. Such investments may also include purchases (either in the primary or secondary markets) of the equity and junior debt tranches of a type of pools such as CLOs. Structurally, CLOs are entities that are formed to hold a portfolio of senior secured loans made to companies whose debt is rated below investment grade or, in limited circumstances, unrated. The senior secured loans within a CLO are limited to senior secured loans which meet specified credit and diversity criteria and are subject to concentration limitations in order to create an investment portfolio that is diverse by senior secured loan, borrower, and industry, with limitations on non-U.S. borrowers. Within this 30% basket, we have and may make additional investments in debt and equity securities of financial companies and companies located outside of the United States. Our investments may include other equity investments, such as warrants, options to buy a minority interest in a portfolio company, or contractual payment rights or rights to receive a proportional interest in the operating cash flow or net income of such company. When determined by the Investment Adviser to be in our best interest, we may acquire a controlling interest in a portfolio company. Any warrants we receive with our debt securities may require only a nominal cost to exercise, and thus, as a portfolio company appreciates in value, we may achieve additional investment return from this equity interest. We have structured, and will continue to structure, some warrants to include provisions protecting our rights as a minority-interest or, if applicable, controlling-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, we obtain registration rights in connection with these equity interests, which may include demand and “piggyback” registration rights.

We plan to hold many of our debt investments to maturity or repayment, but will sell a debt investment earlier if a liquidity event takes place, such as the sale or recapitalization of a portfolio company, or if we determine a sale of such debt investment to be in our best interest.

We have qualified and elected to be treated for U.S. federal income tax purposes as a RIC under Subchapter M of the Code. As a RIC, we generally do not have to pay corporate-level U.S. federal income taxes on any ordinary income or capital gains that we distribute to our stockholders as dividends. To continue to qualify as a RIC, we must, among other things, meet certain source-of-income and asset diversification requirements (as described below). In addition, to qualify for RIC tax treatment, we must distribute to our stockholders, for each taxable year, at least 90% of our

“investment company taxable income,” which is generally our ordinary income plus the excess of our realized net short-term capital gains over our realized net long-term capital losses.

For a discussion of the risks inherent in our portfolio investments, see “Risk Factors – Risks Relating to Our Investments.”

Industry Sectors

Our portfolio is invested across 38 industry categories. Excluding our CLO investments, which do not have industry concentrations, no individual industry comprises more than 14.2% of the portfolio on either a cost or fair value basis.

Ongoing Relationships with Portfolio Companies Monitoring

Prospect Capital Management monitors our portfolio companies on an ongoing basis. Prospect Capital Management will continue to monitor the financial trends of each portfolio company to determine if it is meeting its business plan and to assess the appropriate course of action for each company.

Prospect Capital Management employs several methods of evaluating and monitoring the performance and value of our investments, which may include, but are not limited to, the following:

- Assessment of success in adhering to the portfolio company's business plan and compliance with covenants;
- Regular contact with portfolio company management and, if appropriate, the financial or strategic sponsor to discuss financial position, requirements and accomplishments;
- Comparisons to other portfolio companies in the industry, if any;
- Attendance at and participation in board meetings of the portfolio company; and
- Review of monthly and quarterly financial statements and financial projections for the portfolio company.

Investment Valuation

To value our investments, we follow the guidance of ASC 820, Fair Value Measurement ("ASC 820"), that defines fair value, establishes a framework for measuring fair value in conformity with accounting principles generally accepted in the United States of America ("GAAP"), and requires disclosures about fair value measurements. In accordance with ASC 820, the fair value of our investments is defined as the price that we would receive upon selling an investment in an orderly transaction to an independent buyer in the principal or most advantageous market in which that investment is transacted.

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

Level 1: Quoted prices in active markets for identical assets or liabilities, accessible by us at the measurement date.

Level 2: Quoted prices for similar assets or liabilities in active markets, or quoted prices for identical or similar assets or liabilities in markets that are not active, or other observable inputs other than quoted prices.

Level 3: Unobservable inputs for the asset or liability.

In all cases, the level in the fair value hierarchy within which the fair value measurement in its entirety falls has been determined based on the lowest level of input that is significant to the fair value measurement. Our assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment and considers factors specific to each investment.

Our Board of Directors has established procedures for the valuation of our investment portfolio. These procedures are detailed below.

Investments for which market quotations are readily available are valued at such market quotations.

For most of our investments, market quotations are not available. With respect to investments for which market quotations are not readily available or when such market quotations are deemed not to represent fair value, our Board of Directors has approved a multi-step valuation process each quarter, as described below.

1. Each portfolio company or investment is reviewed by our investment professionals with independent valuation firms engaged by our Board of Directors.
2. The independent valuation firms prepare independent valuations for each investment based on their own independent assessments and issue their report.
3. The Audit Committee of our Board of Directors reviews and discusses with the independent valuation firms the valuation reports, and then makes a recommendation to the Board of Directors of the value for each investment.

The Board of Directors discusses valuations and determines the fair value of each investment in our portfolio in good faith based on the input of the Investment Adviser, the respective independent valuation firm and the Audit Committee.

Our non-CLO investments are valued utilizing a yield technique, enterprise value (“EV”) technique, net asset value technique, liquidation technique, discounted cash flow technique, or a combination of techniques, as appropriate. The yield technique uses loan spreads for loans and other relevant information implied by market data involving identical or comparable assets or liabilities. Under the EV technique, the EV of a portfolio company is first determined and allocated over the portfolio company’s securities in order of their preference relative to one another (i.e., “waterfall” allocation). To determine the EV, we typically use a market (multiples) valuation approach that considers relevant and applicable market trading data of guideline public companies, transaction metrics from precedent merger and acquisitions transactions, and/or a discounted cash flow technique. The net asset value technique, an income approach, is used to derive a value of an underlying investment (such as real estate property) by dividing a relevant earnings stream by an appropriate capitalization rate. For this purpose, we consider capitalization rates for similar properties as may be obtained from guideline public companies and/or relevant transactions. The liquidation technique is intended to approximate the net recovery value of an investment based on, among other things, assumptions regarding liquidation proceeds based on a hypothetical liquidation of a portfolio company’s assets. The discounted cash flow technique converts future cash flows or earnings to a range of fair values from which a single estimate may be derived utilizing an appropriate discount rate. The fair value measurement is based on the net present value indicated by current market expectations about those future amounts.

In applying these methodologies, additional factors that we consider in valuing our investments may include, as we deem relevant: security covenants, call protection provisions, and information rights; the nature and realizable value of any collateral; the portfolio company’s ability to make payments; the principal markets in which the portfolio company does business; publicly available financial ratios of peer companies; the principal market; and enterprise values, among other factors.

Our investments in CLOs are classified as Level 3 fair value measured securities under ASC 820 and are valued using a discounted multi-path cash flow model. The CLO structures are analyzed to identify the risk exposures and to determine an appropriate call date (i.e., expected maturity). These risk factors are sensitized in the multi-path cash flow model using Monte Carlo simulations, which is a simulation used to model the probability of different outcomes, to generate probability-weighted (i.e., multi-path) cash flows from the underlying assets and liabilities. These cash flows are discounted using appropriate market discount rates, and relevant data in the CLO market as well as certain benchmark credit indices are considered, to determine the value of each CLO investment. In addition, we generate a single-path cash flow utilizing our best estimate of expected cash receipts, and assess the reasonableness of the implied discount rate that would be effective for the value derived from the multi-path cash flows. We are not responsible for and have no influence over the asset management of the portfolios underlying the CLO investments we hold, as those portfolios are managed by non-affiliated third party CLO collateral managers. The main risk factors are default risk, prepayment risk, interest rate risk, downgrade risk, and credit spread risk.

For a discussion of the risks inherent in determining the value of securities for which readily available market values do not exist, see “Risk Factors – Risks Relating to Our Business – Most of our portfolio investments are recorded at fair value as determined in good faith under the direction of our Board of Directors and, as a result, there is uncertainty as to the value of our portfolio investments.”

Managerial Assistance

As a BDC, we are obligated under the 1940 Act to make available to certain of our portfolio companies significant managerial assistance. “Making available significant managerial assistance” refers to any arrangement whereby we provide significant guidance and counsel concerning the management, operations, or business objectives and policies of a portfolio company. We are also deemed to be providing managerial assistance to all portfolio companies that we control, either by ourselves or in conjunction with others. The nature and extent of significant managerial assistance provided by us to controlled and non-controlled portfolio companies will vary according to the particular needs of each portfolio company. Examples of such activities include (i) advice on recruiting, hiring, management and termination of employees, officers and directors, succession planning and other human resource matters; (ii) advice on capital raising, capital budgeting, and capital expenditures; (iii) advice on advertising, marketing, and sales; (iv)

advice on fulfillment, operations, and execution; (v) advice on managing relationships with unions and other personnel organizations, financing sources, vendors, customers, lessors, lessees, lawyers, accountants, regulators and other important counterparties; (vi) evaluating acquisition and divestiture opportunities, plant expansions and closings, and market expansions; (vii) participating in audit committee, nominating committee, board and management meetings; (viii) consulting with and advising board members and officers of portfolio companies (on overall strategy and other matters); and (ix) providing other organizational, operational, managerial and financial guidance. Prospect Administration, when executing a managerial assistance agreement with each portfolio company to which we provide managerial assistance, arranges for the provision of such managerial assistance on our behalf. When doing so, Prospect Administration utilizes personnel of our Investment Adviser. We, on behalf of Prospect Administration, invoice portfolio companies

receiving and paying for managerial assistance, and we remit to Prospect Administration its cost of providing such services, including the charges deemed appropriate by our Investment Adviser for providing such managerial assistance. No income is recognized by Prospect.

Investment Adviser

Prospect Capital Management, a Delaware limited partnership that is registered as an investment adviser under the Investment Advisers Act of 1940 (the “Advisers Act”) manages our investments. Prospect Capital Management is led by John F. Barry III and M. Grier Eliasek, two senior executives with significant investment advisory and business experience. Both Messrs. Barry and Eliasek spend a significant amount of their time in their roles at Prospect Capital Management working on our behalf. The principal executive offices of Prospect Capital Management are 10 East 40th Street, 42nd Floor, New York, NY 10016. We depend on the due diligence, skill and network of business contacts of the senior management of the Investment Adviser. We also depend, to a significant extent, on the Investment Adviser’s investment professionals and the information and deal flow generated by those investment professionals in the course of their investment and portfolio management activities. The Investment Adviser’s senior management team evaluates, negotiates, structures, closes, monitors and services our investments. Our future success depends to a significant extent on the continued service of the senior management team, particularly John F. Barry III and M. Grier Eliasek. The departure of any of the senior managers of the Investment Adviser could have a materially adverse effect on our ability to achieve our investment objective. In addition, we can offer no assurance that Prospect Capital Management will remain the Investment Adviser or that we will continue to have access to its investment professionals or its information and deal flow. Under the Investment Advisory Agreement (as defined below), we pay Prospect Capital Management investment advisory fees, which consist of an annual base management fee based on our gross assets as well as a two-part incentive fee based on our performance. Mr. Barry currently controls Prospect Capital Management.

Investment Advisory Agreement

Terms

We have entered into an investment advisory and management agreement with the Investment Adviser (the “Investment Advisory Agreement”) under which the Investment Adviser, subject to the overall supervision of our Board of Directors, manages the day-to-day operations of, and provides investment advisory services to, us. Under the terms of the Investment Advisory Agreement, the Investment Adviser: (i) determines the composition of our portfolio, the nature and timing of the changes to our portfolio and the manner of implementing such changes, (ii) identifies, evaluates and negotiates the structure of the investments we make (including performing due diligence on our prospective portfolio companies), and (iii) closes and monitors investments we make.

The Investment Adviser’s services under the Investment Advisory Agreement are not exclusive, and it is free to furnish similar services to other entities so long as its services to us are not impaired. For providing these services the Investment Adviser receives a fee from us, consisting of two components: a base management fee and an incentive fee. The base management fee is calculated at an annual rate of 2.00% on our total assets. For services currently rendered under the Investment Advisory Agreement, the base management fee is payable quarterly in arrears. The base management fee is calculated based on the average value of our 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.

The incentive fee has two parts. The first part, the income incentive fee, is calculated and payable quarterly in arrears based on our pre-incentive fee net investment income for the immediately preceding calendar quarter. For this purpose, pre-incentive fee net investment income means interest income, dividend income and any other income (including any other fees (other than fees for providing managerial assistance), such as commitment, origination, structuring, diligence and consulting fees and other fees that we receive from portfolio companies) accrued during the calendar quarter, minus our operating expenses for the quarter (including the base management fee, expenses payable under the Administration Agreement described below, and any interest expense and dividends paid on any issued and outstanding preferred stock, but excluding the incentive fee). Pre-incentive fee net investment income includes, in the case of investments with a deferred interest feature (such as original issue discount, debt instruments with payment-in-kind interest and zero coupon securities), accrued income that we have not yet received in cash. Pre-incentive fee net investment income does not include any realized capital gains, realized capital losses or

unrealized capital gains or losses. Pre-incentive fee net investment income, expressed as a rate of return on the value of our net assets at the end of the immediately preceding calendar quarter, is compared to a “hurdle rate” of 1.75% per quarter (7.00% annualized).

7

The net investment income used to calculate this part of the incentive fee is also included in the amount of the gross assets used to calculate the 2.00% base management fee. We pay the Investment Adviser an income incentive fee with respect to our pre-incentive fee net investment income in each calendar quarter as follows:

• No incentive fee in any calendar quarter in which our pre-incentive fee net investment income does not exceed the hurdle rate;

• 100.00% of our pre-incentive fee net investment income with respect to that portion of such pre-incentive fee net investment income, if any, that exceeds the hurdle rate but is less than 125.00% of the quarterly hurdle rate in any calendar quarter (8.75% annualized assuming a 7.00% annualized hurdle rate), i.e., the “catch-up”; and

• 20.00% of the amount of our pre-incentive fee net investment income, if any, that exceeds 125.00% of the quarterly hurdle rate in any calendar quarter (8.75% annualized assuming a 7.00% annualized hurdle rate).

These calculations are appropriately prorated for any period of less than three months and adjusted for any share issuances or repurchases during the current quarter.

The second part of the incentive fee, the capital gains incentive fee, is determined and payable in arrears as of the end of each calendar year (or upon termination of the Investment Advisory Agreement, as of the termination date), and equals 20.00% of our realized capital gains for the calendar year, if any, computed net of all realized capital losses and unrealized capital depreciation at the end of such year. In determining the capital gains incentive fee payable to the Investment Adviser, we calculate the aggregate realized capital gains, aggregate realized capital losses and aggregate unrealized capital depreciation, as applicable, with respect to each investment that has been in our portfolio. For the purpose of this calculation, an “investment” is defined as the total of all rights and claims which may be asserted against a portfolio company arising from our participation in the debt, equity, and other financial instruments issued by that company. Aggregate realized capital gains, if any, equal the sum of the differences between the aggregate net sales price of each investment and the aggregate amortized cost basis of such investment when sold or otherwise disposed. Aggregate realized capital losses equal the sum of the amounts by which the aggregate net sales price of each investment is less than the aggregate amortized cost basis of such investment when sold or otherwise disposed. Aggregate unrealized capital depreciation equals the sum of the differences, if negative, between the aggregate valuation of each investment and the aggregate amortized cost basis of such investment as of the applicable calendar year-end. At the end of the applicable calendar year, the amount of capital gains that serves as the basis for our calculation of the capital gains incentive fee involves netting aggregate realized capital gains against aggregate realized capital losses on a since-inception basis and then reducing this amount by the aggregate unrealized capital depreciation. If this number is positive, then the capital gains incentive fee payable is equal to 20.00% of such amount, less the aggregate amount of any capital gains incentive fees paid since inception.

Examples of Quarterly Incentive Fee Calculation

Example 1: Income Incentive Fee*

*The hypothetical amount of pre-incentive fee net investment income shown is based on a percentage of total net assets.

Alternative 1

Assumptions

• Investment income (including interest, dividends, fees, etc.) = 1.25%

• Hurdle rate(1) = 1.75%

• Base management fee(2) = 0.50%

• Other expenses (legal, accounting, custodian, transfer agent, etc.)(3) = 0.20%

• Pre-incentive fee net investment income (investment income – (base management fee + other expenses)) = 0.55%

Pre-incentive net investment income does not exceed hurdle rate, therefore there is no income incentive fee.

Alternative 2

Assumptions

Investment income (including interest, dividends, fees, etc.) = 2.70%

Hurdle rate(1) = 1.75%

Base management fee(2) = 0.50%

Other expenses (legal, accounting, custodian, transfer agent, etc.)(3) = 0.20%

Pre-incentive fee net investment income (investment income – (base management fee + other expenses)) = 2.00%

Pre-incentive net investment income exceeds hurdle rate, therefore there is an income incentive fee payable by us to the Investment Adviser. The Income Incentive Fee would be calculated as follows:

= 100% × “Catch Up” + the greater of 0% AND (20% × (pre-incentive fee net investment income – 2.1875%))

= (100% × (2.00% - 1.75%)) + 0%

= 100% × 0.25% + 0%

= 0.25%

Alternative 3

Assumptions

Investment income (including interest, dividends, fees, etc.) = 3.00%

Hurdle rate(1) = 1.75%

Base management fee(2) = 0.50%

Other expenses (legal, accounting, custodian, transfer agent, etc.)(3) = 0.20%

Pre-incentive fee net investment income (investment income – (base management fee + other expenses)) = 2.30%

Pre-incentive net investment income exceeds hurdle rate, therefore there is an income incentive fee payable by us to the Investment Adviser. The Income Incentive Fee would be calculated as follows:

= 100% × “Catch Up” + the greater of 0% AND (20% × (pre-incentive fee net investment income – 2.1875%))

= (100% × (2.1875% – 1.75%)) + the greater of 0% AND (20% × (2.30% – 2.1875%))

= (100% × 0.4375%) + (20% × 0.1125%)

= 0.4375% + 0.0225%

= 0.46%

(1) Represents 7% annualized hurdle rate.

(2) Represents 2% annualized base management fee.

(3) Excludes organizational and offering expenses.

Example 2: Capital Gains Incentive Fee

Alternative 1

Assumptions

- Year 1: \$20 million investment made
- Year 2: Fair market value (“FMV”) of investment determined to be \$22 million
- Year 3: FMV of investment determined to be \$17 million
- Year 4: Investment sold for \$21 million

The impact, if any, on the capital gains portion of the incentive fee would be:

- Year 1: No impact
- Year 2: No impact
- Year 3: Decrease base amount on which the second part of the incentive fee is calculated by \$3 million (unrealized capital depreciation)
- Year 4: Increase base amount on which the second part of the incentive fee is calculated by \$4 million (\$1 million of realized capital gain and \$3 million reversal in unrealized capital depreciation)

Alternative 2

Assumptions

- Year 1: \$20 million investment made
- Year 2: FMV of investment determined to be \$17 million
- Year 3: FMV of investment determined to be \$17 million
- Year 4: FMV of investment determined to be \$21 million
- Year 5: FMV of investment determined to be \$18 million
- Year 6: Investment sold for \$15 million

The impact, if any, on the capital gains portion of the incentive fee would be:

- Year 1: No impact
- Year 2: Decrease base amount on which the second part of the incentive fee is calculated by \$3 million (unrealized capital depreciation)
- Year 3: No impact
- Year 4: Increase base amount on which the second part of the incentive fee is calculated by \$3 million (reversal in unrealized capital depreciation)
- Year 5: Decrease base amount on which the second part of the incentive fee is calculated by \$2 million (unrealized capital depreciation)
- Year 6: Decrease base amount on which the second part of the incentive fee is calculated by \$3 million (\$5 million of realized capital loss offset by a \$2 million reversal in unrealized capital depreciation)

Alternative 3

Assumptions

Year 1: \$20 million investment made in company A (“Investment A”) and \$20 million investment made in company B (“Investment B”)

Year 2: FMV of Investment A is determined to be \$21 million and Investment B is sold for \$18 million

Year 3: Investment A is sold for \$23 million

The impact, if any, on the capital gains portion of the incentive fee would be:

Year 1: No impact

Year 2: Decrease base amount on which the second part of the incentive fee is calculated by \$2 million (realized capital loss on Investment B)

Year 3: Increase base amount on which the second part of the incentive fee is calculated by \$3 million (realized capital gain on Investment A)

Alternative 4

Assumptions

Year 1: \$20 million investment made in company A (“Investment A”) and \$20 million investment made in company B (“Investment B”)

Year 2: FMV of Investment A is determined to be \$21 million and FMV of Investment B is determined to be \$17 million

Year 3: FMV of Investment A is determined to be \$18 million and FMV of Investment B is determined to be \$18 million

Year 4: FMV of Investment A is determined to be \$19 million and FMV of Investment B is determined to be \$21 million

Year 5: Investment A is sold for \$17 million and Investment B is sold for \$23 million

The impact, if any, on the capital gains portion of the incentive fee would be:

Year 1: No impact

Year 2: Decrease base amount on which the second part of the incentive fee is calculated by \$3 million (unrealized capital depreciation on Investment B)

Year 3: Decrease base amount on which the second part of the incentive fee is calculated by \$1 million (\$2 million in unrealized capital depreciation on Investment A and \$1 million recovery in unrealized capital depreciation on Investment B)

Year 4: Increase base amount on which the second part of the incentive fee is calculated by \$3 million (\$1 million recovery in unrealized capital depreciation on Investment A and \$2 million recovery in unrealized capital depreciation on Investment B)

Year 5: Increase base amount on which the second part of the incentive fee is calculated by \$1 million (\$3 million realized capital gain on Investment B offset by \$3 million realized capital loss on Investment A plus a \$1 million reversal in unrealized capital depreciation on Investment A from Year 4)

Duration and Termination

The Investment Advisory Agreement was originally approved by our Board of Directors on June 23, 2004 and was recently re-approved by the Board of Directors on June 19, 2018 for an additional one-year term expiring June 22, 2019. Unless terminated earlier as described below, it will remain in effect from year to year thereafter if approved annually by our Board of Directors or by the affirmative vote of the holders of a majority of our outstanding voting securities, including, in either case, approval by a majority of our directors who are not interested persons. The Investment Advisory Agreement will automatically terminate in the event of its assignment. The Investment Advisory Agreement may be terminated by either party without penalty upon not more than 60 days' written notice to the other. See "Risk Factors – Risks Relating to Our Business – We are dependent upon Prospect Capital Management's key management personnel for our future success."

Indemnification

The Investment Advisory Agreement provides that, absent willful misfeasance, bad faith or gross negligence in the performance of its duties or by reason of the reckless disregard of its duties and obligations, Prospect Capital Management and its officers, managers, agents, employees, controlling persons, members and any other person or entity affiliated with it are entitled to indemnification from us for any damages, liabilities, costs and expenses (including reasonable attorneys' fees and amounts reasonably paid in settlement) arising from the rendering of Prospect Capital Management's services under the Investment Advisory Agreement or otherwise as the Investment Adviser.

Administration Agreement

We have also entered into an administration agreement (the "Administration Agreement") with Prospect Administration under which Prospect Administration, among other things, provides (or arranges for the provision of) administrative services and facilities for us. For providing these services, we reimburse Prospect Administration for our allocable portion of overhead incurred by Prospect Administration in performing its obligations under the Administration Agreement, including rent and our allocable portion of the costs of our Chief Financial Officer and Chief Compliance Officer and her staff, including the internal legal staff. Under this agreement, Prospect Administration furnishes us with office facilities, equipment and clerical, bookkeeping and record keeping services at such facilities. Prospect Administration also performs, or oversees the performance of, our required administrative services, which include, among other things, being responsible for the financial records that we are required to maintain and preparing reports to our stockholders and reports filed with the SEC. In addition, Prospect Administration assists us in determining and publishing our net asset value, overseeing the preparation and filing of our tax returns and the printing and dissemination of reports to our stockholders, and generally oversees the payment of our expenses and the performance of administrative and professional services rendered to us by others. Under the Administration Agreement, Prospect Administration also provides on our behalf managerial assistance to those portfolio companies to which we are required to provide such assistance (see Managerial Assistance section below). The Administration Agreement may be terminated by either party without penalty upon 60 days' written notice to the other party. Prospect Administration is a wholly-owned subsidiary of the Investment Adviser.

The Administration Agreement provides that, absent willful misfeasance, bad faith or negligence in the performance of its duties or by reason of the reckless disregard of its duties and obligations, Prospect Administration and its officers, managers, partners, agents, employees, controlling persons, members and any other person or entity affiliated with it are entitled to indemnification from us for any damages, liabilities, costs and expenses (including reasonable attorneys' fees and amounts reasonably paid in settlement) arising from the rendering of Prospect Administration's services under the Administration Agreement or otherwise as administrator for us. Our payments to Prospect Administration are reviewed quarterly by our Board of Directors.

Payment of Our Expenses

All investment professionals of the Investment Adviser and its respective staff, when and to the extent engaged in providing investment advisory and management services, and the compensation and routine overhead expenses of such personnel allocable to such services, will be provided and paid for by the Investment Adviser. We bear all other costs and expenses of our operations and transactions, including those relating to: organization and offering; calculation of our net asset value (including the cost and expenses of any independent valuation firm); expenses incurred by Prospect Capital Management payable to third parties, including agents, consultants or other advisers (such as independent valuation firms, accountants and legal counsel), in monitoring our financial and legal affairs and

in monitoring our investments and performing due diligence on our prospective portfolio companies; interest payable on debt, if any, and dividends payable on preferred stock, if any, incurred to finance our investments; offerings of our debt, our preferred shares, our common stock and other securities; investment advisory fees; fees payable to third parties, including agents, consultants or other advisors, relating to, or associated with, evaluating and making investments; transfer agent and custodial fees; registration fees; listing fees; taxes; independent directors' fees and expenses; costs of preparing and filing reports or other documents with the SEC; the costs of any reports, proxy statements or other notices to stockholders, including printing costs; our allocable portion of the fidelity bond, directors and officers/errors and omissions liability insurance, and any

other insurance premiums; direct costs and expenses of administration, including auditor and legal costs; and all other expenses incurred by us, by the Investment Adviser or by Prospect Administration in connection with administering our business, such as our allocable portion of overhead under the Administration Agreement, including rent and our allocable portion of the costs of our Chief Financial Officer and Chief Compliance Officer and her staff.

License Agreement

We entered into a license agreement with Prospect Capital Management pursuant to which Prospect Capital Management agreed to grant us a non-exclusive, royalty free license to use the name "Prospect Capital." Under this agreement, we have a right to use the Prospect Capital name, for so long as Prospect Capital Management or one of its affiliates remains the Investment Adviser. Other than with respect to this limited license, we have no legal right to the Prospect Capital name. This license agreement will remain in effect for so long as the Investment Advisory Agreement with the Investment Adviser is in effect.

Determination of Net Asset Value

The net asset value per share of our outstanding shares of common stock will be determined quarterly by dividing the value of total assets minus liabilities by the total number of shares outstanding.

In calculating the value of our total assets, we will value investments for which market quotations are readily available at such market quotations. Short-term investments which mature in 60 days or less, such as U.S. Treasury bills, are valued at amortized cost, which approximates market value. The amortized cost method involves recording a security at its cost (i.e., principal amount plus any premium and less any discount) on the date of purchase and thereafter amortizing/accreting that difference between the principal amount due at maturity and cost assuming a constant yield to maturity as determined at the time of purchase. Short-term securities which mature in more than 60 days are valued at current market quotations by an independent pricing service or at the mean between the bid and ask prices obtained from at least two brokers or dealers (if available, or otherwise by a principal market maker or a primary market dealer). Investments in money market mutual funds are valued at their net asset value as of the close of business on the day of valuation.

Most of the investments in our portfolio do not have market quotations which are readily available, meaning the investments do not have actively traded markets. Debt and equity securities for which market quotations are not readily available are valued with the assistance of an independent valuation service using a documented valuation policy and a valuation process that is consistently applied under the direction of our Board of Directors. For a discussion of the risks inherent in determining the value of securities for which readily available market values do not exist, see "Risk Factors – Risks Relating to Our Business – Most of our portfolio investments are recorded at fair value as determined in good faith under the direction of our Board of Directors and, as a result, there is uncertainty as to the value of our portfolio investments."

The factors that may be taken into account in valuing such investments include, as relevant, the portfolio company's ability to make payments, its estimated earnings and projected discounted cash flows, the nature and realizable value of any collateral, the financial environment in which the portfolio company operates, comparisons to securities of similar publicly traded companies, changes in interest rates for similar debt instruments and other relevant factors. Due to the inherent uncertainty of determining the fair value of investments that do not have readily available market quotations, the fair value of these investments may differ significantly from the values that would have been used had such market quotations existed for such investments, and any such differences could be material.

As part of the fair valuation process, the independent valuation firms engaged by the Board of Directors perform a review of each debt and equity investment requiring fair valuation and provide a range of values for each investment, which, along with management's valuation recommendations, is reviewed by our Audit Committee. Management and the independent valuation firms may adjust their preliminary evaluations to reflect comments provided by our Audit Committee. The Audit Committee reviews the final valuation reports and management's valuation recommendations and makes a recommendation to the Board of Directors based on its analysis of the methodologies employed and the various weights that should be accorded to each portion of the valuation as well as factors that the independent valuation firms and management may not have included in their evaluation processes. The Board of Directors then evaluates the Audit Committee recommendations and undertakes a similar analysis to determine the fair value of each investment in the portfolio in good faith.

Determination of fair values involves subjective judgments and estimates. Accordingly, under current accounting standards, the notes to our financial statements will refer to the uncertainty with respect to the possible effect of such valuations, and any change in such valuations, on our financial statements.

Dividend Reinvestment and Direct Stock Purchase Plan

We have adopted a dividend reinvestment and direct stock purchase plan that provides for reinvestment of our dividends or distributions on behalf of our stockholders, unless a stockholder elects to receive cash as provided below, and the ability to purchase additional shares by making optional cash investments. As a result, when our Board of Directors authorizes, and we declare, a cash dividend or distribution, then our stockholders who have not “opted out” of our dividend reinvestment and direct stock purchase plan will have their cash dividends or distributions automatically reinvested in additional shares of our common stock, rather than receiving the cash dividends or distributions. If you are not a current stockholder and want to enroll or have “opted out” and wish to rejoin, you may purchase shares directly through the plan or opt in by enrolling online or submitting to the plan administrator a completed enrollment form and, if you are not a current stockholder, making an initial investment of at least \$250.

No action is required on the part of a registered stockholder to have their cash dividend or distribution reinvested in shares of our common stock. A registered stockholder may elect to receive an entire dividend or distribution in cash by notifying the plan administrator and our transfer agent and registrar, in writing so that such notice is received by the plan administrator no later than the record date for dividends to stockholders. The plan administrator will set up a dividend reinvestment account for shares acquired pursuant to the plan for each stockholder who has not so elected to receive dividends and distributions in cash or who has enrolled in the plan as described herein (each, a “Participant”). The plan administrator will hold each Participant’s shares, together with the shares of other Participants, in non-certificated form in the plan administrator’s name or that of its nominee. Upon request by a Participant to terminate their participation in the plan, received in writing, via the internet or the plan administrator’s toll free number no later than 3 business days prior to a dividend or distribution payment date, such dividend or distribution will be paid out in cash and not be reinvested. If such request is received fewer than 3 business days prior to a dividend or distribution payment date, such dividend or distribution will be reinvested but all subsequent dividends and distributions will be paid to the stockholder in cash on all balances. Upon such termination of the Participant’s participation in the plan, all whole shares owned by the Participant will be issued to the Participant in certificated form and a check will be issued to the Participant for the proceeds of fractional shares less a transaction fee of \$15. Those stockholders whose shares are held by a broker or other financial intermediary may receive dividends or distributions in cash by notifying their broker or other financial intermediary of their election.

We primarily use newly-issued shares to implement reinvestment of dividends and distributions under the plan, whether our shares are trading at a premium or at a discount to net asset value. However, we reserve the right to purchase shares in the open market in connection with the implementation of reinvestment of dividends or distributions under the plan. The number of shares to be issued to a stockholder is determined by dividing the total dollar amount of the dividend or distribution payable to such stockholder by the market price per share of our common stock at the close of regular trading on the NASDAQ Global Select Market on the last business day before the payment date for such dividend or distribution. Market price per share on that date will be the closing price for such shares on the NASDAQ Global Select Market or, if no sale is reported for such day, at the average of their reported bid and asked prices. The number of shares of our common stock to be outstanding after giving effect to payment of the dividend or distribution cannot be established until the value per share at which additional shares will be issued has been determined and elections of our stockholders have been tabulated. Stockholders who do not elect to receive dividends and distributions in shares of common stock may experience accretion to the net asset value of their shares if our shares are trading at a premium at the time we issue new shares under the plan and dilution if our shares are trading at a discount. The level of accretion or discount would depend on various factors, including the proportion of our stockholders who participate in the plan, the level of premium or discount at which our shares are trading and the amount of the dividend or distribution payable to a stockholder.

There are no brokerage charges or other charges to stockholders who participate in reinvestment of dividends or distributions under the plan. The plan administrator’s fees under the plan are paid by us. If a participant elects by written notice to the plan administrator to have the plan administrator sell part or all of the shares held by the plan administrator in the participant’s account and remit the proceeds to the participant, the plan administrator is authorized to deduct a \$15 transaction fee plus a \$0.10 per share brokerage commissions from the proceeds.

Stockholders who receive dividends or distributions in the form of stock are subject to the same U.S. federal, state and local tax consequences as are stockholders who elect to receive their dividends or distributions in cash. A stockholder’s

basis for determining gain or loss upon the sale of stock received in a dividend or distribution from us will be equal to the total dollar amount of the dividend or distribution payable to the stockholder. Any stock received in a dividend or distribution will have a new holding period for tax purposes commencing on the day following the day on which the shares are credited to the U.S. Stockholder's account (as defined below).

Participants in the plan have the option of making additional cash payments to the plan administrator for investment in the shares at the then current market price. Such payments may be made in any amount from \$25 to \$10,000 per transaction. Participants in the plan may also elect to have funds electronically withdrawn from their checking or savings account each month. Direct debit of cash will be performed on the 10th of each month. Participants may elect this option by submitting a written authorization form or by enrolling online at the plan administrator's website. The plan administrator will use all funds received from participants

since the prior investment of funds to purchase shares of our common stock in the open market. We will not use newly-issued shares of our common stock to implement such purchases. Purchase orders will be submitted daily. The plan administrator may, at its discretion, submit purchase orders less frequently but no later than 30 days after receipt. The plan administrator will charge each stockholder who makes such additional cash payments \$2.50, plus a \$0.10 per share brokerage commission. Cash dividends and distributions payable on all shares credited to your plan account will be automatically reinvested in additional shares pursuant to the terms of the plan. Brokerage charges for some purchases are expected to be less than the usual brokerage charge for such transactions. Instructions sent by a participant to the plan administrator in connection with such participant's cash payment may not be rescinded. Participants may terminate their accounts under the plan by notifying the plan administrator via its website at www.amstock.com or by filling out the transaction request form located at the bottom of their statement and sending it to the plan administrator at American Stock Transfer & Trust Company, P.O. Box 922, Wall Street Station, New York, NY 10269-0560 or by calling the plan administrator's Interactive Voice Response System at (888) 888-0313. Upon termination, the stockholder will receive certificates for the full shares credited to your plan account. If you elect to receive cash, the plan administrator sells such shares and delivers a check for the proceeds, less the \$0.10 per share commission and the plan administrator's transaction fee of \$15. In every case of termination, fractional shares credited to a terminating plan account are paid in cash at the then-current market price, less any commission and transaction fee.

The plan may be terminated by us upon notice in writing mailed to each participant at least 30 days prior to any payable date for the payment of any dividend by us or distribution pursuant to any additional cash payment made. All correspondence concerning the plan should be directed to the plan administrator by mail at American Stock Transfer and Trust Company LLC, 6201 15th Avenue, Brooklyn, New York 11219, or by telephone at 888-888-0313. Stockholders who purchased their shares through or hold their shares in the name of a broker or financial institution should consult with a representative of their broker or financial institution with respect to their participation in our dividend reinvestment plan and direct stock purchase plan. Such holders of our stock may not be identified as our registered stockholders with the plan administrator and may not automatically have their cash dividend or distribution reinvested in shares of our common stock by the plan administrator.

Material U.S. Federal Income Tax Considerations

The following discussion is a general summary of the material U.S. federal income tax considerations applicable to us and to an investment in our common shares. This summary does not purport to be a complete description of the income tax considerations applicable to us or our investors on such an investment. For example, we have not described tax consequences that we assume to be generally known by investors or certain considerations that may be relevant to certain types of holders subject to special treatment under U.S. federal income tax laws, including stockholders subject to the alternative minimum tax, tax-exempt organizations, insurance companies, dealers in securities, pension plans and trusts, financial institutions, U.S. Stockholders (as defined below) whose functional currency is not the U.S. dollar, persons who mark-to-market our shares and persons who hold our shares as part of a "straddle," "hedge" or "conversion" transaction. This summary assumes that investors hold our common stock as capital assets (within the meaning of the Code). The discussion is based upon the Code, Treasury regulations, and administrative and judicial interpretations, each as of the date of this report and all of which are subject to change, possibly retroactively, which could affect the continuing validity of this discussion. This summary does not discuss any aspects of U.S. estate or gift tax or foreign, state or local tax. It does not discuss the special treatment under U.S. federal income tax laws that could result if we invested in tax-exempt securities or certain other investment assets.

A "U.S. Stockholder" is a beneficial owner of shares of our common stock that is for U.S. federal income tax purposes:

• A citizen or individual resident of the United States;

• 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;

• An estate, the income of which is subject to U.S. federal income taxation regardless of its source; or

• A trust if (1) a U.S. court is able to exercise primary supervision over the administration of such trust and one or more U.S. persons have the authority to control all substantial decisions of the trust or (2) it has a valid election in place to be treated as a U.S. person.

A “Non-U.S. Stockholder” is a beneficial owner of shares of our common stock that is not a partnership and is not a U.S. Stockholder.

15

If a partnership (including an entity treated as a partnership for U.S. federal income tax purposes) holds shares of our common stock, the tax treatment of a partner in the partnership will generally depend upon the status of the partner and the activities of the partnership. A prospective stockholder that is a partner of a partnership holding shares of our common stock should consult its tax advisor with respect to the purchase, ownership and disposition of shares of our common stock.

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

Election to be Taxed as a RIC

As a business development company, we have elected and intend to continue to qualify to be treated as a RIC under Subchapter M of the Code. As a RIC, we generally are not subject to corporate-level U.S. federal income taxes on any ordinary income or capital gains that we distribute to our stockholders as dividends. To qualify as a RIC, we must, among other things, meet certain source-of-income and asset diversification requirements (as described below). In addition, to obtain RIC tax treatment, we must distribute to our stockholders, for each taxable year, at least 90% of our “investment company taxable income,” which is generally our ordinary income plus the excess of realized net short-term capital gains over realized net long-term capital losses (the “Annual Distribution Requirement”).

Taxation as a RIC

In order to qualify as a RIC for U.S. federal income tax purposes, we must, among other things:

• Qualify to be treated as a business development company or be registered as a management investment company under the 1940 Act at all times during each taxable year;

• Derive in each taxable year at least 90% of our gross income from dividends, interest, payments with respect to certain securities loans, gains from the sale or other disposition of stock or other securities or currencies or other income derived with respect to our business of investing in such stock, securities or currencies and net income derived from an interest in a “qualified publicly traded partnership” (as defined in the Code) (the “90% Income Test”); and

• Diversify our holdings so that at the end of each quarter of the taxable year:

At least 50% of the value of our 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 do not represent more than 5% of the value of our assets or more than 10% of the outstanding voting securities of the issuer (which for these purposes includes the equity securities of a “qualified publicly traded partnership”); and

No more than 25% of the value of our assets is invested in the securities, other than U.S. government securities or securities of other RICs, (i) of one issuer (ii) of two or more issuers that are controlled, as determined under applicable tax rules, by us and that are engaged in the same or similar or related trades or businesses or (iii) of one or more “qualified publicly traded partnerships,” (the “Diversification Tests”).

To the extent that we invest in entities treated as partnerships for U.S. federal income tax purposes (other than a “qualified publicly traded partnership”), we generally must include the items of gross income derived by the partnerships for purposes of the 90% Income Test, and the income that is derived from a partnership (other than a “qualified publicly traded partnership”) will be treated as qualifying income for purposes of the 90% Income Test only to the extent that such income is attributable to items of income of the partnership which would be qualifying income if realized by us directly. In addition, we generally must take into account our proportionate share of the assets held by partnerships (other than a “qualified publicly traded partnership”) in which we are a partner for purposes of the Diversification Tests. If the partnership is a “qualified publicly traded partnership,” the net income derived from such partnership will be qualifying income for purposes of the 90% Income Test, and interests in the partnership will be “securities” for purposes of the Diversification Tests. We monitor our investments in equity securities of entities that are treated as partnerships for U.S. federal income tax purposes to prevent our disqualification as a RIC.

In order to meet the 90% Income Test, we may establish one or more special purpose corporations to hold assets from which we do not anticipate earning dividend, interest or other qualifying income under the 90% Income Test. Any such special purpose corporation would generally be subject to U.S. federal income tax, and could result in a reduced after-tax yield on the portion of our assets held by such corporation.

Provided that we qualify as a RIC and satisfy the Annual Distribution Requirement, we will not be subject to U.S. federal income tax on the portion of our investment company taxable income and net capital gain (which we define as net long-term capital gains in excess of net short-term capital losses) we timely distribute to stockholders. We 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) to our stockholders. Any undistributed taxable income is subject to U.S. federal income tax. We will be subject to a 4% non-deductible U.S. federal excise tax on certain undistributed income of RICs unless we distribute in a timely manner an amount at least equal to the sum of (i) 98% of our ordinary income recognized during the calendar year, (ii) 98.2% of our capital gain net income, as defined by the Code, recognized for the one year period ending October 31 in that calendar year and (iii) any income recognized, but not distributed, in preceding years. We may be required to recognize taxable income in circumstances in which we do not receive cash. For example, if we hold debt obligations that are treated under applicable tax rules as having original issue discount, we must 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 us in the same taxable year. Because any original issue discount accrued will be included in our investment company taxable income for the year of accrual, we may be required to make a distribution to our stockholders in order to satisfy the Annual Distribution Requirement, even though we will not have received any corresponding cash amount.

Gain or loss realized by us from warrants acquired by us as well as any loss attributable to the lapse of such warrants generally will be treated as capital gain or loss. Such gain or loss generally will be long-term or short-term, depending on how long we held a particular warrant. As a RIC, we are not allowed to carry forward or carry back a net operating loss for purposes of computing our investment company taxable income in other taxable years.

Although we do not presently expect to do so, we are authorized to borrow funds and to sell assets in order to satisfy distribution requirements. However, under the 1940 Act, we are not permitted to make distributions to our stockholders while our debt obligations and other senior securities are outstanding unless certain “asset coverage” tests are met. See “Regulation as a Business Development Company – Senior Securities.” Moreover, our ability to dispose of assets to meet our distribution requirements may be limited by (1) the illiquid nature of our portfolio and/or (2) other requirements relating to our status as a RIC, including the Diversification Tests. If we dispose of assets in order to meet the Annual Distribution Requirement or to avoid the excise tax, we may make such dispositions at times that, from an investment standpoint, are not advantageous.

If we fail to satisfy the Annual Distribution Requirement or otherwise fail to qualify as a RIC in any taxable year, we would be subject to tax on all of our taxable income at regular corporate rates. We would not be able to deduct distributions to stockholders, nor would we be required to make distributions. Distributions would generally be taxable to our individual and other non-corporate taxable stockholders as ordinary dividend income eligible for the reduced maximum rate applicable to qualified dividend income to the extent of our current and accumulated earnings and profits, provided certain holding period and other requirements are met. Subject to certain limitations under the Code, corporate distributees would be eligible for the dividends-received deduction. To qualify again to be taxed as a RIC in a subsequent year, we would be required to distribute to our shareholders our accumulated earnings and profits attributable to non-RIC years. In addition, if we failed to qualify as a RIC for a period greater than two taxable years, then, in order to qualify as a RIC in a subsequent year, we would be required to elect to recognize and pay tax on any net built-in gain (the excess of aggregate gain, including items of income, over aggregate loss that would have been realized if we had been liquidated) or, alternatively, be subject to taxation on such built-in gain recognized for a period of five years.

Certain of our investment practices may be subject to special and complex U.S. federal income tax provisions that may, among other things, (i) disallow, suspend or otherwise limit the allowance of certain losses or deductions, (ii) convert lower taxed long-term capital gain and qualified dividend income into higher taxed short-term capital gain or ordinary income, (iii) convert an ordinary loss or a deduction into a capital loss (the deductibility of which is more limited), (iv) cause us to recognize income or gain without a corresponding receipt of cash, (v) adversely affect the time as to when a purchase or sale of stock or securities is deemed to occur, (vi) adversely alter the characterization of certain complex financial transactions, and (vii) produce income that will not be qualifying income for purposes of the 90% Income Test. We will monitor our transactions and may make certain tax elections in order to mitigate the effect of these provisions.

We may invest in preferred securities or other securities the U.S. federal income tax treatment of which may be unclear or may be subject to recharacterization by the IRS. To the extent the tax treatment of such securities or the income from such securities differs from the expected tax treatment, it could affect the timing or character of income recognized, requiring us to purchase or sell securities, or otherwise change our portfolio, in order to comply with the tax rules applicable to RICs under the Code.

In September 2016, the IRS and U.S. Treasury Department issued proposed regulations that, if finalized, would provide that the income inclusions from a PFIC with a QEF election or a CFC would not be good income for purposes of the 90% Income Test

unless the Company receives a cash distribution from such entity in the same year attributable to the included income. If such income were not considered “good income” for purposes of the 90% income test, the Company may fail to qualify as a RIC.

It is unclear whether or in what form these regulations will be adopted or, if adopted, whether such regulations would have a significant impact on the income that could be generated by the Company. If adopted, the proposed regulations would apply to taxable years of the Company beginning on or after 90 days after the regulations are published as final. The Company is monitoring the status of the proposed regulations and is assessing the potential impact of the proposed tax regulation on its operations.

Taxation of U.S. Stockholders

Distributions by us generally are taxable to U.S. Stockholders as ordinary income or capital gains. Distributions of our “investment company taxable income” (which is, generally, our 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 our current or accumulated earnings and profits, whether paid in cash or reinvested in additional common stock. Provided that certain holding period and other requirements are met, such distributions (if reported by us) may qualify (i) for the dividends received deduction available to corporations, but only to the extent that our income consists of dividend income from U.S. corporations and (ii) in the case of individual shareholders, as qualified dividend income eligible to be taxed at long-term capital gain rates to the extent that we receive qualified dividend income (generally, dividend income from taxable domestic corporations and certain qualified foreign corporations). There can be no assurance as to what portion, if any, of our distributions will qualify for favorable treatment as qualified dividend income.

Distributions of our net capital gain (which is generally our realized net long-term capital gains in excess of realized net short-term capital losses) properly reported by us as “capital gain dividends” will be taxable to a U.S. Stockholder as long-term capital gains, regardless of the U.S. Stockholder’s holding period for its common stock and regardless of whether paid in cash or reinvested in additional common stock. Distributions in excess of our current and accumulated earnings and profits first will reduce a U.S. Stockholder’s adjusted tax basis in such stockholder’s common stock and, after the adjusted basis is reduced to zero, will constitute capital gains to such U.S. Stockholder.

Although we currently intend to distribute any long-term capital gains at least annually, we may in the future decide to retain some or all of our long-term capital gains, and designate the retained amount as a “deemed distribution.” In that case, among other consequences, we will pay tax on the retained amount, each U.S. Stockholder will be required to include his, her or its proportionate 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 its allocable share of the tax paid thereon by us. 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 common stock. The amount of tax that individual stockholders will be treated as having paid and for which they will receive a credit may 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 U.S. 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 we paid. In order to utilize the deemed distribution approach, we must provide written notice to our stockholders prior to the expiration of 60 days after the close of the relevant taxable year. We cannot treat any of our 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 dividends paid for that year, we may, under certain circumstances, elect to treat a dividend that is paid during the following taxable year as if it had been paid during the taxable year in question. If we make such an election, the U.S. Stockholder will still be treated as receiving the dividend in the taxable year in which the distribution is made. However, any dividend declared by us in October, November or December of any calendar year, payable to stockholders of record on a specified date in any such month and actually paid during January of the following year, will be treated as if it had been received by our U.S. Stockholders on December 31 of the year in which the dividend was declared.

If a U.S. Stockholder purchases shares of our 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 it represents a return of its investment.

A U.S. Stockholder generally will recognize taxable gain or loss if such U.S. Stockholder sells or otherwise disposes of its shares of our common stock. Any gain or loss arising from such sale or taxable disposition generally will be treated as long-term capital gain or loss if the U.S. 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 taxable disposition of shares of our 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 dividends received, or undistributed capital gain deemed received, with respect to such shares. In addition, all or a portion of any loss recognized upon

a taxable disposition of shares of our common stock may be disallowed if other substantially identical shares are purchased (whether through reinvestment of distributions or otherwise) within 30 days before or after the disposition. Capital losses are deductible only to the extent of capital gains (subject to an exception for individuals under which a limited amount of capital losses may be offset against ordinary income).

In general, individual U.S. Stockholders currently are subject to a preferential rate on their net capital gain, or the excess of realized net long-term capital gain over realized net short-term capital loss for a taxable year, including long-term capital gain derived from an investment in our shares. Such rate is lower than the maximum rate on ordinary income currently payable by individuals. Corporate U.S. Stockholders currently are subject to U.S. federal income tax on net capital gain at ordinary income rates.

Certain U.S. Stockholders who are individuals, estates or trusts and whose income exceeds certain thresholds will be required to pay a 3.8% Medicare tax on all or a portion of their “net investment income,” which includes dividends received from us and capital gains from the sale or other disposition of our stock.

We will make available to each of our U.S. Stockholders, as promptly as possible after the end of each calendar year, a notice detailing, on a per share basis, the amounts includible in such U.S. Stockholder’s taxable income for such year as ordinary income and as long-term capital gain on form 1099-DIV. In addition, the amount and the U.S. federal tax status of each year’s distributions generally will be reported to the IRS. Distributions may also be subject to additional state, local and foreign taxes depending on a U.S. Stockholder’s particular situation.

Payments of dividends, including deemed payments of constructive dividends, or the proceeds of the sale or other taxable disposition of our common stock generally are subject to information reporting unless the U.S. Stockholder is an exempt recipient. Such payments may also be subject to U.S. federal backup withholding at the applicable rate if the recipient of such payment fails to supply a taxpayer identification number and otherwise comply with the rules for establishing an exemption from backup withholding. Backup withholding is not an additional tax, and any amounts withheld under the backup withholding rules generally will be allowed as a refund or credit against the holder’s U.S. federal income tax liability, provided that certain information is provided timely to the IRS.

Taxation of Non-U.S. Stockholders

Whether an investment in our common stock is appropriate for a Non-U.S. Stockholder will depend upon that person’s particular circumstances. An investment in our common stock by a Non-U.S. Stockholder may have adverse tax consequences. Non-U.S. Stockholders should consult their tax advisers before investing in our common stock. Distributions of our “investment company taxable income” to Non-U.S. Stockholders that are not “effectively connected” with a U.S. trade or business conducted by the Non-U.S. Stockholder, will generally be subject to withholding of U.S. federal income tax at a rate of 30% (or lower applicable treaty rate) to the extent of our current and accumulated earnings and profits.

Properly reported distributions to Non-U.S. Stockholders are generally exempt from U.S. federal withholding tax where they (i) are paid in respect of our “qualified net interest income” (generally, our U.S.-source interest income, other than certain contingent interest and interest from obligations of a corporation or partnership in which we are at least a 10% shareholder, reduced by expenses that are allocable to such income) or (ii) are paid in respect of our “qualified short-term capital gains” (generally, the excess of our net short-term capital gain over our long-term capital loss for such taxable year). However, depending on our circumstances, we may report all, some or none of our potentially eligible dividends as such qualified net interest income or as qualified short-term capital gains, and/or treat such dividends, in whole or in part, as ineligible for this exemption from withholding. In order to qualify for this exemption from withholding, a Non-U.S. Stockholder needs to comply with applicable certification requirements relating to its non-U.S. status (including, in general, furnishing an IRS Form W-8BEN, W-8BEN-E or substitute form). In the case of shares held through an intermediary, the intermediary may withhold even if we report the payment as qualified net interest income or qualified short-term capital gain. Non-U.S. Stockholders should contact their intermediaries with respect to the application of these rules to their accounts. There can be no assurance as to what portion of our distributions will qualify for favorable treatment as qualified net interest income or qualified short-term capital gains. Actual or deemed distributions of our net capital gain to a Non-U.S. Stockholder, and gains recognized by a Non-U.S. Stockholder upon the sale of our common stock, that are not effectively connected with a U.S. trade or business conducted by the Non-U.S. Stockholder, will generally not be subject to U.S. federal withholding tax and generally will not be subject to U.S. federal income tax unless the Non-U.S. Stockholder is a nonresident alien individual and is

physically present in the United States for 183 or more days during the taxable year and meets certain other requirements.

Distributions of our “investment company taxable income” and net capital gain (including deemed distributions) to Non-U.S. Stockholders, and gains realized by Non-U.S. Stockholders upon the sale of our common stock that are effectively connected with

a U.S. trade or business conducted by the Non-U.S. Stockholder, will be subject to U.S. federal income tax at the graduated rates applicable to U.S. citizens, residents and domestic corporations. In addition, if such Non-U.S. Stockholder is a foreign corporation, it may also be subject to a 30% (or lower applicable treaty rate) branch profits tax on its effectively connected earnings and profits for the taxable year, subject to adjustments, if its investment in our common stock is effectively connected with its conduct of a U.S. trade or business.

If we distribute our net capital gain in the form of deemed rather than actual distributions (which we may do in the future), a Non-U.S. Stockholder will be entitled to a U.S. federal income tax credit or tax refund equal to the stockholder's allocable share of the tax we pay 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.

In addition, withholding at a rate of 30% will be required on dividends in respect of, and after December 31, 2018, withholding at a rate of 30% will be required on gross proceeds from the sale of, shares of our stock held by or through certain foreign financial institutions (including investment funds), unless such institution enters into an agreement with the Secretary of the Treasury to report, on an annual basis, information with respect to interests in, and accounts maintained by, the institution to the extent such interests or accounts are held by certain U.S. persons or by certain non-U.S. entities that are wholly or partially owned by U.S. persons and to withhold on certain payments. Accordingly, the entity through which our shares are held will affect the determination of whether such withholding is required. Similarly, dividends in respect of, and, after December 31, 2018, gross proceeds from the sale of, our shares held by an investor that is a non-financial non-U.S. entity that does not qualify under certain exemptions will be subject to withholding at a rate of 30%, unless such entity either (i) certifies that such entity does not have any "substantial United States owners" or (ii) provides certain information regarding the entity's "substantial United States owners," which we or the applicable withholding agent will in turn provide to the IRS. An intergovernmental agreement between the United States and an applicable foreign country, or future Treasury regulations or other guidance, may modify these requirements. We will not pay any additional amounts to stockholders in respect of any amounts withheld. Non-U.S. Stockholders are encouraged to consult their tax advisors regarding the possible implications of the legislation on their investment in our shares.

A Non-U.S. Stockholder generally will be required to comply with certain certification procedures to establish that such holder is not a U.S. person in order to avoid backup withholding with respect to payments of dividends, including deemed payments of constructive dividends, or the proceeds of a disposition of our common stock. In addition, we are required to annually report to the IRS and each Non-U.S. Stockholder the amount of any dividends or constructive dividends treated as paid to such Non-U.S. Stockholder, regardless of whether any tax was actually withheld. Copies of the information returns reporting such dividend or constructive dividend payments and the amount withheld may also be made available to the tax authorities in the country in which a Non-U.S. Stockholder resides under the provisions of an applicable income tax treaty. Backup withholding is not an additional tax, and any amounts withheld under the backup withholding rules generally will be allowed as a refund or credit against a Non-U.S. Stockholder's U.S. federal income tax liability, if any, provided that certain required information is provided timely to the IRS.

Non-U.S. persons should consult their 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 our common stock.

Failure to Obtain RIC Tax Treatment

If we were unable to obtain tax treatment as a RIC, we would be subject to tax on all of our taxable income at regular corporate rates. We would not be able to deduct distributions to stockholders, nor would they be required to be made. Distributions would generally be taxable to our stockholders as ordinary dividend income eligible for the reduced maximum rate applicable for qualified dividend income to the extent of our 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 our 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.

Tax Cuts and Jobs Act

On December 22, 2017, President Trump signed into law the Tax Cuts and Jobs Act, which significantly changed the Code, including a reduction in the statutory corporate income tax rate to 21%, a new limitation on the deductibility of business interest expense, restrictions on the use of net operating loss carryforwards arising in taxable years beginning after December 31, 2017 and dramatic changes to the taxation of income earned from foreign sources and foreign subsidiaries. The Tax Cuts and Jobs Act also authorizes the Treasury Department to issue regulations with respect to the new provisions.

20

The newly imposed limitation on the deductibility of interest expense for U.S. federal income tax purposes may adversely affect our leveraged portfolio companies' ability to deduct interest payments. Additionally, the disallowance of interest deductibility may or may not impact the portfolio company's ability to make dividend distributions from taxable earnings and profits. We cannot predict how these or the other changes in the Tax Cuts and Jobs Act, or regulations or other guidance issued under it, might affect us, our business, the business of our portfolio companies, or an investment in our securities.

The discussion set forth herein does not constitute tax advice, and potential investors should consult their own tax advisors concerning the tax considerations relevant to their particular situation.

Regulation as a Business Development Company

General

We are a closed-end, non-diversified investment company that has filed an election to be treated as a BDC under the 1940 Act and has elected to be treated as a RIC under Subchapter M of the Code. The 1940 Act contains prohibitions and restrictions relating to transactions between business development companies and their affiliates (including any investment advisers or sub-advisers), principal underwriters and affiliates of those affiliates or underwriters and requires that a majority of the directors be persons other than "interested persons," as that term is defined in the 1940 Act. In addition, the 1940 Act provides that we may not change the nature of our business so as to cease to be, or to withdraw our election as, a business development company unless approved by a majority of our outstanding voting securities.

We may invest up to 100% of our assets in securities acquired directly from issuers in privately negotiated transactions. With respect to such securities, we may, for the purpose of public resale, be deemed an "underwriter" as that term is defined in the Securities Act of 1933. Our intention is to not write (sell) or buy put or call options to manage risks associated with the publicly traded securities of our portfolio companies, except that we may enter into hedging transactions to manage the risks associated with interest rate, foreign currency and other market fluctuations. However, in connection with an investment or acquisition financing of a portfolio company, we may purchase or otherwise receive warrants to purchase the common stock of the portfolio company. Similarly, in connection with an acquisition, we may acquire rights to require the issuers of acquired securities or their affiliates to repurchase them under certain circumstances. We also do not intend to acquire securities issued by any investment company that exceed the limits imposed by the 1940 Act. Under these limits, except with respect to money market funds, we generally cannot acquire more than 3% of the voting stock of any regulated investment company, invest more than 5% of the value of our total assets in the securities of one investment company or invest more than 10% of the value of our total assets in the securities of more than one investment company. With regard to that portion of our portfolio invested in securities issued by investment companies, it should be noted that such investments subject our stockholders indirectly to additional expenses. None of these policies are fundamental and may be changed without stockholder approval.

Qualifying Assets

Under the 1940 Act, a business development company may not acquire any asset other than assets of the type listed in Section 55(a) of the 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 our business are the following:

- Securities purchased in transactions not involving any public offering from the issuer of such securities, which issuer (subject to certain limited exceptions) is an eligible portfolio company, or from any person who is, or has
1. 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 and rules adopted pursuant thereto as any issuer which:
 - a. is organized under the laws of, and has its principal place of business in, the United States;
 - b. is not an investment company (other than a small business investment company wholly owned by the business development company) or a company that would be an investment company but for certain exclusions under the 1940 Act for certain financial companies such as banks, brokers, commercial finance companies, mortgage companies and insurance companies; and
 - c. satisfies any of the following:

i. does not have any class of securities with respect to which a broker or dealer may extend margin credit;

21

- is controlled by a business development company or a group of companies including a business development
- ii. company and the business development company has an affiliated person who is a director of the eligible portfolio company;
 - iii. is a small and solvent company having total assets of not more than \$4 million and capital and surplus of not less than \$2 million;
 - iv. does not have any class of securities listed on a national securities exchange; or
 - v. has a class of securities listed on a national securities exchange, but has an aggregate market value of outstanding voting and non-voting common equity of less than \$250 million.
2. Securities in companies that were eligible portfolio companies when we made our initial investment if certain other requirements are satisfied.
 3. Securities of any eligible portfolio company which we control.
 4. 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 agreements.
 5. Securities of an eligible portfolio company purchased from any person in a private transaction if there is no ready market for such securities and we already own 60% of the outstanding equity of the eligible portfolio company.
 6. 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.
 7. Cash, cash equivalents, U.S. government securities or high-quality debt securities maturing in one year or less from the time of investment.

In addition, a business development company 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), (3) or (4) above.

Managerial Assistance to Portfolio Companies

In order to count portfolio securities as qualifying assets for the purpose of the 70% test, a business development company must either control the issuer of the securities or must offer to make available to the issuer of the securities (other than small and solvent companies described above) significant managerial assistance; except that, where the business development company purchases such securities in conjunction with one or more other persons acting together, one of the other persons in the group may make available such managerial assistance. "Making available significant managerial assistance" refers to any arrangement whereby we provide significant guidance and counsel concerning the management, operations, or business objectives and policies of a portfolio company. We are also deemed to be providing managerial assistance to all portfolio companies that we control, either by ourselves or in conjunction with others. The nature and extent of significant managerial assistance provided by us will vary according to the particular needs of each portfolio company. Examples of such activities include advice on marketing, operations, fulfillment and overall strategy, capital budgeting, managing relationships with financing sources, recruiting management personnel, evaluating acquisition and divestiture opportunities, participating in board and management meetings, consulting with and advising officers of portfolio companies, and providing other organizational and financial guidance. We provide significant managerial assistance to all portfolio companies that we control, either by ourselves or in conjunction with others. Prospect Administration provides such managerial assistance on our behalf to portfolio companies, including controlled companies, when we are required to provide this assistance, utilizing personnel from Prospect Capital Management.

Temporary Investments

Pending investment in other types of "qualifying assets," as described above, our investments may consist of cash, cash equivalents, including money market funds, U.S. government securities or high quality debt securities maturing in one year or less from the time of investment, which we refer to, collectively, as temporary investments, so that 70% of our assets are qualifying assets. Typically, we will invest in money market funds, U.S. Treasury bills or in repurchase agreements that are fully collateralized by cash or securities issued by the U.S. government or its agencies. A repurchase agreement involves the purchase by an investor, such as us, of a specified security and the simultaneous agreement by the seller to repurchase it at an agreed upon future date and at a price which is greater than the purchase

price by an amount that reflects an agreed-upon interest rate. There is no percentage

22

restriction on the proportion of our assets that may be invested in such repurchase agreements. However, if more than 25% of our total assets constitute repurchase agreements from a single counterparty, we would not meet the Diversification Tests in order to qualify as a RIC for U.S. federal income tax purposes. Thus, we do not intend to enter into repurchase agreements with a single counterparty in excess of this limit. The Investment Adviser will monitor the creditworthiness of the counterparties with which we enter into repurchase agreement transactions.

Senior Securities

We are permitted, under specified conditions, to issue multiple classes of indebtedness and one class of stock senior to our common stock if our asset coverage, as defined in the 1940 Act, is at least equal to 200% immediately after each such issuance. On March 23, 2018, the Small Business Credit Availability Act was signed into law, which included changes to the 1940 Act to allow BDCs to decrease their asset coverage requirement to 150% from 200% under certain circumstances. While certain other BDCs have elected to allow for the increase in leverage, after consideration of the expected negative impact on us, including a rating downgrade by S&P, our Board of Directors has not currently elected to approve the application of the modified asset coverage requirements for the Company. In addition, while any preferred stock or public debt securities remain outstanding, we must make provisions to prohibit any distribution to our stockholders or the repurchase of such securities or shares unless we meet the applicable asset coverage ratios after giving effect to such distribution or repurchase. We may also borrow amounts up to 5% of the value of our total assets for temporary or emergency purposes without regard to asset coverage. For a discussion of the risks associated with leverage, see “Risk Factors – Risks Relating to Our Securities.”

Code of Ethics

We, Prospect Capital Management and Prospect Administration have each adopted a code of ethics pursuant to Rule 17j-1 under the 1940 Act that establishes procedures for personal investments and restricts certain personal securities transactions. Personnel subject to each code may invest in securities for their personal investment accounts, including securities that may be purchased or held by us, so long as such investments are made in accordance with the code’s requirements. For information on how to obtain a copy of each code of ethics, see “Available Information.”

Compliance Policies and Procedures

We and the Investment Adviser have adopted and implemented written policies and procedures reasonably designed to prevent violation of the U.S. federal securities laws and are required to review these compliance policies and procedures annually for their adequacy and the effectiveness of their implementation and to designate a Chief Compliance Officer to be responsible for administering the policies and procedures. Kristin L. Van Dask serves as our Chief Compliance Officer.

Proxy Voting Policies and Procedures

We have delegated our proxy voting responsibility to Prospect Capital Management. The Proxy Voting Policies and Procedures of Prospect Capital Management are set forth below. The guidelines are reviewed periodically by Prospect Capital Management and our independent directors, and, accordingly, are subject to change.

Introduction.

As an investment adviser registered under the Advisers Act, Prospect Capital Management has a fiduciary duty to act solely in the best interests of its clients. As part of this duty, Prospect Capital Management recognizes that it must vote client securities in a timely manner free of conflicts of interest and in the best interests of its clients.

These policies and procedures for voting proxies for Prospect Capital Management’s Investment Advisory clients are intended to comply with Section 206 of, and Rule 206(4)-6 under, the Advisers Act.

Proxy policies.

These policies are designed to be responsive to the wide range of subjects that may be the subject of a proxy vote. These policies are not exhaustive due to the variety of proxy voting issues that Prospect Capital Management may be required to consider. In general, Prospect Capital Management will vote proxies in accordance with these guidelines unless: (1) Prospect Capital Management has determined to consider the matter on a case-by-case basis (as is stated in these guidelines), (2) the subject matter of the vote is not covered by these guidelines, (3) a material conflict of interest is present, or (4) Prospect Capital Management might find it necessary to vote contrary to its general guidelines to maximize stockholder value and vote in its clients’ best interests. In such cases, a decision on how to vote will be made by the Proxy Voting Committee (as described below). In reviewing proxy issues, Prospect Capital Management will apply the following general policies:

Elections of directors.

In general, Prospect Capital Management will vote in favor of the management-proposed slate of directors. If there is a proxy fight for seats on the Board of Directors or Prospect Capital Management determines that there are other compelling reasons for withholding votes for directors, the Proxy Voting Committee will determine the appropriate vote on the matter. Prospect Capital Management believes that directors have a duty to respond to stockholder actions that have received significant stockholder support. Prospect Capital Management may withhold votes for directors that fail to act on key issues such as failure to implement proposals to declassify boards, failure to implement a majority vote requirement, failure to submit a rights plan to a stockholder vote and failure to act on tender offers where a majority of stockholders have tendered their shares. Finally, Prospect Capital Management may withhold votes for directors of non-U.S. issuers where there is insufficient information about the nominees disclosed in the proxy statement.

Appointment of auditors.

Our Audit Committee and Board of Directors believe that the company remains in the best position to choose the auditors and will generally support management's recommendation.

Changes in capital structure.

Changes in a company's charter, articles of incorporation or by-laws may be required by state or U.S. federal regulation. In general, Prospect Capital Management will cast its votes in accordance with the company's management on such proposal. However, the Proxy Voting Committee will review and analyze on a case-by-case basis any proposals regarding changes in corporate structure that are not required by state or U.S. federal regulation.

Corporate restructurings, mergers and acquisitions.

Prospect Capital Management believes proxy votes dealing with corporate reorganizations are an extension of the investment decision. Accordingly, the Proxy Voting Committee will analyze such proposals on a case-by-case basis.

Proposals affecting the rights of stockholders.

Prospect Capital Management will generally vote in favor of proposals that give stockholders a greater voice in the affairs of the company and oppose any measure that seeks to limit those rights. However, when analyzing such proposals, Prospect Capital Management will weigh the financial impact of the proposal against the impairment of the rights of stockholders.

Corporate governance.

Prospect Capital Management recognizes the importance of good corporate governance in ensuring that management and the Board of Directors fulfill their obligations to the stockholders. Prospect Capital Management favors proposals promoting transparency and accountability within a company.

Anti-takeover measures.

The Proxy Voting Committee will evaluate, on a case-by-case basis, proposals regarding anti-takeover measures to determine the measure's likely effect on stockholder value dilution.

Stock splits.

Prospect Capital Management will generally vote with the management of the company on stock split matters.

Limited liability of directors.

Prospect Capital Management will generally vote with management on matters that would affect the limited liability of directors.

Social and corporate responsibility.

The Proxy Voting Committee may review and analyze on a case-by-case basis proposals relating to social, political and environmental issues to determine whether they will have a financial impact on stockholder value. Prospect Capital Management may abstain from voting on social proposals that do not have a readily determinable financial impact on stockholder value.

Proxy voting procedures.

Prospect Capital Management will generally vote proxies in accordance with these guidelines. In circumstances in which (1) Prospect Capital Management has determined to consider the matter on a case-by-case basis (as is stated in these guidelines), (2) the subject matter of the vote is not covered by these guidelines, (3) a material conflict of interest is present, or (4) Prospect Capital Management might find it necessary to vote contrary to its general guidelines to maximize stockholder value and vote in its clients' best interests, the Proxy Voting Committee will vote the proxy.

Proxy voting committee.

Prospect Capital Management has formed a proxy voting committee to establish general proxy policies and consider specific proxy voting matters as necessary. In addition, members of the committee may contact the management of the company and interested stockholder groups as necessary to discuss proxy issues. Members of the committee will include relevant senior personnel. The committee may also evaluate proxies where we face a potential conflict of interest (as discussed below). Finally, the committee monitors adherence to guidelines, and reviews the policies contained in this statement from time to time.

Conflicts of interest.

Prospect Capital Management recognizes that there may be a potential conflict of interest when it votes a proxy solicited by an issuer that is its advisory client or a client or customer of one of our affiliates or with whom it has another business or personal relationship that may affect how it votes on the issuer's proxy. Prospect Capital Management believes that adherence to these policies and procedures ensures that proxies are voted with only its clients' best interests in mind. To ensure that its votes are not the product of a conflict of interests, Prospect Capital Management requires that: (i) anyone involved in the decision making process (including members of the Proxy Voting Committee) disclose to the chairman of the Proxy Voting Committee 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 Prospect Capital Management intends to vote on a proposal in order to reduce any attempted influence from interested parties.

Proxy voting.

Each account's custodian will forward all relevant proxy materials to Prospect Capital Management, either electronically or in physical form to the address of record that Prospect Capital Management has provided to the custodian.

Proxy recordkeeping.

Prospect Capital Management must retain the following documents pertaining to proxy voting:

•copies of its proxy voting policies and procedures;

•copies of all proxy statements;

•records of all votes cast by Prospect Capital Management;

•copies of all documents created by Prospect Capital Management that were material to making a decision how to vote proxies or that memorializes the basis for that decision; and

•copies of all written client requests for information with regard to how Prospect Capital Management voted proxies on behalf of the client as well as any written responses provided.

All of the above-referenced records will be maintained and preserved for a period of not less than five years from the end of the fiscal year during which the last entry was made. The first two years of records must be maintained at our office.

Proxy voting records.

Clients may obtain information about how Prospect Capital Management voted proxies on their behalf by making a written request for proxy voting information to: Compliance Officer, Prospect Capital Management LLC, 10 East 40th Street, 42nd Floor, New York, NY 10016.

Sarbanes-Oxley Act of 2002

The Sarbanes-Oxley Act of 2002 imposes a variety of regulatory requirements on publicly-held companies. In addition to our Chief Executive and Chief Financial Officers' required certifications as to the accuracy of our financial reporting, we are also

required to disclose the effectiveness of our disclosure controls and procedures as well as report on our assessment of our internal controls over financial reporting, the latter of which must be audited by our independent registered public accounting firm.

The Sarbanes-Oxley Act of 2002 also requires us to continually review our policies and procedures to ensure that we remain in compliance with all rules promulgated thereunder.

Available Information

We file with or submit to the SEC annual, quarterly and current periodic reports, proxy statements and other information meeting the informational requirements of the Securities Exchange Act of 1934, as amended (the “Exchange Act”). This information is available free of charge by contacting us at (212) 448-0702 or on our website at www.prospectstreet.com. Information contained on our website is not incorporated into this Annual Report and you should not consider such information to be part of this Annual Report. You also may inspect and copy these reports, proxy statements and other information, as well as the Annual Report and related exhibits and schedules, at the Public Reference Room of the SEC at 100 F Street NE, Washington, D.C. 20549. Such information is also available from the EDGAR database on the SEC’s website at <http://www.sec.gov>. You also can obtain copies of such information, after paying a duplicating fee, by sending a request by e-mail to publicinfo@sec.gov or by writing the SEC’s Public Reference Branch, Office of Consumer Affairs and Information Services, Securities and Exchange Commission, Washington, D.C. 20549. You may obtain information on the operation of the SEC’s Public Reference Room by calling the SEC at (202) 551-8090 or (800) SEC-0330.

Item 1A. Risk Factors

You should carefully consider the risks described below, together with all of the other information included in this Annual Report, before you decide whether to make an investment in our securities. The risks set forth below are not the only risks we face. If any of the adverse events or conditions described below occurs, our business, financial condition and results of operations could be materially adversely affected. In such case, our NAV, and the trading price of our common stock could decline, or the value of our preferred stock, debt securities, and warrants, if any are outstanding, may decline, and you may lose all or part of your investment.

Our \$101.6 million of 5.875% convertible notes due 2019 are referred to as the “2019 Notes”. Our \$392.0 million of 4.75% convertible notes due 2020 are referred to as the “2020 Notes”. Our \$328.5 million of 4.95% convertible notes due 2022 are referred to as the “2022 Notes”, and collectively with the 2019 Notes and the 2020 Notes, are the “Convertible Notes”. Our \$320.0 million of 5.875% unsecured notes due 2023 are referred to as the “2023 Notes”. Our \$199.3 million of 6.25% unsecured notes due 2024 are referred to as the “2024 Notes”. Our \$153.5 million of 5.00% unsecured notes due 2019 are referred to as the “5.00% 2019 Notes”. Our \$55.0 million of 6.25% unsecured notes due 2028 are referred to as the “2028 Notes”, and collectively with the 2023 Notes, the 2024 Notes, and the 5.00% 2019 Notes are the “Public Notes”. Any corporate notes issued pursuant to our medium term notes program with Incapital LLC are referred to as “Prospect Capital InterNotes®”. The Convertible Notes, Public Notes, and Prospect Capital InterNotes® are collectively referred to as the “Unsecured Notes”.

Risks Relating to Our Business

Capital markets may experience periods of disruption and instability. Such market conditions may materially and adversely affect debt and equity capital markets in the United States and abroad, which may have a negative impact on our business and operations.

From time to time, capital markets may experience periods of disruption and instability. For example, between 2007 and 2009, the global capital markets experienced an extended period of disruption as evidenced by a lack of liquidity in the debt capital markets, write-offs in the financial services sector, the re-pricing of credit risk and the failure of certain major financial institutions. Despite actions of the United States federal government and foreign governments, these events contributed to worsening general economic conditions that materially and adversely impacted the broader financial and credit markets and reduced the availability of debt and equity capital for the market as a whole and financial services firms in particular. While the adverse effects of these conditions have abated to a degree, global financial markets experienced significant volatility following the downgrade by Standard & Poor’s on August 5, 2011 of the long-term credit rating of U.S. Treasury debt from AAA to AA+. These market conditions have historically and could again have a material adverse effect on debt and equity capital markets in the United States and Europe, which could have a materially negative impact on our business, financial condition and results of operations. We and other

companies in the financial services sector may have to access, if available, alternative markets for debt and equity capital. In such circumstances, equity capital may be difficult to raise because subject to some limited exceptions, as a BDC, we are generally not able to issue additional shares of our common stock at a price less than net asset value without general approval by our stockholders, which we currently have, and approval of the specific issuance by our Board of Directors. In addition, our ability to incur indebtedness or issue preferred stock is limited by applicable regulations such that our asset coverage, as defined in the 1940 Act, must equal at least 200% immediately after each time we incur indebtedness or issue preferred stock. The debt capital that may

be available, if at all, may be at a higher cost and on less favorable terms and conditions in the future. Any inability to raise capital could have a negative effect on our business, financial condition and results of operations.

Market conditions may in the future make it difficult to extend the maturity of or refinance our existing indebtedness, including the final maturity of our credit facility in March 2024, and any failure to do so could have a material adverse effect on our business. The re-appearance of market conditions similar to those experienced from 2007 through 2009 for any substantial length of time could make it difficult to extend the maturity of, or refinance our existing indebtedness, or obtain new indebtedness with similar terms and any failure to do so could have a material adverse effect on our business. The debt capital that will be available to us in the future, if at all, may be at a higher cost and on less favorable terms and conditions than what we currently experience. Further, if we are unable to raise or refinance debt, then our equity investors may not benefit from the potential for increased returns on equity resulting from leverage and we may be limited in our ability to make new commitments or to fund existing commitments to our portfolio companies.

The illiquidity of our investments may make it difficult for us to sell such investments, if required. As a result, we may realize significantly less than the value at which we have recorded our investments if forced to liquidate quickly. Given the extreme volatility and dislocation that the capital markets have historically experienced, many BDCs have faced, and may in the future face, a challenging environment in which to raise capital. We may in the future have difficulty accessing debt and equity capital, and a severe disruption in the global financial markets or deterioration in credit and financing conditions could have a material adverse effect on our business, financial condition and results of operations. In addition, significant changes in the capital markets, including the extreme volatility and disruption, have had, and may in the future have, a negative effect on the valuations of our investments and on the potential for liquidity events involving our investments. An inability to raise capital, and any required sale of our investments for liquidity purposes, could have a material adverse impact on our business, financial condition or results of operations. The Investment Adviser does not know how long the financial markets will continue to be affected by these events and cannot predict the effects of these or similar events in the future on the United States economy and securities markets or on our investments. The Investment Adviser monitors developments and seeks to manage our investments in a manner consistent with achieving our investment objective, but there can be no assurance that it will be successful in doing so; and the Investment Adviser may not timely anticipate or manage existing, new or additional risks, contingencies or developments, including regulatory developments in the current or future market environment. We are required to record certain of our assets at fair value, as determined in good faith by our Board of Directors in accordance with our valuation policy. As a result, volatility in the capital markets may have a material adverse effect on our investment valuations and our net asset value, even if we plan to hold investments to maturity.

Uncertainty about the financial stability of the United States, the economic crisis in Europe and the new presidential administration could negatively impact our business, financial condition and results of operations.

Although U.S. lawmakers passed legislation to raise the federal debt ceiling and Standard & Poor's Ratings Services affirmed its AA+ long-term sovereign credit rating on the United States and revised the outlook on the long-term rating from negative to stable in June of 2013, U.S. debt ceiling and budget deficit concerns together with signs of deteriorating sovereign debt conditions in Europe continue to present the possibility of a credit-rating downgrade, economic slowdowns, or a recession for the United States. The impact of any further downgrades to the U.S. government's sovereign credit rating or downgraded sovereign credit ratings of European countries or the Russian Federation, or their perceived creditworthiness could adversely affect the U.S. and global financial markets and economic conditions. These developments, along with any further European sovereign debt issues, could cause interest rates and borrowing costs to rise, which may negatively impact our ability to access the debt markets on favorable terms. Continued adverse economic conditions could have a material adverse effect on our business, financial condition and results of operations.

In October 2014, the Federal Reserve announced that it was concluding its bond-buying program, or quantitative easing, which was designed to stimulate the economy and expand the Federal Reserve's holdings of long-term securities, suggesting that key economic indicators, such as the unemployment rate, had showed signs of improvement since the inception of the program. In June 2017, the Federal Reserve raised the target range for the federal funds rate, which was the fourth such interest rate hike in nearly a decade. To the extent the Federal Reserve continues to raise

rates, and without quantitative easing by the Federal Reserve, there is a risk that the debt markets may experience increased volatility and that the liquidity of certain of our investments may be reduced. These developments, along with the corresponding potential rise in interest rates and borrowing costs, the United States government's credit and deficit concerns and the European sovereign debt crisis, may negatively impact our ability to access the debt markets on favorable terms.

27

The Trump administration has called for significant changes to U.S. trade, healthcare, immigration, foreign, and government regulatory policy. In this regard, there is significant uncertainty with respect to legislation, regulation and government policy at the federal level, as well as the state and local levels. Recent events have created a climate of heightened uncertainty and introduced new and difficult-to-quantify macroeconomic and political risks with potentially far-reaching implications. There has been a corresponding meaningful increase in the uncertainty surrounding interest rates, inflation, foreign exchange rates, trade volumes and fiscal and monetary policy. To the extent the U.S. Congress or Trump administration implements changes to U.S. policy, those changes may impact, among other things, the U.S. and global economy, international trade and relations, unemployment, immigration, corporate taxes, healthcare, the U.S. regulatory environment, inflation and other areas. Some particular areas identified as subject to potential change, amendment or repeal include the Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Dodd-Frank Act"), including the Volcker Rule and various swaps and derivatives regulations, credit risk retention requirements and the authorities of the Federal Reserve, the Financial Stability Oversight Council and the SEC. Although we cannot predict the impact, if any, of these changes to our business, they could adversely affect our business, financial condition, operating results and cash flows. Until we know what policy changes are made and how those changes impact our business and the business of our competitors over the long term, we will not know if, overall, we will benefit from them or be negatively affected by them. The Federal Reserve raised the Federal Funds Rate three times in 2017 and two times thus far in 2018, and it may continue to raise the Federal Funds Rate in the future. General interest rate fluctuations may have a substantial negative impact on our investments, the value of our common stock and our rate of return on invested capital. A reduction in the interest rates on new investments relative to interest rates on current investments could also have an adverse impact on our net investment income. An increase in interest rates could decrease the value of any investments we hold which earn fixed interest rates, including subordinated loans, senior and junior secured and unsecured debt securities and loans and high-yield bonds, and also could increase our interest expense, thereby decreasing our net investment income. Also, an increase in interest rates available to investors could make investment in our common stock less attractive if we are not able to increase our distributions rate, which could reduce the value of our common stock.

On February 3, 2017, President Trump signed Executive Order 13772 announcing the administration's policy to regulate the U.S. financial system in a manner consistent with certain "Core Principles," including regulation that is efficient, effective and appropriately tailored. The Executive Order directed the Secretary of the Treasury, in consultation with the heads of the member agencies of the Financial Stability Oversight Council, to report to the President on the extent to which existing laws, regulations and other government policies promote the Core Principles and to identify any laws, regulations or other government policies that inhibit federal regulation of the U.S. financial system. On June 12, 2017, the U.S. Department of the Treasury published the first of several reports in response to the Executive Order on the depository system covering banks and other savings institutions. On October 6, 2017, the Treasury released a second report outlining ways to streamline and reform the U.S. regulatory system for capital markets, followed by a third report, on October 26, 2017, examining the current regulatory framework for the asset management and insurance industries. Subsequent reports are expected to address: retail and institutional investment products and vehicles; as well as non-bank financial institutions, financial technology, and financial innovation.

On June 8, 2017, the U. S. House of Representatives passed the Financial Choice Act, which includes legislation intended to repeal or replace substantial portions of the Dodd-Frank Act. Among other things, the proposed law would repeal the Volcker Rule limiting certain proprietary investment and trading activities by banks, eliminate the authority of regulators to designate asset managers and other large non-bank institutions as "systemically important financial institutions" or "SIFIs," and repeal the Department of Labor ("DOL") "fiduciary rule" governing standards for dealing with retirement plans until the SEC issues standards for similar dealings by broker-dealers and limiting the substance of any subsequent DOL rule to the SEC standards. The bill was referred to the Senate, where it is unlikely to pass as proposed. On November 16, 2017, a bipartisan group of U.S. Senators, led by Senate Banking Committee Chairman, introduced the Economic Growth, Regulatory Relief, and Consumer Protection Act (the "Senate Regulatory Relief Bill"). The Senate Regulatory Relief Bill would revise various post-crisis regulatory requirements and provide targeted regulatory relief to certain financial institutions. Among the most significant of its proposed amendments to the Dodd-Frank Act are a substantial increase in the \$50 billion asset threshold for automatic regulation of bank holding companies as SIFIs, an exemption from the Volcker Rule for insured depository institutions with less than

\$10 billion in consolidated assets and lower levels of trading assets and liabilities, as well as amendments to the liquidity leverage ratio and supplementary leverage ratio requirements. On December 5, 2017, the Senate Banking Committee approved the Senate Regulatory Relief Bill. If the legislation is adopted in the Senate, it remains unclear whether and how it would be reconciled with its House-passed counterpart, the Financial Choice Act, which is substantially different in scope and substance, and ultimately approved by both chambers of Congress. At this time it is not possible to determine whether any such particular proposal will become law or its potential impact on us. Legislative or other actions relating to taxes could have a negative effect on us.

The rules dealing with U.S. federal income taxation are constantly under review by persons involved in the legislative process and by the IRS and the U.S. Treasury Department. In 2017, the Trump administration enacted substantial changes to U.S. fiscal and tax policies, which include comprehensive corporate and individual tax reform. On December 22, 2017, President Trump

signed into law the Tax Cuts and Jobs Act, which significantly changed the Code, including by, among other changes, instituting a reduction in the corporate income tax rate, changing the tax rates applicable to non-corporate taxpayers, creating a new limitation on the deductibility of interest expense and other deductions, and making significant changes to the taxation of income earned from foreign sources and foreign subsidiaries. The Tax Cuts and Jobs Act also authorizes the IRS to issue regulations with respect to the new provisions. We cannot predict how the changes in the Tax Cuts and Jobs Act, or regulations or other guidance issued under it, might affect us, our business, the business of our portfolio companies, or an investment in our securities. In addition, other legislation, U.S. Treasury regulations, administrative interpretations or court decisions, with or without retroactive application, could affect the U.S. federal income tax consequences to our investors and us or could have other adverse consequences. You are urged to consult with your tax advisor with respect to the status of legislative, regulatory or administrative developments and proposals and their potential effect on an investment in our securities.

Rising interest rates may adversely affect the value of our portfolio investments which could have an adverse effect on our business, financial condition and results of operations.

Our debt investments may be based on floating rates, such as London Interbank Offer Rate (“LIBOR”), EURIBOR, the Federal Funds Rate or the Prime Rate. General interest rate fluctuations may have a substantial negative impact on our investments, the value of our common stock and our rate of return on invested capital. A reduction in the interest rates on new investments relative to interest rates on current investments could also have an adverse impact on our net interest income. An increase in interest rates could decrease the value of any investments we hold which earn fixed interest rates, including subordinated loans, senior and junior secured and unsecured debt securities and loans and high yield bonds, and also could increase our interest expense, thereby decreasing our net income. Also, an increase in interest rates available to investors could make investment in our common stock less attractive if we are not able to increase our dividend rate, which could reduce the value of our common stock.

Because we have borrowed money, and may issue preferred stock to finance investments, our net investment income depends, in part, upon the difference between the rate at which we borrow funds or pay distributions on preferred stock and the rate that our investments yield. As a result, we can offer no assurance that a significant change in market interest rates will not have a material adverse effect on our net investment income. In periods of rising interest rates, our cost of funds would increase except to the extent we have issued fixed rate debt or preferred stock, which could reduce our net investment income.

You should also be aware that a change in the general level of interest rates can be expected to lead to a change in the interest rate we receive on many of our debt investments. Accordingly, a change in the interest rate could make it easier for us to meet or exceed the performance threshold and may result in a substantial increase in the amount of incentive fees payable to our Investment Adviser with respect to the portion of the Incentive Fee based on income. Changes relating to the LIBOR calculation process may adversely affect the value of the LIBOR-indexed, floating-rate debt securities in our portfolio.

In the recent past, concerns have been publicized that some of the member banks surveyed by the British Bankers’ Association (“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 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.

In July 2017, the head of the United Kingdom Financial Conduct Authority announced the desire to phase out the use of LIBOR by the end of 2021. There is currently no definitive information regarding the future utilization of LIBOR or of any particular replacement rate. As such, the potential effect of any such event on our cost of capital and net investment income cannot yet be determined.

Actions by the BBA, the United Kingdom Financial Conduct Authority or other regulators or law enforcement agencies as a result of these or future events, may result in changes to the manner in which LIBOR is determined. Potential changes, or uncertainty related to such potential changes may adversely affect the market for LIBOR-based securities, including our 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 our portfolio of LIBOR-indexed, floating-rate debt securities.

29

Volatility in the global financial markets resulting from relapse of the Eurozone crisis, geopolitical developments in Eastern Europe, turbulence in the Chinese stock markets and global commodity markets, the United Kingdom's vote to leave the European Union or otherwise could have a material adverse effect on our business, financial condition and results of operations.

Volatility in the global financial markets could have an adverse effect on the economic recovery in the United States and could result from a number of causes, including a relapse in the Eurozone crisis, geopolitical developments in Eastern Europe, turbulence in the Chinese stock markets and global commodity markets or otherwise. In 2010, a financial crisis emerged in Europe, triggered by high budget deficits and rising direct and contingent sovereign debt in Greece, Ireland, Italy, Portugal and Spain, which created concerns about the ability of these nations to continue to service their sovereign debt obligations. While the financial stability of many of such countries has improved significantly, risks resulting from any future debt crisis in Europe or any similar crisis could have a detrimental impact on the global economic recovery, sovereign and non-sovereign debt in these countries and the financial condition of European financial institutions. Market and economic disruptions have affected, and may in the future affect, consumer confidence levels and spending, personal bankruptcy rates, levels of incurrence and default on consumer debt and home prices, among other factors. We cannot assure you that market disruptions in Europe, including the increased cost of funding for certain governments and financial institutions, will not impact the global economy, and we cannot assure you that assistance packages will be available, or if available, be sufficient to stabilize countries and markets in Europe or elsewhere affected by a financial crisis. To the extent uncertainty regarding any economic recovery in Europe negatively impacts consumer confidence and consumer credit factors, our business, financial condition and results of operations could be significantly and adversely affected.

In the second quarter of 2015, stock prices in China experienced a significant drop, resulting primarily from continued sell-off of shares trading in Chinese markets. In addition, in August 2015, Chinese authorities sharply devalued China's currency. Since then, the Chinese capital markets have continued to experience periods of instability. These market and economic disruptions have affected, and may in the future affect, the financial markets, including the U.S. capital markets, which could adversely affect our business, financial condition or results of operations.

As a consequence of the United Kingdom's vote to withdraw from the European Union (the "EU"), the government of the United Kingdom gave notice of its withdrawal from the EU ("Brexit"). As a result of this decision, the financial markets experienced high levels of volatility and it is likely that, in the near term, Brexit will continue to bring about higher levels of uncertainty and volatility. During this period of uncertainty, the negative impact on not only the United Kingdom and European economies, but the broader global economy, could be significant, potentially resulting in increased market and currency volatility (including volatility of the value of the British pound sterling relative to the United States dollar and other currencies and volatility in global currency markets generally), and illiquidity and lower economic growth for companies that rely significantly on Europe for their business activities and revenues. It is possible that certain economic activity will be curtailed until some signs of clarity begin to emerge, including negotiations around the terms for United Kingdom's exit out of the EU. Additional risks associated with the outcome of Brexit include macroeconomic risk to the United Kingdom and European economies, impetus for further disintegration of the EU and related political stresses (including those related to sentiment against cross border capital movements and activities of investors like us), prejudice to financial services business that are conducting business in the EU and which are based in the United Kingdom, legal uncertainty regarding achievement of compliance with applicable financial and commercial laws and regulations in view of the expected steps to be taken pursuant to or in contemplation of Article 50 of the Treaty on European Union and negotiations undertaken under Article 218 of the Treaty on the Functioning of the European Union, and the unavailability of timely information as to expected legal, tax and other regimes. Any further exits from the EU, or the possibility of such exits, would likely cause additional market disruption globally and introduce new legal and regulatory uncertainties. We will continue to monitor the potential impact of Brexit on its results of operations and financial condition.

The occurrence of events similar to those in recent years, such as the aftermath of the war in Iraq, instability in Afghanistan, Pakistan, Egypt, Libya, Syria, Russia, Ukraine and the Middle East, ongoing epidemics of infectious diseases in certain parts of the world, terrorist attacks in the U.S. and around the world, social and political discord, debt crises (such as the Greek crisis), sovereign debt downgrades, continued tensions between North Korea and the United States and the international community generally, new and continued political unrest in various countries, such

as Venezuela, the exit or potential exit of one or more countries from the EU or the Economic and Monetary Union, the change in the U.S. president and the new administration, among others, may result in market volatility, may have long term effects on the U.S. and worldwide financial markets, and may cause further economic uncertainties in the U.S. and worldwide.

The occurrence of any of these above event(s) could have a significant adverse impact on the value and risk profile of our portfolio. We do not know how long the securities markets may be affected by similar events and cannot predict the effects of similar events in the future on the U.S. economy and securities markets. Non-investment grade and equity securities tend to be more volatile than investment-grade fixed income securities; therefore, these events and other market disruptions may have a greater impact on the prices and volatility of non-investment grade and equity securities than on investment-grade fixed income securities. There can be no assurances that similar events and other market disruptions will not have other material and adverse implications.

We may suffer credit losses.

Investment in small and middle-market companies is highly speculative and involves a high degree of risk of credit loss. These risks are likely to increase during volatile economic periods. See “Risks Related to Our Investments.” Our financial condition and results of operations will depend on our ability to manage our future growth effectively. Prospect Capital Management has been registered as an investment adviser since March 31, 2004, and we have been organized as a closed-end investment company since April 13, 2004. Our ability to achieve our investment objective depends on our ability to grow, which depends, in turn, on the Investment Adviser’s ability to continue to identify, analyze, invest in and monitor companies that meet our investment criteria. Accomplishing this result on a cost-effective basis is largely a function of the Investment Adviser’s structuring of investments, its ability to provide competent, attentive and efficient services to us and our access to financing on acceptable terms. As we continue to grow, Prospect Capital Management will need to continue to hire, train, supervise and manage new employees. Failure to manage our future growth effectively could have a materially adverse effect on our business, financial condition and results of operations.

We are dependent upon Prospect Capital Management’s key management personnel for our future success.

We depend on the diligence, skill and network of business contacts of the senior management of the Investment Adviser. We also depend, to a significant extent, on the Investment Adviser’s access to the investment professionals and the information and deal flow generated by these investment professionals in the course of their investment and portfolio management activities. The senior management team of the Investment Adviser evaluates, negotiates, structures, closes, monitors and services our investments. Our success depends to a significant extent on the continued service of the senior management team, particularly John F. Barry III and M. Grier Eliasek. The departure of any of the senior management team could have a materially adverse effect on our ability to achieve our investment objective. In addition, we can offer no assurance that Prospect Capital Management will remain the Investment Adviser or that we will continue to have access to its investment professionals or its information and deal flow.

We operate in a highly competitive market for investment opportunities.

A number of entities compete with us to make the types of investments that we make in middle-market companies. We compete with other BDCs, public and private funds, commercial and investment banks, commercial financing companies, insurance companies, hedge funds, and, to the extent they provide an alternative form of financing, private equity funds. Many of our competitors are substantially larger and have considerably greater financial, technical and marketing resources than we do. Some competitors may have a lower cost of funds and access to funding sources that are not available to us. In addition, some of our competitors may have higher risk tolerances or different risk assessments, which could allow them to consider a wider variety of investments and establish more relationships than us. Furthermore, many of our competitors are not subject to the regulatory restrictions that the 1940 Act imposes on us as a BDC and that the Code imposes on us as a RIC. We cannot assure you that the competitive pressures we face will not have a material adverse effect on our business, financial condition and results of operations. Also, as a result of this competition, we may not be able to pursue attractive investment opportunities from time to time.

We do not seek to compete primarily based on the interest rates we offer and we believe that some of our competitors may make loans with interest rates that are comparable to or lower than the rates we offer. Rather, we compete with our competitors based on our existing investment platform, seasoned investment professionals, experience and focus on middle-market companies, disciplined investment philosophy, extensive industry focus and flexible transaction structuring.

We may lose investment opportunities if we do not match our competitors’ pricing, terms and structure. If we match our competitors’ pricing, terms and structure, we may experience decreased net interest income and increased risk of credit loss. As a result of operating in such a competitive environment, we may make investments that are on less favorable terms than what we may have originally anticipated, which may impact our return on these investments. We fund a portion of our investments with borrowed money, which magnifies the potential for gain or loss on amounts invested and may increase the risk of investing in us.

Borrowings and other types of financing, also known as leverage, magnify the potential for gain or loss on amounts invested and, therefore, increase the risks associated with investing in our securities. Our lenders have fixed dollar claims on our assets that are superior to the claims of our common stockholders or any preferred stockholders. If the value of our assets increases, then leveraging would cause the net asset value to increase more sharply than it would

have had we not leveraged. Conversely, if the value of our assets decreases, leveraging would cause net asset value to decline more sharply than it otherwise would have had we not leveraged. Similarly, any increase in our income in excess of consolidated interest payable on the borrowed funds would cause our net income to increase more than it would without the leverage, while any decrease in our income would cause net income to decline more

sharply than it would have had we not borrowed. Such a decline could negatively affect our ability to make common stock dividend payments. Leverage is generally considered a speculative investment technique.

Changes in interest rates may affect our cost of capital and net investment income.

A portion of the debt investments we make bears interest at fixed rates and other debt investments bear interest at variable rates with floors and the value of these investments could be negatively affected by increases in market interest rates. In addition, as the interest rate on our revolving credit facility is at a variable rate based on an index, an increase in interest rates would make it more expensive to use debt to finance our investments. As a result, an increase in market interest rates could both reduce the value of our portfolio investments and increase our cost of capital, which could reduce our net investment income or net increase in net assets resulting from operations. A portion of our floating rate investments may include features such as LIBOR floors. To the extent we invest in credit instruments with LIBOR floors, we may lose some of the benefits of incurring leverage. Specifically, if we issue preferred stock or debt (or otherwise borrow money), our costs of leverage will increase as rates increase. However, we may not benefit from the higher coupon payments resulting from increased interest rates if our investments in LIBOR floors and rates do not rise to levels above the LIBOR floors. In this situation, we will experience increased financing costs without the benefit of receiving higher income. This in turn may result in the potential for a decrease in the level of income available for dividends or distributions made by us.

We need to raise additional capital to grow because we must distribute most of our income.

We need additional capital to fund growth in our investments. A reduction in the availability of new capital could limit our ability to grow. We must distribute at least 90% of our ordinary income and realized net short-term capital gains in excess of realized net long-term capital losses, if any, to our stockholders to maintain our status as a regulated investment company, or RIC, for U.S. federal income tax purposes. As a result, such earnings are not available to fund investment originations. We have sought additional capital by borrowing from financial institutions and may issue debt securities or additional equity securities. If we fail to obtain funds from such sources or from other sources to fund our investments, we could be limited in our ability to grow, which may have an adverse effect on the value of our common stock. In addition, as a business development company, we generally may not borrow money or issue debt securities or issue preferred stock unless immediately thereafter our ratio of total assets to total borrowings and other senior securities is at least 200%. This may restrict our ability to obtain additional leverage in certain circumstances. We may experience fluctuations in our quarterly results.

We could experience fluctuations in our quarterly operating results due to a number of factors, including the level of structuring fees received, the interest or dividend rates payable on the debt or equity securities we hold, the default rate on debt securities, the level of our expenses, variations in and the timing of the recognition of realized and unrealized gains or losses, the degree to which we encounter competition in our markets, and general economic conditions. As a result of these factors, results for any period should not be relied upon as being indicative of performance in future periods.

Our most recent NAV was calculated on June 30, 2018 and our NAV when calculated effective September 30, 2018 and thereafter may be higher or lower.

Our NAV per share is \$9.35 as of June 30, 2018. NAV per share as of September 30, 2018 may be higher or lower than \$9.35 based on potential changes in valuations, issuances of securities, repurchases of securities, dividends paid and earnings for the quarter then ended. Our Board of Directors has not yet determined the fair value of portfolio investments at any date subsequent to June 30, 2018. Our Board of Directors determines the fair value of our portfolio investments on a quarterly basis in connection with the preparation of quarterly financial statements and based on input from independent valuation firms, the Investment Adviser, the Administrator and the Audit Committee of our Board of Directors.

Our business model depends upon the development and maintenance of strong referral relationships with other asset managers and investment banking firms.

We are substantially dependent on our informal relationships, which we use to help identify and gain access to investment opportunities. If we fail to maintain our relationships with key firms, or if we fail to establish strong referral relationships with other firms or other sources of investment opportunities, we will not be able to grow our portfolio of equity investments and achieve our investment objective. In addition, persons with whom we have informal relationships are not obligated to inform us of investment opportunities, and therefore such relationships may

not lead to the origination of equity or other investments. Any loss or diminishment of such relationships could effectively reduce our ability to identify attractive portfolio companies that meet our investment criteria, either for direct equity investments or for investments through private secondary market transactions or other secondary transactions.

The Investment Adviser's liability is limited under the Investment Advisory Agreement, and we are required to indemnify the Investment Adviser against certain liabilities, which may lead the Investment Adviser to act in a riskier manner on our behalf than it would when acting for its own account.

The Investment Adviser has not assumed any responsibility to us other than to render the services described in the Investment Advisory Agreement, and it will not be responsible for any action of our Board of Directors in declining to follow the Investment Adviser's advice or recommendations. Pursuant to the Investment Advisory Agreement, the Investment Adviser and its members and their respective officers, managers, partners, agents, employees, controlling persons and members and any other person or entity affiliated with it will not be liable to us for their acts under the Investment Advisory Agreement, absent willful misfeasance, bad faith, gross negligence or reckless disregard in the performance of their duties. We have agreed to indemnify, defend and protect the Investment Adviser and its members and their respective officers, managers, partners, agents, employees, controlling persons and members and any other person or entity affiliated with it with respect to all damages, liabilities, costs and expenses resulting from acts of the Investment Adviser not arising out of willful misfeasance, bad faith, gross negligence or reckless disregard in the performance of their duties under the Investment Advisory Agreement. These protections may lead the Investment Adviser to act in a riskier manner when acting on our behalf than it would when acting for its own account. Potential conflicts of interest could impact our investment returns.

Our executive officers and directors, and the executive officers of the Investment Adviser, may serve as officers, directors or principals of entities that operate in the same or related lines of business as we do or of investment funds managed by our affiliates. Accordingly, they may have obligations to investors in those entities, the fulfillment of which might not be in our best interests or those of our stockholders. Nevertheless, it is possible that new investment opportunities that meet our investment objective may come to the attention of one of these entities in connection with another investment advisory client or program, and, if so, such opportunity might not be offered, or otherwise made available, to us. However, as an investment adviser, Prospect Capital Management has a fiduciary obligation to act in the best interests of its clients, including us. To that end, if Prospect Capital Management or its affiliates manage any additional investment vehicles or client accounts in the future, Prospect Capital Management will endeavor to allocate investment opportunities in a fair and equitable manner over time so as not to discriminate unfairly against any client. If Prospect Capital Management chooses to establish another investment fund in the future, when the investment professionals of Prospect Capital Management identify an investment, they will have to choose which investment fund should make the investment.

In the course of our investing activities, under the Investment Advisory Agreement we pay base management and incentive fees to Prospect Capital Management and reimburse Prospect Capital Management for certain expenses it incurs. As a result of the Investment Advisory Agreement, there may be times when the senior management team of Prospect Capital Management has interests that differ from those of our stockholders, giving rise to a conflict. The Investment Adviser receives a quarterly income incentive fee based, in part, on our pre-incentive fee net investment income, if any, for the immediately preceding calendar quarter. This income incentive fee is subject to a fixed quarterly hurdle rate before providing an income incentive fee return to Prospect Capital Management. This fixed hurdle rate was determined when then current interest rates were relatively low on a historical basis. Thus, if interest rates rise, it would become easier for our investment income to exceed the hurdle rate and, as a result, more likely that Prospect Capital Management will receive an income incentive fee than if interest rates on our investments remained constant or decreased. Subject to the receipt of any requisite stockholder approval under the 1940 Act, our Board of Directors may adjust the hurdle rate by amending the Investment Advisory Agreement.

The income incentive fee payable by us 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 has a deferred interest feature, it is possible that interest accrued under such loan that has previously been included in the calculation of the income incentive fee will become uncollectible. If this happens, we will reverse the interest that was recorded but Prospect Capital Management is not required to reimburse us for any such income incentive fee payments that were received in the past but would reduce the current period incentive fee for the effects of the reversal, if any. If we do not have sufficient liquid assets to pay this incentive fee or distributions to stockholders on such accrued income, we may be required to liquidate assets in order to do so. This fee structure could give rise to a conflict of interest for Prospect Capital Management to the extent that it may encourage Prospect Capital Management to favor debt financings that

provide for deferred interest, rather than current cash payments of interest.

We have entered into a royalty-free license agreement with Prospect Capital Management. Under this agreement, Prospect Capital Management agrees to grant us a non-exclusive license to use the name “Prospect Capital.” Under the license agreement, we have the right to use the “Prospect Capital” name for so long as Prospect Capital Management or one of its affiliates remains our investment adviser. In addition, we rent office space from Prospect Administration, an affiliate of Prospect Capital Management, and pay Prospect Administration our allocable portion of overhead and other expenses incurred by Prospect Administration in performing its obligations as Administrator under the Administration Agreement, including rent and our allocable portion of the

costs of our Chief Financial Officer and Chief Compliance Officer and their respective staffs. This may create conflicts of interest that our Board of Directors monitors.

Our incentive fee could induce Prospect Capital Management to make speculative investments.

The incentive fee payable by us to Prospect Capital Management may create an incentive for the Investment Adviser to make investments on our behalf that are more speculative or involve more risk than would be the case in the absence of such compensation arrangement. The way in which the incentive fee payable is determined (calculated as a percentage of the return on invested capital) may encourage the Investment Adviser to use leverage to increase the return on our investments. Increased use of leverage and this increased risk of replacement of that leverage at maturity would increase the likelihood of default, which would disfavor holders of our common stock. Similarly, because the Investment Adviser will receive an incentive fee based, in part, upon net capital gains realized on our investments, the Investment Adviser may invest more than would otherwise be appropriate in companies whose securities are likely to yield capital gains, as compared to income producing securities. Such a practice could result in our investing in more speculative securities than would otherwise be the case, which could result in higher investment losses, particularly during economic downturns.

The incentive fee payable by us to Prospect Capital Management could create an incentive for the Investment Adviser to invest on our behalf in instruments, such as zero coupon bonds, that have a deferred interest feature. Under these investments, we would accrue interest income over the life of the investment but would not receive payments in cash on the investment until the end of the term. Our net investment income used to calculate the income incentive fee, however, includes accrued interest. For example, accrued interest, if any, on our investments in zero coupon bonds will be included in the calculation of our incentive fee, even though we will not receive any cash interest payments in respect of payment on the bond until its maturity date. Thus, a portion of this incentive fee would be based on income that we may not have yet received in cash in the event of default may never receive.

We may be obligated to pay our Investment Adviser incentive compensation even if we incur a loss.

The Investment Adviser is entitled to incentive compensation for each fiscal quarter based, in part, on our pre-incentive fee net investment income if any, for the immediately preceding calendar quarter above a performance threshold for that quarter. Accordingly, since the performance threshold is based on a percentage of our net asset value, decreases in our net asset value make it easier to achieve the performance threshold. Our pre-incentive fee net investment income for incentive compensation purposes excludes realized and unrealized capital losses or depreciation that we may incur in the fiscal quarter, even if such capital losses or depreciation result in a net loss on our statement of operations for that quarter. Thus, we may be required to pay the Investment Adviser incentive compensation for a fiscal quarter even if there is a decline in the value of our portfolio or we incur a net loss for that quarter. In addition, increases in interest rates may increase the amount of incentive fees we pay to our Investment Adviser even though our performance relative to the market has not increased.

The Investment Adviser and Administrator have the right to resign on 60 days' notice, and we may not be able to find a suitable replacement within that time, resulting in a disruption in our operations that could adversely affect our business, financial condition and results of operations.

The Investment Adviser and Administrator have the right, under the Investment Advisory Agreement and Administration Agreement, respectively, to resign at any time upon not less than 60 days' written notice, whether we have found a replacement or not. If the Investment Adviser or Administrator resigns, we may not be able to find a replacement or hire internal management or administration with similar expertise and ability to provide the same or equivalent services on acceptable terms within 60 days, or at all. If we are unable to do so quickly, our operations are likely to experience a disruption, our business, financial condition and results of operations as well as our ability to pay distributions are likely to be adversely affected and the market price of our shares may decline. In addition, the coordination of our internal management and investment activities or our internal administration activities, as applicable, is likely to suffer if we are unable to identify and reach an agreement with a single institution or group of executives having the expertise possessed by the Investment Adviser and its affiliates or the Administrator and its affiliates. Even if we are able to retain comparable management or administration, whether internal or external, the integration of such management or administration and their lack of familiarity with our investment objective may result in additional costs and time delays that may adversely affect our business, financial condition and results of

operations.

Changes in the laws or regulations governing our business or the businesses of our portfolio companies and any failure by us or our portfolio companies to comply with these laws or regulations could negatively affect the profitability of our operations or the profitability of our portfolio companies.

We are subject to changing rules and regulations of federal and state governments, as well as the stock exchange on which our common stock is listed. These entities, including the Public Company Accounting Oversight Board, the SEC and the NASDAQ Global Select 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. In particular, changes in the laws or regulations or the interpretations of the laws and regulations that govern BDCs, RICs or non-depository commercial lenders could significantly affect our operations and our cost of doing business. We are subject to federal, state and local laws and regulations and are subject to judicial and administrative decisions that affect our operations, including our loan originations, maximum interest rates, fees and other charges, disclosures to portfolio companies, the terms of secured transactions, collection and foreclosure procedures and other trade practices. If these laws, regulations or decisions change, or if we expand our business into jurisdictions that have adopted more stringent requirements than those in which we currently conduct business, we may have to incur significant expenses in order to comply, or we might have to restrict our operations. In addition, if we do not comply with applicable laws, regulations and decisions, we may lose licenses needed for the conduct of our business and be subject to civil fines and criminal penalties, any of which could have a material adverse effect upon our business, financial condition and results of operations.

Foreign and domestic political risk may adversely affect our business.

We are exposed to political risk to the extent that Prospect Capital Management, on its behalf and subject to its investment guidelines, transacts in securities in the U.S. and foreign markets. The governments in any of these jurisdictions could impose restrictions, regulations or other measures, which may have a material adverse impact on our strategy.

If we fail to maintain an effective system of internal control over financial reporting, we may not be able to accurately report our financial results or prevent fraud. As a result, stockholders could lose confidence in our financial and other public reporting, which would harm our business and the trading price of our common stock.

Effective internal controls over financial reporting are necessary for us to provide reliable financial reports and, together with adequate disclosure controls and procedures, are designed to prevent fraud. Any failure to implement required new or improved controls, or difficulties encountered in their implementation could cause us to fail to meet our reporting obligations. In addition, any testing by us conducted in connection with Section 404 of the Sarbanes-Oxley Act, or the subsequent testing by our independent registered public accounting firm (when undertaken, as noted below), may reveal deficiencies in our internal controls over financial reporting that are deemed to be material weaknesses or that may require prospective or retroactive changes to our consolidated financial statements or identify other areas for further attention or improvement. Inferior internal controls could also cause investors and lenders to lose confidence in our reported financial information, which could have a negative effect on the trading price of our common stock.

We may experience cyber-security incidents and are subject to cyber-security risks. The failure in cyber-security systems, as well as the occurrence of events unanticipated in our disaster recovery systems and management continuity planning, could impair our ability to conduct business effectively.

Our business operations rely upon secure information technology systems for data processing, storage and reporting. Despite careful security and controls design, implementation and updating, our information technology systems could become subject to cyber-attacks and unauthorized access, such as physical and electronic break-ins or unauthorized tampering. Cyber-attacks include, but are not limited to, gaining unauthorized access to digital systems (e.g., through "hacking" or malicious software coding) for purposes of misappropriating assets or sensitive information, corrupting data, or causing operational disruption. Cyber-attacks may also be carried out in a manner that does not require gaining unauthorized access, such as causing denial-of-service attacks on websites (i.e., efforts to make network services unavailable to intended users). Network, system, application and data breaches could result in operational disruptions or information misappropriation, which could have a material adverse effect on our business, results of operations and financial condition. Like other companies, we may experience threats to our 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, our computer systems and networks, or otherwise cause interruptions or malfunctions in our operations, which could result in damage to our reputation, financial losses, litigation, increased costs, regulatory penalties and/or customer dissatisfaction or loss.

The occurrence of a disaster such as a cyber-attack, a natural catastrophe, an industrial accident, a terrorist attack or war, events unanticipated in our disaster recovery systems, or a support failure from external providers, could have an adverse effect on our ability to conduct business and on our results of operations and financial condition, particularly

if those events affect our computer-based data processing, transmission, storage, and retrieval systems or destroy data. If a significant number of our managers were unavailable in the event of a disaster, our ability to effectively conduct our business could be severely compromised.

Cyber-security failures or breaches by the Investment Adviser, any future sub-adviser(s), the Administrator and other service providers (including, but not limited to, accountants, custodians, transfer agents and administrators), and the issuers of securities in which we invest, have the ability to cause disruptions and impact business operations, potentially resulting in financial losses, interference with our ability to calculate our net asset value, impediments to trading, the inability of our stockholders to transact business, violations of applicable privacy and other laws, regulatory fines, penalties, reputational damage, reimbursement or other

compensation costs, or additional compliance costs. In addition, substantial costs may be incurred in order to prevent any cyber incidents in the future. While we have established a business continuity plan in the event of, and risk management systems to prevent, such cyberattacks, there are inherent limitations in such plans and systems including the possibility that certain risks have not been identified. Furthermore, we cannot control the cyber security plans and systems put in place by our service providers and issuers in which we invest. We and our stockholders could be negatively impacted as a result.

We are dependent on information systems and systems failures could significantly disrupt our business, which may, in turn, negatively affect the market price of our common stock and our ability to pay dividends.

Our business is dependent on our and third parties' communications and information systems. Further, in the ordinary course of our business we or our Investment Adviser may engage certain third party service providers to provide us with services necessary for our business. Any failure or interruption of those systems or services, including as a result of the termination or suspension of an agreement with any third-party service providers, could cause delays or other problems in our business activities. Our financial, accounting, data processing, backup or other operating systems and facilities may fail to operate properly or become disabled or damaged as a result of a number of factors including events that are wholly or partially beyond our control and adversely affect our business. There could be:

- sudden electrical or telecommunications outages;
- natural disasters such as earthquakes, tornadoes and hurricanes;
- disease pandemics;
- events arising from local or larger scale political or social matters, including terrorist acts; and
- cyber-attacks.

These events, in turn, could have a material adverse effect on our operating results and negatively affect the market price of our common stock and our ability to pay dividends to our stockholders.

Risks Relating to Our Operation as a Business Development Company

If we do not invest a sufficient portion of our assets in qualifying assets, we could fail to qualify as a BDC or be precluded from investing according to our current business strategy.

As a BDC, we may not acquire any assets other than "qualifying assets" unless, at the time of and after giving effect to such acquisition, at least 70% of our total assets are qualifying assets. We may be precluded from investing in what we believe are attractive investments if such investments are not qualifying assets for purposes of the 1940 Act. If we do not invest a sufficient portion of our assets in qualifying assets, we could be found to be in violation of the 1940 Act provisions applicable to BDCs, which would have a material adverse effect on our business, financial condition and results of operations. Similarly, these rules could prevent us from making follow-on investments in existing portfolio companies (which could result in the dilution of our position) or could require us to dispose of investments at inappropriate times in order to come into compliance with the 1940 Act. Because most of our 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 substantial losses.

If we fail to qualify as a RIC, we will have to pay corporate-level taxes on our income, and our income available for distribution would be reduced.

To maintain our qualification for U.S. federal income tax purposes as a RIC under Subchapter M of the Code and obtain RIC tax treatment, we must meet certain source of income, annual distribution and asset diversification requirements.

The source of income requirement is satisfied if we derive at least 90% of our annual gross income from interest, dividends, payments with respect to certain securities loans, gains from the sale or other disposition of securities or options thereon or foreign currencies, or other income derived with respect to our business of investing in such securities or currencies, and net income from interests in "qualified publicly traded partnerships," as defined in the Code.

The annual distribution requirement for a RIC will generally be satisfied if we distribute at least 90% of our ordinary income and net short-term capital gains in excess of net long-term capital losses, if any, to our stockholders on an annual basis. Because we use debt financing, we are subject to certain asset coverage ratio requirements under the 1940 Act and financial covenants that could, under certain circumstances, restrict us from making distributions

necessary to qualify for RIC tax treatment. If we are unable to obtain cash from other sources, we may fail to qualify for RIC tax treatment and, thus, may be subject to corporate-level income tax on all of our taxable income.

To maintain our qualification as a RIC, we must also meet certain asset diversification requirements at the end of each quarter of our taxable year. Failure to meet these tests may result in our having to dispose of certain investments quickly in order to prevent the loss of RIC status. Because most of our investments are in private companies, any such dispositions could be made at disadvantageous prices and may result in substantial losses.

If we fail to qualify as a RIC for any reason or become subject to corporate income tax, the resulting corporate taxes would substantially reduce our net assets, the amount of income available for distribution, and the actual amount of our distributions. Such a failure could have a materially adverse effect on us and our stockholders. For additional information regarding asset coverage ratio and RIC requirements, see “Business - Material U.S. Federal Income Tax Considerations” and “Business - Regulation as a Business Development Company.”

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

For U.S. federal income tax purposes, we include in income certain amounts that we have not yet received in cash, such as original issue discount or payment-in-kind interest, which represents contractual interest added to the loan balance and due at the end of the loan term. Such amounts could be significant relative to our overall investment activities. We also may be required to include in taxable income certain other amounts that we do not receive in cash. While we focus primarily on investments that will generate a current cash return, our investment portfolio currently includes, and we may continue to invest in, securities that do not pay some or all of their return in periodic current cash distributions.

Since in some cases we may recognize taxable income before or without receiving cash representing such income, we may have difficulty distributing at least 90% of our ordinary income and realized net short-term capital gains in excess of realized net long-term capital losses, if any, as required to maintain RIC tax treatment. Accordingly, we may have to sell some of our investments at times we would not consider advantageous, raise additional debt or equity capital or reduce new investment originations to meet these distribution requirements. If we are not able to obtain cash from other sources, we may fail to qualify for RIC treatment and thus become subject to corporate-level income tax. See “Business - Material U.S. Federal Income Tax Considerations” and “Business - Regulation as a Business Development Company.”

Regulations governing our operation as a business development company affect our ability to raise, and the way in which we raise, additional capital. These constraints may hinder our Investment Adviser’s ability to take advantage of attractive investment opportunities and to achieve our investment objective.

We have incurred indebtedness under our revolving credit facility and through the issuance of the Unsecured Notes and, in the future, may issue preferred stock or debt securities and/or borrow additional money from banks or other financial institutions, which we refer to collectively as “senior securities,” up to the maximum amount permitted by the 1940 Act. Under the provisions of the 1940 Act, we are permitted, as a BDC, to incur indebtedness or issue senior securities only in amounts such that our asset coverage, as defined in the 1940 Act, equals at least 200% after each issuance of senior securities. If the value of our assets declines, we may be unable to satisfy this test, which would prohibit us from paying dividends in cash or other property and could prohibit us from qualifying as a RIC. If we cannot satisfy this test, we may be required to sell a portion of our investments or sell additional shares of common stock at a time when such sales may be disadvantageous in order to repay a portion of our indebtedness or otherwise increase our net assets. In addition, issuance of additional common stock could dilute the percentage ownership of our current stockholders in us.

As a BDC regulated under provisions of the 1940 Act, we are not generally able to issue and sell our common stock at a price below the current net asset value per share without stockholder approval. If our common stock trades at a discount to net asset value, this restriction could adversely affect our ability to raise capital. We may, however, sell our common stock, or warrants, options or rights to acquire our common stock, at a price below the current net asset value of our common stock in certain circumstances, including if (i)(1) the holders of a majority of our shares (or, if less, at least 67% of a quorum consisting of a majority of our shares) and a similar majority of the holders of our shares who are not affiliated persons of us approve the sale of our common stock at a price that is less than the current net asset value, and (2) a majority of our Directors who have no financial interest in the transaction and a majority of our independent Directors (a) determine that such sale is in our and our stockholders’ best interests and (b) in consultation with any underwriter or underwriters of the offering, make a good faith determination as of a time either

immediately prior to the first solicitation by us or on our behalf of firm commitments to purchase such shares, or immediately prior to the issuance of such shares, that the price at which such shares are to be sold is not less than a price which closely approximates the market value of such shares, less any distributing commission or discount or if (ii) a majority of the number of the beneficial holders of our common stock entitled to vote at our annual meeting, without regard to whether a majority of such shares are voted in favor of the proposal, approve the sale of our common stock at a price that is less than the current net asset value per share.

To generate cash for funding new investments, we pledged a substantial portion of our portfolio investments under our revolving credit facility. These assets are not available to secure other sources of funding or for securitization. Our ability to obtain additional secured or unsecured financing on attractive terms in the future is uncertain.

Alternatively, we may securitize our future loans to generate cash for funding new investments. See “Securitization of our assets subjects us to various risks.”

Securitization of our assets subjects us to various risks.

We may securitize assets to generate cash for funding new investments. We refer to the term securitize to describe a form of leverage under which a company such as us (sometimes referred to as an “originator” or “sponsor”) transfers income producing assets to a single-purpose, bankruptcy-remote subsidiary (also referred to as a “special purpose entity” or “SPE”), which is established solely for the purpose of holding such assets and entering into a structured finance transaction. The SPE then issues notes secured by such assets. The special purpose entity may issue the notes in the capital markets either publicly or privately to a variety of investors, including banks, non-bank financial institutions and other investors. There may be a single class of notes or multiple classes of notes, the most senior of which carries less credit risk and the most junior of which may carry substantially the same credit risk as the equity of the SPE.

An important aspect of most debt securitization transactions is that the sale and/or contribution of assets into the SPE be considered a true sale and/or contribution for accounting purposes and that a reviewing court would not consolidate the SPE with the operations of the originator in the event of the originator’s bankruptcy based on equitable principles.

Viewed as a whole, a debt securitization seeks to lower risk to the note purchasers by isolating the assets collateralizing the securitization in an SPE that is not subject to the credit and bankruptcy risks of the originator. As a result of this perceived reduction of risk, debt securitization transactions frequently achieve lower overall leverage costs for originators as compared to traditional secured lending transactions.

In accordance with the above description, to securitize loans, we may create a wholly-owned subsidiary and contribute a pool of our assets to such subsidiary. The SPE may be funded with, among other things, whole loans or interests from other pools and such loans may or may not be rated. The SPE would then sell its notes to purchasers who we would expect to be willing to accept a lower interest rate and the absence of any recourse against us to invest in a pool of income producing assets to which none of our creditors would have access. We would retain all or a portion of the equity in the SPE. An inability to successfully securitize portions of our portfolio or otherwise leverage our portfolio through secured and unsecured borrowings could limit our ability to grow our business and fully execute our business strategy, and could decrease our earnings. However, the successful securitization of portions of our portfolio exposes us to a risk of loss for the equity we retain in the SPE and might expose us to greater risk on our remaining portfolio because the assets we retain may tend to be those that are riskier and more likely to generate losses. A successful securitization may also impose financial and operating covenants that restrict our business activities and may include limitations that could hinder our ability to finance additional loans and investments or to make the distributions required to maintain our status as a RIC under Subchapter M of the Code. The 1940 Act may also impose restrictions on the structure of any securitizations.

Interests we hold in the SPE, if any, will be subordinated to the other interests issued by the SPE. As such, we will only receive cash distributions on such interests if the SPE has made all cash interest and other required payments on all other interests it has issued. In addition, our subordinated interests will likely be unsecured and rank behind all of the secured creditors, known or unknown, of the SPE, including the holders of the senior interests it has issued. Consequently, to the extent that the value of the SPEs portfolio of assets has been reduced as a result of conditions in the credit markets, or as a result of defaults, the value of the subordinated interests we retain would be reduced. Securitization imposes on us the same risks as borrowing except that our risk in a securitization is limited to the amount of subordinated interests we retain, whereas in a borrowing or debt issuance by us directly we would be at risk for the entire amount of the borrowing or debt issuance.

If the SPE is not consolidated with us, our only interest will be the value of our retained subordinated interest and the income allocated to us, which may be more or less than the cash we receive from the SPE, and none of the SPEs liabilities will be reflected as our liabilities. If the assets of the SPE are not consolidated with our assets and liabilities, then our interest in the SPE may be deemed not to be a qualifying asset for purposes of determining whether 70% of our assets are qualifying assets and the leverage incurred by such SPE may or may not be treated as borrowings by us for purposes of the requirement that we not issue senior securities in an amount in excess of our net assets.

We may also engage in transactions utilizing SPEs and securitization techniques where the assets sold or contributed to the SPE remain on our balance sheet for accounting purposes. If, for example, we sell the assets to the SPE with recourse or provide a guarantee or other credit support to the SPE, its assets will remain on our balance sheet. Consolidation would also generally result if we, in consultation with the SEC, determine that consolidation would result in a more accurate reflection of our assets, liabilities and results of operations. In these structures, the risks will be essentially the same as in other securitization transactions but the

assets will remain our assets for purposes of the limitations described above on investing in assets that are not qualifying assets and the leverage incurred by the SPE will be treated as borrowings incurred by us for purposes of our limitation on the issuance of senior securities.

The Investment Adviser may have conflicts of interest with respect to potential securitizations in as much as securitizations that are not consolidated may reduce our assets for purposes of determining its investment advisory fee although in some circumstances the Investment Adviser may be paid certain fees for managing the assets of the SPE so as to reduce or eliminate any potential bias against securitizations.

Our ability to invest in public companies may be limited in certain circumstances.

As a BDC, we must not acquire any assets other than “qualifying assets” specified in the 1940 Act unless, at the time the acquisition is made, at least 70% of our total assets are qualifying assets (with certain limited exceptions). Subject to certain exceptions for follow-on investments and distressed companies, an investment in an issuer that has outstanding securities listed on a national securities exchange may be treated as qualifying assets only if such issuer has a market capitalization that is less than \$250 million at the time of such investment.

Risks Relating to Our Investments

We may not realize gains or income from our investments.

We seek to generate both current income and capital appreciation. However, the securities we invest in may not appreciate and, in fact, may decline in value, and the issuers of debt securities we invest in may default on interest and/or principal payments. Accordingly, we may not be able to realize gains from our investments, and any gains that we do realize may not be sufficient to offset any losses we experience. See “Business - Our Investment Objective and Policies.”

Most of our portfolio investments are recorded at fair value as determined in good faith under the direction of our Board of Directors and, as a result, there is uncertainty as to the value of our portfolio investments.

A large percentage of our portfolio investments consist of securities of privately held companies. Hence, market quotations are generally not readily available for determining the fair values of such investments. The determination of fair value, and thus the amount of unrealized losses we may incur in any year, is to a degree subjective, and the Investment Adviser has a conflict of interest in making the determination. We value these securities quarterly at fair value as determined in good faith by our Board of Directors based on input from the Investment Adviser, our Administrator, a third party independent valuation firm and our Audit Committee. Our Board of Directors utilizes the services of an independent valuation firm to aid it in determining the fair value of any securities. The types of factors that may be considered in determining the fair values of our investments include the nature and realizable value of any collateral, the portfolio company’s ability to make payments and its earnings, the markets in which the portfolio company does business, comparison to publicly traded companies, discounted cash flow, current market interest rates and other relevant factors.

Because such valuations, and particularly valuations of private securities and private companies, are inherently uncertain, the valuations may fluctuate significantly over short periods of time due to changes in current market conditions. The determinations of fair value by our Board of Directors may differ materially from the values that would have been used if an active market and market quotations existed for these investments. Our net asset value could be adversely affected if the determinations regarding the fair value of our investments were materially higher than the values that we ultimately realize upon the disposal of such securities.

In addition, decreases in the market values or fair values of our investments are recorded as unrealized depreciation. Declines in prices and liquidity in the corporate debt markets experienced during a financial crisis will result in significant net unrealized depreciation in our portfolio. The effect of all of these factors increases the net unrealized depreciation in our portfolio and reduces our NAV. Depending on market conditions, we could incur substantial realized losses which could have a material adverse impact on our business, financial condition and results of operations. We have no policy regarding holding a minimum level of liquid assets. As such, a high percentage of our portfolio generally is not liquid at any given point in time. See “The lack of liquidity may adversely affect our business.” Price declines and illiquidity in the corporate debt markets have adversely affected, and may in the future adversely affect, the fair value of our portfolio investments, reducing our net asset value through increased net unrealized depreciation.

As a BDC, we are required to carry our investments at market value or, if no market value is ascertainable, at fair value as determined in good faith by or under the direction of our Board of Directors. As part of the valuation process, the types of factors that we may take into account in determining the fair value of our investments include, as relevant and among other factors: available current

market data, including relevant and applicable market trading and transaction comparables, applicable market yields and multiples, security covenants, call protection provisions, information rights, the nature and realizable value of any collateral, the portfolio company's ability to make payments, its earnings and discounted cash flows, the markets in which the portfolio company does business, comparisons of financial ratios of peer companies that are public, merger and acquisition comparables, our principal market (as the reporting entity) and enterprise values of our portfolio companies. Decreases in the market values or fair values of our investments are recorded as unrealized depreciation. The effect of all of these factors on our portfolio can reduce our net asset value by increasing net unrealized depreciation in our portfolio. Depending on market conditions, we could incur substantial realized losses and may suffer additional unrealized losses in future periods, which could have a material adverse impact on our business, financial condition and results of operations.

Our investments in prospective portfolio companies may be risky and we could lose all or part of our investment. Some of our portfolio companies have relatively short or no operating histories. These companies are and will be subject to all of the business risk and uncertainties associated with any new business enterprise, including the risk that these companies may not reach their investment objective, and the value of our investment in them may decline substantially or fall to zero. In addition, investment in the middle market companies that we are targeting involves a number of other significant risks, including:

These companies may have limited financial resources and may be unable to meet their obligations under their securities that we hold, which may be accompanied by a deterioration in the value of their securities or of any collateral with respect to any securities, and a reduction in the likelihood of our realizing on any guarantees we may have obtained in connection with our investment.

They may have shorter operating histories, narrower product lines and smaller market shares than larger businesses, which tend to render them more vulnerable to competitors' actions and market conditions as well as general economic downturns.

Because many of these companies are privately held companies, public information is generally not available about these companies. As a result, we will depend on the ability of the Investment Adviser to obtain adequate information to evaluate these companies in making investment decisions. If the Investment Adviser is unable to uncover all material information about these companies, it may not make a fully informed investment decision, and we may lose money on our investments.

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 materially adverse impact on our portfolio company and, in turn, on us.

They may have less predictable operating results, may from time to time be parties to litigation, may be engaged in changing businesses with products subject to a risk of obsolescence and may require substantial additional capital to support their operations, finance expansion or maintain their competitive position.

They may have difficulty accessing the capital markets to meet future capital needs.

Changes in laws and regulations, as well as their interpretations, may adversely affect their business, financial structure or prospects.

Increased taxes, regulatory expense or the costs of changes to the way they conduct business due to the effects of climate change may adversely affect their business, financial structure or prospects.

We acquire majority interests in operating companies engaged in a variety of industries. When we acquire these companies we generally seek to apply financial leverage to them in the form of debt. In most cases all or a portion of this debt is held by us, with the obligor being either the operating company itself, a holding company through which we own our majority interest or both. The level of debt leverage utilized by these companies makes them susceptible to the risks identified above.

In addition, our executive officers, directors and the Investment Adviser could, in the ordinary course of business, be named as defendants in litigation arising from proposed investments or from our investments in the portfolio companies.

The lack of liquidity in our investments may adversely affect our business.

We make investments in private companies. A portion of these investments may be subject to legal and other restrictions on resale, transfer, pledge or other disposition or will otherwise be less liquid than publicly traded securities. The illiquidity of our investments may make it difficult for us to sell such investments if the need arises. In addition, if we are required to liquidate all or a portion of our portfolio quickly, we may realize significantly less than the value at which we have previously recorded our investments. In addition, we face other restrictions on our ability to liquidate an investment in a business entity to the extent that we or the Investment Adviser has or could be deemed to have material non-public information regarding such business entity.

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

A portfolio company's failure to satisfy financial or operating covenants imposed by us or other lenders could lead to defaults and, potentially, termination of its loans and foreclosure on its secured assets, which could trigger cross-defaults under other agreements and jeopardize a portfolio company's ability to meet its obligations under the debt or equity securities that we hold. We may incur expenses to the extent necessary to seek recovery upon default or to negotiate new terms, which may include the waiver of certain financial covenants, with a defaulting portfolio company. In addition, if one of our portfolio companies were to go bankrupt, even though we may have structured our interest as senior debt or preferred equity, depending on the facts and circumstances, including the extent to which we actually provided managerial assistance to that portfolio company, a bankruptcy court might re-characterize our debt or equity holding and subordinate all or a portion of our claim to those of other creditors.

Investments in equity securities, many of which are illiquid with no readily available market, involve a substantial degree of risk.

We may purchase common and other equity securities. Although common stock has historically generated higher average total returns than fixed income securities over the long-term, common stock has significantly more volatility in those returns and may significantly underperform relative to fixed income securities. The equity securities we acquire may fail to appreciate and may decline in value or become worthless and our ability to recover our investment will depend on our portfolio company's success. Investments in equity securities involve a number of significant risks, including:

Any equity investment we make in a portfolio company could be subject to further dilution as a result of the issuance of additional equity interests and to serious risks as a junior security that will be subordinate to all indebtedness (including trade creditors) or senior securities in the event that the issuer is unable to meet its obligations or becomes subject to a bankruptcy process.

To the extent that the portfolio company requires additional capital and is unable to obtain it, we may not recover our investment.

In some cases, equity securities in which we invest will not pay current dividends, and our ability to realize a return on our investment, as well as to recover our investment, will be dependent on the success of the portfolio company. Even if the portfolio company is successful, our ability to realize the value of our investment may be dependent on the occurrence of a liquidity event, such as a public offering or the sale of the portfolio company. It is likely to take a significant amount of time before a liquidity event occurs or we can otherwise sell our investment. In addition, the equity securities we receive or invest in may be subject to restrictions on resale during periods in which it could be advantageous to sell them.

There are special risks associated with investing in preferred securities, including:

Preferred securities may include provisions that permit the issuer, at its discretion, to defer distributions for a stated period without any adverse consequences to the issuer. If we own a preferred security that is deferring its distributions, we may be required to report income for tax purposes before we receive such distributions.

Preferred securities are subordinated to debt in terms of priority to income and liquidation payments, and therefore will be subject to greater credit risk than debt.

Preferred securities may be substantially less liquid than many other securities, such as common stock or U.S. government securities.

Generally, preferred security holders have no voting rights with respect to the issuing company, subject to limited exceptions.

Additionally, when we invest in first lien senior secured loans (including unitranche loans), second lien senior secured loans or unsecured debt, we may acquire warrants or other equity securities as well. Our goal is ultimately to dispose of such equity interests and realize gains upon our disposition of such interests. However, the equity interests we receive may not appreciate in value and, in fact, may decline in value. Accordingly, we may not be able to realize gains from our equity interests and any gains that we do realize on the disposition of any equity interests may not be sufficient to offset any other losses we experience.

We may invest, to the extent permitted by law, in the equity securities of investment funds that are operating pursuant to certain exceptions to the 1940 Act and in advisers to similar investment funds and, to the extent we so invest, will bear our ratable share of any such company's expenses, including management and performance fees. We will also remain obligated to pay management and incentive fees to Prospect Capital Management with respect to the assets invested in the securities and instruments of such companies. With respect to each of these investments, each of our common stockholders will bear his or her share of the management and incentive fee of Prospect Capital Management as well as indirectly bearing the management and performance fees and other expenses of any such investment funds or advisers.

There may be circumstances where our debt investments could be subordinated to claims of other creditors or we could be subject to lender liability claims.

If one of our portfolio companies were to go bankrupt, even though we may have structured our interest as senior debt, depending on the facts and circumstances, a bankruptcy court might recharacterize our debt holding as an equity investment and subordinate all or a portion of our claim to that of other creditors. In addition, lenders can be subject to lender liability claims for actions taken by them where they become too involved in the borrower's business or exercise control over the borrower. For example, we could become subject to a lender's liability claim, if, among other things, we actually render significant managerial assistance.

Our portfolio companies may incur debt or issue equity securities that rank equally with, or senior to, our investments in such companies.

Our portfolio companies may have, or may be permitted to incur, other debt or issue other equity securities that rank equally with or senior to our investments. By their terms, such instruments may provide that the holders are entitled to receive payment of dividends, interest or principal on or before the dates on which we are entitled to receive payments in respect of our investments. These debt instruments would usually prohibit the portfolio companies from paying interest on or repaying our investments in the event and during the continuance of a default under such debt. Also, in the event of insolvency, liquidation, dissolution, reorganization or bankruptcy of a portfolio company, holders of securities ranking senior to our investment in that portfolio company typically are entitled to receive payment in full before we receive any distribution in respect of our investment. After repaying such holders, the portfolio company may not have any remaining assets to use for repaying its obligation to us. In the case of securities ranking equally with our investments, we would have to share on an equal basis any distributions with other security holders in the event of an insolvency, liquidation, dissolution, reorganization or bankruptcy of the relevant portfolio company.

The rights we may have with respect to the collateral securing any junior priority loans we make to our portfolio companies may also be limited pursuant to the terms of one or more intercreditor agreements (including agreements governing "first out" and "last out" structures) that we enter into with the holders of senior debt. Under such an intercreditor agreement, at any time that senior obligations are outstanding, we may forfeit certain rights with respect to the collateral to the holders of the senior obligations. These rights may include the right to commence enforcement proceedings against the collateral, the right to control the conduct of such enforcement proceedings, the right to approve amendments to collateral documents, the right to release liens on the collateral and the right to waive past defaults under collateral documents. We may not have the ability to control or direct such actions, even if as a result our rights as junior lenders are adversely affected.

This risk is characteristic of many of the majority-owned operating companies in our portfolio in that any debt to us from a holding company and the holding company's substantial equity investments in the related operating company are subordinated to any creditors of the operating company.

When we are a debt or minority equity investor in a portfolio company, we are often not in a position to exert influence on the entity, and other debt holders, other equity holders and/or portfolio company management may make decisions that could decrease the value of our portfolio holdings.

When we make debt or minority equity investments, we are subject to the risk that a portfolio company may make business decisions with which we disagree and the other equity holders and management of such company may take risks or otherwise act in ways that do not serve our interests. As a result, a portfolio company may make decisions that could decrease the value of our investment. In addition, when we hold a subordinate debt position, other more senior debt holders may make decisions that could decrease the value of our investment.

Our portfolio companies may be highly leveraged.

Some of our portfolio companies may be highly leveraged, which may have adverse consequences to these companies and to us as an investor. These companies may be subject to restrictive financial and operating covenants and the leverage may impair these companies' ability to finance their future operations and capital needs. As a result, these companies' flexibility to respond to

changing business and economic conditions and to take advantage of business opportunities may be limited. Further, a leveraged company's income and net assets will tend to increase or decrease at a greater rate than if borrowed money were not used.

Our portfolio contains a limited number of portfolio companies, some of which comprise a substantial percentage of our portfolio, which subjects us to a greater risk of significant loss if any of these companies defaults on its obligations under any of its debt securities.

A consequence of the limited number of investments in our portfolio is that the aggregate returns we realize may be significantly adversely affected if one or more of our significant portfolio company investments perform poorly or if we need to write down the value of any one significant investment. Beyond our income tax diversification requirements, we do not have fixed guidelines for diversification, and our portfolio could contain relatively few portfolio companies.

Our failure to make follow-on investments in our existing portfolio companies could impair the value of our portfolio. Following an initial investment in a portfolio company, we may make additional investments in that portfolio company as "follow-on" investments, in order to: (1) increase or maintain in whole or in part our equity ownership percentage; (2) exercise warrants, options or convertible securities that were acquired in the original or subsequent financing or (3) attempt to preserve or enhance the value of our investment.

We may elect not to make follow-on investments, may be constrained in our ability to employ available funds, or otherwise may lack sufficient funds to make those investments. We have the discretion to make any follow-on investments, subject to the availability of capital resources. The failure to make follow-on investments may, in some circumstances, jeopardize the continued viability of a portfolio company and our initial investment, or may result in a missed opportunity for us to increase our participation in a successful operation. Even if we have sufficient capital to make a desired follow-on investment, we may elect not to make a follow-on investment because we may not want to increase our concentration of risk, because we prefer other opportunities, or because we are inhibited by compliance with BDC requirements or the desire to maintain our tax status.

We may be unable to invest the net proceeds raised from offerings and repayments from investments on acceptable terms, which would harm our financial condition and operating results.

Until we identify new investment opportunities, we intend to either invest the net proceeds of future offerings and repayments from investments in interest-bearing deposits or other short-term instruments or use the net proceeds from such offerings to reduce then-outstanding obligations under our credit facility. We cannot assure you that we will be able to find enough appropriate investments that meet our investment criteria or that any investment we complete using the proceeds from an offering or repayments will produce a sufficient return.

We may have limited access to information about privately-held companies in which we invest.

We invest primarily in privately-held companies. Generally, little public information exists about these companies, and we are required to rely on the ability of the Investment Adviser's investment professionals to obtain adequate information to evaluate the potential returns from investing in these companies. These companies and their financial information are not subject to the Sarbanes-Oxley Act of 2002 and other rules that govern public companies. If we are unable to uncover all material information about these companies, we may not make a fully informed investment decision, and we may lose money on our investment.

We may not be able to fully realize the value of the collateral securing our debt investments.

Although a substantial amount of our debt investments are protected by holding security interests in the assets or equity interests of the portfolio companies, we may not be able to fully realize the value of the collateral securing our investments due to one or more of the following factors:

Our debt investments may be in the form of unsecured loans, therefore our liens on the collateral, if any, are subordinated to those of the senior secured debt of the portfolio companies, if any. As a result, we may not be able to control remedies with respect to the collateral.

The collateral may not be valuable enough to satisfy all of the obligations under our secured loan, particularly after giving effect to the repayment of secured debt of the portfolio company that ranks senior to our loan.

Bankruptcy laws may limit our ability to realize value from the collateral and may delay the realization process.

Our rights in the collateral may be adversely affected by the failure to perfect security interests in the collateral.

The need to obtain regulatory and contractual consents could impair or impede how effectively the collateral would be liquidated and could affect the value received.

Some or all of the collateral may be illiquid and may have no readily ascertainable market value. The liquidity and value of the collateral could be impaired as a result of changing economic conditions, competition, and other factors, including the availability of suitable buyers.

Our investments in foreign securities may involve significant risks in addition to the risks inherent in U.S. investments.

Our investment strategy contemplates potential investments in securities of foreign companies, including those located in emerging market countries. Investing in foreign companies may expose us 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. Such risks are more pronounced in emerging market countries.

Although currently substantially all of our investments are, and we expect that most of our investments will be, U.S. dollar-denominated, investments that are 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. We may expose ourselves to risks if we engage in hedging transactions.

We may employ hedging techniques to minimize certain investment risks, such as fluctuations in interest and currency exchange rates, but we can offer no assurance that such strategies will be effective. If we engage in hedging transactions, we may expose ourselves to risks associated with such transactions. We may utilize 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 our portfolio positions from changes in currency exchange rates and market interest rates. Hedging against a decline in the values of our portfolio 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 can establish other positions designed to gain from those same developments, thereby offsetting the decline in the value of such portfolio positions. Such hedging transactions may also limit the opportunity for gain if the values of the portfolio positions should increase. Moreover, it may not be possible to hedge against an exchange rate or interest rate fluctuation that is so generally anticipated that we are not able to enter into a hedging transaction at an acceptable price. Furthermore, our ability to engage in hedging transactions may also be adversely affected by rules adopted by the U.S. Commodity Futures Trading Commission.

The success of our hedging transactions depends on our ability to correctly predict movements, currencies and interest rates. Therefore, while we 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 we had not engaged in any such hedging transactions. 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, we may not seek to establish a perfect correlation between such hedging instruments and the portfolio holdings being hedged. Any such imperfect correlation may prevent us from achieving the intended hedge and expose us to risk of loss. In addition, it may not be possible to hedge fully or perfectly against currency fluctuations affecting the value of securities denominated in non-U.S. currencies. We have no current intention of engaging in any of the hedging transaction described above, although it reserves the right to do so in the future.

Our Board of Directors may change our operating policies and strategies without prior notice or stockholder approval, the effects of which may be adverse to us and could impair the value of our stockholders' investment.

Our Board of Directors has the authority to modify or waive our current operating policies and our strategies without prior notice and without stockholder approval. We cannot predict the effect any changes to our current operating policies and strategies would have on our business, financial condition, and value of our common stock. However, the effects might be adverse, which could negatively impact our ability to pay dividends and cause stockholders to lose all

or part of their investment.

Investments in the energy sector are subject to many risks.

We have made certain investments in and relating to the energy sector. The operations of energy companies are subject to many risks inherent in the transporting, processing, storing, distributing, mining or marketing of natural gas, natural gas liquids, crude oil, coal, refined petroleum products or other hydrocarbons, or in the exploring, managing or producing of such commodities, including, without limitation: damage to pipelines, storage tanks or related equipment and surrounding properties caused by

44

hurricanes, tornadoes, floods, fires and other natural disasters or by acts of terrorism, inadvertent damage from construction and farm equipment, leaks of natural gas, natural gas liquids, crude oil, refined petroleum products or other hydrocarbons, and fires and explosions. These risks could result in substantial losses due to personal injury or loss of life, severe damage to and destruction of property and equipment and pollution or other environmental damage, and may result in the curtailment or suspension of their related operations, any and all of which could adversely affect our portfolio companies in the energy sector. In addition, the energy sector commodity prices have experienced significant volatility at times, which may occur in the future, and which could negatively affect the returns on any investment made by us in this sector. In addition, valuation of certain investments includes the probability weighting of future events which are outside of management's control. The final outcome of such events could increase or decrease the fair value of the investment in a future period.

Our investments in CLOs may be riskier and less transparent to us and our stockholders than direct investments in the underlying companies.

We invest in CLOs. Generally, there may be less information available to us regarding the underlying debt investments held by CLOs than if we had invested directly in the debt of the underlying companies. As a result, our stockholders will not know the details of the underlying securities of the CLOs in which we will invest. Our CLO investments are subject to the risk of leverage associated with the debt issued by such CLOs and the repayment priority of senior debt holders in such CLOs. Our investments in portfolio companies may be risky, and we could lose all or part of our investment.

CLOs typically will have no significant assets other than their underlying senior secured loans; payments on CLO investments are and will be payable solely from the cash flows from such senior secured loans.

CLOs typically will have no significant assets other than their underlying senior secured loans. Accordingly, payments on CLO investments are and will be payable solely from the cash flows from such senior secured loans, net of all management fees and other expenses. Payments to us as a holder of CLO junior securities are and will be made only after payments due on the senior secured notes, and, where appropriate, the junior secured notes, have been made in full. This means that relatively small numbers of defaults of senior secured loans may adversely impact our returns. Our CLO investments are exposed to leveraged credit risk.

Generally, we are in a subordinated position with respect to realized losses on the senior secured loans underlying our investments in CLOs. The leveraged nature of CLOs, in particular, magnifies the adverse impact of senior secured loan defaults. CLO investments represent a leveraged investment with respect to the underlying senior secured loans. Therefore, changes in the market value of the CLO investments could be greater than the change in the market value of the underlying senior secured loans, which are subject to credit, liquidity and interest rate risk.

There is the potential for interruption and deferral of cash flow from CLO investments.

If certain minimum collateral value ratios and/or interest coverage ratios are not met by a CLO, primarily due to senior secured loan defaults, then cash flow that otherwise would have been available to pay distributions to us on our CLO investments may instead be used to redeem any senior notes or to purchase additional senior secured loans, until the ratios again exceed the minimum required levels or any senior notes are repaid in full. This could result in an elimination, reduction or deferral in the distribution and/or principal paid to the holders of the CLO investments, which would adversely impact our returns.

Investments in foreign securities may involve significant risks in addition to the risks inherent in U.S. investments. Our CLO investment strategy allows investments in foreign CLOs. Investing in foreign entities may expose us to additional risks not typically associated with investing in U.S. issuers. 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. Further, we, and the CLOs in which we invest, may have difficulty enforcing creditor's rights in foreign jurisdictions. In addition, the underlying companies of the CLOs in which we invest may be foreign, which may create greater exposure for us to foreign economic developments.

The payment of underlying portfolio manager fees and other charges on CLO investments could adversely impact our returns.

We may invest in CLO investments where the underlying portfolio securities may be subject to management, administration and incentive or performance fees, in addition to those payable by us. Payment of such additional fees could adversely impact the returns we achieve.

The inability of a CLO collateral manager to reinvest the proceeds of the prepayment of senior secured loans at equivalent rates may adversely affect us.

There can be no assurance that for any CLO investment, in the event that any of the senior secured loans of a CLO underlying such investment are prepaid, the CLO collateral manager will be able to reinvest such proceeds in new senior secured loans with equivalent investment returns. If the CLO collateral manager cannot reinvest in new senior secured loans with equivalent investment returns, the interest proceeds available to pay interest on the rated liabilities and investments may be adversely affected.

Our CLO investments are subject to prepayments and calls, increasing re-investment risk.

Our CLO investments and/or the underlying senior secured loans may prepay more quickly than expected, which could have an adverse impact on our value. Prepayment rates are influenced by changes in interest rates and a variety of economic, geographic and other factors beyond our control and consequently cannot be predicted with certainty. In addition, for a CLO collateral manager there is often a strong incentive to refinance well performing portfolios once the senior tranches amortize. The yield to maturity of the investments will depend on the amount and timing of payments of principal on the loans and the price paid for the investments. Such yield may be adversely affected by a higher or lower than anticipated rate of prepayments of the debt.

Furthermore, our CLO investments generally do not contain optional call provisions, other than a call at the option of the holders of the equity tranches for the senior notes and the junior secured notes to be paid in full after the expiration of an initial period in the deal (referred to as the “non-call period”).

The exercise of the call option is by the relevant percentage (usually a majority) of the holders of the equity tranches and, therefore, where we do not hold the relevant percentage we will not be able to control the timing of the exercise of the call option. The equity tranches also generally have a call at any time based on certain tax event triggers. In any event, the call can only be exercised by the holders of equity tranches if they can demonstrate (in accordance with the detailed provisions in the transaction) that the senior notes and junior secured notes will be paid in full if the call is exercised.

Early prepayments and/or the exercise of a call option otherwise than at our request may also give rise to increased re-investment risk with respect to certain investments, as we may realize excess cash earlier than expected. If we are unable to reinvest such cash in a new investment with an expected rate of return at least equal to that of the investment repaid, this may reduce our net income and, consequently, could have an adverse impact on our ability to pay dividends.

We have limited control of the administration and amendment of senior secured loans owned by the CLOs in which we invest.

We are not able to directly enforce any rights and remedies in the event of a default of a senior secured loan held by a CLO vehicle. In addition, the terms and conditions of the senior secured loans underlying our CLO investments may be amended, modified or waived only by the agreement of the underlying lenders. Generally, any such agreement must include a majority or a super majority (measured by outstanding loans or commitments) or, in certain circumstances, a unanimous vote of the lenders. Consequently, the terms and conditions of the payment obligations arising from senior secured loans could be modified, amended or waived in a manner contrary to our preferences.

We have limited control of the administration and amendment of any CLO in which we invest.

The terms and conditions of target securities may be amended, modified or waived only by the agreement of the underlying security holders. Generally, any such agreement must include a majority or a super majority (measured by outstanding amounts) or, in certain circumstances, a unanimous vote of the security holders. Consequently, the terms and conditions of the payment obligation arising from the CLOs in which we invest be modified, amended or waived in a manner contrary to our preferences.

Senior secured loans of CLOs may be sold and replaced resulting in a loss to us.

The senior secured loans underlying our CLO investments may be sold and replacement collateral purchased within the parameters set out in the relevant CLO indenture between the CLO and the CLO trustee and those parameters may typically only be amended, modified or waived by the agreement of a majority of the holders of the senior notes and/or the junior secured notes and/or the equity tranche once the CLO has been established. If these transactions result in a net loss, the magnitude of the loss from the perspective of the equity tranche would be increased by the leveraged nature of the investment.

Our financial results may be affected adversely if one or more of our significant equity or junior debt investments in a CLO vehicle defaults on its payment obligations or fails to perform as we expect.

We expect that a majority of our portfolio will consist of equity and junior debt investments in CLOs, which involve a number of significant risks. CLOs are typically highly levered up to approximately 10 times, and therefore the junior debt and equity tranches

that we will invest in are subject to a higher risk of total loss. In particular, investors in CLOs indirectly bear risks of the underlying debt investments held by such CLOs. We will generally have the right to receive payments only from the CLOs, and will generally not have direct rights against the underlying borrowers or the entities that sponsored the CLOs. Although it is difficult to predict whether the prices of indices and securities underlying CLOs will rise or fall, these prices, and, therefore, the prices of the CLOs will be influenced by the same types of political and economic events that affect issuers of securities and capital markets generally.

The investments we make in CLOs are thinly traded or have only a limited trading market. CLO investments are typically privately offered and sold, in the primary and secondary markets. As a result, investments in CLOs may be characterized as illiquid securities. In addition to the general risks associated with investing in debt securities, CLOs carry additional risks, including, but not limited to: (i) the possibility that distributions from the underlying senior secured loans will not be adequate to make interest or other payments; (ii) the quality of the underlying senior secured loans may decline in value or default; and (iii) the complex structure of the security may not be fully understood at the time of investment and may produce disputes with the CLO or unexpected investment results. Further, our investments in equity and junior debt tranches of CLOs are subordinate to the senior debt tranches thereof. Investments in structured vehicles, including equity and junior debt instruments issued by CLOs, involve risks, including credit risk and market risk. Changes in interest rates and credit quality may cause significant price fluctuations. Additionally, changes in the underlying senior secured loans held by a CLO may cause payments on the instruments we hold to be reduced, either temporarily or permanently. Structured investments, particularly the subordinated interests in which we invest, are less liquid than many other types of securities and may be more volatile than the senior secured loans underlying the CLOs in which we invest.

Non-investment grade debt involves a greater risk of default and higher price volatility than investment grade debt. The senior secured loans underlying our CLO investments typically are BB or B rated (non-investment grade) and in limited circumstances, unrated, senior secured loans. Non-investment grade securities are predominantly speculative with respect to the issuer's capacity to pay interest and repay principal when due and therefore involve a greater risk of default and higher price volatility than investment grade debt.

We will have no influence on management of underlying investments managed by non-affiliated third party CLO collateral managers.

We are not responsible for and have no influence over the asset management of the portfolios underlying the CLO investments we hold as those portfolios are managed by non-affiliated third party CLO collateral managers. Similarly, we are not responsible for and have no influence over the day-to-day management, administration or any other aspect of the issuers of the individual securities. As a result, the values of the portfolios underlying our CLO investments could decrease as a result of decisions made by third party CLO collateral managers.

The application of the risk retention rules under Section 941 of the Dodd-Frank Act to CLOs may have broader effects on the CLO and loan markets in general, potentially resulting in fewer or less desirable investment opportunities for us.

Section 941 of the Wall Street Reform and Consumer Protection Act ("Dodd-Frank Act") added a provision to the Exchange Act, requiring the seller, sponsor or securitizer of a securitization vehicle to retain no less than five percent of the credit risk in assets it sells into a securitization and prohibiting such securitizer from directly or indirectly hedging or otherwise transferring the retained credit risk. The responsible federal agencies adopted final rules implementing these restrictions on October 22, 2014. The risk retention rules became effective with respect to CLOs two years after publication in the Federal Register. Under the final rules, the asset manager of a CLO is considered the sponsor of a securitization vehicle and is required to retain five percent of the credit risk in the CLO, which may be retained horizontally in the equity tranche of the CLO or vertically as a five percent interest in each tranche of the securities issued by the CLO. Although the final rules contain an exemption from such requirements for the asset manager of a CLO if, among other things, the originator or lead arranger of all of the loans acquired by the CLO retain such risk at the asset level and, at origination of such asset, takes a loan tranche of at least 20% of the aggregate principal balance, it is possible that the originators and lead arrangers of loans in this market will not agree to assume this risk or provide such retention at origination of the asset in a manner that would provide meaningful relief from the risk retention requirements for CLO managers.

We believe that the U.S. risk retention requirements imposed for CLO managers under Section 941 of the Dodd-Frank Act has created some uncertainty in the market in regard to future CLO issuance. Given that certain CLO managers may require capital provider partners to satisfy this requirement, we believe that this may create additional risks for us in the future.

On February 9, 2018, a panel of the United States Court of Appeals for the District of Columbia Circuit ruled (the “D.C. Circuit Ruling”) that the federal agencies exceeded their authority under the Dodd-Frank Act in adopting the final rules as applied to asset managers of open-market CLOs. On April 5, 2018, the United States District Court for the District of Columbia entered an order

implementing the D.C. Circuit Ruling and thereby vacated the U.S. Risk Retention Rules insofar as they apply to CLO managers of “open market CLOs”.

As of the date of hereof, there has been no petition for writ of certiorari filed requesting the case to be heard by the United States Supreme Court. Since there hasn't been a successful challenge to the D.C. Circuit Ruling and the United States District Court for the District of Columbia has issued the above described order implementing the D.C. Circuit Ruling, collateral managers of open market CLOs are no longer required to comply with the U.S. Risk Retention Rules at this time. As such, it is possible that some collateral managers of open market CLOs will decide to dispose of the notes constituting the “eligible vertical interest” or “eligible horizontal interest” they were previously required to retain, or decide to take other action with respect to such notes that is not otherwise permitted by the U.S. risk retention rules. As a result of this decision, certain CLO managers of “open market CLOs” will no longer be required to comply with the U.S. risk retention rules solely because of their roles as managers of “open market CLOs”, and there may be no “sponsor” of such securitization transactions and no party may be required to acquire and retain an economic interest in the credit risk of the securitized assets of such transactions.

There can be no assurance or representation that any of the transactions, structures or arrangements currently under consideration by or currently used by CLO market participants will comply with the U.S. risk retention rules to the extent such rules are reinstated or otherwise become applicable to open market CLOs. The ultimate impact of the U.S. risk retention rules on the loan securitization market and the leveraged loan market generally remains uncertain, and any negative impact on secondary market liquidity for securities comprising a CLO may be experienced due to the effects of the U.S. risk retention rules on market expectations or uncertainty, the relative appeal of other investments not impacted by the U.S. risk retention rules and other factors.

With respect to our online consumer lending initiative, we are dependent on the business performance and competitiveness of marketplace lending facilitators and our ability to assess loan underwriting performance and, if the marketplace lending facilitators from which we currently purchase consumer loans are unable to maintain or increase consumer loan originations, or if such marketplace lending facilitators do not continue to sell consumer loans to us, or we are unable to otherwise purchase additional loans, our business and results of operations will be adversely affected. With respect to our online consumer lending initiative, we invest primarily in marketplace loans through marketplace lending facilitators. We do not conduct loan origination activities ourselves. Therefore, our ability to purchase consumer loans, and our ability to grow our portfolio of consumer loans, is directly influenced by the business performance and competitiveness of the marketplace loan origination business of the marketplace lending facilitators from which we purchase consumer loans.

In addition, our ability to analyze the risk-return profile of consumer loans is significantly dependent on the marketplace facilitators' ability to effectively evaluate a borrower's credit profile and likelihood of default. The platforms from which we purchase such loans utilize credit decisioning and scoring models that assign each such loan offered a corresponding interest rate and origination fee. Our returns are a function of the assigned interest rate for each such particular loan purchased less any defaults over the term of the applicable loan. We evaluate the credit decisioning and scoring models implemented by each platform on a regular basis and leverage the additional data on loan history experience, borrower behavior, economic factors and prepayment trends that we accumulate to continually improve our own decisioning model. If we are unable to effectively evaluate borrowers' credit profiles or the credit decisioning and scoring models implemented by each platform, we may incur unanticipated losses which could adversely impact our operating results. Further, if the interest rates for consumer loans available through marketplace lending platforms are set too high or too low, it may adversely impact our ability to receive returns on our investment that are commensurate with the risks we incur in purchasing the loans.

With respect to our online consumer lending initiative, we rely on the marketplace lending facilitators to service loans including pursuing collections against borrowers. Personal loans facilitated through the marketplace lending facilitators are not secured by any collateral, are not guaranteed or insured by any third-party and are not backed by any governmental authority in any way. Marketplace lending facilitators are therefore limited in their ability to collect on the loans if a borrower is unwilling or unable to repay. A borrower's ability to repay can be negatively impacted by increases in their payment obligations to other lenders under mortgage, credit card and other loans, including student loans and home equity lines of credit. These changes can result from increases in base lending rates or structured increases in payment obligations and could reduce the ability of the borrowers to meet their payment obligations to

other lenders and under the loans purchased by us. If a borrower defaults on a loan, the marketplace lending facilitators may outsource subsequent servicing efforts to third-party collection agencies, which may be unsuccessful in their efforts to collect the amount of the loan. Marketplace lending facilitators make payments ratably on an investor's investment only if they receive the borrower's payments on the corresponding loan. If they do not receive payments on the corresponding loan related to an investment, we are not entitled to any payments under the terms of the investment.

As servicers of the loans we purchase as part of our online consumer lending initiative, the marketplace lending facilitators have the authority to waive or modify the terms of a consumer loan without our consent or allow the postponement of strict compliance

with any such term or in any manner grant any other indulgence to any borrower. If the marketplace lending facilitators approve a modification to the terms of any consumer loan it may adversely impact our revenues.

To continue to grow our online consumer lending initiative business, we rely on marketplace lending facilitators from which we purchase loans to maintain or increase their consumer loan originations and to agree to sell their consumer loans to us. However, we do not have any exclusive arrangements with any of the marketplace lending facilitators and have no agreements with them to provide us with a guaranteed source of supply. There can be no assurance that such marketplace lending facilitators will be able to maintain or increase consumer loan originations or will continue to sell their consumer loans to us, or that we will be able to otherwise purchase additional loans and, consequently, there can be no assurance that we will be able to grow our business through investment in additional loans. The consumer marketplace lending facilitators could elect to become investors in their own marketplace loans which would limit the amount of supply available for our own investments. An inability to expand our business through investments in additional consumer loans would reduce the return on investment that we might otherwise be able to realize from an increased portfolio of such investments. If we are unable to expand our business relating to our online consumer lending initiative, this may have a material adverse effect on our business, financial condition, results of operations and prospects.

Additionally, if marketplace lending facilitators are unable to attract qualified borrowers and sufficient investor commitments or borrowers and investors do not continue to participate in marketplace lending at current rates, the growth of loan originations will slow or loan originations will decrease. As a result of any of these factors, we may be unable to increase our consumer loan investments and our revenue may grow more slowly than expected or decline, which could have a material adverse effect on our business, financial condition and results of operations.

Marketplace lending facilitators on which we rely as part of the online consumer lending initiative by NPRC depend on issuing banks to originate all loans and to comply with various federal, state and other laws.

Typically, the contracts between marketplace lending facilitators and their loan issuing banks are non-exclusive and do not prohibit the issuing banks from working with other marketplace lending facilitators or from offering competing services. Issuing banks could decide that working with marketplace lending facilitators is not in their interests, could make working with marketplace lending facilitators cost prohibitive or could decide to enter into exclusive or more favorable relationships with other marketplace lending facilitators that do not provide consumer loans to us. In addition, issuing banks may not perform as expected under their agreements. Marketplace lending facilitators could in the future have disagreements or disputes with their issuing banks. Any of these factors could negatively impact or threaten our ability to obtain consumer loans and consequently could have a material adverse effect on our business, financial condition, results of operations and prospects.

Issuing banks are subject to oversight by the FDIC and the states where they are organized and operate and must comply with complex rules and regulations, as well as licensing and examination requirements, including requirements to maintain a certain amount of regulatory capital relative to their outstanding loans. If issuing banks were to suspend, limit or cease their operations or the relationship between the marketplace lending facilitators and the issuing bank were to otherwise terminate, the marketplace lending facilitators would need to implement a substantially similar arrangement with another issuing bank, obtain additional state licenses or curtail their operations. If the marketplace lending facilitators are required to enter into alternative arrangements with a different issuing bank to replace their existing arrangements, they may not be able to negotiate a comparable alternative arrangement. This may result in their inability to facilitate loans through their platform and accordingly our inability to operate the business of our online consumer lending initiative. If the marketplace lending facilitators were unable to enter into an alternative arrangement with a different issuing bank, they would need to obtain a state license in each state in which they operate in order to enable them to originate loans, as well as comply with other state and federal laws, which would be costly and time-consuming and could have a material adverse effect on our business, financial condition, results of operations and prospects. If the marketplace lending facilitators are unsuccessful in maintaining their relationships with the issuing banks, their ability to provide loan products could be materially impaired and our operating results could suffer.

Credit and other information that is received about a borrower may be inaccurate or may not accurately reflect the borrower's creditworthiness, which may cause the loans to be inaccurately priced and affect the value of our portfolio.

The marketplace lending facilitators obtain borrower credit information from consumer reporting agencies, such as TransUnion, Experian or Equifax, and assign loan grades to loan requests based on credit decisioning and scoring models that take into account reported credit scores and the requested loan amount, in addition to a variety of other factors. A credit score or loan grade assigned to a borrower may not reflect that borrower's actual creditworthiness because the credit score may be based on incomplete or inaccurate consumer reporting data, and typically, the marketplace lending facilitators do not verify the information obtained from the borrower's credit report. Additionally, there is a risk that, following the date of the credit report that the models are based on, a borrower may have:

• become delinquent in the payment of an outstanding obligation;
• defaulted on a pre-existing debt obligation;
• taken on additional debt; or
• sustained other adverse financial events.

Borrowers supply a variety of information to the marketplace lending facilitators based on which the facilitators price the loans. In a number of cases, marketplace lending facilitators do not verify all of this information, and it may be inaccurate or incomplete. For example, marketplace lending facilitators do not always verify a borrower's stated tenure, job title, home ownership status or intention for the use of loan proceeds. Moreover, we do not, and will not, have access to financial statements of borrowers or to other detailed financial information about the borrowers. If we invest in loans through the marketplace provided by the marketplace lending facilitators based on information supplied by borrowers or third parties that is inaccurate, misleading or incomplete, we may not receive expected returns on our investments and this could have a material adverse impact on our business, financial condition, results of operations and prospects and our reputation may be harmed.

Marketplace lending is a relatively new lending method and the platforms of marketplace lending facilitators have a limited operating history relative to established consumer banks. Borrowers may not view or treat their obligations under any such loans we purchase as having the same significance as loans from traditional lending sources, such as bank loans.

The return on our investment in consumer loans depends on borrowers fulfilling their payment obligations in a timely and complete manner under the corresponding consumer loan. Borrowers may not view their obligations originated on the lending platforms that the marketplace lending facilitators provide as having the same significance as other credit obligations arising under more traditional circumstances, such as loans from banks or other commercial financial institutions. If a borrower neglects his or her payment obligations on a consumer loan or chooses not to repay his or her consumer loan entirely, we may not be able to recover any portion of our investment in the consumer loans. This will adversely impact our business, financial condition, results of operations and prospects.

Risks affecting investments in real estate.

NPRC invests in commercial multi-family residential and student-housing real estate. A number of factors may prevent each of NPRC's properties and assets from generating sufficient net cash flow or may adversely affect their value, or both, resulting in less cash available for distribution, or a loss, to us. These factors include:

- national economic conditions;
- regional and local economic conditions (which may be adversely impacted by plant closings, business layoffs, industry slow-downs, weather conditions, natural disasters, and other factors);
- local real estate conditions (such as over-supply of or insufficient demand for office space);
- changing demographics;
- perceptions by prospective tenants of the convenience, services, safety, and attractiveness of a property;
- the ability of property managers to provide capable management and adequate maintenance;
- the quality of a property's construction and design;
- increases in costs of maintenance, insurance, and operations (including energy costs and real estate taxes);
- changes in applicable laws or regulations (including tax laws, zoning laws, or building codes);
- potential environmental and other legal liabilities;
- the level of financing used by NPRC in respect of its properties, increases in interest rate levels on such financings
- and the risk that NPRC will default on such financings, each of which increases the risk of loss to us;
- the availability and cost of refinancing;
- the ability to find suitable tenants for a property and to replace any departing tenants with new tenants;
- potential instability, default or bankruptcy of tenants in the properties owned by NPRC;
- potential limited number of prospective buyers interested in purchasing a property that NPRC wishes to sell; and
- the relative illiquidity of real estate investments in general, which may make it difficult to sell a property at an attractive price or within a reasonable time frame.

To the extent original issue discount (“OID”) and payment in kind (“PIK”) interest constitute a portion of our income, we will be exposed to typical risks associated with such income being required to be included in taxable and accounting income prior to receipt of cash representing such income.

Our investments may include OID instruments and PIK interest arrangements, which represents contractual interest added to a loan balance and due at the end of such loan’s term. To the extent OID or PIK interest constitute a portion of our income, we are exposed to typical risks associated with such income being required to be included in taxable and accounting income prior to receipt of cash, including the following:

The higher interest rates of OID and PIK instruments reflect the payment deferral and increased credit risk associated with these instruments, and OID and PIK instruments generally represent a significantly higher credit risk than coupon loans.

Even if the accounting conditions for income accrual are met, the borrower could still default when our actual collection is supposed to occur at the maturity of the obligation.

OID and PIK instruments may have unreliable valuations because their continuing accruals require continuing judgments about the collectibility of the deferred payments and the value of any associated collateral. OID and PIK income may also create uncertainty about the source of our cash distributions.

For accounting purposes, any cash distributions to shareholders representing OID and PIK income are not treated as coming from paid-in capital, even if the cash to pay them comes from offering proceeds. As a result, despite the fact that a distribution representing OID and PIK income could be paid out of amounts invested by our stockholders, the 1940 Act does not require that stockholders be given notice of this fact by reporting it as a return of capital.

Capitalizing PIK interest to loan principal increases our gross assets, thus increasing our Investment Adviser’s future base management fees, and increases future investment income, thus increasing our Investment Adviser’s future income incentive fees at a compounding rate.

Market prices of zero-coupon or PIK securities may be affected to a greater extent by interest rate changes and may be more volatile than securities that pay interest periodically and in cash.

For accounting purposes, any cash distributions to stockholders representing OID and PIK income are not designated as paid-in capital, even if the cash to pay them derives from offering proceeds. As a result, despite the fact that a distribution representing OID and PIK income could be paid out of amounts invested by our stockholders, the 1940 Act does not require that stockholders be given notice of this fact by reporting it as a return of capital.

Risks Relating to Our Securities

Our credit ratings may not reflect all risks of an investment in our debt securities.

Our credit ratings are an assessment by third parties of our ability to pay our obligations. Consequently, real or anticipated changes in our credit ratings will generally affect the market value of our debt securities. Our credit ratings, however, may not reflect the potential impact of risks related to market conditions generally or other factors discussed above on the market value of or trading market for the publicly issued debt securities.

Senior securities, including debt, expose us to additional risks, including the typical risks associated with leverage and could adversely affect our business, financial condition and results of operations.

We currently use our revolving credit facility to leverage our portfolio and we expect in the future to borrow from and issue senior debt securities to banks and other lenders and may securitize certain of our portfolio investments. We also have the Unsecured Notes outstanding, which are a form of leverage and are senior in payment rights to our common stock.

With certain limited exceptions, as a BDC, we are only allowed to borrow amounts or otherwise issue senior securities such that our asset coverage, as defined in the 1940 Act, is at least 200% after such borrowing or other issuance. The amount of leverage that we employ will depend on the Investment Adviser’s and our Board of Directors’ assessment of market conditions and other factors at the time of any proposed borrowing. There is no assurance that a leveraging strategy will be successful. Leverage involves risks and special considerations for stockholders, any of which could adversely affect our business, financial condition and results of operations, including the following:

▲ likelihood of greater volatility in the net asset value and market price of our common stock;

- Diminished operating flexibility as a result of asset coverage or investment portfolio composition requirements required by lenders or investors that are more stringent than those imposed by the 1940 Act;
- The possibility that investments will have to be liquidated at less than full value or at inopportune times to comply with debt covenants or to pay interest or dividends on the leverage;
- Increased operating expenses due to the cost of leverage, including issuance and servicing costs;
- Convertible or exchangeable securities, such as the Convertible Notes outstanding or those issued in the future may have rights, preferences and privileges more favorable than those of our common stock;
- Subordination to lenders' superior claims on our assets as a result of which lenders will be able to receive proceeds available in the case of our liquidation before any proceeds will be distributed to our stockholders;
- Difficulty meeting our payment and other obligations under the Unsecured Notes and our other outstanding debt; The occurrence of an event of default if we fail to comply with the financial and/or other restrictive covenants contained in our debt agreements, including the credit agreement and each indenture governing the Unsecured Notes, which event of default could result in all or some of our debt becoming immediately due and payable;
- Reduced availability of our cash flow to fund investments, acquisitions and other general corporate purposes, and limiting our ability to obtain additional financing for these purposes;
- The risk of increased sensitivity to interest rate increases on our indebtedness with variable interest rates, including borrowings under our amended senior credit facility; and
- Reduced flexibility in planning for, or reacting to, and increasing our vulnerability to, changes in our business, the industry in which we operate and the general economy.

For example, the amount we may borrow under our revolving credit facility is determined, in part, by the fair value of our investments. If the fair value of our investments declines, we may be forced to sell investments at a loss to maintain compliance with our borrowing limits. Other debt facilities we may enter into in the future may contain similar provisions. Any such forced sales would reduce our net asset value and also make it difficult for the net asset value to recover. The Investment Adviser and our Board of Directors in their best judgment nevertheless may determine to use leverage if they expect that the benefits to our stockholders of maintaining the leveraged position will outweigh the risks.

In addition, our ability to meet our payment and other obligations of the Unsecured Notes and our credit facility depends on our ability to generate significant cash flow in the future. This, to some extent, is subject to general economic, financial, competitive, legislative and regulatory factors as well as other factors that are beyond our control. We cannot provide assurance that our business will generate cash flow from operations, or that future borrowings will be available to us under our existing credit facility or otherwise, in an amount sufficient to enable us to meet our payment obligations under the Unsecured Notes and our other debt and to fund other liquidity needs. If we are not able to generate sufficient cash flow to service our debt obligations, we may need to refinance or restructure our debt, including the Unsecured Notes, sell assets, reduce or delay capital investments, or seek to raise additional capital. If we are unable to implement one or more of these alternatives, we may not be able to meet our payment obligations under the Unsecured Notes and our other debt.

Illustration. The following table illustrates the effect of leverage on returns from an investment in our common stock assuming various annual returns, net of interest expense. The calculations in the table below are hypothetical and actual returns may be higher or lower than those appearing below. The calculation assumes (i) \$5.8 billion in total assets, (ii) an average cost of funds of 5.30%, (iii) \$2.3 billion in debt outstanding and (iv) \$3.5 billion of shareholders' equity.

| | | | | | | |
|---|---------|---------|--------|------|-------|-------|
| Assumed Return on Our Portfolio (net of expenses) | (10.0)% | (5.0)% | — | % | 5.0% | 10.0% |
| Corresponding Return to Stockholder | (20.1)% | (11.8)% | (3.5)% | 4.8% | 13.1% | |

The assumed portfolio return is required by regulation of the SEC and is not a prediction of, and does not represent, our projected or actual performance. Actual returns may be greater or less than those appearing in the table. Pursuant to SEC regulations, this table is calculated as of June 30, 2018. As a result, it has not been updated to take into account any changes in assets or leverage since June 30, 2018.

On March 23, 2018, the Small Business Credit Availability Act was signed into law, which included various changes to regulations under the federal securities laws that impact BDCs, including changes to the 1940 Act to allow BDCs to decrease their asset coverage requirement to 150% from 200% under certain circumstances. While certain other BDCs have elected to allow for the

increase in leverage, after consideration of the expected negative impact on us, including a rating downgrade by S&P, our Board of Directors has not currently elected to approve the application of the modified asset coverage requirements for the Company.

The Convertible Notes and the Public Notes present other risks to holders of our common stock, including the possibility that such notes could discourage an acquisition of us by a third party and accounting uncertainty. Certain provisions of the Convertible Notes and the Public Notes could make it more difficult or more expensive for a third party to acquire us. Upon the occurrence of certain transactions constituting a fundamental change, holders of the Convertible Notes and the Public Notes will have the right, at their option, to require us to repurchase all of their notes or any portion of the principal amount of such notes in integral multiples of \$1,000. We may also be required to increase the conversion rate or provide for conversion into the acquirer's capital stock in the event of certain fundamental changes with respect to the Convertible Notes. These provisions could discourage an acquisition of us by a third party.

The accounting for convertible debt securities is subject to frequent scrutiny by the accounting regulatory bodies and is subject to change. We cannot predict if or when any such change could be made and any such change could have an adverse impact on our reported or future financial results. Any such impacts could adversely affect the market price of our common stock.

We may in the future determine to fund a portion of our investments with preferred stock, which would magnify the potential for gain or loss and the risks of investing in us in the same way as our borrowings.

Preferred stock, which is another form of leverage, has the same risks to our common stockholders as borrowings because the dividends on any preferred stock we issue must be cumulative. Payment of such dividends and repayment of the liquidation preference of such preferred stock must take preference over any dividends or other payments to our common stockholders, and preferred stockholders are not subject to any of our expenses or losses and are not entitled to participate in any income or appreciation in excess of their stated preference.

Holders of any preferred stock we might issue would have the right to elect members of the board of directors and class voting rights on certain matters.

Holders of any preferred stock we might issue, voting separately as a single class, would have the right to elect two members of the board of directors at all times and in the event dividends become two full years in arrears, would have the right to elect a majority of the directors until such arrearage is completely eliminated. In addition, preferred stockholders have class voting rights on certain matters, including changes in fundamental investment restrictions and conversion to open-end status, and accordingly can veto any such changes. Restrictions imposed on the declarations and payment of dividends or other distributions to the holders of our common stock and preferred stock, both by the 1940 Act and by requirements imposed by rating agencies or the terms of our credit facilities, might impair our ability to maintain our qualification as a RIC for federal income tax purposes. While we would intend to redeem our preferred stock to the extent necessary to enable us to distribute our income as required to maintain our qualification as a RIC, there can be no assurance that such actions could be effected in time to meet the tax requirements.

In addition to regulatory restrictions that restrict our ability to raise capital, our credit facility contains various covenants which, if not complied with, could accelerate repayment under the facility, thereby materially and adversely affecting our liquidity, financial condition and results of operations.

The agreement governing our credit facility requires us to comply with certain financial and operational covenants. These covenants include:

- Restrictions on the level of indebtedness that we are permitted to incur in relation to the value of our assets;
- Restrictions on our ability to incur liens; and
- Maintenance of a minimum level of stockholders' equity.

As of June 30, 2018, we were in compliance with these covenants. However, our continued compliance with these covenants depends on many factors, some of which are beyond our control. Accordingly, there are no assurances that we will continue to comply with the covenants in our credit facility. Failure to comply with these covenants would result in a default under this facility which, if we were unable to obtain a waiver from the lenders thereunder, could result in an acceleration of repayments under the facility and thereby have a material adverse impact on our business, financial condition and results of operations.

Failure to extend our existing credit facility, the revolving period of which is currently scheduled to expire on March 27, 2022, could have a material adverse effect on our results of operations and financial position and our ability to pay expenses and make distributions.

The revolving period for our credit facility with a syndicate of lenders is currently scheduled to terminate on March 27, 2022, with an additional two year amortization period (with distributions allowed) after the completion of the revolving period. During such two year amortization period, all principal payments on the pledged assets will be applied to reduce the balance. At the end of the two year amortization period, the remaining balance will become due, if required by the lenders. If the credit facility is not renewed or extended by the participant banks by March 27, 2022, we will not be able to make further borrowings under the facility after such date and the outstanding principal balance on that date will be due and payable on March 27, 2024. As of June 30, 2018, we had \$37,000 of outstanding borrowings under our credit facility. Interest on borrowings under the credit facility is one-month LIBOR plus 220 basis points with a minimum LIBOR floor of zero. Additionally, the lenders charge a fee on the unused portion of the credit facility equal to either 50 basis points if more than 60% of the credit facility is drawn, or 100 basis points if more than 35% and an amount less than or equal to 60% of the credit facility is drawn, or 150 basis points if an amount less than or equal to 35% of the credit facility is drawn.

The credit facility requires us to pledge assets as collateral in order to borrow under the credit facility. If we are unable to extend our facility or find a new source of borrowing on acceptable terms, we will be required to pay down the amounts outstanding under the facility during the two-year term-out period through one or more of the following:

(1) principal collections on our securities pledged under the facility, (2) at our option, interest collections on our securities pledged under the facility and cash collections on our securities not pledged under the facility, or (3) possible liquidation of some or all of our loans and other assets, any of which could have a material adverse effect on our results of operations and financial position and may force us to decrease or stop paying certain expenses and making distributions until the facility is repaid. In addition, our stock price could decline significantly, we would be restricted in our ability to acquire new investments and, in connection with our year-end audit, and our independent registered accounting firm could raise an issue as to our ability to continue as a going concern.

Failure to refinance our existing Unsecured Notes could have a material adverse effect on our results of operations and financial position.

The Unsecured Notes mature at various dates from July 15, 2018 to October 15, 2043. If we are unable to refinance the Unsecured Notes or find a new source of borrowing on acceptable terms, we will be required to pay down the amounts outstanding at maturity under the facility during the two-year term-out period through one or more of the following: (1) borrowing additional funds under our then current credit facility, (2) issuance of additional common stock or (3) possible liquidation of some or all of our loans and other assets, any of which could have a material adverse effect on our results of operations and financial position. In addition, our stock price could decline significantly; we would be restricted in our ability to acquire new investments and, in connection with our year-end audit, our independent registered accounting firm could raise an issue as to our ability to continue as a going concern.

The trading market or market value of our publicly issued debt securities may fluctuate.

Our publicly issued debt securities may or may not have an established trading market. We cannot assure our noteholders that a trading market for our publicly issued debt securities will ever develop or be maintained if developed. In addition to our creditworthiness, many factors may materially adversely affect the trading market for, and market value of, our publicly issued debt securities. These factors include, but are not limited to, 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 ratings assigned by national statistical ratings agencies;
- the general economic environment;
- the supply of debt securities trading in the secondary market, if any;
- the redemption or repayment features, if any, of these debt securities;
- the level, direction and volatility of market interest rates generally; and
- market rates of interest higher or lower than rates borne by the debt securities.

Our noteholders should also be aware that there may be a limited number of buyers when they decide to sell their debt securities. This too may materially adversely affect the market value of the debt securities or the trading market for the debt securities.

Terms relating to redemption may materially adversely affect our noteholders return on any debt securities that we may issue.

If our noteholders' debt securities are redeemable at our option, we may choose to redeem their debt securities at times when prevailing interest rates are lower than the interest rate paid on their debt securities. In addition, if our noteholders' debt securities are subject to mandatory redemption, we may be required to redeem their debt securities also at times when prevailing interest rates are lower than the interest rate paid on their debt securities. In this circumstance, our noteholders may not be able to reinvest the redemption proceeds in a comparable security at an effective interest rate as high as their debt securities being redeemed.

Our shares of common stock currently trade at a discount from net asset value and may continue to do so in the future, which could limit our ability to raise additional equity capital.

Shares of closed-end investment companies frequently trade at a market price that is less than the net asset value that is attributable to those shares. This characteristic of closed-end investment companies is separate and distinct from the risk that our net asset value per share may decline. It is not possible to predict whether any shares of our common stock will trade at, above, or below net asset value. The stocks of BDCs as an industry, including shares of our common stock, currently trade below net asset value as a result of concerns over liquidity, interest rate changes, leverage restrictions and distribution requirements. When our common stock is trading below its net asset value per share, we will not be able to issue additional shares of our common stock at its market price without first obtaining approval for such issuance from our stockholders and our independent directors. At our 2016 annual meeting of stockholders held on December 2, 2016, our stockholders approved our ability, subject to the condition that the maximum number of shares salable below net asset value pursuant to this authority in any particular offering that could result in such dilution is limited to 25% of our then outstanding common stock immediately prior to each such offering, to sell shares of our common stock at any level of discount from net asset value per share during the 12 month period following December 2, 2016. Similar to our 2017 annual meeting, we do not intend to seek stockholder approval at our 2018 annual meeting to continue for an additional 12 month period our ability to sell shares of common stock at any level of discount from net asset value per share, subject to the condition that the maximum number of shares salable below net asset value pursuant to this authority in any particular offering that could result in such dilution is limited to 25% of our then outstanding common stock immediately prior to each such offering, but may seek stockholder approval to do so in the future.

There is a risk that investors in our common stock may not receive dividends or that our dividends may not grow over time and investors in our debt securities may not receive all of the interest income to which they are entitled.

We intend to make distributions on a quarterly basis to our stockholders out of assets legally available for distribution. We cannot assure you that we will achieve investment results that will allow us to make a specified level of cash distributions or year-to-year increases in cash distributions. If we declare a dividend and if more stockholders opt to receive cash distributions rather than participate in our dividend reinvestment plan, we may be forced to sell some of our investments in order to make cash dividend payments.

In addition, due to the asset coverage test applicable to us as a BDC, we may be limited in our ability to make distributions. Further, if we invest a greater amount of assets in equity securities that do not pay current dividends, it could reduce the amount available for distribution.

The above-referenced restrictions on distributions may also inhibit our ability to make required interest payments to holders of our debt, which may cause a default under the terms of our debt agreements. Such a default could materially increase our cost of raising capital, as well as cause us to incur penalties under the terms of our debt agreements.

Investing in our securities may involve a high degree of risk and is highly speculative.

The investments we make in accordance with our investment objective may result in a higher amount of risk than alternative investment options and volatility or loss of principal. Our investments in portfolio companies may be speculative and aggressive, and therefore, an investment in our shares may not be suitable for someone with low risk tolerance.

Our stockholders may experience dilution in their ownership percentage if they opt out of our dividend reinvestment plan.

All dividends declared in cash payable to stockholders that are participants in our dividend reinvestment plan are automatically reinvested in shares of our common stock. As a result, our stockholders that opt out of our dividend reinvestment plan will experience dilution in their ownership percentage of our common stock over time.

Stockholders who do not elect to receive distributions in shares of common stock may experience accretion to the net asset value of their shares if our shares are trading at a premium and dilution if our shares are trading at a discount.

The level of accretion or discount would depend on various factors, including the proportion of our stockholders who participate in the plan, the level of premium or discount at which our shares are trading and the amount of the distribution payable to a stockholder.

Sales of substantial amounts of our common stock in the public market may have an adverse effect on the market price of our common stock.

Sales of substantial amounts of our common stock, or the availability of such common stock for sale (including as a result of the conversion of the Convertible Notes into common stock), could adversely affect the prevailing market prices for our common stock. If this occurs and continues, it could impair our ability to raise additional capital through the sale of securities should we desire to do so.

If we sell shares of our common stock or securities to subscribe for or are convertible into shares of our common stock at a discount to our net asset value per share, stockholders who do not participate in such sale will experience immediate dilution in an amount that may be material.

At our 2016 annual meeting of stockholders held on December 12, 2016, our stockholders approved our ability, subject to the condition that the maximum number of shares salable below net asset value pursuant to this authority in any particular offering that could result in such dilution is limited to 25% of our then outstanding common stock immediately prior to each such offering, to sell shares of our common stock at any level of discount from net asset value per share during the 12 month period following December 2, 2016. Similar to our 2017 annual meeting, we do not intend to seek stockholder approval at our 2018 annual meeting to continue for an additional 12 month period our ability to sell shares of common stock at any level of discount from net asset value per share, subject to the condition that the maximum number of shares salable below net asset value pursuant to this authority in any particular offering that could result in such dilution is limited to 25% of our then outstanding common stock immediately prior to each such offering, but may seek stockholder approval to do so in the future. The issuance or sale by us of shares of our common stock or securities to subscribe for or are convertible into shares of our common stock at a discount to net asset value poses a risk of dilution to our stockholders. In particular, stockholders who do not purchase additional shares of common stock at or below the discounted price in proportion to their current ownership will experience an immediate decrease in net asset value per share (as well as in the aggregate net asset value of their shares of common stock if they do not participate at all). These stockholders will also experience a disproportionately greater decrease in their participation in our earnings and assets and their voting power than the increase we experience in our assets, potential earning power and voting interests from such issuance or sale. In addition, such sales may adversely affect the price at which our common stock trades. We have sold shares of our common stock at prices below net asset value per share in the past and may do so to the future. We have not sold any shares of our common stock at prices below net asset value per share since December 3, 2014.

Our ability to enter into transactions with our affiliates is restricted.

We are prohibited under the 1940 Act from knowingly participating in certain transactions with our affiliates without the prior approval of our independent directors. Any person that owns, directly or indirectly, 5% or more of our outstanding voting securities is our affiliate for purposes of the 1940 Act and we are generally prohibited from buying or selling any security or other property from or to such affiliate, absent the prior approval of our independent directors. The 1940 Act also prohibits “joint” transactions with an affiliate, which could include investments in the same portfolio company (whether at the same or different times), without prior approval of our independent directors. Subject to certain limited exceptions, we are prohibited from buying or selling any security or other property from or to the Investment Adviser and its affiliates and persons with whom we are in a control relationship, or entering into joint transactions with any such person, absent the prior approval of the SEC.

On February 10, 2014, we received an exemptive order from the SEC (the “Order”) that gave us the ability to negotiate terms other than price and quantity of co-investment transactions with other funds managed by the Investment Adviser or certain affiliates, including Priority Income Fund, Inc. and Pathway Capital Opportunity Fund, Inc. (f/k/a Pathway Energy Infrastructure Fund, Inc.), subject to the conditions included therein. Under the terms of the relief permitting us to co-invest with other funds managed by our Investment Adviser or its affiliates, a “required majority” (as defined in Section 57(o) of the 1940 Act) of our independent directors must make certain conclusions in connection with a co-investment transaction, including that (1) the terms of the proposed transaction, including the consideration to be paid, are reasonable and fair to us and our stockholders and do not involve overreaching of us or our stockholders on the part of any person concerned and (2) the transaction is consistent with the interests of our stockholders and is consistent with our investment objective and strategies. In certain situations where co-investment with one or more funds managed by the Investment Adviser or its affiliates is not covered by the Order, such as when there is an

opportunity to invest in different securities of the same issuer, the personnel of the Investment Adviser or its affiliates will need to decide which fund will proceed with the investment. Such personnel will make these determinations based on policies and procedures, which are designed to reasonably ensure that investment opportunities are allocated fairly and equitably among affiliated funds over time and in a manner that is consistent with applicable laws, rules and regulations. Moreover, except in certain circumstances, when relying on the Order, we will be unable to invest in any issuer in which one or more funds managed by the Investment Adviser or its affiliates has previously invested. The market price of our securities may fluctuate significantly.

The market price and liquidity of the market for our securities may be significantly affected by numerous factors, some of which are beyond our control and may not be directly related to our operating performance. These factors include:

- significant volatility in the market price and trading volume of securities of business development companies or other companies in the energy industry, which are not necessarily related to the operating performance of these companies;
- price and volume fluctuations in the overall stock market from time to time;
- changes in regulatory policies or tax guidelines, particularly with respect to RICs or business development companies;
- loss of RIC qualification;
- changes in earnings or variations in operating results;
- changes in the value of our portfolio of investments;
- any shortfall in revenue or net income or any increase in losses from levels expected by investors or securities analysts;
- departure of one or more of Prospect Capital Management's key personnel;
- operating performance of companies comparable to us;
- short-selling pressure with respect to shares of our common stock or BDCs generally;
- future sales of our securities convertible into or exchangeable or exercisable for our common stock or the conversion of such securities, including the Convertible Notes;
- uncertainty surrounding the strength of the U.S. economic recovery;
- concerns regarding European sovereign debt;
- changes in prevailing interest rates;
- litigation matters;
- general economic trends and other external factors; and
- loss of a major funding source.

In the past, following periods of volatility in the market price of a company's securities, securities class action litigation has, from time to time, been brought against that company.

If our stock price fluctuates significantly, we may be the target of securities litigation in the future. Securities litigation could result in substantial costs and divert management's attention and resources from our business.

There is a risk that you may not receive distributions or that our distributions may not grow over time.

We have made and intend to continue to make distributions on a monthly basis to our stockholders out of assets legally available for distribution. We cannot assure you that we will achieve investment results or maintain a tax status that will allow or require any specified level of cash distributions or year-to-year increases in cash distributions. In addition, due to the asset coverage test applicable to us as a business development company, we may be limited in our ability to make distributions.

Provisions of the Maryland General Corporation Law and of our charter and bylaws could deter takeover attempts and have an adverse impact on the price of our common stock.

Our charter and bylaws and the Maryland General Corporation Law contain provisions that may have the effect of delaying, deferring or preventing a transaction or a change in control that might involve a premium price for our stockholders or otherwise be in their best interest. These provisions may prevent stockholders from being able to sell shares of our common stock at a premium over the current of prevailing market prices.

Our charter provides for the classification of our Board of Directors into three classes of directors, serving staggered three-year terms, which may render a change of control or removal of our incumbent management more difficult. Furthermore, any and all vacancies on our Board of Directors will be filled generally only by the affirmative vote of a majority of the remaining directors in office, even if the remaining directors do not constitute a quorum, and any director elected to fill a vacancy will serve for the remainder of the full term until a successor is elected and qualifies. Our Board of Directors is authorized to create and issue new series of shares, to classify or reclassify any unissued shares of stock into one or more classes or series, including preferred stock and, without stockholder approval, to amend our charter to increase or decrease the number of shares of common stock that we have authority to issue, which could have the effect of diluting a stockholder's ownership interest. Prior to the issuance of shares of common stock of each class or series, including any reclassified series, our Board of Directors is required by our governing

documents to set the terms, preferences, conversion or other rights,

57

voting powers, restrictions, limitations as to dividends or other distributions, qualifications and terms or conditions of redemption for each class or series of shares of stock.

Our charter and bylaws also provide that our Board of Directors has the exclusive power to adopt, alter or repeal any provision of our bylaws, and to make new bylaws. The Maryland General Corporation Law also contains certain provisions that may limit the ability of a third party to acquire control of us, such as:

The Maryland Business Combination Act, which, subject to certain limitations, prohibits certain business combinations between us and an “interested stockholder” (defined generally as any person who beneficially owns 10% or more of the voting power of the common stock or an affiliate thereof) for five years after the most recent date on which the stockholder becomes an interested stockholder and, thereafter, imposes special minimum price provisions and special stockholder voting requirements on these combinations.

The Maryland Control Share Acquisition Act, which provides that “control shares” of a Maryland corporation (defined as shares of common stock which, when aggregated with other shares of common stock controlled by the stockholder, entitles the stockholder to exercise one of three increasing ranges of voting power in electing directors, as described more fully below) acquired in a “control share acquisition” (defined as the direct or indirect acquisition of ownership or control of “control shares”) have no voting rights except to the extent approved by stockholders by the affirmative vote of at least two-thirds of all the votes entitled to be cast on the matter, excluding all interested shares of common stock.

The provisions of the Maryland Business Combination Act will not apply, however, if our Board of Directors adopts a resolution that any business combination between us and any other person will be exempt from the provisions of the Maryland Business Combination Act. Our Board of Directors has adopted a resolution that any business combination between us and any other person is exempted from the provisions of the Maryland Business Combination Act, provided that the business combination is first approved by the Board of Directors, including a majority of the directors who are not interested persons as defined in the 1940 Act. There can be no assurance that this resolution will not be altered or repealed in whole or in part at any time. If the resolution is altered or repealed, the provisions of the Maryland Business Combination Act may discourage others from trying to acquire control of us.

As permitted by Maryland law, our bylaws contain a provision exempting from the Maryland Control Share Acquisition Act any and all acquisitions by any person of our common stock. Although our bylaws include such a provision, such a provision may also be amended or eliminated by our Board of Directors at any time in the future, provided that we will notify the Division of Investment Management at the SEC prior to amending or eliminating this provision. However, as noted above, the SEC has recently taken the position that the Maryland Control Share Acquisition Act is inconsistent with the 1940 Act and may not be invoked by a BDC. It is the view of the staff of the SEC that opting into the Maryland Control Share Acquisition Act would be acting in a manner inconsistent with Section 18(i) of the 1940 Act.

Your interest in us may be diluted if you do not fully exercise your subscription rights in any rights offering. In addition, if the subscription price is less than our net asset value per share, then you will experience an immediate dilution of the aggregate net asset value of your shares.

In the event we issue subscription rights, stockholders who do not fully exercise their subscription rights should expect that they will, at the completion of a rights offering pursuant to this prospectus, own a smaller proportional interest in us than would otherwise be the case if they fully exercised their rights. We cannot state precisely the amount of any such dilution in share ownership because we do not know at this time what proportion of the shares will be purchased as a result of such rights offering.

In addition, if the subscription price is less than the net asset value per share of our common stock, then our stockholders would experience an immediate dilution of the aggregate net asset value of their shares as a result of the offering. The amount of any decrease in net asset value is not predictable because it is not known at this time what the subscription price and net asset value per share will be on the expiration date of a rights offering or what proportion of the shares will be purchased as a result of such rights offering. Such dilution could be substantial.

We may in the future choose to pay dividends in our own stock, in which case our stockholders may be required to pay tax in excess of the cash they receive.

We may distribute taxable dividends that are payable in part in our stock. In accordance with guidance issued by the Internal Revenue Service, a publicly traded RIC should generally be eligible to treat a distribution of its own stock as

fulfilling its RIC distribution requirements if each stockholder is permitted to elect to receive his or her distribution in either cash or stock of the RIC (even where there is a limitation on the percentage of the distribution payable in cash, provided that the limitation is at least 20%), subject to the satisfaction of certain guidelines. If too many stockholders elect to receive cash, each stockholder electing

58

to receive cash generally must receive a portion of his or her distribution in cash (with the balance of the distribution paid in stock). If these and certain other requirements are met, for U.S. federal income tax purposes, the amount of the distribution paid in stock generally will be a taxable distribution in an amount equal to the amount of cash that could have been received instead of stock. Taxable stockholders receiving such dividends would be required to include the full amount of the dividend as ordinary income (or as long-term capital gain to the extent such distribution is properly designated as a capital gain dividend) to the extent of our current and accumulated earnings and profits for United States federal income tax purposes. As a result, a U.S. Stockholder (as defined in “Material U.S. Federal Income Tax Considerations”) may be required to pay tax with respect to such dividends in excess of any cash received. If a U.S. Stockholder sells the stock it receives as a dividend in order to pay this tax, it may be subject to transaction fees (e.g., broker fees or transfer agent fees) and the sales proceeds may be less than the amount included in income with respect to the dividend, depending on the market price of its stock at the time of the sale. Furthermore, with respect to Non-U.S. Stockholders (as defined in “Material U.S. Federal Income Tax Considerations”), we may be required to withhold U.S. tax with respect to such dividends, including in respect of all or a portion of such dividend that is payable in stock. In addition, if a significant number of our stockholders determine to sell shares of our stock in order to pay taxes owed on dividends, it may put downward pressure on the trading price of our stock. It is unclear whether and to what extent we will be pay dividends in cash and our stock.

Item 1B. Unresolved Staff Comments

Not applicable.

Item 2. Properties

We do not own any real estate or other physical properties materially important to our operation. Our principal executive offices are located at 10 East 40th Street, New York, New York 10016, where we occupy our office space pursuant to our Administration Agreement with Prospect Administration. The office facilities, which are shared with the Investment Adviser and Administrator, consist of approximately 32,500 square feet, with various leases expiring up to and through 2023. We believe that our office facilities are suitable and adequate for our business as currently conducted.

Item 3. Legal Proceedings

From time to time, we may become involved in various investigations, claims and legal proceedings that arise in the ordinary course of our business. These matters may relate to intellectual property, employment, tax, regulation, contract or other matters. The resolution of such matters as may arise will be subject to various uncertainties and, even if such claims are without merit, could result in the expenditure of significant financial and managerial resources. We are not aware of any material legal proceedings as of June 30, 2018.

Item 4. Mine Safety Disclosures

Not applicable.

PART II

Item 5. Market for Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

Our common stock is traded on the NASDAQ Global Select Market under the symbol “PSEC.”

The following table sets forth, for the quarterly reporting periods indicated, the net asset value per share of our common stock and the high and low sales prices for our common stock, as reported on the NASDAQ Global Select Market. Our common stock historically has traded at prices both above and below its net asset value. There can be no assurance, however, that such premium or discount, as applicable, to net asset value will be maintained. See also “Item 1A. Risk Factors” in Part I of this report for additional information about the risks and uncertainties we face.

| Year Ended | Net Asset Value Per Share(1) | Sales Price | | Premium (Discount) of High Sales Price to Asset Value | Premium (Discount) of Low Sales Price to Asset Value |
|---------------|------------------------------|-------------|-----|---|--|
| | | High | Low | | |
| June 30, 2017 | | | | | |

June 30, 2017

Edgar Filing: PROSPECT CAPITAL CORP - Form 10-K

| | | | | | |
|----------------|---------|--------|--------|----------|----------|
| First quarter | \$ 9.60 | \$8.65 | \$7.80 | (9.9 %) | (18.8 %) |
| Second quarter | 9.62 | 8.50 | 7.46 | (11.6 %) | (22.5 %) |
| Third quarter | 9.43 | 9.53 | 8.42 | 1.1 % | (10.7 %) |
| Fourth quarter | 9.32 | 9.40 | 7.95 | 0.9 % | (14.7 %) |
| June 30, 2018 | | | | | |
| First quarter | \$ 9.12 | \$8.34 | \$6.55 | (8.6 %) | (28.2 %) |
| Second quarter | 9.28 | 7.26 | 5.56 | (21.8 %) | (40.1 %) |
| Third quarter | 9.23 | 7.01 | 6.21 | (24.1 %) | (32.7 %) |
| Fourth quarter | 9.35 | 6.93 | 6.30 | (25.9 %) | (32.6 %) |

Net asset value per share is determined as of the last day in the relevant quarter and therefore may not reflect the (1) net asset value per share on the date of the high and low sales prices. The net asset values shown are based on outstanding shares at the end of the relevant quarter.

As of August 28, 2018, there were 150 shareholders of record of our common stock. This figure does not include a substantially greater number of beneficial holders of our common stock, whose shares are held in the names of brokers, dealers and clearing agencies.

Distribution Policy

Through March 2010, we made quarterly distributions to our stockholders out of assets legally available for distribution. In June 2010, we changed our distribution policy from a quarterly payment to a monthly payment. To the extent prudent and practicable, we currently intend to continue making distributions on a monthly basis. Our ability to pay distributions could be affected by future business performance, liquidity, capital needs, alternative investment opportunities and loan covenants. Our distributions, if any, will be determined by our Board of Directors. Certain amounts of the monthly distributions may from time to time be paid out of our capital rather than from earnings for the quarter as a result of our deliberate planning or by accounting reclassifications.

As a RIC, we generally are not subject to U.S. federal income tax on income and gains we distribute each taxable year to our stockholders, provided that in such taxable year, we distribute an amount equal to at least 90% of our investment company taxable income (as defined by the Code) to our stockholders. Any undistributed taxable income is subject to U.S. federal income tax. In addition, we will be subject to a 4% non-deductible U.S. federal excise tax on certain undistributed income unless we distribute in a timely manner an amount at least equal to the sum of (i) 98% of our ordinary income recognized during the calendar year, (ii) 98.2% of our capital gain net income, as defined by the Code, recognized for the one year period ending October 31 in that calendar year and (iii) any income recognized, but not distributed, in preceding years.

We did not have an excise tax liability for the calendar year ended December 31, 2017. As of June 30, 2018, we do not expect to have any excise tax due for the 2018 calendar year. Tax characteristics of all distributions will be reported to stockholders, as appropriate, on Form 1099-DIV after the end of the calendar year.

In addition, although we currently intend to distribute realized net capital gains (which we define as net long-term capital gains in excess of short-term capital losses), if any, at least annually out of the assets legally available for such distributions, we may decide in the future to retain such capital gains for investment. In such event, the consequences of our retention of net capital gains are described under "Material U.S. Federal Income Tax Considerations." We can offer no assurance that we will achieve results that will permit the payment of any cash distributions and, if we issue senior securities, we may be prohibited from making distributions if doing so causes us to fail to maintain the asset coverage ratios stipulated by the 1940 Act or if distributions are limited by the terms of any of our borrowings.

During the years ended June 30, 2018 and June 30, 2017, we distributed approximately \$277.2 million and \$359.0 million, respectively, to our stockholders. The following table summarizes our distributions declared and payable for the years ended June 30, 2017 and June 30, 2018.

Edgar Filing: PROSPECT CAPITAL CORP - Form 10-K

| Declaration Date | Record Date | Payment Date | Amount Per Share | Amount Distributed (in thousands) |
|---|-------------|--------------|------------------|-----------------------------------|
| 5/9/2016 | 7/29/2016 | 8/18/2016 | \$0.083330 | \$ 29,783 |
| 5/9/2016 | 8/31/2016 | 9/22/2016 | 0.083330 | 29,809 |
| 8/25/2016 | 9/30/2016 | 10/20/2016 | 0.083330 | 29,837 |
| 8/25/2016 | 10/31/2016 | 11/17/2016 | 0.083330 | 29,863 |
| 11/8/2016 | 11/30/2016 | 12/22/2016 | 0.083330 | 29,890 |
| 11/8/2016 | 12/30/2016 | 1/19/2017 | 0.083330 | 29,915 |
| 11/8/2016 | 1/31/2017 | 2/16/2017 | 0.083330 | 29,940 |
| 2/7/2017 | 2/28/2017 | 3/23/2017 | 0.083330 | 29,963 |
| 2/7/2017 | 3/31/2017 | 4/20/2017 | 0.083330 | 29,989 |
| 2/7/2017 | 4/28/2017 | 5/18/2017 | 0.083330 | 29,994 |
| 5/9/2017 | 5/31/2017 | 6/22/2017 | 0.083330 | 29,999 |
| 5/9/2017 | 6/30/2017 | 7/20/2017 | 0.083330 | 30,005 |
| Total declared and payable for the year ended June 30, 2017 | | | | \$ 358,987 |

| | | | | |
|---|------------|------------|------------|------------|
| 5/9/2017 | 7/31/2017 | 8/24/2017 | \$0.083330 | \$ 30,011 |
| 5/9/2017 | 8/31/2017 | 9/21/2017 | 0.083330 | 30,017 |
| 8/28/2017 | 9/29/2017 | 10/19/2017 | 0.060000 | 21,619 |
| 8/28/2017 | 10/31/2017 | 11/22/2017 | 0.060000 | 21,623 |
| 11/8/2017 | 11/30/2017 | 12/21/2017 | 0.060000 | 21,630 |
| 11/8/2017 | 12/29/2017 | 1/18/2018 | 0.060000 | 21,659 |
| 11/8/2017 | 1/31/2018 | 2/15/2018 | 0.060000 | 21,691 |
| 2/7/2018 | 2/28/2018 | 3/22/2018 | 0.060000 | 21,724 |
| 2/7/2018 | 3/30/2018 | 4/19/2018 | 0.060000 | 21,759 |
| 2/7/2018 | 4/30/2018 | 5/24/2018 | 0.060000 | 21,797 |
| 5/9/2018 | 5/31/2018 | 6/21/2018 | 0.060000 | 21,829 |
| 5/9/2018 | 6/29/2018 | 7/19/2018 | 0.060000 | 21,865 |
| Total declared and payable for the year ended June 30, 2018 | | | | \$ 277,224 |

Dividends and distributions to common stockholders are recorded on the ex-dividend date. As such, the table above includes distributions with record dates during the years ended June 30, 2018 and June 30, 2017. It does not include distributions previously declared to stockholders of record on any future dates, as those amounts are not yet determinable. The following dividends were previously declared and will be recorded and payable subsequent to June 30, 2018:

\$0.06 per share for July 2018 to holders of record on July 31, 2018 with a payment date of August 23, 2018.

\$0.06 per share for August 2018 to holders of record on August 31, 2018 with a payment date of September 20, 2018.

Dividend Reinvestment Plan

We maintain an “opt out” dividend reinvestment plan for our common stockholders. As a result, if we declare a distribution (as discussed above), stockholders’ cash distributions will be automatically reinvested in additional shares of our common stock, unless they specifically opt out of the dividend reinvestment plan so as to receive cash distributions. Stockholders who receive distributions in the form of stock are subject to the same U.S. federal, state and local tax consequences as are stockholders who elect to receive their distributions in cash. Stockholders are advised to consult with their brokers or financial institutions, as appropriate, with respect to the administration of their dividends and related instructions. See also “Dividend Reinvestment Plan” in Part I of this report for additional information.

We primarily use newly-issued shares to implement the plan, whether our shares are trading at a premium or at a discount to net asset value. However, we reserve the right to purchase shares in the open market in connection with the implementation of the plan. Our Board of Directors determines how the stock to be distributed as part of the plan is made available.

60

Edgar Filing: PROSPECT CAPITAL CORP - Form 10-K

During the years ended June 30, 2018 and June 30, 2017, we distributed 4,333,005 and 2,969,702 shares of our common stock, respectively, in connection with the dividend reinvestment plan. All of the shares distributed were new issues. The following table summarizes the shares issued through the reinvestment of dividends in the years ended June 30, 2017 and June 30, 2018.

| Record Date | Payment Date | Shares Issued | Value of Shares (in thousands) | % of Distribution | |
|--|--------------|---------------|--------------------------------|-------------------|---|
| 6/30/2016 | 7/21/2016 | 307,564 | \$ 2,537 | 8.5 | % |
| 7/29/2016 | 8/18/2016 | 310,101 | 2,614 | 8.8 | % |
| 8/31/2016 | 9/22/2016 | 317,262 | 2,602 | 8.7 | % |
| 9/30/2016 | 10/20/2016 | 326,945 | 2,645 | 8.9 | % |
| 10/31/2016 | 11/17/2016 | 327,506 | 2,564 | 8.6 | % |
| 11/30/2016 | 12/22/2016 | 303,671 | 2,566 | 8.6 | % |
| 12/31/2016 | 1/19/2017 | 295,904 | 2,557 | 8.5 | % |
| 1/31/2017 | 2/16/2017 | 274,043 | 2,571 | 8.6 | % |
| 2/28/2017 | 3/23/2017 | 315,476 | 2,846 | 9.5 | % |
| 3/31/2017 | 4/20/2017 | 53,517 | 496 | 1.7 | % |
| 4/28/2017 | 5/18/2017 | 65,054 | 531 | 1.8 | % |
| 5/31/2017 | 6/22/2017 | 72,659 | 587 | 2.0 | % |
| Total issued in the year ended June 30, 2017 | | 2,969,702 | \$ 25,116 | | |
| 6/30/2017 | 7/20/2017 | 66,881 | \$ 546 | 1.8 | % |
| 7/31/2017 | 8/24/2017 | 77,948 | 570 | 1.9 | % |
| 8/31/2017 | 9/21/2017 | 88,660 | 597 | 2.0 | % |
| 9/29/2017 | 10/19/2017 | 83,913 | 529 | 2.5 | % |
| 10/31/2017 | 11/22/2017 | 98,276 | 679 | 3.1 | % |
| 11/30/2017 | 12/21/2017 | 488,141 | 3,397 | 15.7 | % |
| 12/29/2017 | 1/18/2018 | 546,596 | 3,722 | 17.2 | % |
| 1/31/2018 | 2/15/2018 | 540,758 | 3,742 | 17.3 | % |
| 2/28/2018 | 3/22/2018 | 589,256 | 3,836 | 17.7 | % |
| 3/30/2018 | 4/19/2018 | 608,202 | 3,947 | 18.1 | % |
| 4/28/2018 | 5/24/2018 | 572,125 | 3,925 | 18.0 | % |
| 5/31/2018 | 6/21/2018 | 572,249 | 3,966 | 18.2 | % |
| Total issued in the year ended June 30, 2018 | | 4,333,005 | \$ 29,456 | | |

Registered stockholders who opt out of the dividend reinvestment plan must notify the plan administrator prior to the payment date in order for that distribution to be paid in cash. As such, the table above includes distributions with payment dates during the years ended June 30, 2018 and June 30, 2017. It does not include distributions previously declared and recorded as payable to stockholders on any future dates, as those amounts are not yet determinable.

On February 9, 2016, we amended our dividend reinvestment plan that provided for reinvestment of our dividends or distributions on behalf of our stockholders, unless a stockholder elects to receive cash, to add the ability of stockholders to purchase additional shares by making optional cash investments. Under the revised dividend reinvestment and direct stock repurchase plan, stockholders may elect to purchase additional shares through our transfer agent in the open market or in negotiated transactions.

Purchases of equity securities by the issuer and affiliated purchasers

On August 24, 2011, our Board of Directors approved a share repurchase plan (the "Repurchase Program") under which we may repurchase up to \$100,000 of our common stock at prices below our net asset value per share. Prior to any

repurchase, we are required to notify shareholders of our intention to purchase our common stock. Our last notice was delivered with our annual proxy mailing on September 22, 2017.

We did not repurchase any shares of our common stock under the Repurchase Program for the years ended June 30, 2018 and June 30, 2017.

During the year ended June 30, 2016, we repurchased 4,708,750 shares of our common stock pursuant to the Repurchase Program. Our NAV per share was increased by approximately \$0.02 for the year ended June 30, 2016 as a result of the share repurchases.

The following table summarizes our share repurchases under our Repurchase Program for the year ended June 30, 2016.

| | |
|--|-----------------------------------|
| Repurchases of Common Stock | Year Ended June 30, 2016 |
| Dollar amount repurchased | \$34,140 |
| Shares Repurchased | 4,708,750 |
| Weighted average price per share | 7.25 |
| Weighted average discount to June 30, 2015 Net Asset Value | 30 % |

As of June 30, 2018, the approximate dollar value of shares that may yet be purchased under the plan is \$65,860.

During the year ended June 30, 2018, Prospect officers purchased 12,241,104 shares of our stock, or 3.36% of total outstanding shares as of June 30, 2018, both through the open market transactions and shares issued in connection with our dividend reinvestment plan.

The following table summarizes the shares purchased by Prospect officers during the year ended June 30, 2018.

| Period | Total Number of Shares Purchased in Open Market | Average price paid per share | Total Number of Shares Purchased Through Dividend Reinvestment Plan |
|--|--|---------------------------------------|---|
| July 1, 2017 - July 31, 2017 | — | \$ | 3,881 |
| August 1, 2017 - August 31, 2017 | 1,000 | 6.75 | 4,381 |
| September 1, 2017 - September 30, 2017 | 50,000 | 6.69 | 4,813 |
| October 1, 2017 - October 31, 2017 | — | — | 3,763 |
| November 1, 2017 - November 30, 2017 | 3,368,031 | 6.72 | 3,468 |
| December 31, 2017 - December 31, 2017 | 5,403,494 | 6.92 | 231,753 |
| January 1, 2018 - January 31, 2018 | — | — | 287,808 |
| February 1, 2018 - February 28, 2018 | 864,425 | 6.69 | 285,720 |
| March 1, 2018 - March 31, 2018 | 474,905 | 6.54 | 311,849 |
| April 1, 2018 - April 30, 2018 | — | — | 322,584 |
| May 1, 2018 - May 30, 2018 | 3,649 | 6.66 | 308,026 |
| June 1, 2018 - June 30, 2018 | — | — | 307,554 |
| Total | 10,165,504 | | 2,075,600 |

Stock Performance Graph

The following graph compares a shareholder's cumulative total return for the last five fiscal years as if such amounts had been invested in: (i) our common stock; (ii) the stocks included in the S&P 500 Index; (iii) the stocks included in the S&P 500 Financials Sector Index; and (iv) a customized BDC Peer Group composed of Apollo Investment Corporation, Ares Capital Corporation, BlackRock Capital Investment Corporation, Gladstone Capital Corporation, and MVC Capital, Inc. The graph is based on historical stock prices and measures total shareholder return, which takes into account both changes in stock price and dividends. The total return assumes that dividends were reinvested daily and is based on a \$100 investment on June 30, 2013.

The graph and other information furnished under this Part II, Item 5 of this Annual Report on Form 10-K shall not be deemed to be "soliciting material" or to be "filed" with the SEC or subject to Regulation 14A or 14C, or to the liabilities of Section 18 of the Exchange Act. The stock price performance included in the above graph is not necessarily indicative of future stock performance.

Item 6. Selected Financial Data

The following selected financial data should be read in conjunction with "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations" and consolidated financial statements and notes thereto contained in "Item 8. Financial Statements and Supplementary Data" of this report. All amounts are in thousands except per share data and number of portfolio companies at year end.

Edgar Filing: PROSPECT CAPITAL CORP - Form 10-K

| | Year Ended June 30, | | | | |
|---|---------------------|-------------|-------------|-------------|-------------|
| | 2018 | 2017 | 2016 | 2015 | 2014 |
| Summary of Operations | | | | | |
| Total investment income | \$657,845 | \$701,046 | \$791,973 | \$791,084 | \$712,291 |
| Total operating expenses | 370,995 | 394,964 | 420,845 | 428,337 | 355,068 |
| Net investment income | 286,850 | 306,082 | 371,128 | 362,747 | 357,223 |
| Net Realized and Change in Unrealized Gains (Losses) from Investments | 20,607 | (46,165) | (267,990) | (12,458) | (38,203) |
| Net realized (losses) gains on extinguishment of debt | (7,594) | (7,011) | 224 | (3,950) | — |
| Net increase in net assets resulting from operations | 299,863 | 252,906 | 103,362 | 346,339 | 319,020 |
| Per Share Data | | | | | |
| Net investment income(1) | \$0.79 | \$0.85 | \$1.04 | \$1.03 | \$1.19 |
| Net increase in net assets resulting from operations(1) | 0.83 | 0.70 | 0.29 | 0.98 | 1.06 |
| Dividends to shareholders | (0.77) | (1.00) | (1.00) | (1.19) | (1.32) |
| Net asset value at end of year | 9.35 | 9.32 | 9.62 | 10.31 | 10.56 |
| Balance Sheet Data | | | | | |
| Total assets(4) | \$5,838,820 | \$6,172,789 | \$6,236,181 | \$6,753,914 | \$6,420,259 |
| Total debt outstanding(4) | 2,311,809 | 2,642,195 | 2,666,939 | 2,939,596 | 2,716,041 |
| Net assets | 3,407,047 | 3,354,952 | 3,435,917 | 3,703,049 | 3,618,182 |
| Other Data | | | | | |
| Investment purchases for the year | \$1,707,294 | \$1,489,470 | \$979,102 | \$1,867,477 | \$2,933,365 |
| Investment sales and repayments for the year | \$1,831,286 | \$1,413,882 | \$1,338,875 | \$1,411,562 | \$767,978 |
| Number of portfolio companies at year end | 135 | 121 | 125 | 131 | 142 |
| Total return based on market value(2) | (7.4)% | 16.8 % | 21.8 % | (20.8)% | 10.9 % |
| Total return based on net asset value(2) | 12.4 % | 9.0 % | 7.2 % | 11.5 % | 11.0 % |
| Weighted average yield on debt portfolio at year end(3) | 13.0 % | 12.2 % | 13.2 % | 12.7 % | 12.1 % |
| Weighted average yield on total portfolio at year end | 10.5 % | 10.4 % | 12.0 % | 11.9 % | 11.9 % |

(1) Per share data is based on the weighted average number of common shares outstanding for the years presented (except for dividends to shareholders which is based on actual rate per share).

Total return based on market value is based on the change in market price per share between the opening and ending market prices per share in each year and assumes that dividends are reinvested in accordance with our (2) dividend reinvestment plan. Total return based on net asset value is based upon the change in net asset value per share between the opening and ending net asset values per share in each year and assumes that dividends are reinvested in accordance with our dividend reinvestment plan.

(3) Excludes equity investments and non-performing loans.

We have changed our method of presentation relating to debt issuance costs in accordance with ASU 2015-03, Interest - Imputation of Interest (Subtopic 835-30). Unamortized deferred financing costs of \$40,526, (4) \$44,140, and \$57,010 previously reported as an asset on the Consolidated Statements of Assets and Liabilities as of June 30, 2016, 2015, and 2014 respectively have been reclassified as a direct deduction to the respective Unsecured Notes. See Critical Accounting Policies and Estimates for further discussion.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

(All figures in this item are in thousands except share, per share and other data.)

The following discussion should be read in conjunction with our consolidated financial statements and related notes and other financial information appearing elsewhere in this Annual Report. In addition to historical information, the following discussion and other parts of this Annual Report contain forward-looking information that involves risks and uncertainties. Our actual results may differ significantly from any results expressed or implied by these forward-looking statements due to the factors discussed in Part I, “Item 1A. Risk Factors” and “Forward-Looking Statements” appearing elsewhere herein.

Overview

The terms “Prospect,” “we,” “us” and “our” mean Prospect Capital Corporation and its subsidiaries unless the context specifically requires otherwise.

Prospect is a financial services company that primarily lends to and invests in middle market privately-held companies. We are a closed-end investment company incorporated in Maryland. We have elected to be regulated as a business development company (“BDC”) under the Investment Company Act of 1940 (the “1940 Act”). As a BDC, we have elected to be treated as a regulated investment company (“RIC”), under Subchapter M of the Internal Revenue Code of 1986 (the “Code”). We were organized on April 13, 2004 and were funded in an initial public offering completed on July 27, 2004.

On May 15, 2007, we formed a wholly-owned subsidiary Prospect Capital Funding LLC (“PCF”), a Delaware limited liability company and a bankruptcy remote special purpose entity, which holds certain of our portfolio loan investments that are used as collateral for the revolving credit facility at PCF. Our wholly-owned subsidiary Prospect Small Business Lending, LLC (“PSBL”) was formed on January 27, 2014 and purchases small business whole loans on a recurring basis from online small business loan originators, including On Deck Capital, Inc. (“OnDeck”). On September 30, 2014, we formed a wholly-owned subsidiary Prospect Yield Corporation, LLC (“PYC”) and effective October 23, 2014, PYC holds our investments in collateralized loan obligations (“CLOs”). Each of these subsidiaries have been consolidated since operations commenced.

We consolidate certain of our wholly-owned and substantially wholly-owned holding companies formed by us in order to facilitate our investment strategy. The following companies are included in our consolidated financial statements and are collectively referred to as the “Consolidated Holdings Companies”: APH Property Holdings, LLC (“APH”); Arctic Oilfield Equipment USA, Inc. (“Arctic Equipment”); CCPI Holdings Inc.; CP Holdings of Delaware LLC (“CP Holdings”); Credit Central Holdings of Delaware, LLC; Energy Solutions Holdings Inc.; First Tower Holdings of Delaware LLC (“First Tower Delaware”); Harbortouch Holdings of Delaware Inc.; MITY Holdings of Delaware Inc.; Nationwide Acceptance Holdings LLC; NMMB Holdings, Inc. (“NMMB Holdings, Inc.”); NPH Property Holdings, LLC (“NPH”); STI Holding, Inc.; UPH Property Holdings, LLC (“UPH”); Valley Electric Holdings I, Inc.; Valley Electric Holdings II, Inc.; and Wolf Energy Holdings Inc. (“Wolf Energy Holdings”). On October 10, 2014, concurrent with the sale of the operating company, our ownership increased to 100% of the outstanding equity of ARRM Services, Inc. (“ARRM”), which was renamed SB Forging Company, Inc. (“SB Forging”). As such, we began consolidating SB Forging on October 11, 2014. Effective May 23, 2016, in connection with the merger of American Property REIT Corp. (“APRC”) and United Property REIT Corp. (“UPRC”) with and into National Property REIT Corp. (“NPRC”), APH and UPH merged with and into NPH, and were dissolved. Effective April 6, 2018, Arctic Equipment merged with and into CP Energy Services, Inc. (“CP Energy”), a substantially wholly-owner subsidiary of CP Holdings, with CP Energy continuing as the surviving entity.

We are externally managed by our investment adviser, Prospect Capital Management L.P. (“Prospect Capital Management” or the “Investment Adviser”). Prospect Administration LLC (“Prospect Administration”), a wholly-owned subsidiary of the Investment Adviser, provides administrative services and facilities necessary for us to operate. Our investment objective is to generate both current income and long-term capital appreciation through debt and equity investments. We invest primarily in senior and subordinated debt and equity of private companies in need of capital for acquisitions, divestitures, growth, development, recapitalizations and other purposes. We work with the management teams or financial sponsors to seek investments with historical cash flows, asset collateral or contracted pro-forma cash flows.

We currently have nine strategies that guide our origination of investment opportunities: (1) lending to companies controlled by private equity sponsors, (2) lending to companies not controlled by private equity sponsors, (3) purchasing controlling equity positions and lending to operating companies, (4) purchasing controlling equity positions and lending to financial services companies, (5) purchasing controlling equity positions and lending to real estate companies, (6) purchasing controlling equity positions and lending to aircraft leasing companies, (7) investing in structured credit, (8) investing in syndicated debt and (9) investing in consumer and small business loans and asset-backed securitizations. We may also invest in other strategies and opportunities from time to time that we view

as attractive. We continue to evaluate other origination strategies in the ordinary course of business with no specific top-down allocation to any single origination strategy.

Lending to Companies Controlled by Private Equity Sponsors - We make agented loans to companies which are controlled by private equity sponsors. This debt can take the form of first lien, second lien, unitranche or unsecured loans. These loans typically have equity subordinate to our loan position. Historically, this strategy has comprised approximately 40%-60% of our portfolio.

Lending to Companies not Controlled by Private Equity Sponsors - We make loans to companies which are not controlled by private equity sponsors, such as companies that are controlled by the management team, the founder, a family or public shareholders. This origination strategy may have less competition to provide debt financing than the private-equity-sponsor origination strategy because such company financing needs are not easily addressed by banks and often require more diligence preparation. This origination strategy can result in investments with higher returns or lower leverage than the private-equity-sponsor origination strategy. Historically, this strategy has comprised up to approximately 15% of our portfolio.

Purchasing Controlling Equity Positions and Lending to Operating Companies - This strategy involves purchasing yield-producing debt and controlling equity positions in non-financial-services operating companies. We believe that we can provide enhanced certainty of closure and liquidity to sellers and we look for management to continue on in their current roles. This strategy has comprised approximately 5%-15% of our portfolio.

Purchasing Controlling Equity Positions and Lending to Financial Services Companies - This strategy involves purchasing yield-producing debt and control equity investments in financial services companies, including consumer direct lending, sub-prime auto lending and other strategies. These investments are often structured in tax-efficient partnerships, enhancing returns. This strategy has comprised approximately 5%-15% of our portfolio.

Purchasing Controlling Equity Positions and Lending to Real Estate Companies - We purchase debt and controlling equity positions in tax-efficient real estate investment trusts (“REIT” or “REITs”). NPRC’s, an operating company and the surviving entity of the May 23, 2016 merger with APRC and UPRC, real estate investments are in various classes of developed and occupied real estate properties that generate current yields, including multi-family properties, student housing, and self-storage. NPRC seeks to identify properties that have historically significant occupancy rates and recurring cash flow generation. NPRC generally co-invests with established and experienced property management teams that manage such properties after acquisition. Additionally, NPRC purchases loans originated by certain consumer loan facilitators. It purchases each loan in its entirety (i.e., a “whole loan”). The borrowers are consumers, and the loans are typically serviced by the facilitators of the loans. This investment strategy has comprised approximately 10%-20% of our business.

Purchasing Controlling Equity Positions and Lending to Aircraft Leasing Companies - We invest in debt as well as equity in companies with aircraft assets subject to commercial leases to airlines across the globe. We believe that these investments can present attractive return opportunities due to cash flow consistency from long-term leases coupled with hard asset residual value. We believe that these investment companies seek to deliver risk-adjusted returns with strong downside protection by analyzing relative value characteristics across a variety of aircraft types and vintages. This strategy historically has comprised less than 5% of our portfolio.

Investing in Structured Credit - We make investments in CLOs, often taking a significant position in the subordinated interests (equity) and debt of the CLOs. The underlying portfolio of each CLO investment is diversified across approximately 100 to 200 broadly syndicated loans and does not have direct exposure to real estate, mortgages, or consumer-based credit assets. The CLOs in which we invest are managed by established collateral management teams with many years of experience in the industry. This strategy has comprised approximately 10%-20% of our portfolio.

Investing in Syndicated Debt - On a primary or secondary basis, we purchase primarily senior and secured loans and high yield bonds that have been sold to a club or syndicate of buyers. These investments are often purchased with a long term, buy-and-hold outlook, and we often look to provide significant input to the transaction by providing anchoring orders. This strategy has comprised approximately 5%-10% of our portfolio.

Investing in Consumer and Small Business Loans and Asset-Backed Securitizations - We purchase loans originated by certain consumer and small-and-medium-sized business (“SME”) loan facilitators. We generally purchase each loan in its entirety (i.e., a “whole loan”) and we invest in asset-backed securitizations collateralized by consumer or small business loans. The borrowers are consumers and SMEs and the loans are typically serviced by the facilitators of the loans. This investment strategy has comprised up to approximately 1% of our portfolio.

We invest primarily in first and second lien secured loans and unsecured debt, which in some cases includes an equity component. First and second lien secured loans generally are senior debt instruments that rank ahead of unsecured debt of a given portfolio company. These loans also have the benefit of security interests on the assets of the portfolio company, which may rank ahead of or be junior to other security interests. Our investments in CLOs are subordinated to senior loans and are generally unsecured. We invest in debt and equity positions of CLOs which are a form of

securitization in which the cash flows of a portfolio of loans are pooled and passed on to different classes of owners in various tranches. Our CLO investments are derived from portfolios of corporate debt securities which are generally risk rated from BB to B.

We hold many of our control investments in a two-tier structure consisting of a holding company and one or more related operating companies for tax purposes. These holding companies serve various business purposes including concentration of management teams, optimization of third party borrowing costs, improvement of supplier, customer, and insurance terms, and enhancement of co-investments by the management teams. In these cases, our investment, which is generally equity in the holding company, the holding company's equity investment in the operating company and any debt from us directly to the operating company structure represents our total exposure for the investment. As of June 30, 2018, as shown in our Consolidated Schedule of Investments, the cost basis and fair value of our investments in controlled companies was \$2,300,526 and \$2,404,326, respectively. This structure gives rise to several of the risks described in our public documents and highlighted elsewhere in this Annual Report. We consolidate all wholly-owned and substantially wholly-owned holding companies formed by us for the purpose of holding our controlled investments in operating companies. There is no significant effect of consolidating these holding companies as they hold minimal assets other than their investments in the controlled operating companies. Investment company accounting prohibits the consolidation of any operating companies.

Fourth Quarter Highlights

Investment Transactions

We seek to be a long-term investor with our portfolio companies. During the three months ended June 30, 2018, we acquired \$241,150 of new investments, completed follow-on investments in existing portfolio companies totaling approximately \$95,415, and recorded paid in kind ("PIK") interest of \$3,276, resulting in gross investment originations of \$339,841. During the three months ended June 30, 2018, we received full repayments on five investments, partially sold two investments and received several partial prepayments and amortization payments totaling \$362,287.

Debt Issuances and Redemptions

During the three months ended June 30, 2018, we issued \$6,869 aggregate principal amount of Prospect Capital InterNotes® with a stated and weighted average interest rate of 4.98%, to extend our borrowing base. The newly issued notes mature between April 15, 2023 and May 15, 2026 and generated net proceeds of \$6,763.

During the three months ended June 30, 2018, we repaid \$2,016 aggregate principal amount of Prospect Capital InterNotes® at par in accordance with the Survivor's Option, as defined in the InterNotes® Offering prospectus. As a result of these transactions, we recorded a loss in the amount of the unamortized debt issuance costs. The net loss on the extinguishment of Prospect Capital InterNotes® in the three months ended June 30, 2018 was \$60.

On May 18, 2018, we issued an additional \$103,500 aggregate principal amount of convertible notes that mature on July 15, 2022 (the "Additional 2022 Notes", and together with the Original 2022 Notes, the "2022 Notes"), unless previously converted or repurchased in accordance with their terms. The Additional 2022 Notes were a further issuance of, and are fully fungible and rank equally in right of payment with, the Original 2022 Notes and bear interest at a rate of 4.95% per year, payable semi-annually on January 15 and July 15 each year, beginning July 15, 2018. Total proceeds from the issuance of the Additional 2022 Notes, net of underwriting discounts and offering costs, were \$100,749. Following the issuance of the Additional 2022 notes, the outstanding aggregate principal amount of the 2022 Notes is now \$328,500.

In May 2018, we repurchased \$98,353 aggregate principal amount of the 2019 Notes at a price of 102.0, including commissions. As a result of these transactions, we recorded a loss in the amount of the difference between the reacquisition price and the net carrying amount of the 2019 Notes, net of the proportionate amount of unamortized debt issuance costs. The net loss on extinguishment of debt we recorded in the three months ending June 30, 2018 was \$2,383.

On June 20, 2018, we issued an additional \$70,000 aggregate principal amount of unsecured notes that mature on March 15, 2023 (the "Additional 2023 Notes", and together with the Original 2023 Notes, the "2023 Notes"). The Additional 2023 Notes were a further issuance of, and are fully fungible and rank equally in right of payment with, the Original 2023 Notes and bear interest at a rate of 5.875% per year, payable semi-annually on March 15 and September 15 of each year, beginning September 15, 2018. Total proceeds from the issuance of the Additional 2023 Notes, net of underwriting discounts, were \$69,403. Following the issuance of the Additional 2023 Notes, the outstanding aggregate principal amount of our 5.875% Senior Notes due 2023 is \$320,000.

On June 7, 2018, we commenced a tender offer to purchase for cash any and all of the \$300,000 aggregate principal amount outstanding of the 5.00% 2019 Notes. On June 20, 2018, \$146,464 aggregate principal amount of the 5.00%

2019 Notes, representing 48.8% of the previously outstanding 5.00% 2019 Notes, were validly tendered and accepted. The transaction resulted in our recognizing a \$3,705 loss during the three months ended June 30, 2018.

On June 7, 2018, we issued \$55,000 aggregate principal amount of unsecured notes that mature on June 15, 2028 (the “2028 Notes”). The 2028 Notes bear interest at a rate of 6.25% per year, payable quarterly on March 15, June 15, September 15, and December 15 of each year, beginning September 15, 2018. Total proceeds from the issuance of the 2028 Notes, net of underwriting discounts and offering costs were \$53,119.

Equity Issuances

On April 19, 2018, May 24, 2018, and June 21, 2018, we issued 608,202, 572,125, and 572,249 shares of our common stock in connection with the dividend reinvestment plan, respectively.

Investment Holdings

As of June 30, 2018, we continue to pursue our investment strategy. At June 30, 2018, approximately \$5,727,279, or 168.1%, of our net assets are invested in 135 long-term portfolio investments and CLOs.

During the year ended June 30, 2018, we originated \$1,730,657 of new investments, primarily composed of \$1,457,615 of debt and equity financing to non-controlled portfolio investments, \$218,695 of debt and equity financing to controlled investments, and \$54,347 of subordinated notes in CLOs. Our origination efforts are focused primarily on secured lending to non-control investments to reduce the risk in the portfolio by investing primarily in first lien loans, though we also continue to close select junior debt and equity investments. Our annualized current yield was 13.0% and 12.2% as of June 30, 2018 and June 30, 2017, respectively, across all performing interest bearing investments, excluding equity investments and non-accrual loans. Our annualized current yield was 10.5% and 10.4% as of June 30, 2018 and June 30, 2017, respectively, across all investments. Monetization of equity positions that we hold and loans on non-accrual status are not included in this yield calculation. In many of our portfolio companies we hold equity positions, ranging from minority interests to majority stakes, which we expect over time to contribute to our investment returns. Some of these equity positions include features such as contractual minimum internal rates of returns, preferred distributions, flip structures and other features expected to generate additional investment returns, as well as contractual protections and preferences over junior equity, in addition to the yield and security offered by our cash flow and collateral debt protections.

We are a non-diversified company within the meaning of the 1940 Act. As required by the 1940 Act, we classify our investments by level of control. As defined in the 1940 Act, “Control Investments” are those where there is the ability or power to exercise a controlling influence over the management or policies of a company. Control is generally deemed to exist when a company or individual possesses or has the right to acquire within 60 days or less, a beneficial ownership of 25% or more of the voting securities of an investee company. Under the 1940 Act, “Affiliate Investments” are defined by a lesser degree of influence and are deemed to exist through the possession outright or via the right to acquire within 60 days or less, beneficial ownership of 5% or more of the outstanding voting securities of another person. “Non-Control/Non-Affiliate Investments” are those that are neither Control Investments nor Affiliate Investments.

As of June 30, 2018, we own controlling interests in the following portfolio companies: CCPI Inc. (“CCPI”); CP Energy Services Inc. (“CP Energy”); Credit Central Loan Company, LLC (“Credit Central”); Echelon Transportation, LLC (f/k/a Echelon Aviation, LLC, “Echelon”); First Tower Finance Company LLC (“First Tower Finance”); Freedom Marine Solutions, LLC (“Freedom Marine”); InterDent, Inc. (“InterDent”), MITY, Inc. (“MITY”); NPRC; Nationwide Loan Company LLC (f/k/a Nationwide Acceptance LLC) (“Nationwide”); NMMB, Inc. (“NMMB”); Pacific World Corporation (“Pacific World”); R-V Industries, Inc. (“R-V”); SB Forging Company II, Inc. (f/k/a Gulf Coast Machine & Supply Company) (“Gulfco”); USES Corp. (“USES”); Valley Electric Company, Inc. (“Valley Electric”); and Wolf Energy, LLC (“Wolf Energy”). We also own affiliated interests in Edmentum Ultimate Holdings, LLC (“Edmentum”); Nixon, Inc. (“Nixon”) and Targus International, LLC (“Targus”).

The following shows the composition of our investment portfolio by level of control as of June 30, 2018 and June 30, 2017:

| Level of Control | June 30, 2018 | | | | June 30, 2017 | | | |
|-----------------------|---------------|----------------|-------------|----------------|---------------|----------------|-------------|----------------|
| | Cost | % of Portfolio | Fair Value | % of Portfolio | Cost | % of Portfolio | Fair Value | % of Portfolio |
| Control Investments | \$2,300,526 | 39.5 | \$2,404,326 | 42.0 | \$1,840,731 | 30.8 | \$1,911,775 | 32.7 |
| Affiliate Investments | 55,637 | 0.9 | 58,436 | 1.0 | 22,957 | 0.4 | 11,429 | 0.2 |
| | 3,475,295 | 59.6 | 3,264,517 | 57.0 | 4,117,868 | 68.8 | 3,915,101 | 67.1 |

Non-Control/Non-Affiliate
Investments

Total Investments \$5,831,458,100.0 % \$5,727,279,100.0 % \$5,981,556,100.0 % \$5,838,305,100.0 %

68

Edgar Filing: PROSPECT CAPITAL CORP - Form 10-K

The following shows the composition of our investment portfolio by type of investment as of June 30, 2018 and June 30, 2017:

| Type of Investment | June 30, 2018 | | | | June 30, 2017 | | | |
|-----------------------------|--------------------|----------------|----------------------|----------------|----------------------|----------------|----------------------|----------------|
| | Cost | % of Portfolio | Fair Value | % of Portfolio | Cost | % of Portfolio | Fair Value | % of Portfolio |
| Revolving Line of Credit | \$38,659 | 0.7 | % \$38,559 | 0.7 | % \$27,409 | 0.5 | % \$27,409 | 0.5 |
| Senior Secured Debt | 2,602,018 | 44.6 | % 2,481,353 | 43.3 | % 2,940,163 | 49.2 | % 2,798,796 | 47.9 |
| Subordinated Secured Debt | 1,318,028 | 22.6 | % 1,260,525 | 22.0 | % 1,160,019 | 19.4 | % 1,107,040 | 19.0 |
| Subordinated Unsecured Debt | 38,548 | 0.7 | % 32,945 | 0.6 | % 37,934 | 0.6 | % 44,434 | 0.8 |
| Small Business Loans | 30 | — | % 17 | — | % 8,434 | 0.1 | % 7,964 | 0.1 |
| CLO Debt | 6,159 | 0.1 | % 6,159 | 0.1 | % — | — | % — | — |
| CLO Residual Interest | 1,096,768 | 18.8 | % 954,035 | 16.7 | % 1,150,006 | 19.2 | % 1,079,712 | 18.5 |
| Preferred Stock | 92,346 | 1.6 | % 75,986 | 1.3 | % 112,394 | 1.9 | % 83,209 | 1.4 |
| Common Stock | 445,364 | 7.6 | % 517,858 | 9.0 | % 295,200 | 4.9 | % 391,374 | 6.7 |
| Membership Interest | 193,538 | 3.3 | % 257,799 | 4.5 | % 249,997 | 4.2 | % 206,012 | 3.5 |
| Participating Interest(1) | — | — | % 101,126 | 1.8 | % — | — | % 91,491 | 1.6 |
| Escrow Receivable | — | — | % 917 | — | % — | — | % 864 | — |
| Total Investments | \$5,831,458 | 100.0 | % \$5,727,279 | 100.0 | % \$5,981,556 | 100.0 | % \$5,838,305 | 100.0 |

(1) Participating Interest includes our participating equity investments, such as net profits interests, net operating income interests, net revenue interests, and overriding royalty interests.

The following shows our investments in interest bearing securities by type of investment as of June 30, 2018 and June 30, 2017:

| Type of Investment | June 30, 2018 | | | | June 30, 2017 | | | |
|-------------------------------|--------------------|----------------|----------------------|----------------|----------------------|----------------|----------------------|----------------|
| | Cost | % of Portfolio | Fair Value | % of Portfolio | Cost | % of Portfolio | Fair Value | % of Portfolio |
| First Lien | \$2,632,843 | 51.6 | % \$2,512,078 | 52.6 | % \$2,959,738 | 55.6 | % \$2,818,371 | 55.6 |
| Second Lien | 1,325,862 | 26.0 | % 1,268,359 | 26.6 | % 1,167,853 | 21.9 | % 1,114,874 | 22.0 |
| Unsecured | 38,548 | 0.8 | % 32,945 | 0.7 | % 37,934 | 0.7 | % 44,434 | 0.9 |
| Small Business Loans | 30 | — | % 17 | — | % 8,434 | 0.2 | % 7,964 | 0.2 |
| CLO Debt | 6,159 | 0.1 | % 6,159 | 0.1 | % — | — | % — | — |
| CLO Residual Interest | 1,096,768 | 21.5 | % 954,035 | 20.0 | % 1,150,006 | 21.6 | % 1,079,712 | 21.3 |
| Total Debt Investments | \$5,100,210 | 100.0 | % \$4,773,593 | 100.0 | % \$5,323,965 | 100.0 | % \$5,065,355 | 100.0 |

The following shows the composition of our investment portfolio by geographic location as of June 30, 2018 and June 30, 2017:

| Geographic Location | June 30, 2018 | | | | June 30, 2017 | | | |
|--------------------------|--------------------|----------------|----------------------|----------------|----------------------|----------------|----------------------|----------------|
| | Cost | % of Portfolio | Fair Value | % of Portfolio | Cost | % of Portfolio | Fair Value | % of Portfolio |
| Canada | \$16,809 | 0.3 | % \$17,816 | 0.3 | % \$9,831 | 0.2 | % \$10,000 | 0.2 |
| Cayman Islands | 1,102,927 | 18.9 | % 960,194 | 16.8 | % 1,150,006 | 19.2 | % 1,079,712 | 18.5 |
| France | 12,490 | 0.2 | % 12,334 | 0.2 | % 9,755 | 0.2 | % 8,794 | 0.2 |
| MidAtlanticUS | 410,644 | 7.0 | % 410,644 | 7.2 | % — | — | % — | — |
| Midwest US | 395,622 | 6.8 | % 413,758 | 7.2 | % 605,417 | 10.1 | % 678,766 | 11.6 |
| Northeast US | 677,204 | 11.6 | % 701,851 | 12.3 | % 786,552 | 13.1 | % 823,616 | 14.1 |
| Northwest US | 103,906 | 1.8 | % 90,288 | 1.6 | % 281,336 | 4.7 | % 207,962 | 3.6 |
| Puerto Rico | 84,713 | 1.5 | % 83,507 | 1.5 | % 83,410 | 1.4 | % 83,410 | 1.4 |
| Southeast US | 1,243,430 | 21.3 | % 1,524,379 | 26.6 | % 1,367,606 | 22.9 | % 1,412,351 | 24.2 |
| Southwest US | 723,038 | 12.4 | % 599,914 | 10.4 | % 616,008 | 10.3 | % 558,368 | 9.5 |
| Western US | 1,060,675 | 18.2 | % 912,594 | 15.9 | % 1,071,635 | 17.9 | % 975,326 | 16.7 |
| Total Investments | \$5,831,458 | 100.0 | % \$5,727,279 | 100.0 | % \$5,981,556 | 100.0 | % \$5,838,305 | 100.0 |

Edgar Filing: PROSPECT CAPITAL CORP - Form 10-K

The following shows the composition of our investment portfolio by industry as of June 30, 2018 and June 30, 2017:

| Industry | June 30, 2018 | | | | June 30, 2017 | | | | |
|--|---------------|----------------|------------|----------------|---------------|----------------|------------|----------------|---|
| | Cost | % of Portfolio | Fair Value | % of Portfolio | Cost | % of Portfolio | Fair Value | % of Portfolio | |
| Aerospace & Defense | \$69,837 | 1.2 | % \$82,278 | 1.4 | % \$69,837 | 1.2 | % \$71,318 | 1.2 | % |
| Air Freight & Logistics | — | — | % — | — | % 51,952 | 0.9 | % 51,952 | 0.9 | % |
| Auto Components | 12,681 | 0.2 | % 12,887 | 0.2 | % 30,222 | 0.5 | % 30,460 | 0.5 | % |
| Building Products | 9,905 | 0.2 | % 10,000 | 0.2 | % — | — | % — | — | % |
| Capital Markets | 19,799 | 0.3 | % 20,000 | 0.3 | % 14,796 | 0.2 | % 15,000 | 0.3 | % |
| Chemicals | — | — | % — | — | % 17,489 | 0.3 | % 16,699 | 0.3 | % |
| Commercial Services & Supplies | 386,187 | 6.6 | % 330,024 | 5.8 | % 354,185 | 5.9 | % 312,634 | 5.3 | % |
| Communications Equipment | 39,860 | 0.7 | % 40,000 | 0.7 | % — | — | % — | — | % |
| Construction & Engineering | 64,415 | 1.1 | % 50,797 | 0.9 | % 62,258 | 1.0 | % 32,509 | 0.6 | % |
| Consumer Finance | 485,381 | 8.3 | % 586,978 | 10.2 | % 469,869 | 7.9 | % 502,941 | 8.6 | % |
| Distributors | 470,750 | 8.1 | % 402,465 | 7.0 | % 140,847 | 2.4 | % 83,225 | 1.4 | % |
| Diversified Consumer Services | 173,695 | 3.0 | % 163,152 | 2.8 | % 188,912 | 3.2 | % 190,662 | 3.3 | % |
| Diversified Telecommunication Services | — | — | % — | — | % 4,395 | 0.1 | % 4,410 | 0.1 | % |
| Electronic Equipment, Instruments & Components | 54,805 | 0.9 | % 62,964 | 1.1 | % 37,696 | 0.6 | % 51,846 | 0.9 | % |
| Energy Equipment & Services | 257,371 | 4.4 | % 170,574 | 3.0 | % 251,019 | 4.2 | % 131,660 | 2.3 | % |
| Equity Real Estate Investment Trusts (REITs) | 499,858 | 8.6 | % 811,915 | 14.2 | % 374,380 | 6.3 | % 624,337 | 10.7 | % |
| Food Products | 9,884 | 0.2 | % 9,886 | 0.2 | % — | — | % — | — | % |
| Health Care Equipment & Supplies | 43,279 | 0.7 | % 43,279 | 0.8 | % — | — | % — | — | % |
| Health Care Providers & Services | 421,198 | 7.2 | % 404,130 | 7.1 | % 422,919 | 7.2 | % 421,389 | 7.1 | % |
| Hotels, Restaurants & Leisure | 37,295 | 0.6 | % 37,295 | 0.6 | % 127,638 | 2.1 | % 103,897 | 1.8 | % |
| Hotels & Personal Products | 24,938 | 0.4 | % 24,938 | 0.4 | % — | — | % — | — | % |
| Household Durables | 42,539 | 0.7 | % 41,623 | 0.7 | % 146,031 | 2.4 | % 146,183 | 2.5 | % |
| Insurance | 2,986 | 0.1 | % 2,986 | 0.1 | % — | — | % — | — | % |
| Internet & Direct Marketing | 39,813 | 0.7 | % 39,813 | 0.7 | % — | — | % — | — | % |
| Retail | — | — | % — | — | % — | — | % — | — | % |
| Internet Software & Services | 229,717 | 4.0 | % 229,791 | 4.0 | % 219,348 | 3.7 | % 219,348 | 3.8 | % |
| IT Services | 182,183 | 3.1 | % 182,578 | 3.2 | % 19,531 | 0.3 | % 20,000 | 0.3 | % |
| Leisure Products | 45,531 | 0.8 | % 45,626 | 0.8 | % 44,085 | 0.7 | % 44,204 | 0.8 | % |
| Machinery | 35,488 | 0.6 | % 31,886 | 0.6 | % 35,488 | 0.6 | % 32,678 | 0.6 | % |
| Marine (1) | — | — | % — | — | % 8,919 | 0.1 | % 8,800 | 0.2 | % |
| Media | 143,063 | 2.5 | % 140,365 | 2.4 | % 469,108 | 7.8 | % 466,500 | 8.0 | % |
| Metals & Mining | — | — | % — | — | % 9,953 | 0.2 | % 10,000 | 0.2 | % |
| Online Lending | 327,159 | 5.6 | % 243,078 | 4.2 | % 424,350 | 7.0 | % 370,931 | 6.3 | % |
| Paper & Forest Products | 11,328 | 0.2 | % 11,226 | 0.2 | % 11,295 | 0.2 | % 11,500 | 0.2 | % |
| Personal Products | 228,575 | 3.9 | % 165,020 | 2.9 | % 222,698 | 3.7 | % 192,748 | 3.3 | % |
| Pharmaceuticals | 11,882 | 0.2 | % 12,000 | 0.2 | % 117,989 | 2.0 | % 117,989 | 2.0 | % |
| Professional Services | 74,272 | 1.3 | % 76,991 | 1.3 | % 64,242 | 1.1 | % 64,473 | 1.1 | % |
| Real Estate Management & Development | 41,860 | 0.7 | % 41,860 | 0.7 | % — | — | % — | — | % |
| Software | 66,435 | 1.1 | % 67,265 | 1.2 | % 56,041 | 0.9 | % 55,150 | 0.9 | % |
| Technology Hardware, Storage & Peripherals | 12,384 | 0.2 | % 12,500 | 0.2 | % — | — | % — | — | % |

Edgar Filing: PROSPECT CAPITAL CORP - Form 10-K

| | | | | | | | | | |
|----------------------------------|-------------|-------|---------------|-------|---------------|-------|---------------|-------|---|
| Textiles, Apparel & Luxury Goods | 46,429 | 0.8 | % 60,220 | 1.1 | % 285,180 | 4.8 | % 274,206 | 4.7 | % |
| Tobacco | 14,392 | 0.3 | % 14,392 | 0.3 | % 14,365 | 0.2 | % 14,431 | 0.2 | % |
| Trading Companies & Distributors | 63,863 | 1.1 | % 56,199 | 1.0 | % 64,513 | 1.1 | % 64,513 | 1.1 | % |
| Transportation Infrastructure | 27,494 | 0.5 | % 28,104 | 0.5 | % — | — | % — | — | % |
| Subtotal | \$4,728,531 | 81.1 | % \$4,767,085 | 83.2 | % \$4,831,550 | 80.8 | % \$4,758,593 | 81.5 | % |
| Structured Finance (2) | \$1,102,927 | 18.9 | % \$960,194 | 16.8 | % \$1,150,006 | 19.2 | % \$1,079,712 | 18.5 | % |
| Total Investments | \$5,831,458 | 100.0 | % \$5,727,279 | 100.0 | % \$5,981,556 | 100.0 | % \$5,838,305 | 100.0 | % |

70

Industry includes exposure to the energy markets through our investments in Harley Marine Services, Inc.

(1) Including this investment, our overall fair value exposure to the broader energy industry, including energy equipment and services as noted above as of June 30, 2017 is \$140,460. We do not hold an investment in Harley Marine Services, Inc. as of June 30, 2018.

(2) Our CLO investments do not have industry concentrations and as such have been separated in the table above.

Portfolio Investment Activity

During the year ended June 30, 2018, we acquired \$820,137 of new investments, completed follow-on investments in existing portfolio companies totaling approximately \$881,807, funded \$19,309 of revolver advances, and recorded PIK interest of \$9,404, resulting in gross investment originations of \$1,730,657. The more significant of these transactions are briefly described below.

During the period from July 19, 2017 through September 11, 2017, we made a \$16,000 follow-on first lien senior debt investment in RGIS Services, LLC. The senior secured loan bears interest at the greater of 8.50% or LIBOR plus 7.50% and has a final maturity of March 31, 2023.

On September 22, 2017, we made a \$21,000 follow-on Senior Secured Term Loan A and a \$17,000 follow-on Senior Secured Term Loan B debt investment in Matrixx Initiatives, Inc. The \$21,000 Senior Secured Term Loan A bears interest at the greater of 7.50% or LIBOR plus 6.50% and has a final maturity of September 22, 2020. The \$17,000 Senior Secured Term Loan B bears interest at the greater of 12.50% or LIBOR plus 11.50% and has a final maturity of September 22, 2020.

On September 25, 2017, we made a \$5,000 first lien senior secured and \$35,000 second lien senior secured debt investment in Engine Group, a marketing services firm, in order to support a refinancing. The first lien term loan bears interest at the greater of 5.75% or LIBOR plus 4.75% and has a final maturity of September 15, 2022. The second lien term loan bears interest at the greater of 9.75% or LIBOR plus 8.75% and has a final maturity of September 15, 2023.

On September 25, 2017, we made a \$10,000 senior secured term loan to fund a dividend recapitalization in Ingenio, LLC, which operates as an online personal advice marketplace and as a provider of digital entertainment media. The senior secured term loan bears interest at the greater of 8.75% or LIBOR plus 7.50% and has a final maturity of September 26, 2022.

On September 25, 2017, we exchanged \$1,600 of Senior Secured Term Loan A and \$4,799 of Senior Secured Term Loan B investments in Targus International, LLC into 6,120,658 of common shares of Targus Cayman Holdco Limited, and recorded a realized gain of \$846, as a result of this transaction.

On September 27, 2017, we made a \$22,000 follow-on senior secured Term Loan C-3 investment in Instant Web, LLC to fund a dividend recapitalization. The senior secured term loan bears interest at the greater of 12.50% or LIBOR plus 11.50% and has a final maturity of March 28, 2019.

On September 29, 2017, we made a \$32,000 first lien senior secured debt investment to support operations and a refinancing of AgaMatrix, Inc., a leading developer, manufacturer, and marketer of diabetes monitoring care solutions. The first lien term loan bears interest at the greater of 10.25% or LIBOR plus 9.00% and has a final maturity of September 29, 2022.

On October 16, 2017, we made a \$27,500 second lien secured investment in Transplace Holdings, a provider of transportation management solutions, in support of an acquisition of the company. The second lien term loan bears interest at the greater of 9.75% or LIBOR plus 8.75% and has a final maturity of October 6, 2025.

On November 3, 2017 through November 24, 2017, we made a \$40,000 second lien secured investment to support the acquisition of Securus Technologies Holdings, a provider of mission-critical communication technology solutions and services. The second lien term loan bears interest at the greater of 9.25% or LIBOR plus 8.25% and has a final maturity of November 1, 2025.

On November 20, 2017, we made a \$118,051 follow-on senior secured term loan A investment and a \$900 follow-on senior secured term loan B investment in Instant Web, LLC ("IWCO") to fund a refinancing and dividend recapitalization. The senior secured term loan A loan bears interest at the greater of 6.15% or LIBOR plus 5.15% and has a final maturity of November 20, 2022 and the senior secured term loan B bears interest at the greater of 10.15% or LIBOR plus 9.15% and has a final maturity of November 20, 2022. In addition, IWCO repaid the \$27,000 term loan C, \$25,000 term loan C-1, and \$22,000 term loan C-2 receivable to us.

On December 1, 2017, we made a \$10,000 second lien secured investment in UTZ Quality Foods, LLC, a salty snack food company, to fund an acquisition. The second lien term loan bears interest at LIBOR plus 7.25% and has a final maturity of November 21, 2025.

On December 4, 2017, we made an additional \$235,453 senior secured investment in Broder Bros., Co., to fund an acquisition and a dividend recapitalization. The first lien term loan bears interest at the greater of 9.25% or LIBOR plus 8.00% and has a final maturity of December 2, 2022.

On December 15, 2017, we made a \$12,000 second lien secured investment in PharMerica Corporation, which is a leading provider of institutional and specialty pharmacy services. The second lien term loan bears interest at the greater of 8.75% or LIBOR plus 7.75% and has a final maturity of December 7, 2025.

On December 20, 2017, we made a \$15,000 second lien secured investment in Ability Network Inc., a leading healthcare IT company. The second lien term loan bears interest at the greater of 8.75% or LIBOR plus 7.75% and has a final maturity of December 13, 2025.

On December 8, 2017, we made a \$20,000 Senior Secured Note investment in ACE Cash Express, Inc., which is a retailer of lending and non-lending financial products to customers in the U.S. The first lien term loan bears interest at a fixed rate of 12.00% and has a final maturity of December 15, 2022.

On December 5, 2017, we made a \$12,500 second lien secured investment in EXC Holdings III Corp., an industrial technology company that designs and manufactures products that generate, detect, process, focus and harness light. The second lien term loan bears interest at the greater of 8.50% or LIBOR plus 7.50% and has a final maturity of December 1, 2025.

On December 29, 2017, we entered into a fee agreement with Wolf Energy Services Company, LLC (“Wolf”), for services required to locate, inventory, foreclose, and liquidate assets that were transferred from Ark-La-Tex to Wolf. Per the agreement, we will receive a fee equal to 8.0% of gross liquidation proceeds in the event aggregate liquidation gross proceeds exceed \$19,000 (currently \$18,500). During the three months ended March, 31, 2018, we received \$1,222 in liquidation fees, net of third-party transaction costs, which is reflected as other income on our accompanying Consolidated Statement of Operations.

On January 5, 2018, we made a \$10,000 first lien and \$50,000 second lien secured investment in Research Now Group, Inc., a provider of customer surveys for market research activities. The first lien term loan bears interest at the greater of 6.50% or LIBOR plus 5.50% and has a final maturity of December 20, 2024. The second lien term loan bears interest at the greater of 10.50% or LIBOR plus 9.50% and has a final maturity of December 20, 2025.

On January 23, 2018, we made a \$12,500 Senior Secured Term Loan A and \$12,500 Senior Secured Term Loan B investment in Candle-Lite Company, LLC, a manufacturer and designer of decorative candles. The \$12,500 Senior Secured Term Loan A bears interest at the greater of 6.75% or LIBOR plus 5.50% and has a final maturity of January 23, 2023. The \$12,500 Senior Secured Term Loan B bears interest at the greater of 10.75% or LIBOR plus 9.50% and has a final maturity of January 23, 2023.

On January 29, 2018, we made a \$70,000 first lien senior secured investment in Town & Country Holdings, Inc., a manufacturer and designer of kitchen textiles and table linens. The first lien term loan bears interest at the greater of 10.25% or LIBOR plus 9.00% and has a final maturity of January 26, 2023.

During the period from February 8, 2018 through February 9, 2018, we made a \$57,100 second lien secured and \$10,000 first lien secured investments in Digital Room LLC, an online printing and design company. The second lien term loan bears interest at the greater of 9.75% or LIBOR plus 8.75% and has a final maturity of December 29, 2024. The first lien term loan bears interest at the greater of 6.00% or LIBOR plus 5.00% and has a final maturity of December 29, 2023.

On February 22, 2018, we made a \$10,000 second lien secured investment in Janus International Group, LLC, a manufacturer of steel roll-up doors and building components. The second lien term loan bears interest at the greater of 8.75% or LIBOR plus 7.75% and has a final maturity of February 21, 2026.

On March 9, 2018, we made a follow-on \$16,921 subordinated debt investment in First Tower LLC, and a \$2,664 equity investment in First Tower Finance Company LLC, to support an acquisition. The subordinated debt bears interest at 10.00% and 10.00% PIK interest and has a final maturity of June 24, 2019.

On March 12, 2018, we made a \$43,500 senior secured investment in Class Appraisal, LLC, a provider of residential appraisal services. Our investment is comprised of a \$42,000 senior secured term loan and a \$1,500 unfunded revolving credit facility. The senior secured term loan bears interest at the greater of 9.75% or LIBOR plus 8.25% and has a final maturity of March 10, 2023. The revolving credit facility, once drawn, will bear interest at the greater of 9.75% or LIBOR plus 8.25% and has a final maturity of March 12, 2020.

On March 19, 2018, we made a \$15,000 second lien secured investment in ATS Consolidated Inc., a traffic management company. The second lien term loan bears interest at LIBOR plus 7.75% and has a final maturity of February 27, 2026.

On April 6, 2018, our common equity investment cost in the amount of \$60,876 at the date of the merger in Arctic Equipment was exchanged for newly issued common shares of CP Energy. As a result of this merger between these controlled portfolio companies, our equity ownership percentage in CP Energy increased to 99.8%. There were no realized gain or loss recognized by us since this was a merger amongst two portfolio companies under our control.

On March 29, 2018, we made a \$32,500 senior secured investment in Rosa Mexicano Company, an operator of Mexican themed restaurants. Our investment is comprised of a \$30,000 senior secured term loan and a \$2,500 unfunded revolving credit facility. The senior secured term loan bears interest at the greater of 9.00% or LIBOR plus 7.50% and has a final maturity of March 29, 2023. The revolving credit facility, once drawn, will bear interest at the greater of 9.00% or LIBOR plus 7.50% and has a final maturity of March 29, 2023.

On April 3, 2018, we made a \$28,000 first lien senior secured investment in Mobile Posse Inc., which offers home screen content and messaging services to mobile phone carriers. The first lien term loan bears interest at the greater of 10.50% or LIBOR plus 8.50% and has a final maturity of April 3, 2023.

On April 10, 2018, we made a \$25,500 Senior Secured Term Loan A and \$17,000 Senior Secured Term Loan B investment in SEOTownCenter, Inc., a provider of search engine optimization services. The \$25,500 Senior Secured Term Loan A bears interest at the greater of 9.50% or LIBOR plus 7.50% and has a final maturity of April 7, 2023. The \$17,000 Senior Secured Term Loan B bears interest at the greater of 14.50% or LIBOR plus 12.50% and has a final maturity of April 7, 2023.

On April 17, 2018, we made a \$43,000 Senior Secured Term Loan A and \$43,000 Senior Secured Term Loan B investment in MRP Holdco, Inc., a provider of IT-focused contractor and permanent staffing recruitment solutions. The \$43,000 Senior Secured Term Loan A bears interest at the greater of 6.00% or LIBOR plus 4.50% and has a final maturity of April 17, 2024. The \$43,000 Senior Secured Term Loan B bears interest at the greater of 10.00% or LIBOR plus 8.50% and has a final maturity of April 17, 2024.

On April 17, 2018, we made a \$10,000 Second Lien Term Loan investment in Help/Systems Holdings, Inc., a provider of software products. The second lien term loan bears interest at LIBOR + 7.75% and has a final maturity of March 27, 2026.

On May 31, 2018, we purchased \$74,700 of first lien senior secured notes and \$5,000 of revolving credit issued to support the acquisition of H.I.G. ECI Merger Sub, Inc. ("ECI") by affiliates of H.I.G Capital, LLC ("H.I.G"). Our revolving credit commitment was unfunded at close. ECI is a provider of managed services and technology solutions. The \$44,800 Senior Secured Term Loan A bears interest at the greater of 7.00% or LIBOR + 5.50% and has a final maturity of May 31, 2023. The \$29,900 Senior Secured Term Loan B bears interest at the greater of 12.00% or LIBOR plus 10.50% and has a final maturity of May 31, 2023. The revolving credit facility, once drawn, will bear interest at the greater of 9.00% or LIBOR plus 7.50% and has a final maturity of September 30, 2018.

On June 15, 2018, we made a \$15,000 convertible preferred equity investment in Pacific World.

During the year ended June 30, 2018, we made five follow-on investments in NPRC totaling \$35,292 to support the online consumer lending initiative, which was comprised of \$13,434 of equity through NPH and \$21,858 of debt directly to NPRC and its wholly-owned subsidiaries. Additionally, we provided \$96,199 of equity financing to NPRC for the acquisition of real estate properties and \$1,112 of debt and \$27,391 of equity financing to NPRC to fund capital expenditures for existing properties.

During the year ended June 30, 2018, we received full repayments on nineteen investments, partially sold two investments, and received several partial prepayments and amortization payments totaling \$1,831,286, which resulted in net realized losses totaling \$18,464. The more significant of these transactions are briefly described below.

On July 25, 2017, EZShield Parent, Inc. repaid the \$14,963 Senior Secured Term Loan A and \$15,000 Senior Secured Term Loan B receivable to us.

On July 28, 2017, Global Employment Solutions, Inc. repaid the \$48,131 loan receivable to us.

On August 7, 2017, Water Pik, Inc. repaid the \$13,739 loan receivable to us.

On September 25, 2017, Traeger Pellet Grills LLC repaid the \$47,094 Senior Secured Term Loan A and \$56,031 Senior Secured Term Loan B loan receivable to us.

On November 22, 2017, LaserShip, Inc, partially repaid \$14,295 senior secured loan receivable to us.

On December 11, 2017, Primesport, Inc. repaid the \$53,001 Senior Secured Term Loan A and \$71,481 Senior Secured Term Loan B loan receivable to us, for which we agreed to a payment to satisfy the loan less than the par amount and recorded a realized loss of \$3,019, as a result of this transaction.

On December 15, 2017, Instant Web, LLC repaid the \$238,500 Senior Secured Term Loan A and \$159,000 Senior Secured Term Loan B loan receivable to us.

On December 15, 2017, Matrixx Initiatives, Inc. repaid the \$86,427 Senior Secured Term Loan A and \$69,562 Senior Secured Term Loan B loan receivable to us.

On December 21, 2017, NCP Finance Limited Partnership repaid the \$26,800 subordinated secured loan receivable to us.

On December 29, 2017, Digital Room LLC repaid the \$34,000 second lien term loan receivable to us.

On March 1, 2018, LaserShip, Inc. repaid the \$22,990 Senior Secured Term Loan A and \$14,124 Senior Secured Term Loan B loan receivable to us.

On March 20, 2018, PGX Holdings, Inc, partially repaid \$16,379 second lien term loan receivable to us.

On March 28, 2018, Prince Mineral Holding Corp. repaid the \$10,000 senior secured term loan receivable to us.

On March 31, 2018, we wrote down the value of Nixon, Inc. resulting in a realized a loss of \$14,197.

On April 2, 2018, Ability Network Inc. fully repaid the \$15,000 second lien term loan receivable to us.

On April 4, 2018, Wheel Pros, LLC fully repaid the \$20,760 senior secured subordinated notes receivable to us.

During the period from April 16, 2018 to June 29, 2018, we sold \$180,000 of the outstanding principal balance of the senior secured note investment in Broder Bros., Co. at 100% of par, representing 39.53% of the principal outstanding prior to the sale. There was no gain or loss realized on the sale.

On April 17 and April 18, 2018, we sold 49.71% of the outstanding principal balance of the senior secured term loan investment in RGIS Services, LLC, for a total of \$15,000 at 93.5% of par. We realized a \$423 loss on the sale.

On May 1, 2018, Pelican Products, Inc. fully repaid the \$17,500 second lien term loan receivable to us.

On May 15, 2018, National Home Healthcare Corp. fully repaid the \$15,407 second lien term loan receivable to us.

During the year ended June 30, 2018, we received \$21,845, \$26,244 and \$6,729 as a partial return of capital on our investments in Voya CLO 2012-2, Ltd., Voya CLO 2012-3, Ltd., and Madison Park Funding IX, Ltd., respectively.

During the year ended June 30, 2018, one of our CLO investments was deemed to have an other-than-temporary loss. In accordance with ASC 325-40, Beneficial Interest in Securitized Financial Assets, we recorded a total loss of \$2,495 related to this investment for the amount our amortized cost exceeded fair value as of the respective determination dates.

During the year ended June 30, 2018, we received partial repayments of \$113,675 of our loans previously outstanding with NPRC and its wholly-owned subsidiaries and \$10,403 as a return of capital on our equity investment in NPRC.

The following table provides a summary of our investment activity for each quarter within the three years ending June 30, 2018:

| Quarter Ended | Acquisitions(1) | Dispositions(2) |
|--------------------|-----------------|-----------------|
| September 30, 2015 | \$ 345,743 | \$ 436,919 |
| December 31, 2015 | 316,145 | 354,855 |
| March 31, 2016 | 23,176 | 163,641 |
| June 30, 2016 | 294,038 | 383,460 |
| September 30, 2016 | 347,150 | 114,331 |
| December 31, 2016 | 469,537 | 644,995 |
| March 31, 2017 | 449,607 | 302,513 |
| June 30, 2017 | 223,176 | 352,043 |
| September 30, 2017 | 222,151 | 310,894 |
| December 31, 2017 | 738,737 | 1,041,126 |
| March 31, 2018 | 429,928 | 116,978 |
| June 30, 2018 | 339,841 | 362,287 |

(1) Includes investments in new portfolio companies, follow-on investments in existing portfolio companies, refinancings and PIK interest.

(2) Includes sales, scheduled principal payments, prepayments and refinancings.

Investment Valuation

In determining the range of values for debt instruments, except CLOs and debt investments in controlling portfolio companies, management and the independent valuation firm estimated corporate and security credit ratings and identified corresponding yields to maturity for each loan from relevant market data. A discounted cash flow technique was then prepared using the appropriate yield to maturity as the discount rate, to determine a range of values. In determining the range of values for debt investments of controlled companies and equity investments, the enterprise value was determined by applying earnings before interest, income tax, depreciation and amortization (“EBITDA”) multiples, the discounted cash flow technique, net income and/or book value multiples for similar guideline public companies and/or similar recent investment transactions. The enterprise value technique may also be used to value debt investments which are credit impaired. For stressed debt and equity investments, a liquidation analysis was prepared.

In determining the range of values for our investments in CLOs, the independent valuation firm uses a discounted multi-path cash flow model. The valuations were accomplished through the analysis of the CLO deal structures to identify the risk exposures from the modeling point of view as well as to determine an appropriate call date (i.e., expected maturity). These risk factors are sensitized in the multi-path cash flow model using Monte Carlo simulations, which is a simulation used to model the probability of different outcomes, to generate probability-weighted (i.e., multi-path) cash flows for the underlying assets and liabilities. These cash flows are discounted using appropriate market discount rates, and relevant data in the CLO market and certain benchmark credit indices are considered, to determine the value of each CLO investment. In addition, we generate a single-path cash flow utilizing our best estimate of expected cash receipts, and assess the reasonableness of the implied discount rate that would be effective for the value derived from the corresponding multi-path cash flow model.

With respect to our online consumer and SME lending initiative, we invest primarily in marketplace loans through marketplace lending facilitators. We do not conduct loan origination activities ourselves. Therefore, our ability to purchase consumer and SME loans, and our ability to grow our portfolio of consumer and SME loans, are directly influenced by the business performance and competitiveness of the marketplace loan origination business of the marketplace lending facilitators from which we purchase consumer and SME loans. In addition, our ability to analyze the risk-return profile of consumer and SME loans is significantly dependent on the marketplace facilitators’ ability to effectively evaluate a borrower’s credit profile and likelihood of default. If we are unable to effectively evaluate borrowers’ credit profiles or the credit decisioning and scoring models implemented by each facilitator, we may incur unanticipated losses which could adversely impact our operating results.

The Board of Directors looked at several factors in determining where within the range to value the asset including: recent operating and financial trends for the asset, independent ratings obtained from third parties, comparable

multiples for recent sales of companies within the industry and discounted cash flow models for our investments in CLOs. The composite of all these various valuation techniques, applied to each investment, was a total valuation of \$5,727,279.

75

Our portfolio companies are generally lower middle market companies, outside of the financial sector, with less than \$100,000 of annual EBITDA. We believe our investment portfolio has experienced less volatility than others because we believe there are more buy and hold investors who own these less liquid investments.

Control investments offer increased risk and reward over straight debt investments. Operating results and changes in market multiples can result in dramatic changes in values from quarter to quarter. Significant downturns in operations can further result in our looking to recoveries on sales of assets rather than the enterprise value of the investment. Equity positions in our portfolio are susceptible to potentially significant changes in value, both increases as well as decreases, due to changes in operating results and market multiples. Several of our controlled companies discussed below experienced such changes and we recorded corresponding fluctuations in valuations during the year ended June 30, 2018.

CP Energy Services Inc.

Prospect owns 100% of the equity of CP Holdings, a Consolidated Holding Company. CP Holdings owns 99.8% of the equity of CP Energy, and the remaining equity is owned by CP Energy management. CP Energy provides oilfield flowback services and fluid hauling and disposal services through its subsidiaries.

On April 6, 2018, our common equity investment in Arctic Equipment was exchanged for newly issued common shares of CP Energy as a result of a merger between the two companies. The cost basis of our investment in Arctic Equipment of \$65,976 was transferred to CP Energy. as a result of the merger between these controlled portfolio companies. The exchange led to our increased 99.8% ownership interest of CP Energy as of June 30, 2018 compared to our 82.3% ownership as of June 30, 2017.

The fair value of our investment in CP Energy increased to \$123,261 as of June 30, 2018, which is a discount of \$56,215 from its amortized cost, compared to a fair value of \$72,216 as of June 30, 2017, a discount of \$41,284 to its amortized cost. The increase in fair value was driven by the inclusion of Arctic Equipment's fair value as a result of the merger, in addition to a significant improvement in operating performance driven by both revenue growth and increased profitability. To a lesser extent, the increase in fair value was driven by an increase in comparable company market valuations.

First Tower Finance Company LLC

We own 80.1% of First Tower Finance, which owns 100% of First Tower, LLC ("First Tower"), the operating company. First Tower is a multiline specialty finance company based in Flowood, Mississippi with over 170 branch offices.

On June 15, 2012, we acquired 80.1% of First Tower businesses. As of June 30, 2016, First Tower had \$432,639 of finance receivables net of unearned charges. As of June 30, 2017, First Tower's total debt outstanding to parties senior to us was \$304,337.

The fair value of our investment in First Tower increased to \$443,010 as of June 30, 2018, representing a premium of \$88,798 to its amortized cost basis compared to a fair value of \$365,588 as of June 30, 2017, a premium of \$25,993 to its amortized cost. The increase in fair value was driven by an increase in loan originations and improved operating margins, as well as an increase in trading multiples of comparable companies. Also contributing to the increase in fair value is First Tower's acquisition of a loan portfolio from Harrison Finance.

Freedom Marine Solutions, LLC

Prospect owns 100% of the equity of Energy Solutions, a Consolidated Holding Company. Energy Solutions owns 100% of Freedom Marine. Freedom Marine owns 100% of each of Vessel Company, LLC, Vessel Company II, LLC, and Vessel Company III, LLC. Freedom Marine owns, manages, and operates offshore supply vessels to provide transportation and support services for the oil and gas exploration and production industries in the Gulf of Mexico.

The fair value of our investment in Freedom Marine decreased to \$13,037 as of June 30, 2018, a discount of \$30,555 to its amortized cost, compared to a discount of \$18,616 to its amortized cost as of June 30, 2017. The decline in fair value was driven by a decrease in the appraised values of the vessels.

InterDent, Inc.

Prospect exercised its rights and remedies under its loan documents to exercise the shareholder voting rights in respect of the stock of InterDent, Inc. ("InterDent") and to appoint a new Board of Directors of InterDent. As a result, as of June 30, 2018, Prospect's investment in InterDent is classified as a control investment. InterDent is a dental practice support organization based in Inglewood, California providing administrative, financial, and operational services to affiliated

dental practices.

76

The fair value of our investment in InterDent decreased to \$197,621 as of June 30, 2018, a discount of \$15,080 to its amortized cost, compared to a discount of \$1,268 to its amortized cost as of June 30, 2017. The decline in fair value was due to lower projected future earnings as a result of customer attrition.

MITY, Inc.

Prospect owns 100% of the equity of MITY Holdings of Delaware Inc. (“MITY Delaware”), a Consolidated Holding Company.

MITY Delaware holds 95.48% of the equity of MITY, Inc. (f/k/a MITY Enterprises, Inc.) (“MITY”), with management of

MITY owning the remaining 4.52% of the equity of MITY. MITY owns 100% of each of MITY-Lite, Inc. (“MITY-Lite”);

Broda USA, Inc. (f/k/a Broda Enterprises USA, Inc.) (“Broda USA”); and Broda Enterprises ULC (“Broda Canada”). MITY

is a designer, manufacturer and seller of multipurpose room furniture and specialty healthcare seating products.

The fair value of our investment in Mity decreased to \$58,894 as of June 30, 2018, a discount of \$5,847 to its amortized

cost, compared to a premium of \$11,771 to its amortized cost as of June 30, 2017. The decrease in fair value is driven by a

decline in gross profit and operating margins, partially offset by projected revenue growth.

National Property REIT Corp.

NPRC is a Maryland corporation and a qualified REIT for federal income tax purposes. NPRC is held for purposes of investing, operating, financing, leasing, managing and selling a portfolio of real estate assets and engages in any and all other activities that may be necessary, incidental, or convenient to perform the foregoing. NPRC acquires real estate assets, including, but not limited to, industrial, commercial, and multi-family properties, self-storage, and student housing properties. NPRC may acquire real estate assets directly or through joint ventures by making a majority equity investment in a property-owning entity. Additionally, through its wholly-owned subsidiaries, NPRC invests in online consumer loans. Effective May 23, 2016, APRC and UPRC merged with and into NPRC, to consolidate all of our real estate holdings, with NPRC as the surviving entity. As of June 30, 2018, we own 100% of the fully-diluted common equity of NPRC.

During the year ended June 30, 2018, we provided \$96,199 of equity financing to NPRC for the acquisition of real estate properties and \$1,112 of debt and \$27,391 of equity financing to NPRC to fund capital expenditures for existing properties.

During the year ended June 30, 2018, we provided \$21,858 of debt and \$13,434 of debt and equity financing, respectively, to NPRC and its wholly-owned subsidiaries to support the online consumer lending initiative. In addition, during the year ended June 30, 2018, we received partial repayments of \$113,675 of our loans previously outstanding with NPRC and its wholly-owned subsidiaries and \$10,403 as a return of capital on our equity investment in NPRC.

The online consumer loan investments held by certain of NPRC’s wholly-owned subsidiaries are unsecured obligations of individual borrowers that are issued in amounts ranging from \$1 to \$50, with fixed terms ranging from 24 to 84 months. As of June 30, 2018, the outstanding investment in online consumer loans by certain of NPRC’s wholly-owned subsidiaries was comprised of 62,973 individual loans and residual interest in two securitizations, and had an aggregate fair value of \$367,479. The average outstanding individual loan balance is approximately \$5 and the loans mature on dates ranging from July 1, 2018 to April 19, 2025 with a weighted-average outstanding term of 27 months as of June 30, 2018. Fixed interest rates range from 4.0% to 36.0% with a weighted-average current interest rate of 27.4%. As of June 30, 2018, our investment in NPRC and its wholly-owned subsidiaries relating to online consumer lending had a fair value of \$243,061.

As of June 30, 2018, based on outstanding principal balance, 6.3% of the portfolio was invested in super prime loans (borrowers with a Fair Isaac Corporation (“FICO”) score, of 720 or greater), 19.5% of the portfolio in prime loans (borrowers with a FICO score of 660 to 719) and 74.2% of the portfolio in near prime loans (borrowers with a FICO

score of 580 to 659).

| Loan Type | Outstanding Principal Balance | Fair Value | Weighted Average Interest Rate* |
|-------------|-------------------------------------|---------------|---------------------------------|
| Super Prime | \$ 20,714 | \$20,063 | 13.8% |
| Prime | 63,565 | 60,554 | 17.9% |
| Near Prime | 241,907 | 224,652 | 31.1% |

*Weighted by outstanding principal balance of the online consumer loans.

Edgar Filing: PROSPECT CAPITAL CORP - Form 10-K

As of June 30, 2018, our investment in NPRC and its wholly-owned subsidiaries had an amortized cost of \$826,987 and a fair value of \$1,054,976, including our investment in online consumer lending as discussed above. The fair value of \$811,915 related to NPRC's real estate portfolio was comprised of forty-two multi-families properties, twelve self-storage units, eight student housing properties and three commercial properties. The following table shows the location, acquisition date, purchase price, and mortgage outstanding due to other parties for each of the properties held by NPRC as of June 30, 2018.

| No. | Property Name | City | Acquisition Date | Purchase Price | Mortgage Outstanding |
|-----|--|----------------------|------------------|----------------|----------------------|
| 1 | Filet of Chicken | Forest Park, GA | 10/24/2012 | \$ 7,400 | \$ — |
| 2 | 5100 Live Oaks Blvd, LLC | Tampa, FL | 1/17/2013 | 63,400 | 46,426 |
| 3 | Lofton Place, LLC | Tampa, FL | 4/30/2013 | 26,000 | 20,273 |
| 4 | Arlington Park Marietta, LLC | Marietta, GA | 5/8/2013 | 14,850 | 9,650 |
| 5 | NPRC Carroll Resort, LLC | Pembroke Pines, FL | 6/24/2013 | 225,000 | 175,885 |
| 6 | Cordova Regency, LLC | Pensacola, FL | 11/15/2013 | 13,750 | 11,375 |
| 7 | Crestview at Oakleigh, LLC | Pensacola, FL | 11/15/2013 | 17,500 | 13,845 |
| 8 | Inverness Lakes, LLC | Mobile, AL | 11/15/2013 | 29,600 | 24,700 |
| 9 | Kings Mill Pensacola, LLC | Pensacola, FL | 11/15/2013 | 20,750 | 17,550 |
| 10 | Plantations at Pine Lake, LLC | Tallahassee, FL | 11/15/2013 | 18,000 | 14,092 |
| 11 | Verandas at Rocky Ridge, LLC | Birmingham, AL | 11/15/2013 | 15,600 | 10,205 |
| 12 | Matthews Reserve II, LLC | Matthews, NC | 11/19/2013 | 22,063 | 19,765 |
| 13 | City West Apartments II, LLC | Orlando, FL | 11/19/2013 | 23,562 | 23,084 |
| 14 | Vinings Corner II, LLC | Smyrna, GA | 11/19/2013 | 35,691 | 32,649 |
| 15 | Atlanta Eastwood Village LLC | Stockbridge, GA | 12/12/2013 | 25,957 | 22,546 |
| 16 | Atlanta Monterey Village LLC | Jonesboro, GA | 12/12/2013 | 11,501 | 10,969 |
| 17 | Atlanta Hidden Creek LLC | Morrow, GA | 12/12/2013 | 5,098 | 4,696 |
| 18 | Atlanta Meadow Springs LLC | College Park, GA | 12/12/2013 | 13,116 | 12,914 |
| 19 | Atlanta Meadow View LLC | College Park, GA | 12/12/2013 | 14,354 | 12,968 |
| 20 | Atlanta Peachtree Landing LLC | Fairburn, GA | 12/12/2013 | 17,224 | 15,361 |
| 21 | APH Carroll Bartram Park, LLC | Jacksonville, FL | 12/31/2013 | 38,000 | 27,157 |
| 22 | Crestview at Cordova, LLC | Pensacola, FL | 1/17/2014 | 8,500 | 7,785 |
| 23 | APH Carroll Atlantic Beach, LLC | Atlantic Beach, FL | 1/31/2014 | 13,025 | 8,443 |
| 24 | Taco Bell, OK | Yukon, OK | 6/4/2014 | 1,719 | — |
| 25 | Taco Bell, MO | Marshall, MO | 6/4/2014 | 1,405 | — |
| 26 | 23 Mile Road Self Storage, LLC | Chesterfield, MI | 8/19/2014 | 5,804 | 4,350 |
| 27 | 36th Street Self Storage, LLC | Wyoming, MI | 8/19/2014 | 4,800 | 3,600 |
| 28 | Ball Avenue Self Storage, LLC | Grand Rapids, MI | 8/19/2014 | 7,281 | 5,460 |
| 29 | Ford Road Self Storage, LLC | Westland, MI | 8/29/2014 | 4,642 | 3,480 |
| 30 | Ann Arbor Kalamazoo Self Storage, LLC | Ann Arbor, MI | 8/29/2014 | 4,458 | 3,345 |
| 31 | Ann Arbor Kalamazoo Self Storage, LLC | Ann Arbor, MI | 8/29/2014 | 8,927 | 6,695 |
| 32 | Ann Arbor Kalamazoo Self Storage, LLC | Kalamazoo, MI | 8/29/2014 | 2,363 | 1,775 |
| 33 | Canterbury Green Apartments Holdings LLC | Fort Wayne, IN | 9/29/2014 | 85,500 | 74,046 |
| 34 | Abbie Lakes OH Partners, LLC | Canal Winchester, OH | 9/30/2014 | 12,600 | 13,055 |
| 35 | Kengary Way OH Partners, LLC | Reynoldsburg, OH | 9/30/2014 | 11,500 | 13,502 |
| 36 | Lakeview Trail OH Partners, LLC | Canal Winchester, OH | 9/30/2014 | 26,500 | 23,256 |
| 37 | Lakepoint OH Partners, LLC | Pickerington, OH | 9/30/2014 | 11,000 | 14,480 |
| 38 | Sunbury OH Partners, LLC | Columbus, OH | 9/30/2014 | 13,000 | 14,115 |
| 39 | Heatherbridge OH Partners, LLC | Blacklick, OH | 9/30/2014 | 18,416 | 18,328 |

Edgar Filing: PROSPECT CAPITAL CORP - Form 10-K

| No. | Property Name | City | Acquisition Date | Purchase Price | Mortgage Outstanding |
|-----|-------------------------------------|---------------------|------------------|----------------|----------------------|
| 40 | Jefferson Chase OH Partners, LLC | Blacklick, OH | 9/30/2014 | 13,551 | 17,200 |
| 41 | Goldenstrand OH Partners, LLC | Hilliard, OH | 10/29/2014 | 7,810 | 9,600 |
| 42 | Jolly Road Self Storage, LLC | Okemos, MI | 1/16/2015 | 7,492 | 5,620 |
| 43 | Eaton Rapids Road Self Storage, LLC | Lansing West, MI | 1/16/2015 | 1,741 | 1,305 |
| 44 | Haggerty Road Self Storage, LLC | Novi, MI | 1/16/2015 | 6,700 | 5,025 |
| 45 | Waldon Road Self Storage, LLC | Lake Orion, MI | 1/16/2015 | 6,965 | 5,225 |
| 46 | Tyler Road Self Storage, LLC | Ypsilanti, MI | 1/16/2015 | 3,507 | 2,630 |
| 47 | SSIL I, LLC | Aurora, IL | 11/5/2015 | 34,500 | 26,450 |
| 48 | Vesper Tuscaloosa, LLC | Tuscaloosa, AL | 9/28/2016 | 54,500 | 43,120 |
| 49 | Vesper Iowa City, LLC | Iowa City, IA | 9/28/2016 | 32,750 | 24,825 |
| 50 | Vesper Corpus Christi, LLC | Corpus Christi, TX | 9/28/2016 | 14,250 | 10,800 |
| 51 | Vesper Campus Quarters, LLC | Corpus Christi, TX | 9/28/2016 | 18,350 | 14,175 |
| 52 | Vesper College Station, LLC | College Station, TX | 9/28/2016 | 41,500 | 32,057 |
| 53 | Vesper Kennesaw, LLC | Kennesaw, GA | 9/28/2016 | 57,900 | 48,668 |
| 54 | Vesper Statesboro, LLC | Statesboro, GA | 9/28/2016 | 7,500 | 6,076 |
| 55 | Vesper Manhattan KS, LLC | Manhattan, KS | 9/28/2016 | 23,250 | 15,145 |
| 56 | JSIP Union Place, LLC | Franklin, MA | 12/7/2016 | 64,750 | 51,800 |
| 57 | 9220 Old Lantern Way, LLC | Laurel, MD | 1/30/2017 | 187,250 | 153,580 |
| 58 | 7915 Baymeadows Circle Owner, LLC | Jacksonville, FL | 10/31/2017 | 95,700 | 76,560 |
| 59 | 8025 Baymeadows Circle Owner, LLC | Jacksonville, FL | 10/31/2017 | 15,300 | 12,240 |
| 60 | 23275 Riverside Drive Owner, LLC | Southfield, MI | 11/8/2017 | 52,000 | 44,044 |
| 61 | 23741 Pond Road Owner, LLC | Southfield, MI | 11/8/2017 | 16,500 | 14,185 |
| 62 | 150 Steeplechase Way Owner, LLC | Largo, MD | 1/10/2018 | 44,500 | 36,668 |
| 63 | Laurel Pointe Holdings, LLC | Forest Park, GA | 5/9/2018 | 33,005 | 26,400 |
| 64 | Bradford Ridge Holdings, LLC | Forest Park, GA | 5/9/2018 | 12,500 | 10,000 |
| 65 | Olentangy Commons Owner LLC | Columbus, OH | 6/1/2018 | 113,000 | 92,876 |
| | | | | \$1,866,627 | \$1,528,099 |

The fair value of our investment in NPRC increased to \$1,054,976 as of June 30, 2018, a premium of \$227,989 from its amortized cost, compared to the \$197,008 unrealized appreciation recorded at June 30, 2017. This increase is primarily due to the improved property values, partially offset by a decline in our online lending portfolio value resulting from an increase in delinquent loans.

Pacific World

On May 29, 2018, Prospect exercised its rights and remedies under its loan documents to exercise the shareholder voting rights in respect of the stock of Pacific World Corporation (“Pacific World”) and to appoint a new Board of Directors of Pacific World. As a result, as of June 30, 2018, Prospect’s investment in Pacific World is classified as a control investment. Pacific World is a supplier of nail and beauty care products to food, drug, and value retail channels worldwide, and is based in Aliso Viejo, California.

The fair value of our investment in Pacific World decreased to \$165,020 as of June 30, 2018, a discount of \$63,555 to its amortized cost, compared to a discount of \$30,216 to its amortized cost as of June 30, 2017. Our investment in Pacific World declined in value due to a decrease in revenues and profitability, as well as a decrease in comparable company trading multiples.

Valley Electric Company, Inc.

Prospect owns 100% of the common stock of Valley Electric Holdings I, Inc. (“Valley Holdings I”), a Consolidated Holding

Company. Valley Holdings I owns 100% of Valley Electric Holdings II, Inc. (“Valley Holdings II”), a Consolidated Holding

Company. Valley Holdings II owns 94.99% of Valley Electric Company, Inc. (“Valley Electric”), with Valley Electric management owning the remaining 5.01% of the equity. Valley Electric owns 100% of the equity of VE Company, Inc., which owns 100% of the equity of Valley Electric Co. of Mt. Vernon, Inc. (“Valley”), a leading provider of specialty electrical services in the state of Washington and among the top 50 electrical contractors in the United States.

Due to increased demand for specialty electrical services and higher project margins, the fair value of our investment in Valley Electric increased to \$50,797 as of June 30, 2018, a discount of \$13,618 from its amortized cost, compared to the \$29,749 unrealized depreciation recorded at June 30, 2017.

Our controlled investments, other than those discussed above, have seen steady or improved operating performance and are valued at \$60,681 above cost. Overall, combined with those portfolio companies discussed above, our controlled investments at June 30, 2018 are valued at \$103,800 above their amortized cost.

With the non-control/non-affiliate investments, generally, there is less volatility related to our total investments because our equity positions tend to be smaller than with our control/affiliate investments, and debt investments are generally not as susceptible to large swings in value as equity investments. For debt investments, the fair value is generally limited on the high side to each loan’s par value, plus any prepayment premium that could be imposed. Many of the debt investments in this category have not experienced a significant change in value, as they were previously valued at or near par value. Non-control/non-affiliate investments did not experience significant changes and are generally performing as expected or better. However, as of June 30, 2018, one of our non-control/non-affiliate investments, United Sporting Companies, Inc. (“USC”) is valued at discount to amortized cost of \$68,285. As of June 30, 2018, our CLO investment portfolio is valued at a \$142,733 discount to amortized cost. Excluding these investments, non-control/non-affiliate investments at June 30, 2018 are valued \$240 above their amortized cost.

Capitalization

Our investment activities are capital intensive and the availability and cost of capital is a critical component of our business. We capitalize our business with a combination of debt and equity. Our debt as of June 30, 2018 consists of: a Revolving Credit Facility availing us of the ability to borrow debt subject to borrowing base determinations; Convertible Notes which we issued in December 2012, April 2014 and April 2017 with additional 2022 Notes issued in May 2018; Public Notes which we issued in March 2013, April 2014, December 2015, June 2018, and from time to time, through our 2024 Notes Follow-on Program; and Prospect Capital InterNotes® which we issue from time to time. Our equity capital is comprised entirely of common equity.

The following table shows our outstanding debt as of June 30, 2018.

| | Principal Outstanding | Unamortized Discount & Debt Issuance Costs | Net Carrying Value | Fair Value (1) | Effective Interest Rate | |
|------------------------------|--------------------------|--|--------------------------|-------------------|----------------------------|-------|
| Revolving Credit Facility(2) | \$ 37,000 | \$ 2,032 | \$37,000 | (3)\$37,000 | 1ML+2.25% | (6) |
| 2019 Notes | 101,647 | 339 | 101,308 | 103,562 | (4)6.51 | % (7) |
| 2020 Notes | 392,000 | 4,270 | 387,730 | 392,529 | (4)5.38 | % (7) |
| 2022 Notes | 328,500 | 8,465 | 320,035 | 320,084 | (4)5.69 | % (7) |
| Convertible Notes | 822,147 | | 809,073 | 816,175 | | |
| 5.00% 2019 Notes | 153,536 | 456 | 153,080 | 155,483 | (4)5.29 | % (7) |
| 2023 Notes | 320,000 | 4,120 | 315,880 | 328,909 | (4)6.09 | % (7) |
| 2024 Notes | 199,281 | 4,559 | 194,722 | 202,151 | (4)6.74 | % (7) |
| 2028 Notes | 55,000 | 1,872 | 53,128 | 55,220 | (4)6.72 | % (7) |
| Public Notes | 727,817 | | 716,810 | 741,763 | | |
| Prospect Capital InterNotes® | 760,924 | 11,998 | 748,926 | 779,400 | (5)5.76 | % (8) |

Edgar Filing: PROSPECT CAPITAL CORP - Form 10-K

| | | | |
|-------|--------------|-------------|-------------|
| Total | \$ 2,347,888 | \$2,311,809 | \$2,374,338 |
|-------|--------------|-------------|-------------|

As permitted by ASC 825-10-25, we have not elected to value our Revolving Credit Facility, Convertible Notes, (1)Public Notes and Prospect Capital InterNotes® at fair value. The fair value of these debt obligations are categorized as Level 2 under ASC 820 as of June 30, 2018.

(2)The maximum draw amount of the Revolving Credit facility as of June 30, 2018 is \$885,000.

80

(3) Net Carrying Value excludes deferred financing costs associated with the Revolving Credit Facility. See Critical Accounting Policies and Estimates for accounting policy details.

(4) We use available market quotes to estimate the fair value of the Convertible Notes and Public Notes.

(5) The fair value of Prospect Capital InterNotes® is estimated by discounting remaining payments using current Treasury rates plus spread based on observable market inputs.

(6) Represents the rate on drawn down and outstanding balances. Deferred debt issuance costs are amortized on a straight-line method over the stated life of the obligation.

The effective interest rate is equal to the effect of the stated interest, the accretion of original issue discount and (7) amortization of debt issuance costs. For the 2024 Notes, the rate presented is a combined effective interest rate of the 2024 Notes and 2024 Notes Follow-on Program.

For the Prospect Capital InterNotes®, the rate presented is the weighted average effective interest rate. Interest (8) expense and deferred debt issuance costs, which are amortized on a straight-line method over the stated life of the obligation, are weighted against the average year-to-date principal balance.

The following table shows the contractual maturities of our Revolving Credit Facility, Convertible Notes, Public Notes and Prospect Capital InterNotes® as of June 30, 2018.

| | Payments Due by Period | | | | |
|-------------------------------|------------------------|------------------|-------------|-------------|---------------|
| | Total | Less than 1 Year | 1 – 3 Years | 3 – 5 Years | After 5 Years |
| Revolving Credit Facility | \$37,000 | \$— | \$37,000 | \$— | \$— |
| Convertible Notes | 822,147 | 101,647 | 392,000 | 328,500 | — |
| Public Notes | 727,817 | — | 153,536 | 320,000 | 254,281 |
| Prospect Capital InterNotes® | 760,924 | — | 276,484 | 246,525 | 237,915 |
| Total Contractual Obligations | \$2,347,888 | \$101,647 | \$859,020 | \$895,025 | \$492,196 |

The following table shows the contractual maturities of our Revolving Credit Facility, Convertible Notes, Public Notes and Prospect Capital InterNotes® as of June 30, 2017.

| | Payments Due by Period | | | | |
|-------------------------------|------------------------|------------------|-------------|-------------|---------------|
| | Total | Less than 1 Year | 1 – 3 Years | 3 – 5 Years | After 5 Years |
| Revolving Credit Facility | \$— | \$— | \$— | \$— | \$— |
| Convertible Notes | 953,153 | 136,153 | 592,000 | — | 225,000 |
| Public Notes | 749,281 | — | 300,000 | — | 449,281 |
| Prospect Capital InterNotes® | 980,494 | 39,038 | 325,661 | 399,490 | 216,305 |
| Total Contractual Obligations | \$2,682,928 | \$175,191 | \$1,217,661 | \$399,490 | \$890,586 |

Historically, we have funded a portion of our cash needs through borrowings from banks, issuances of senior securities, including secured, unsecured and convertible debt securities, or issuances of common equity. For flexibility, we maintain a universal shelf registration statement that allows for the public offering and sale of our debt securities, common stock, preferred stock, subscription rights, and warrants and units to purchase such securities in an amount up to \$5,000,000 less issuances to date. As of June 30, 2018, we can issue up to \$4,386,415 of additional debt and equity securities in the public market under this shelf registration. We may from time to time issue securities pursuant to the shelf registration statement or otherwise pursuant to private offerings. The issuance of debt or equity securities will depend on future market conditions, funding needs and other factors and there can be no assurance that any such issuance will occur or be successful.

Each of our Convertible Notes, Public Notes and Prospect Capital InterNotes® (collectively, our “Unsecured Notes”) are our general, unsecured obligations and rank equal in right of payment with all of our existing and future unsecured indebtedness and will be senior in right of payment to any of our subordinated indebtedness that may be issued in the future. The Unsecured Notes are effectively subordinated to our existing secured indebtedness, such as our credit facility, and future secured indebtedness to the extent of the value of the assets securing such indebtedness and structurally subordinated to any existing and future liabilities and other indebtedness of any of our subsidiaries.

Revolving Credit Facility

On August 29, 2014, we renegotiated our previous credit facility and closed an expanded five and a half year revolving credit facility (the “2014 Facility” or the “Revolving Credit Facility”). The lenders have extended commitments of \$885,000 under the 2014 Facility as of June 30, 2018. The 2014 Facility includes an accordion feature which allows commitments to be increased up to \$1,500,000 in the aggregate. The revolving period of the 2014 Facility extends through March 2019, with an additional one year amortization period (with distributions allowed) after the completion of the revolving period. During such one year amortization period, all principal payments on the pledged assets will be applied to reduce the balance. At the end of the one year amortization period, the remaining balance will become due, if required by the lenders.

The 2014 Facility contains restrictions pertaining to the geographic and industry concentrations of funded loans, maximum size of funded loans, interest rate payment frequency of funded loans, maturity dates of funded loans and minimum equity requirements. The 2014 Facility also contains certain requirements relating to portfolio performance, including required minimum portfolio yield and limitations on delinquencies and charge-offs, violation of which could result in the early termination of the 2014 Facility. The 2014 Facility also requires the maintenance of a minimum liquidity requirement. As of June 30, 2018, we were in compliance with the applicable covenants.

Interest on borrowings under the 2014 Facility is one-month LIBOR plus 225 basis points. Additionally, the lenders charge a fee on the unused portion of the 2014 Facility equal to either 50 basis points if at least 35% of the credit facility is drawn or 100 basis points otherwise. The 2014 Facility requires us to pledge assets as collateral in order to borrow under the credit facility.

As of June 30, 2018 and June 30, 2017, we had \$547,205 and \$665,409, respectively, available to us for borrowing under the Revolving Credit Facility, of which \$37,000 was outstanding as of June 30, 2018. We did not have any borrowings outstanding under the Revolving Credit Facility as of June 30, 2017. As additional eligible investments are transferred to PCF and pledged under the Revolving Credit Facility, PCF will generate additional availability up to the current commitment amount of \$885,000. As of June 30, 2018, the investments, including cash and money market funds, used as collateral for the Revolving Credit Facility had an aggregate fair value of \$1,327,583, which represents 22.8% of our total investments, including cash and money market funds. These assets are held and owned by PCF, a bankruptcy remote special purpose entity, and as such, these investments are not available to our general creditors.

The release of any assets from PCF requires the approval of the facility agent.

In connection with the origination and amendments of the Revolving Credit Facility, we incurred \$12,405 of new fees and \$3,539 were carried over for continuing participants from the previous facility, all of which are being amortized over the term of the facility in accordance with ASC 470-50. As of June 30, 2018, \$2,032 remains to be amortized and is reflected as deferred financing costs on the Consolidated Statements of Assets and Liabilities.

During the years ended June 30, 2018, 2017 and 2016, we recorded \$13,170, \$12,173 and \$13,213, respectively, of interest costs, unused fees and amortization of financing costs on the Revolving Credit Facility as interest expense.

Convertible Notes

On December 21, 2010, we issued \$150,000 aggregate principal amount of convertible notes that matured on December 15, 2015 (the “2015 Notes”). The 2015 Notes bore interest at a rate of 6.25% per year, payable semi-annually on June 15 and December 15 of each year, beginning June 15, 2011. Total proceeds from the issuance of the 2015 Notes, net of underwriting discounts and offering costs, were \$145,200. On December 15, 2015, we repaid the outstanding principal amount of the 2015 Notes, plus interest. No gain or loss was realized on the transaction.

On February 18, 2011, we issued \$172,500 aggregate principal amount of convertible notes that matured on August 15, 2016 (the “2016 Notes”). The 2016 Notes bore interest at a rate of 5.50% per year, payable semi-annually on February 15 and August 15 of each year, beginning August 15, 2011. Total proceeds from the issuance of the 2016 Notes, net of underwriting discounts and offering costs, were \$167,325. Between January 30, 2012 and February 2, 2012, we repurchased \$5,000 aggregate principal amount of the 2016 Notes at a price of 97.5, including commissions. The transactions resulted in our recognizing \$10 of loss in the year ended June 30, 2012. On August 15, 2016, we repaid the outstanding principal amount of the 2016 Notes, plus interest. No gain or loss was realized on the transaction.

On April 16, 2012, we issued \$130,000 aggregate principal amount of convertible notes that matured on October 15, 2017 (the "2017 Notes"). The 2017 Notes bore interest at a rate of 5.375% per year, payable semi-annually on April 15 and October 15 of each year, beginning October 15, 2012. Total proceeds from the issuance of the 2017 Notes, net of underwriting discounts and offering costs, were \$126,035. On March 28, 2016, we repurchased \$500 aggregate principal amount of the 2017 Notes at a price of 98.25, including commissions. The transaction resulted in our recognizing a \$9 gain for the period ended March 31, 2016. On April 6, 2017, we repurchased \$78,766 aggregate principal amount of the 2017 Notes at a price of 102.0, including commissions.

The transaction resulted in our recognizing a \$1,786 loss during the three months ended June 30, 2017. On October 15, 2017, we repaid the outstanding principal amount of \$50,734 of the 2017 Notes, plus interest. No gain or loss was realized on the transaction.

On August 14, 2012, we issued \$200,000 aggregate principal amount of convertible notes that matured on March 15, 2018 (the “2018 Notes”). The 2018 Notes bore interest at a rate of 5.75% per year, payable semi-annually on March 15 and September 15 of each year, beginning March 15, 2013. Total proceeds from the issuance of the 2018 Notes, net of underwriting discounts and offering costs, were \$193,600. On April 6, 2017, we repurchased \$114,581 aggregate principal amount of the 2018 Notes at a price of 103.5, including commissions. The transaction resulted in our recognizing a \$4,700 loss during the three months ended June 30, 2017. On March 15, 2018, we repaid the outstanding principal amount of \$85,419, plus interest. No gain or loss was realized on the transaction.

On December 21, 2012, we issued \$200,000 aggregate principal amount of convertible notes that mature on January 15, 2019 (the “2019 Notes”), unless previously converted or repurchased in accordance with their terms. The 2019 Notes bear interest at a rate of 5.875% per year, payable semi-annually on January 15 and July 15 of each year, beginning July 15, 2013. Total proceeds from the issuance of the 2019 Notes, net of underwriting discounts and offering costs, were \$193,600. On May 30, 2018, we repurchased \$98,353 aggregate principal amounts of the 2019 Notes at a price of 102.0, including commissions. The transaction resulted in our recognizing a \$2,383 loss during the three months ended June 30, 2018. Following the repurchase of the 2019 Notes, the outstanding aggregate principal amount of the 2019 Notes is \$101,647 as of June 30, 2018.

On April 11, 2014, we issued \$400,000 aggregate principal amount of convertible notes that mature on April 15, 2020 (the “2020 Notes”), unless previously converted or repurchased in accordance with their terms. The 2020 Notes bear interest at a rate of 4.75% per year, payable semi-annually on April 15 and October 15 each year, beginning October 15, 2014. Total proceeds from the issuance of the 2020 Notes, net of underwriting discounts and offering costs, were \$387,500. On January 30, 2015, we repurchased \$8,000 aggregate principal amount of the 2020 Notes at a price of 93.0, including commissions. As a result of this transaction, we recorded a gain of \$332, in the amount of the difference between the reacquisition price and the net carrying amount of the notes, net of the proportionate amount of unamortized debt issuance costs. As of June 30, 2018, the outstanding aggregate principal amount of the 2020 Notes is \$392,000.

On April 11, 2017, we issued \$225,000 aggregate principal amount of convertible notes that mature on July 15, 2022 (the “Original 2022 Notes”), unless previously converted or repurchased in accordance with their terms. The Original 2022 Notes bear interest at a rate of 4.95% per year, payable semi-annually on January 15 and July 15 each year, beginning July 15, 2017. Total proceeds from the issuance of the 2022 Notes, net of underwriting discounts and offering costs, were \$218,010. On May 18, 2018, we issued an additional \$103,500 aggregate principal amount of convertible notes that mature on July 15, 2022 (the “Additional 2022 Notes”, and together with the Original 2022 Notes, the “2022 Notes”), unless previously converted or repurchased in accordance with their terms. The Additional 2022 Notes were a further issuance of, and are fully fungible and rank equally in right of payment with, the Original 2022 Notes and bear interest at a rate of 4.95% per year, payable semi-annually on January 15 and July 15 each year, beginning July 15, 2018. Total proceeds from the issuance of the Additional 2022 Notes, net of underwriting discounts and offering costs, were \$100,749. Following the issuance of the Additional 2022 Notes, the outstanding aggregate principal amount of the 2022 Notes is \$328,500 as of June 30, 2018.

Certain key terms related to the convertible features for the 2019 Notes, the 2020 Notes and the 2022 Notes (collectively, the “Convertible Notes”) are listed below.

| | 2019 Notes | 2020 Notes | 2022 Notes |
|--|------------|------------|------------|
| Initial conversion rate(1) | 79.7766 | 80.6647 | 100.2305 |
| Initial conversion price | \$12.54 | \$12.40 | \$9.98 |
| Conversion rate at June 30, 2018(1)(2) | 79.8360 | 80.6670 | 100.2305 |
| Conversion price at June 30, 2018(2)(3) | \$12.53 | \$12.40 | \$9.98 |
| Last conversion price calculation date | 12/21/2017 | 4/11/2018 | 4/11/2018 |
| Dividend threshold amount (per share)(4) | \$0.110025 | \$0.110525 | \$0.083330 |

(1)

Conversion rates denominated in shares of common stock per \$1 principal amount of the Convertible Notes converted.

- (2) Represents conversion rate and conversion price, as applicable, taking into account certain de minimis adjustments that will be made on the conversion date.
- (3) The conversion price will increase only if the current monthly dividends (per share) exceed the dividend threshold amount (per share).

The conversion rate is increased if monthly cash dividends paid to common shares exceed the monthly dividend (4) threshold amount, subject to adjustment. Current dividend rates are at or below the minimum dividend threshold amount for further conversion rate adjustments for all bonds.

Upon conversion, unless a holder converts after a record date for an interest payment but prior to the corresponding interest payment date, the holder will receive a separate cash payment with respect to the notes surrendered for conversion representing accrued and unpaid interest to, but not including, the conversion date. Any such payment will be made on the settlement date applicable to the relevant conversion on the Convertible Notes.

No holder of Convertible Notes will be entitled to receive shares of our common stock upon conversion to the extent (but only to the extent) that such receipt would cause such converting holder to become, directly or indirectly, a beneficial owner (within the meaning of Section 13(d) of the Securities Exchange Act of 1934 and the rules and regulations promulgated thereunder) of more than 5.0% of the shares of our common stock outstanding at such time. The 5.0% limitation shall no longer apply following the effective date of any fundamental change. We will not issue any shares in connection with the conversion or redemption of the Convertible Notes which would equal or exceed 20% of the shares outstanding at the time of the transaction in accordance with NASDAQ rules.

Subject to certain exceptions, holders may require us to repurchase, for cash, all or part of their Convertible Notes upon a fundamental change at a price equal to 100% of the principal amount of the Convertible Notes being repurchased plus any accrued and unpaid interest up to, but excluding, the fundamental change repurchase date. In addition, upon a fundamental change that constitutes a non-stock change of control we will also pay holders an amount in cash equal to the present value of all remaining interest payments (without duplication of the foregoing amounts) on such Convertible Notes through and including the maturity date.

In connection with the issuance of the Convertible Notes, we incurred \$27,166 of fees which are being amortized over the terms of the notes, of which \$13,074 remains to be amortized and is included as a reduction within Convertible Notes on the Consolidated Statement of Assets and Liabilities as of June 30, 2018.

During the years ended June 30, 2018, 2017 and 2016, we recorded \$51,020, \$55,217 and \$68,966, respectively, of interest costs and amortization of financing costs on the Convertible Notes as interest expense.

Public Notes

On March 15, 2013, we issued \$250,000 aggregate principal amount of unsecured notes that mature on March 15, 2023 (the "Original 2023 Notes"). The Original 2023 Notes bear interest at a rate of 5.875% per year, payable semi-annually on March 15 and September 15 of each year, beginning September 15, 2013. Total proceeds from the issuance of the Original 2023 Notes, net of underwriting discounts and offering costs, were \$243,641. On June 20, 2018, we issued an additional \$70,000 aggregate principal amount of unsecured notes that mature on March 15, 2023 (the "Additional 2023 Notes", and together with the Original 2023 Notes, the "2023 Notes"). The Additional 2023 Notes were a further issuance of, and are fully fungible and rank equally in right of payment with, the Original 2023 Notes and bear interest at a rate of 5.875% per year, payable semi-annually on March 15 and September 15 of each year, beginning September 15, 2018. Total proceeds from the issuance of the Additional 2023 Notes, net of underwriting discounts, were \$69,403. Following the issuance of the Additional 2023 Notes, the outstanding aggregate principal amount of our 5.875% Senior Notes due 2023 is \$320,000.

On April 7, 2014, we issued \$300,000 aggregate principal amount of unsecured notes that mature on July 15, 2019 (the "5.00% 2019 Notes"). Included in the issuance is \$45,000 of Prospect Capital InterNotes® that were exchanged for the 5.00% 2019 Notes. The 5.00% 2019 Notes bear interest at a rate of 5.00% per year, payable semi-annually on January 15 and July 15 of each year, beginning July 15, 2014. Total proceeds from the issuance of the 5.00% 2019 Notes, net of underwriting discounts and offering costs, were \$295,998. On June 7, 2018, we commenced a tender offer to purchase for cash any and all of the \$300,000 aggregate principal amount outstanding of the 5.00% 2019 Notes. On June 20, 2018, \$146,464 aggregate principal amount of the 5.00% 2019 Notes, representing 48.8% of the previously outstanding 5.00% 2019 Notes, were validly tendered and accepted. The transaction resulted in our recognizing a \$3,705 loss during the three months ended June 30, 2018.

On December 10, 2015, we issued \$160,000 aggregate principal amount of unsecured notes that mature on June 15, 2024 (the "2024 Notes"). The 2024 Notes bear interest at a rate of 6.25% per year, payable quarterly on March 15, June

15, September 15 and December 15 of each year, beginning March 15, 2016. Total proceeds from the issuance of the 2024 Notes, net of underwriting discounts and offering costs, were \$155,043. On June 16, 2016, we entered into an at-the-market program with FBR Capital Markets & Co. through which we could sell, by means of at-the-market offerings, from time to time, up to \$100,000 in aggregate principal amount of our existing 2024 Notes. As of June 30, 2018, we issued \$199,281 in aggregate principal amount of our 2024 Notes for net proceeds of \$193,253 after commissions and offering costs.

On June 7, 2018, we issued \$55,000 aggregate principal amount of unsecured notes that mature on June 15, 2028 (the “2028 Notes”). The 2028 Notes bear interest at a rate of 6.25% per year, payable quarterly on March 15, June 15, September 15, and December 15 of each year, beginning September 15, 2018. Total proceeds from the issuance of the 2028 Notes, net of underwriting discounts and offering costs were \$53,119.

The 2023 Notes, the 5.00% 2019 Notes, the 2024 Notes, and the 2028 Notes (collectively, the “Public Notes”) are direct unsecured obligations and rank equally with all of our unsecured indebtedness from time to time outstanding. In connection with the issuance of the 2023 Notes, the 5.00% 2019 Notes, the 2024 Notes, and the 2028 Notes we recorded a discount of \$2,777 and debt issuance costs of \$15,644, which are being amortized over the term of the notes. As of June 30, 2018, \$1,664 of the original issue discount and \$9,343 of the debt issuance costs remain to be amortized and are included as a reduction within Public Notes on the Consolidated Statement of Assets and Liabilities.

During the years ended June 30, 2018, 2017 and 2016, we recorded \$44,269, \$43,898 and \$36,859, respectively, of interest costs and amortization of financing costs on the Public Notes as interest expense.

Prospect Capital InterNotes®

On February 16, 2012, we entered into a selling agent agreement (the “Selling Agent Agreement”) with Incapital LLC, as purchasing agent for our issuance and sale from time to time of up to \$500,000 of Prospect Capital InterNotes® (the “InterNotes® Offering”), which was increased to \$1,500,000 in May 2014. Additional agents may be appointed by us from time to time in connection with the InterNotes® Offering and become parties to the Selling Agent Agreement.

These notes are direct unsecured obligations and rank equally with all of our unsecured indebtedness from time to time outstanding. Each series of notes will be issued by a separate trust. These notes bear interest at fixed interest rates and offer a variety of maturities no less than twelve months from the original date of issuance.

During the year ended June 30, 2018, we issued \$76,297 aggregate principal amount of Prospect Capital InterNotes® for net proceeds of \$75,159. These notes were issued with stated interest rates ranging from 4.00% to 5.25% with a weighted average interest rate of 4.42%. These notes will mature between July 15, 2022 and May 15, 2026. The following table summarizes the Prospect Capital InterNotes® issued during the year ended June 30, 2018.

| Tenor at Origination (in years) | Principal Amount | Interest Rate Range | Weighted Average Interest Rate | Maturity Date Range |
|---------------------------------|------------------|---------------------|--------------------------------|--------------------------------|
| 5 | \$46,893 | 4.00% - 5.00% | 4.24 % | July 15, 2022 - June 15, 2023 |
| 7 | 4,684 | 4.75% - 5.25% | 5.06 % | July 15, 2024 - June 15, 2025 |
| 8 | 24,720 | 4.50% - 5.25% | 4.65 % | August 15, 2025 - May 15, 2026 |
| | \$76,297 | | | |

During the year ended June 30, 2017, we issued \$138,882 aggregate principal amount of our Prospect Capital InterNotes® for net proceeds of \$137,150. The following table summarizes the Prospect Capital InterNotes® issued during the year ended June 30, 2017.

| Tenor at Origination (in years) | Principal Amount | Interest Rate Range | Weighted Average Interest Rate | Maturity Date Range |
|---------------------------------|------------------|---------------------|--------------------------------|-------------------------------|
| 5 | \$138,882 | 4.75% - 5.50% | 5.08 % | July 15, 2021 - June 15, 2022 |
| | \$138,882 | | | |

During the year ended June 30, 2018, we redeemed, prior to maturity, \$269,375 aggregate principal amount of Prospect Capital InterNotes® at par with a weighted average interest rate of 4.89% in order to replace shorter maturity debt with longer-term debt. During the year ended June 30, 2018, we repaid \$6,899 aggregate principal amount of Prospect Capital InterNotes® at par in accordance with the Survivor’s Option, as defined in the InterNotes® Offering prospectus. As a result of these transactions, we recorded a loss in the amount of the unamortized debt issuance costs. The net loss on the extinguishment of Prospect Capital InterNotes® in the year ended June 30, 2018 was \$1,506. The

following table summarizes the Prospect Capital InterNotes® outstanding as of June 30, 2018.

85

Edgar Filing: PROSPECT CAPITAL CORP - Form 10-K

| Tenor at Origination (in years) | Principal Amount | Interest Rate Range | Weighted Average Interest Rate | Maturity Date Range |
|---------------------------------|------------------|---------------------|--------------------------------|---------------------------------------|
| 5 | \$228,835 | 4.00% – 5.50% | 4.92 % | July 15, 2020 - June 15, 2023 |
| 5.2 | 4,440 | 4.63% | 4.63 % | August 15, 2020 - September 15, 2020 |
| 5.3 | 2,636 | 4.63% | 4.63 % | September 15, 2020 |
| 5.5 | 86,097 | 4.25% – 4.75% | 4.61 % | May 15, 2020 - November 15, 2020 |
| 6 | 2,182 | 4.88% | 4.88 % | April 15, 2021 - May 15, 2021 |
| 6.5 | 38,832 | 5.10% – 5.25% | 5.23 % | December 15, 2021 - May 15, 2022 |
| 7 | 147,349 | 4.00% – 5.75% | 5.05 % | January 15, 2020 - June 15, 2025 |
| 7.5 | 1,996 | 5.75% | 5.75 % | February 15, 2021 |
| 8 | 24,720 | 4.50% – 5.25% | 4.65 % | August 15, 2025 - May 15, 2026 |
| 10 | 37,424 | 5.34% – 7.00% | 6.19 % | March 15, 2022 - December 15, 2025 |
| 12 | 2,978 | 6.00% | 6.00 % | November 15, 2025 - December 15, 2025 |
| 15 | 17,163 | 5.25% – 6.00% | 5.35 % | May 15, 2028 - November 15, 2028 |
| 18 | 20,677 | 4.13% – 6.25% | 5.55 % | December 15, 2030 - August 15, 2031 |
| 20 | 4,120 | 5.75% – 6.00% | 5.89 % | November 15, 2032 - October 15, 2033 |
| 25 | 33,139 | 6.25% – 6.50% | 6.39 % | August 15, 2038 - May 15, 2039 |
| 30 | 108,336 | 5.50% – 6.75% | 6.24 % | November 15, 2042 - October 15, 2043 |
| | \$760,924 | | | |

During the year ended June 30, 2017, we redeemed \$49,947 aggregate principal amount of Prospect Capital InterNotes® at par with a weighted average interest rate of 4.87% in order to replace debt with shorter maturity dates. During the year ended June 30, 2017, we repaid \$8,880 aggregate principal amount of Prospect Capital InterNotes® at par in accordance with the Survivor's Option, as defined in the InterNotes® Offering prospectus. As a result of these transactions, we recorded a loss in the amount of the difference between the reacquisition price and the net carrying amount of the notes, net of the proportionate amount of unamortized debt issuance costs. The net gain on the extinguishment of Prospect Capital InterNotes® in the year ended June 30, 2017 was \$525.

The following table summarizes the Prospect Capital InterNotes® outstanding as of June 30, 2017.

| Tenor at Origination (in years) | Principal Amount | Interest Rate Range | Weighted Average Interest Rate | Maturity Date Range |
|---------------------------------|------------------|---------------------|--------------------------------|---------------------------------------|
| 4 | \$39,038 | 3.75% - 4.00% | 3.92 % | November 15, 2017 - May 15, 2018 |
| 5 | 354,805 | 4.25% - 5.50% | 5.00 % | July 15, 2018 - June 15, 2022 |
| 5.2 | 4,440 | 4.63% | 4.63 % | August 15, 2020 - September 15, 2020 |
| 5.3 | 2,686 | 4.63% | 4.63 % | September 15, 2020 |
| 5.4 | 5,000 | 4.75% | 4.75 % | August 15, 2019 |
| 5.5 | 109,068 | 4.25% - 5.00% | 4.67 % | February 15, 2019 - November 15, 2020 |
| 6 | 2,182 | 4.88% | 4.88 % | April 15, 2021 - May 15, 2021 |
| 6.5 | 40,702 | 5.10% - 5.50% | 5.24 % | February 15, 2020 - May 15, 2022 |
| 7 | 191,356 | 4.00% - 6.55% | 5.38 % | June 15, 2019 - December 15, 2022 |
| 7.5 | 1,996 | 5.75% | 5.75 % | February 15, 2021 |
| 10 | 37,509 | 4.27% - 7.00% | 6.20 % | March 15, 2022 - December 15, 2025 |
| 12 | 2,978 | 6.00% | 6.00 % | November 15, 2025 - December 15, 2025 |
| 15 | 17,245 | 5.25% - 6.00% | 5.36 % | May 15, 2028 - November 15, 2028 |
| 18 | 21,532 | 4.13% - 6.25% | 5.47 % | December 15, 2030 - August 15, 2031 |
| 20 | 4,248 | 5.63% - 6.00% | 5.84 % | November 15, 2032 - October 15, 2033 |
| 25 | 34,218 | 6.25% - 6.50% | 6.39 % | August 15, 2038 - May 15, 2039 |

30 111,491 5.50% - 6.75% 6.22 % November 15, 2042 - October 15, 2043
\$980,494

86

In connection with the issuance of Prospect Capital InterNotes®, we incurred \$24,465 of fees which are being amortized over the term of the notes, of which \$11,998 remains to be amortized and is included as a reduction within Prospect Capital InterNotes® on the Consolidated Statement of Assets and Liabilities as of June 30, 2018.

During the years ended June 30, 2018, 2017 and 2016, we recorded \$46,580, \$53,560 and \$48,681, respectively, of interest costs and amortization of financing costs on the Prospect Capital InterNotes® as interest expense.

Net Asset Value

During the year ended June 30, 2018, our net asset value increased by \$52,095 or \$0.03 per share. This increase is primarily from an increase in net realized and change in unrealized gains (losses) of \$13,013, or \$0.04 per share, driven by increases in the fair values of our controlled companies operating in the consumer finance and real estate industries, partially offset by a decrease in the fair value of our CLO portfolio. (See Change in Unrealized Gains (Losses), Net for further discussion.) Net investment income exceeded distributions to shareholders by \$0.02 per share during the period. These increases were partially offset by a \$0.03 per share decline is related to the effect from reinvestment of our dividends on behalf of our stockholders at current market prices. The following table shows the calculation of net asset value per share as of June 30, 2018 and June 30, 2017.

| | June 30, 2018 | June 30, 2017 |
|---|------------------|------------------|
| Net assets | \$3,407,047 | \$3,354,952 |
| Shares of common stock issued and outstanding | 364,409,938 | 360,076,933 |
| Net asset value per share | \$9.35 | \$9.32 |

Results of Operations

Net increase in net assets resulting from operations for the years ended June 30, 2018, 2017 and 2016 was \$299,863, \$252,906 and \$103,362, or \$0.83, \$0.70, and \$0.29 per weighted average share, respectively. During the year ended June 30, 2018, the \$46,957 increase is primarily due to an increase net realized and change in unrealized gains of \$20,607 recognized during the year ended June 30, 2018 compared to \$46,165 of net realized and unrealized losses recognized during the year ended June 30, 2017. This fluctuation is primarily due to increased value from increases in the fair values of our controlled companies operating in the consumer finance and real estate industries, partially offset by a decrease in the fair value of our CLO portfolio. The \$66,772, or \$0.19 per weighted average share, favorable change in net realized and change in unrealized gains (losses) is partially offset by a \$61,705, or \$0.18 per weighted average share, unfavorable decline in total interest income primarily due to reduced returns from our structured credit investments as a result of lower future expected cash flows and decreases in interest income due to repayments on investments. The unfavorable decline in total interest income is offset by a \$7,367, or \$0.02 per weighted average share, increase in dividend income which is primarily attributable to \$11,279 dividends received from our investment in NPRC, which was generated from taxable earnings and profits in connection with the gain on the sales of NPRC's St. Marin and Central Park properties. No such dividends were received from NPRC during the year ended June 30, 2017. The unfavorable decline in total interest income is further offset by a \$11,137, or \$0.03 per weighted average share, increase in total other income. (See "Investment Income", "Net Realized Losses" and "Net Change in Unrealized Gains (Losses)" for further discussion).

Net increase in net assets resulting from operations for the year ended June 30, 2017 was \$252,906, an increase of \$149,544 compared to the year ended June 30, 2016. The increase is primarily due to a decrease in net realized and change in unrealized losses of \$46,165 recognized during the year ended June 30, 2017 compared to \$267,990 of net realized and unrealized losses recognized during the year ended June 30, 2016. This fluctuation is primarily due to decreases in market yields and the competitive environment faced by our energy-related companies during the year ended June 30, 2016. This \$221,825, or \$0.62 per weighted average share, favorable decrease in net realized and change in unrealized losses is partially offset by \$62,901 decrease in interest income driven by a decline in returns from CLOs, a reduced interest earning asset base and additional loans on non-accrual status. Additionally, net realized and change in unrealized losses is partially offset by a \$20,822 decline in dividend income primarily a non-recurring dividend received from APRC in the prior year period.

While we seek to maximize gains and minimize losses, our investments in portfolio companies can expose our capital to risks greater than those we may anticipate. These companies typically do not issue securities rated investment

grade, and have limited resources, limited operating history, and concentrated product lines or customers. These are generally private companies with limited operating information available and are likely to depend on a small core of management talents. Changes in any of these factors can have a significant impact on the value of the portfolio company.

Investment Income

We generate revenue in the form of interest income on the debt securities that we own, dividend income on any common or preferred stock that we own, and fees generated from the structuring of new deals. Our investments, if in the form of debt securities, will typically have a term of one to ten years and bear interest at a fixed or floating rate. To the extent achievable, we will seek to collateralize our investments by obtaining security interests in our portfolio companies' assets. We also may acquire minority or majority equity interests in our portfolio companies, which may pay cash or in-kind dividends on a recurring or otherwise negotiated basis. In addition, we may generate revenue in other forms including prepayment penalties and possibly consulting fees. Any such fees generated in connection with our investments are recognized as earned.

Investment income, which consists of interest income, including accretion of loan origination fees and prepayment penalty fees, dividend income and other income, including settlement of net profits interests, overriding royalty interests and structuring fees, was \$657,845, \$701,046 and \$791,973 for the years ended June 30, 2018, 2017 and 2016, respectively. Investment income decreased from June 30, 2017 compared to June 30, 2018 primarily due to reduced returns from our structured credit investments due to lower future expected cash flows and decreases in interest income due to less interest earning assets outstanding. Investment income decreased from June 30, 2016 compared to June 30, 2017 primarily due to reduced returns from our structured credit investments due to lower future expected cash flows and a reduced interest earning asset base. Investment income also declined due to dividend income related to our investments in APRC and Echelon.

The following table describes the various components of investment income and the related levels of debt investments:

| | Year Ended June 30, | | |
|---|---------------------|-------------|-------------|
| | 2018 | 2017 | 2016 |
| Interest income | \$607,012 | \$668,717 | \$731,618 |
| Dividend income | 13,046 | 5,679 | 26,501 |
| Other income | 37,787 | 26,650 | 33,854 |
| Total investment income | \$657,845 | \$701,046 | \$791,973 |
| | | | |
| Average debt principal of performing interest bearing investments ⁽¹⁾ | \$5,474,563 | \$5,706,090 | \$6,013,754 |
| Weighted average interest rate earned on performing interest bearing investments ⁽¹⁾ | 11.09 | % 11.72 | % 12.17 |
| Average debt principal of all interest bearing investments ⁽²⁾ | \$5,792,662 | \$5,977,050 | \$6,013,754 |
| Weighted average interest rate earned on all interest bearing investments ⁽²⁾ | 10.48 | % 11.19 | % 12.17 |

⁽¹⁾ Excludes equity investments and non-accrual loans.

⁽²⁾ Excludes equity investments.

Average interest income producing assets decreased from \$5,706,090 for the year ended June 30, 2017 to \$5,474,563 for the year ended June 30, 2018. Higher levels of repayments of non-control investments contributed to the decline. The average interest earned on interest bearing performing assets decreased from 11.72% for the year ended June 30, 2017 to 11.09% for the year ended June 30, 2018. The decrease is primarily due to reduced returns from our structured credit investments, an increase in foregone interest due to non-accrual investments and lower levels of performing investments. Average interest income producing assets decreased from \$6,013,754 for the year ended June 30, 2016 to \$5,706,090 for the year ended June 30, 2017. The average interest earned on interest bearing performing assets decreased from 12.17% for the year ended June 30, 2016 to 11.72% for the year ended June 30, 2017. This moderate decrease is primarily due to repayments of lower yielding portfolio investments.

Investment income is also generated from dividends and other income, which is less predictable than interest income. Dividend income increased from \$5,679 for the year ended June 30, 2017 to \$13,046 for the year ended June 30, 2018. The \$7,367 increase in dividend income is primarily attributable to \$11,279 dividends received from our

investment in NPRC, which was generated from taxable earnings and profits in connection with the gain on the sales of NPRC's St. Marin and Central Park properties. No such dividends were received from NPRC during the year ended June 30, 2017. This increase was partially offset by a \$3,312 dividend from our investment in NAC, and other less individually significant dividends from our portfolio, received during the year ended June 30, 2017, for which no comparable dividend was received in the current year.

Dividend income decreased from \$26,501 for the year ended June 30, 2016 to \$5,679 for the year ended June 30, 2017. The \$20,822 decrease in dividend income is primarily attributable to an \$11,016 dividend received during the year ended June 30, 2016 from our investment in APRC resulting from the sale of APRC's Vista Palma Sola property. No such dividend was received from NPRC during the year ended June 30, 2017. Additionally, a \$7,250 dividend was received during the year ended June 30, 2016 from our investment in Echelon, whereas only \$200 of dividend was received during the year ended June 30, 2017. Additionally, the level of dividends received from our investment in CCPI and MITY decreased by \$3,073 and \$242, respectively, during the year ended June 30, 2017 as compared to the same period in the prior year. The decrease was partially offset by an increase of \$347 in dividends received from Nationwide for the year ended June 30, 2017.

Other income is comprised of structuring fees, royalty interests, and settlement of net profits interests. Other income increased \$11,137 from \$26,650 for the year ended June 30, 2017 to \$37,787 for the year ended June 30, 2018. The \$11,137 increase is primarily due to a \$4,011 increase in advisory fee income primarily attributable to a \$2,644 advisory fee received from our investment in First Tower related to a recent acquisition and \$1,222 of service fees received for a liquidation fee agreement related to our investment in Wolf. In addition, we received a \$3,233 structuring fee from our investment in Pacific World for services rendered in connection with amending its revolving credit facility. The increase in other income is also attributable to an additional \$651 increase in structuring fees and by a \$1,669 increase in amendment fee income, which are generated from new originations as well as from follow-on investments and amendments to existing portfolio companies.

Other income decreased from \$33,854 for the year ended June 30, 2016 to \$26,650 for the year ended June 30, 2017. The decrease is primarily due to a \$12,632 decrease in advisory fee income, which was generated from the Harbortouch transaction, as well as from follow-on investments in existing portfolio companies. This was offset by a \$4,388 increase in structuring fees and by a \$1,669 increase in amendment fee income, which are generated from new originations as well as from follow-on investments and amendments to existing portfolio companies.

Operating Expenses

Our primary operating expenses consist of investment advisory fees (base management and income incentive fees), borrowing costs, legal and professional fees and other operating and overhead-related expenses. These expenses include our allocable portion of overhead under the Administration Agreement with Prospect Administration under which Prospect Administration provides administrative services and facilities for us. Our investment advisory fees compensate the Investment Adviser for its work in identifying, evaluating, negotiating, closing and monitoring our investments. We bear all other costs and expenses of our operations and transactions. Operating expenses were \$370,995, \$394,964 and \$420,845 for the years ended June 30, 2018, 2017 and 2016, respectively.

Total gross base management fee was \$118,768, \$124,077 and \$128,416 for the years ended June 30, 2018, 2017 and 2016, respectively. The decrease in total gross base management fee is directly related a decrease in average total assets. The Investment Adviser has entered into a servicing agreement with certain institutions who purchased loans with us, where we serve as the agent and collect a servicing fee on behalf of the Investment Adviser. We received payments of \$722, \$1,203 and \$1,893 from these institutions for the years ended June 30, 2018, 2017 and 2016, respectively, on behalf of the Investment Adviser, for providing such services under the servicing agreement. We were given a credit for these payments as a reduction of base management fee payable by us to the Investment Adviser resulting in net base management fees of \$118,046, \$122,874 and \$126,523 for the years ended June 30, 2018, 2017 and 2016, respectively.

For the years ended June 30, 2018, 2017 and 2016, we incurred \$71,713, \$76,520 and \$92,782 of income incentive fees, respectively (\$0.20, \$0.21 and \$0.26 per weighted average share, respectively). This decrease was driven by a corresponding decrease in pre-incentive fee net investment income from \$382,602 for the year ended June 30, 2017 to \$358,563 for the year ended June 30, 2018 as a result of decreases in interest income due to reduced returns from our structured credit investments and repayments on investments. No capital gains incentive fee has yet been incurred pursuant to the Investment Advisory Agreement.

During the years ended June 30, 2018, 2017 and 2016, we incurred \$155,039, \$164,848 and \$167,719, respectively, of interest expenses related to our Revolving Credit Facility, Convertible Notes, Public Notes and Prospect Capital

InterNotes® (collectively, our “Notes”). These expenses are related directly to the leveraging capacity put into place for each of those periods and the levels of indebtedness actually undertaken in those periods.

The table below describes the various expenses of our Notes and the related indicators of leveraging capacity and indebtedness during these years.

| | Year Ended June 30, | | | |
|--|---------------------|--------------|--------------|---|
| | 2018 | 2017 | 2016 | |
| Interest on borrowings | \$ 134,270 | \$ 142,819 | \$ 146,659 | |
| Amortization of deferred financing costs | 12,063 | 13,013 | 13,561 | |
| Accretion of discount on Public Notes | 226 | 269 | 200 | |
| Facility commitment fees | 8,480 | 8,747 | 7,299 | |
| Total interest and credit facility expenses | \$ 155,039 | \$ 164,848 | \$ 167,719 | |
| | | | | |
| Average principal debt outstanding | \$ 2,535,681 | \$ 2,683,254 | \$ 2,807,125 | |
| Weighted average stated interest rate on borrowings ⁽¹⁾ | 5.30 | % 5.32 | % 5.22 | % |
| Weighted average interest rate on borrowings ⁽²⁾ | 6.11 | % 6.14 | % 5.97 | % |

(1) Includes only the stated interest expense.

(2) Includes the stated interest expense, amortization of deferred financing costs, accretion of discount on Public Notes and commitment fees on the undrawn portion of our Revolving Credit Facility.

Interest expense decreased during the years ended June 30, 2018 and June 30, 2017. The weighted average stated interest rate on borrowings (excluding amortization, accretion and undrawn facility fees) decreased from 5.32% for the year ended June 30, 2017 to 5.30% for the year ended June 30, 2018 primarily due to the repurchases and maturities of our Convertible Notes and Prospect Capital InterNotes® which bear higher rates than the remaining debt and increased utilization of our Revolving Credit Facility.

The weighted average stated interest rate on borrowings (excluding amortization, accretion and undrawn facility fees) increased from 5.22% for the year ended June 30, 2016 to 5.32% for the year ended June 30, 2017. This increase is primarily due to issuances of the 2024 Notes and Prospect Capital InterNotes® at higher rates, partially offset by the repayment and repurchases of our Convertible Notes.

The allocation of gross overhead expense from Prospect Administration was \$20,715, \$22,882 and \$20,313 for the years ended June 30, 2018, 2017 and 2016, respectively. Prospect Administration received estimated payments of \$10,684, \$8,760 and \$7,445 directly from our portfolio companies and certain funds managed by the Investment Adviser for legal, tax and portfolio level accounting services during the years ended June 30, 2018, 2017 and 2016, respectively. Estimated payments received by Prospect Administration during the year ended June 30, 2018 additionally included \$2,631 received from our insurance carrier. We were given a credit for these payments as a reduction of the administrative services cost payable by us to Prospect Administration. Had Prospect Administration not received these payments, Prospect Administration's charges for its administrative services would have increased by these amounts. During the year ended June 30, 2017, other operating expenses in the amount of \$876 incurred by us, which were attributable to CCPI, have been reimbursed by CCPI and are reflected as an offset to our overhead allocation. No such reimbursements or expenses occurred during the years ended June 30, 2018 or June 30, 2016. During the year ended June 30, 2016, we renegotiated the managerial assistance agreement with First Tower LLC ("First Tower") and reversed \$1,200 of previously accrued managerial assistance at First Tower Delaware, \$600 of which was expensed during the three months ended June 30, 2015, as the fee was paid by First Tower, which decreased our overhead expense. During the year ended June 30, 2016, we also incurred \$379 of overhead expense related to our consolidated entity SB Forging. Net overhead during the years ended June 30, 2018, 2017 and 2016 totaled \$10,031, \$13,246 and \$12,647, respectively.

Total operating expenses, excluding investment advisory fees, interest and credit facility expenses, and allocation of overhead from Prospect Administration ("Other Operating Expenses") were \$16,166, \$17,476 and \$21,174 for the years ended June 30, 2018, 2017 and 2016, respectively. The decrease of \$1,310 during the year ended June 30, 2018 is primarily attributable to a modest decline in general and administrative expense. The decrease of \$3,698 during the year ended June 30, 2017 is primarily due a reversal of excise tax previously accrued due to lower levels of taxable income, offset by a slight increase in audit, compliance and tax related fees.

Net Investment Income

Net investment income represents the difference between investment income and operating expenses. Net investment income was \$286,850, \$306,082 and \$371,128 for the years ended June 30, 2018, 2017, and 2016, respectively. Net investment income for years ended June 30, 2018, 2017, and 2016 was \$0.79, \$0.85 and \$1.04 per weighted average share, respectively. The \$19,232 decrease, or \$0.06 per weighted average share, for the year ended June 30, 2018 compared to the year ended June 30, 2017 is primarily the result of a \$61,705 decline in interest income, or \$0.18 per weighted average share, due to reduced returns from our structured credit investments, an increase in foregone interest due to non-accrual investments and lower levels of performing investments. The decline in interest income was offset by a \$7,367 increase in dividend income, or \$0.02 per weighted average share, that is primarily attributable to \$11,279 dividends received from our investment in NPRC. The decline in interest income was further offset by an increase in other income of \$11,137, or \$0.03 per weighted average share, which is primarily due to a \$4,011 increase in advisory fee income attributable to a \$2,644 advisory fee received from our investment in First Tower. In addition, we received a \$3,233 structuring fee from our investment in Pacific World for services rendered in connection with amending its revolving credit facility. The increase in other income is also attributable to an additional \$651 increase in structuring fees and by a \$1,669 increase in amendment fee income, which are generated from new originations as well as from follow-on investments and amendments to existing portfolio companies. Additionally, the decline in interest income was partially offset by a favorable \$9,635 decrease in advisory fees, or \$0.04 per weighted average share, and a favorable \$9,809 decrease in interest expense, or \$0.03 per weighted average share, primarily due to the repurchases and maturities of our Convertible Notes and Prospect Capital InterNotes® which bear higher rates than the remaining debt and increased utilization of our Revolving Credit Facility.

The \$65,046 decrease, or \$0.19 per weighted average share, for the year ended June 30, 2017 compared to the year ended June 30, 2016 is primarily the result of a \$62,901 decrease in interest income, or \$0.19 per weighted average share, driven primarily by a decline in interest income from reduced returns from our structured credit investments due to lower future expected cash flows, an additional \$248,357 weighted average balance of loans on non-accrual status and a reduced interest earning asset base, and a \$20,822 decrease in dividend income related to APRC, Echelon, CCPI and MITY discussed earlier. In addition to a decrease of \$7,204 of other income, or \$0.03 per weighted average share, due to a decrease of \$12,632 of advisory fee income from the sale of Harbortouch offset by an increase of \$4,888 in structuring fees and by a \$1,669 increase in amendment fee income. These decreases were partially offset by a favorable decrease in advisory fees of \$19,911, or \$0.06 per weighted average share, and a decrease of \$3,698, or \$0.01 per weighted average share, in other operating expenses.

Net Realized Gains (Losses)

During the years ended June 30, 2018, 2017 and 2016, we recognized net realized losses on investments of \$18,464, \$96,306 and \$24,417, respectively. The net realized loss during the year ended June 30, 2018 was primarily related to the write-down of Nixon, Inc. upon restructuring, resulting in a realized loss of \$14,197. We also recognized a net realized loss upon the repayment of our investment in Primesport, Inc. ("Primesport"), for which we agreed to a payment less than the par amount and realized a loss of \$3,019. Additionally, we recognized realized losses of \$2,495 from our call of our investment in Apidos IX CLO. During the year ended June 30, 2018, we repurchased \$98,353 aggregate principal amount of the 2019 Notes, repurchased \$146,464 aggregate principal amount of the 5.00% 2019 Notes, and redeemed \$269,375 aggregate principal amount of Prospect Capital InterNotes® (including amounts repaid in accordance with the Survivor's Option). As a result of these transactions, we recognized net realized losses on debt extinguishment of \$7,594 in the year ended June 30, 2018.

The net realized loss during the year ended June 30, 2017 was primarily due to the sale of Gulfc0 assets for which we recognized a total realized loss of \$66,103, of which \$53,063 had been previously recorded as an unrealized loss as of June 30, 2016. Additionally, in conjunction with the restructuring of our investment in Ark-La-Tex, we wrote-down the Term Loan B to its cost basis and realized a loss of \$19,818, of which \$23,239 had been previously recorded as an unrealized loss as of June 30, 2016. Additionally, during the year ended June 30, 2017, four of our CLO investments were redeemed and we recorded a total loss of \$17,242 to write down the amortized cost basis to its fair value. During the year ended June 30, 2017, we repurchased \$78,766 aggregate principal amount of the 2017 Notes, repurchased \$114,581 aggregate principal amount of the 2018 Notes, and redeemed \$58,377 aggregate principal amount of Prospect Capital InterNotes® (including amounts repaid in accordance with the Survivor's Option). As a result of these

transactions, we recognized net realized losses on debt extinguishment of \$7,011 in the year ended June 30, 2017.

91

The net realized loss during the year ended June 30, 2016 was primarily due to the write-down of our investment in Targus of \$14,194, the sale of our investments in American Gilsonite Company, ICON Health and Fitness, Inc., and Harbortouch for which we recognized total realized losses of \$10,860 and the write-off of defaulted loans in our small business lending portfolio of \$5,986. These losses were partially offset by net realized gains from the sale of two of our CLO investments for which we realized total gains of \$3,911. During the year ended June 30, 2016, we repurchased \$500 aggregate principal amount of the 2017 Notes and repaid \$7,069 aggregate principal amount of Prospect Capital InterNotes® (including amounts repaid in accordance with the Survivor's Option). As a result of these transactions, we recognized net realized gain on debt extinguishment of \$224 in the year ended June 30, 2016.

Net Change in Unrealized Gains (Losses)

Net change in unrealized gains (losses) was \$39,071, \$50,141 and \$(243,573) for the years ended June 30, 2018, 2017 and 2016, respectively. For the year ended June 30, 2018, the \$39,071 net favorable change in unrealized losses were primarily the result of unrealized gains related to our investments in consumer financing - Credit Central and First Tower - comprising \$72,807 and energy - CP Energy and Spartan Energy - comprising \$47,261. The fair value of our investment in NPRC increased resulting in an unrealized gain of \$30,981 primarily due to the improved property values, partially offset by a decline in our online lending portfolio value resulting from an increase in delinquent loans. Additionally, we reversed previously recorded unrealized losses of \$23,741 and \$14,197 related to our exited investments in PrimeSport and Nixon. The favorable changes in unrealized losses were offset by a \$33,339 decline in value of our investment in Pacific World due to a decrease in revenues and profitability, as well as a decrease in comparable company trading multiples. MITY declined in value by \$17,618 due to poor operating results. Our investment in InterDent also declined in value by \$13,812 due to lower projected future earnings as a result of customer attrition. The value of our investment in USC also decreased by \$10,663 due to both a decline in operating performance and the overall decline in demand for firearms and ammunition. Finally, our portfolio experienced \$72,439 of unrealized losses in our CLO investments due to a decline in the weighted average spread in the underlying senior secured loan portfolios, increase in discount rates, and collateral losses.

For the year ended June 30, 2017, the \$50,141 net change in unrealized gains was primarily the result of \$104,242 unrealized gains in our REITs portfolio due to improved operating performance at the property-level, and \$87,550 of realized losses that were previously unrealized related to our sale of Gulfco and the restructuring of Ark-La-Tex. The remaining \$141,077 increase in unrealized losses is primarily due to USC, energy-related companies, USES and our online lending portfolio. The value of our investment in USC decreased by \$53,443 due to both a decline in operating performance and the overall decline in demand for firearms and ammunition. Our energy-related companies continued to face a competitive market environment and declined in value by \$33,629. USES also declined in value by \$30,214 due to energy-related factors as well as a decline in operating performance. Additionally, the increase in unrealized losses on our online lending portfolio of \$23,791 were due to an increase in delinquent loans for the year ended June 30, 2017.

Financial Condition, Liquidity and Capital Resources

For the years ended June 30, 2018, 2017 and 2016, our operating activities provided \$369,106, \$376,201 and \$861,869 of cash, respectively. There were no investing activities for the years ended June 30, 2018, 2017 and 2016. Financing activities used \$603,431, \$375,916 and \$654,097 of cash during the years ended June 30, 2018, 2017 and 2016, respectively, which included dividend payments of \$255,911, \$333,623 and \$336,637, respectively.

Our primary uses of funds have been to continue to invest in portfolio companies, through both debt and equity investments, repay outstanding borrowings and to make cash distributions to holders of our common stock.

Our primary sources of funds have historically been issuances of debt and equity. More recently, we have and may continue to fund a portion of our cash needs through repayments and opportunistic sales of our existing investment portfolio. We may also securitize a portion of our investments in unsecured or senior secured loans or other assets. Our objective is to put in place such borrowings in order to enable us to expand our portfolio. During the year ended June 30, 2018, we borrowed \$810,000 and we made repayments totaling \$773,000 under the Revolving Credit Facility. As of June 30, 2018, we had, net of unamortized discount and debt issuance costs, \$809,073 outstanding on the Convertible Notes, \$716,810 outstanding on the Public Notes, \$748,926 outstanding on the Prospect Capital InterNotes®, and \$37,000 outstanding on the Revolving Credit Facility. (See "Capitalization" above.)

Undrawn committed revolvers and delayed draw term loans to our portfolio companies incur commitment and unused fees ranging from 0.00% to 5.00%. As of June 30, 2018 and June 30, 2017, we had \$29,675 and \$22,925, respectively, of undrawn revolver and delayed draw term loan commitments to our portfolio companies. The fair value of our undrawn committed revolvers and delayed draw term loans was zero as of June 30, 2018 and June 30, 2017.

Our shareholders' equity accounts as of June 30, 2018, June 30, 2017 and June 30, 2016 reflect cumulative shares issued, net of shares repurchased, as of those respective dates. Our common stock has been issued through public offerings, a registered direct offering, the exercise of over-allotment options on the part of the underwriters, our dividend reinvestment plan and in connection with the acquisition of certain controlled portfolio companies. When our common stock is issued, the related offering expenses have been charged against paid-in capital in excess of par. All underwriting fees and offering expenses were borne by us.

As part of our Repurchase Program, we delivered a notice with our annual proxy mailing on September 22, 2017. We did not repurchase any shares of our common stock for the year ended June 30, 2018. During the year ended June 30, 2016, we repurchased 4,708,750 shares of our common stock pursuant to our publicly announced Repurchase Program for \$34,140, or approximately \$7.25 weighted average price per share at approximately a 30% discount to net asset value as of June 30, 2015. Our NAV per share was increased by approximately \$0.02 for the year ended June 30, 2016 as a result of the share repurchases.

On August 31, 2016, we filed a registration statement on Form N-2 (File No. 333-213391) with the SEC. We subsequently filed a Pre-Effective Amendment No. 2 thereto on November 1, 2016, which the SEC declared effective on November 3, 2016. On October 26, 2017, we filed Post-Effective Amendment No. 50 to the registration statement, which the SEC declared effective on October 30, 2017. The registration statement permits us to issue, through one or more transactions, up to an aggregate of \$5,000,000 in securities, consisting of common stock, preferred stock, debt securities, subscription rights to purchase our securities, warrants representing rights to purchase our securities or separately tradeable units combining two or more of our securities. As of June 30, 2018, we have the ability to issue up to \$4,386,415 of additional debt and equity securities under the registration statement.

Off-Balance Sheet Arrangements

As of June 30, 2018, we did not have any off-balance sheet liabilities or other contractual obligations that are reasonably likely to have a current or future material effect on our financial condition, other than those which originate from 1) the investment advisory and management agreement and the administration agreement and 2) the portfolio companies.

Recent Developments

On July 2, 2018, we entered into debt distribution agreements with each of B. Riley FBR, Inc. and BB&T Capital Markets, a division of BB&T Securities, LLC (together, the "Agents") pursuant to which we may sell, by means of at-the-market offerings, up to \$100,000 in aggregate principal amount of our 2024 Notes and up to \$100,000 in aggregate principal amount of the 2028 Notes. As of August 28, 2018, we have issued an additional \$10,131 in aggregate principal amount of our 2024 Notes for net proceeds of \$10,070 and have issued an additional \$6,917 in aggregate principal amount of our 2028 Notes for net proceeds of \$6,838.

During the period from July 13, 2018 to July 16, 2018, we made follow-on first lien term loan investments of \$105,000 in Town & Country Holdings, Inc., to support acquisitions.

On August 1, 2018, we completed an extension of the Revolving Credit Facility (the "New Facility") for PCF, extending the term 5.7 years from such date and reducing the interest rate on drawn amounts to one-month Libor plus 2.20%. The New Facility, for which \$770 million of commitments have been closed to date, includes an accordion feature that allows the Facility, at Prospect's discretion, to accept up to a total of \$1.5 billion of commitments. The New Facility matures on March 27, 2024. It includes a revolving period that extends through March 27, 2022, followed by an additional two-year amortization period, with distributions allowed to Prospect after the completion of the revolving period. Pricing for amounts drawn under the Facility is one-month Libor plus 2.20%, which achieves a 5 basis point reduction in the interest rate from the previous facility rate of Libor plus 2.25%. Additionally, the lenders charge a fee on the unused portion of the credit facility equal to either 50 basis points if more than 60% of the credit facility is drawn, or 100 basis points if more than 35% and an amount less than or equal to 60% of the credit facility is drawn, or 150 basis points if an amount less than or equal to 35% of the credit facility is drawn.

On August 1, 2018, we purchased from a third party \$14,000 of First Lien Senior Secured Term Loan A and Term Loan B Notes issued by InterDent, Inc. at par.

On August 6, 2018, we made a \$17,500 senior secured investment in Halyard MD OPCO, LLC, a healthcare IT and advertising technology business that enables targeted advertising campaigns to healthcare providers and patients. Our investment is comprised of a \$12,000 first lien term loan, a \$2,000 unfunded revolving credit facility, and a \$3,500 unfunded delayed draw investment.

During the period from July 1, 2018 through August 28, 2018, we issued \$25,330 aggregate principal amount of Prospect Capital InterNotes® for net proceeds of \$24,919. In addition, we sold \$2,215 aggregate principal amount of Prospect Capital InterNotes® for net proceeds of \$2,176 with expected closing on August 30, 2018.

Pursuant to notice to call provided on July 5, 2018, we redeemed \$2,589 of our Prospect Capital InterNotes® at par maturing on February 15, 2020, with a weighted average rate of 4.0%. Settlement of the call occurred on August 15, 2018. We have provided notice to call on August 8, 2018 with settlement on September 15, 2018, \$26,771 of our Prospect Capital InterNotes® at par maturing between March 15, 2020 and September 15, 2020, with a weighted average rate of 4.77%.

On August 28, 2018, we announced the declaration of monthly dividends in the following amounts and with the following dates:

• \$0.06 per share for September 2018 to holders of record on September 28, 2018 with a payment date of October 18, 2018.

• \$0.06 per share for October 2018 to holders of record on October 31, 2018 with a payment date of November 21, 2018.

Critical Accounting Policies and Estimates

Basis of Presentation and Consolidation

The accompanying consolidated financial statements have been prepared in accordance with United States generally accepted accounting principles (“GAAP”) pursuant to the requirements for reporting on Form 10-K, ASC 946, Financial Services—Investment Companies (“ASC 946”), and Articles 3, 6 and 12 of Regulation S-X. Under the 1940 Act, ASC 946, and the regulations pursuant to Article 6 of Regulation S-X, we are precluded from consolidating any entity other than another investment company or an operating company which provides substantially all of its services to benefit us. Our consolidated financial statements include the accounts of Prospect, PCF, PSBL, PYC, and the Consolidated Holding Companies. All intercompany balances and transactions have been eliminated in consolidation. The financial results of our non-substantially wholly-owned holding companies and operating portfolio company investments are not consolidated in the financial statements. Any operating companies owned by the Consolidated Holding Companies are not consolidated.

Reclassifications

Certain reclassifications have been made in the presentation of prior consolidated financial statements and accompanying notes to conform to the presentation as of and for the year ended June 30, 2018.

Use of Estimates

The preparation of the consolidated financial statements in accordance with GAAP requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the consolidated financial statements and the reported amounts of income, expenses, and gains and losses during the reported period. Changes in the economic environment, financial markets, creditworthiness of the issuers of our investment portfolio and any other parameters used in determining these estimates could cause actual results to differ, and these differences could be material.

Investment Classification

We are a non-diversified company within the meaning of the 1940 Act. As required by the 1940 Act, we classify our investments by level of control. As defined in the 1940 Act, “Control Investments” are those where there is the ability or power to exercise a controlling influence over the management or policies of a company. Control is generally deemed to exist when a company or individual possesses or has the right to acquire within 60 days or less, a beneficial ownership of more than 25% of the voting securities of an investee company. Under the 1940 Act, “Affiliate Investments” are defined by a lesser degree of influence and are deemed to exist through the possession outright or via the right to acquire within 60 days or less, beneficial ownership of 5% or more of the outstanding voting securities of another person. “Non-Control/Non-Affiliate Investments” are those that are neither Control Investments nor Affiliate Investments.

As a BDC, we must not acquire any assets other than “qualifying assets” specified in the 1940 Act unless, at the time the acquisition is made, at least 70% of our total assets are qualifying assets (with certain limited exceptions). As of June 30, 2018 and June 30, 2017, our qualifying assets as a percentage of total assets, stood at 73.20% and 71.75%, respectively.

Investment Transactions

Investments are recognized when we assume an obligation to acquire a financial instrument and assume the risks for gains or losses related to that instrument. Specifically, we record all security transactions on a trade date basis.

Investments are derecognized when we assume an obligation to sell a financial instrument and forego the risks for gains or losses related to that instrument. In accordance with ASC 325-40, Beneficial Interest in Securitized Financial Assets, investments in CLOs are periodically assessed for other-than-temporary impairment (“OTTI”). When the Company determines that a CLO has OTTI, the amortized cost basis of the CLO is written down to its fair value as of the date of the determination based on events and information evaluated and that

write-down is recognized as a realized loss. Amounts for investments traded but not yet settled are reported in Due to Broker or Due from Broker, in the Consolidated Statements of Assets and Liabilities.

Foreign Currency

Foreign currency amounts are translated into US Dollars (USD) on the following basis:

- i. fair value of investment securities, other assets and liabilities—at the spot exchange rate on the last business day of the period; and
- ii. purchases and sales of investment securities, income and expenses—at the rates of exchange prevailing on the respective dates of such investment transactions, income or expenses.

We do not isolate that portion of the results of operations resulting from changes in foreign exchange rates on investments from the fluctuations arising from changes in fair values of investments held or disposed of during the period. Such fluctuations are included within the net realized and net change in unrealized gains or losses from investments in the Consolidated Statements of Operations.

Investment Risks

Our investments are subject to a variety of risks. Those risks include the following:

Market Risk

Market risk represents the potential loss that can be caused by a change in the fair value of the financial instrument.

Credit Risk

Credit risk represents the risk that we would incur if the counterparties failed to perform pursuant to the terms of their agreements with us.

Liquidity Risk

Liquidity risk represents the possibility that we may not be able to rapidly adjust the size of our investment positions in times of high volatility and financial stress at a reasonable price.

Interest Rate Risk

Interest rate risk represents a change in interest rates, which could result in an adverse change in the fair value of an interest-bearing financial instrument.

Prepayment Risk

Many of our debt investments allow for prepayment of principal without penalty. Downward changes in interest rates may cause prepayments to occur at a faster than expected rate, thereby effectively shortening the maturity of the security and making us less likely to fully earn all of the expected income of that security and reinvesting in a lower yielding instrument.

Structured Credit Related Risk

CLO investments may be riskier and less transparent to us than direct investments in underlying companies. CLOs typically will have no significant assets other than their underlying senior secured loans. Therefore, payments on CLO investments are and will be payable solely from the cash flows from such senior secured loans.

Online Small-and-Medium-Sized Business Lending Risk

With respect to our online SME lending initiative, we invest primarily in marketplace loans through marketplace lending facilitators. We do not conduct loan origination activities ourselves. Therefore, our ability to purchase SME loans, and our ability to grow our portfolio of SME loans, is directly influenced by the business performance and competitiveness of the marketplace loan origination business of the marketplace lending facilitators from which we purchase SME loans. In addition, our ability to analyze the risk-return profile of SME loans is significantly dependent on the marketplace facilitators' ability to effectively evaluate a borrower's credit profile and likelihood of default. If we are unable to effectively evaluate borrowers'

credit profiles or the credit decisioning and scoring models implemented by each facilitator, we may incur unanticipated losses which could adversely impact our operating results.

Foreign Currency

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

Investment Valuation

To value our investments, we follow the guidance of ASC 820, Fair Value Measurement (“ASC 820”), that defines fair value, establishes a framework for measuring fair value in conformity with GAAP, and requires disclosures about fair value measurements. In accordance with ASC 820, the fair value of our investments is defined as the price that we would receive upon selling an investment in an orderly transaction to an independent buyer in the principal or most advantageous market in which that investment is transacted.

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

Level 1: Quoted prices in active markets for identical assets or liabilities, accessible by us at the measurement date.

Level 2: Quoted prices for similar assets or liabilities in active markets, or quoted prices for identical or similar assets or liabilities in markets that are not active, or other observable inputs other than quoted prices.

Level 3: Unobservable inputs for the asset or liability.

In all cases, the level in the fair value hierarchy within which the fair value measurement in its entirety falls has been determined based on the lowest level of input that is significant to the fair value measurement. Our assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment and considers factors specific to each investment.

Our Board of Directors has established procedures for the valuation of our investment portfolio. These procedures are detailed below.

Investments for which market quotations are readily available are valued at such market quotations.

For most of our investments, market quotations are not available. With respect to investments for which market quotations are not readily available or when such market quotations are deemed not to represent fair value, our Board of Directors has approved a multi-step valuation process each quarter, as described below.

1. Each portfolio company or investment is reviewed by our investment professionals with independent valuation firms engaged by our Board of Directors.
2. The independent valuation firms prepare independent valuations for each investment based on their own independent assessments and issue their report.
3. The Audit Committee of our Board of Directors reviews and discusses with the independent valuation firms the valuation reports, and then makes a recommendation to the Board of Directors of the value for each investment. The Board of Directors discusses valuations and determines the fair value of each investment in our portfolio in
4. good faith based on the input of the Investment Adviser, the respective independent valuation firm and the Audit Committee.

Our non-CLO investments are valued utilizing a yield technique, enterprise value (“EV”) technique, net asset value technique, liquidation technique, discounted cash flow technique, or a combination of techniques, as appropriate. The yield technique uses loan spreads for loans and other relevant information implied by market data involving identical or comparable assets or liabilities. Under the EV technique, the EV of a portfolio company is first determined and allocated over the portfolio company’s securities in order of their preference relative to one another (i.e., “waterfall” allocation). To determine the EV, we typically use a market (multiples) valuation approach that considers relevant and applicable market trading data of guideline public companies, transaction metrics from precedent merger and acquisitions transactions, and/or a discounted cash flow technique. The net asset value technique, an income approach, is used to derive a value of an underlying investment (such as real estate property) by dividing a relevant earnings stream by an appropriate capitalization rate. For this purpose, we consider capitalization rates for similar properties as

may be obtained from guideline public companies and/or relevant transactions. The liquidation technique is intended to approximate the net recovery value of an investment based on, among other things, assumptions regarding liquidation proceeds based on a hypothetical liquidation of a portfolio company's assets. The discounted cash flow technique converts future cash flows or earnings to a range of fair values from which a single estimate may be derived utilizing an appropriate discount rate. The fair value measurement is based on the net present value indicated by current market expectations about those future amounts.

In applying these methodologies, additional factors that we consider in valuing our investments may include, as we deem relevant: security covenants, call protection provisions, and information rights; the nature and realizable value of any collateral; the portfolio company's ability to make payments; the principal markets in which the portfolio company does business; publicly available financial ratios of peer companies; the principal market; and enterprise values, among other factors.

Our investments in CLOs are classified as Level 3 fair value measured securities under ASC 820 and are valued using a discounted multi-path cash flow model. The CLO structures are analyzed to identify the risk exposures and to determine an appropriate call date (i.e., expected maturity). These risk factors are sensitized in the multi-path cash flow model using Monte Carlo simulations, which is a simulation used to model the probability of different outcomes, to generate probability-weighted (i.e., multi-path) cash flows from the underlying assets and liabilities. These cash flows are discounted using appropriate market discount rates, and relevant data in the CLO market as well as certain benchmark credit indices are considered, to determine the value of each CLO investment. In addition, we generate a single-path cash flow utilizing our best estimate of expected cash receipts, and assess the reasonableness of the implied discount rate that would be effective for the value derived from the multi-path cash flows. We are not responsible for and have no influence over the asset management of the portfolios underlying the CLO investments we hold, as those portfolios are managed by non-affiliated third party CLO collateral managers. The main risk factors are default risk, prepayment risk, interest rate risk, downgrade risk, and credit spread risk.

Valuation of Other Financial Assets and Financial Liabilities

ASC 825, Financial Instruments, specifically ASC 825-10-25, permits an entity to choose, at specified election dates, to measure eligible items at fair value (the "Fair Value Option"). We have not elected the Fair Value Option to report selected financial assets and financial liabilities. See Note 8 in the accompanying Consolidated Financial Statements for further discussion of our financial liabilities that are measured using another measurement attribute.

Convertible Notes

We have recorded the Convertible Notes at their contractual amounts. We have determined that the embedded conversion options in the Convertible Unsecured Notes are not required to be separately accounted for as a derivative under ASC 815, Derivatives and Hedging. See Note 5 in the accompanying Consolidated Financial Statements for further discussion.

Revenue Recognition

Realized gains or losses on the sale of investments are calculated using the specific identification method.

Interest income, adjusted for amortization of premium and accretion of discount, is recorded on an accrual basis. Loan origination fees, original issue discount, and market discounts are capitalized and accreted into interest income over the respective terms of the applicable loans using the effective interest method or straight-line, as applicable, and adjusted only for material amendments or prepayments. Upon a prepayment of a loan, prepayment premiums, original issue discount, or market discounts are recorded as interest income.

Loans are placed on non-accrual status when there is reasonable doubt that principal or interest will be collected.

Unpaid accrued interest is generally reversed when a loan is placed on non-accrual status. Interest payments received on non-accrual loans are either applied to the cost basis or interest income, depending upon management's judgment of the collectibility of the loan receivable. Non-accrual loans are restored to accrual status when past due principal and interest is paid and in management's judgment, is likely to remain current and future principal and interest collections when due are probable. Interest received and applied against cost while a loan is on non-accrual, and PIK interest capitalized but not recognized while on non-accrual, is recognized prospectively on the effective yield basis through maturity of the loan when placed back on accrual status, to the extent deemed collectible by management. As of June 30, 2018, approximately 2.5% of our total assets at fair value are in non-accrual status.

Some of our loans and other investments may have contractual payment-in-kind (“PIK”) interest or dividends. PIK income computed at the contractual rate is accrued into income and reflected as receivable up to the capitalization date. PIK investments offer issuers the option at each payment date of making payments in cash or in additional securities. When additional securities are received, they typically have the same terms, including maturity dates and interest rates as the original securities issued. On these payment dates, we capitalize the accrued interest (reflecting such amounts in the basis as additional securities received). PIK

generally becomes due at maturity of the investment or upon the investment being called by the issuer. At the point that we believe PIK is not fully expected to be realized, the PIK investment will be placed on non-accrual status. When a PIK investment is placed on non-accrual status, the accrued, uncapitalized interest or dividends are reversed from the related receivable through interest or dividend income, respectively. We do not reverse previously capitalized PIK interest or dividends. Upon capitalization, PIK is subject to the fair value estimates associated with their related investments. PIK investments on non-accrual status are restored to accrual status if we believe that PIK is expected to be realized.

Interest income from investments in the “equity” class of security of CLO funds (typically preferred shares, income notes or subordinated notes) and “equity” class of security of securitized trust is recorded based upon an estimation of an effective yield to expected maturity utilizing assumed cash flows in accordance with ASC 325-40, Beneficial Interests in Securitized Financial Assets. We monitor the expected cash inflows from our CLO and securitized trust equity investments, including the expected residual payments, and the effective yield is determined and updated periodically.

Dividend income is recorded on the ex-dividend date.

Other income generally includes amendment fees, commitment fees, administrative agent fees and structuring fees which are recorded when earned. Excess deal deposits, net profits interests and overriding royalty interests are included in other income. See Note 10 in the accompanying Consolidated Financial Statements for further discussion.

Federal and State Income Taxes

We have elected to be treated as a RIC and intend to continue to comply with the requirements of the Code applicable to regulated investment companies. We are required to distribute at least 90% of our investment company taxable income and intend to distribute (or retain through a deemed distribution) all of our investment company taxable income and net capital gains to stockholders; therefore, we have made no provision for income taxes. The character of income and gains that we will distribute is determined in accordance with income tax regulations that may differ from GAAP. Book and tax basis differences relating to stockholder dividends and distributions and other permanent book and tax differences are reclassified to paid-in capital.

If we do not distribute (or are not deemed to have distributed) at least 98% of our annual ordinary income and 98.2% of our capital gains in the calendar year earned, we will generally be required to pay an excise tax equal to 4% of the amount by which 98% of our annual ordinary income and 98.2% of our capital gains exceed the distributions from such taxable income for the year. To the extent that we determine that our estimated current year annual taxable income will be in excess of estimated current year dividend distributions from such taxable income, we accrue excise taxes, if any, on estimated excess taxable income. As of June 30, 2018, we do not expect to have any excise tax due for the 2018 calendar year. Thus, we have not accrued any excise tax for this period.

If we fail to satisfy the annual distribution requirement or otherwise fail to qualify as a RIC in any taxable year, we would be subject to tax on all of our taxable income at regular corporate income tax rates. We would not be able to deduct distributions to stockholders, nor would we be required to make distributions. Distributions would generally be taxable to our individual and other non-corporate taxable stockholders as ordinary dividend income eligible for the reduced maximum rate applicable to qualified dividend income to the extent of our current and accumulated earnings and profits, provided certain holding period and other requirements are met. Subject to certain limitations under the Code, corporate distributions would be eligible for the dividends-received deduction. To qualify again to be taxed as a RIC in a subsequent year, we would be required to distribute to our shareholders our accumulated earnings and profits attributable to non-RIC years. In addition, if we failed to qualify as a RIC for a period greater than two taxable years, then, in order to qualify as a RIC in a subsequent year, we would be required to elect to recognize and pay tax on any net built-in gain (the excess of aggregate gain, including items of income, over aggregate loss that would have been realized if we had been liquidated) or, alternatively, be subject to taxation on such built-in gain recognized for a period of five years.

We follow ASC 740, Income Taxes (“ASC 740”). ASC 740 provides guidance for how uncertain tax positions should be recognized, measured, presented, and disclosed in the consolidated financial statements. ASC 740 requires the evaluation of tax positions taken or expected to be taken in the course of preparing our tax returns to determine whether the tax positions are “more-likely-than-not” of being sustained by the applicable tax authority. Tax positions not deemed to meet the more-likely-than-not threshold are recorded as a tax benefit or expense in the current year. As of

June 30, 2018, we did not record any unrecognized tax benefits or liabilities. Management's determinations regarding ASC 740 may be subject to review and adjustment at a later date based upon factors including, but not limited to, an on-going analysis of tax laws, regulations and interpretations thereof. Although we file both federal and state income tax returns, our major tax jurisdiction is federal. Our federal tax returns for the tax years ended August 31, 2015 and thereafter remain subject to examination by the Internal Revenue Service.

Dividends and Distributions

Dividends and distributions to common stockholders are recorded on the ex-dividend date. The amount, if any, to be paid as a monthly dividend or distribution is approved by our Board of Directors quarterly and is generally based upon our management's estimate of our future taxable earnings. Net realized capital gains, if any, are distributed at least annually.

Financing Costs

We record origination expenses related to our Revolving Credit Facility and the Unsecured Notes as deferred financing costs. These expenses are deferred and amortized as part of interest expense using the straight-line method over the stated life of the obligation for our Revolving Credit Facility. The same methodology is used to approximate the effective yield method for our Prospect Capital InterNotes® and our 2024 Notes Follow-on Program. The effective interest method is used to amortize deferred financing costs for our remaining Unsecured Notes over the respective expected life or maturity. In the event that we modify or extinguish our debt before maturity, we follow the guidance in ASC 470-50, Modification and Extinguishments ("ASC 470-50"). For modifications to or exchanges of our Revolving Credit Facility, any unamortized deferred costs relating to lenders who are not part of the new lending group are expensed. For extinguishments of our Unsecured Notes, any unamortized deferred costs are deducted from the carrying amount of the debt in determining the gain or loss from the extinguishment.

Unamortized deferred financing costs are presented as a direct deduction to the respective Unsecured Notes (see Notes 5, 6, and 7 in the accompanying Consolidated Financial Statements for further discussion).

We may record registration expenses related to shelf filings as prepaid expenses. These expenses consist principally of SEC registration fees, legal fees and accounting fees incurred. These prepaid expenses are charged to capital upon the receipt of proceeds from an equity offering or charged to expense if no offering is completed. As of June 30, 2018 and June 30, 2017, there are no prepaid expenses related to registration expenses and all amounts incurred have been expensed.

Guarantees and Indemnification Agreements

We follow ASC 460, Guarantees ("ASC 460"). ASC 460 elaborates on the disclosure requirements of a guarantor in its interim and annual consolidated financial statements about its obligations under certain guarantees that it has issued. It also requires a guarantor to recognize, at the inception of a guarantee, for those guarantees that are covered by ASC 460, the fair value of the obligation undertaken in issuing certain guarantees.

Per Share Information

Net increase or decrease in net assets resulting from operations per share is calculated using the weighted average number of common shares outstanding for the period presented. In accordance with ASC 946, convertible securities are not considered in the calculation of net asset value per share.

Recent Accounting Pronouncements

In June 2016, the FASB issued ASU 2016-13, Financial Instruments-Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments ("ASU 2016-13"), which amends the financial instruments impairment guidance so that an entity is required to measure expected credit losses for financial assets based on historical experience, current conditions and reasonable and supportable forecasts. As such, an entity will use forward-looking information to estimate credit losses. ASU 2016-13 also amends the guidance in FASB ASC Subtopic No. 325-40, Investments-Other, Beneficial Interests in Securitized Financial Assets, related to the subsequent measurement of accretible yield recognized as interest income over the life of a beneficial interest in securitized financial assets under the effective yield method. ASU 2016-13 is effective for financial statements issued for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. Early adoption is permitted as of the fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. We are currently evaluating the impact, if any, of adopting this ASU on our consolidated financial statements.

In August 2016, the FASB issued ASU 2016-15, Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments (“ASU 2016-15”), which addresses certain aspects of cash flow statement classification. One such amendment requires cash payments for debt prepayment or debt extinguishment costs to be classified as cash outflows for financing activities. ASU 2016-15 is effective for financial statements issued for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years. Early adoption is permitted, including adoption in an interim period. If an entity early adopts the amendments in an interim period, any adjustments should be reflected as of the beginning of the fiscal year that includes that interim period. An entity that elects early adoption must adopt all of the amendments in the same period. The adoption of the amended guidance in ASU 2016-15 is not expected to have a significant effect on our consolidated financial statements and disclosures. In May 2014, the FASB issued ASU No. 2014-09, Revenue from Contracts with Customers (Topic 606), which amends accounting guidance for revenue recognition arising from contracts with customers. Under the new guidance, an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration the entity expects to be entitled to in exchange for those goods or services. In August 2015, the FASB also issued ASU 2015-14, Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date, which deferred the effective date of the standard for one year. As a result, the guidance is effective for financial statements issued for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years. Early adoption is permitted as of fiscal years beginning after December 15, 2016, including interim periods within those fiscal years. The application of this guidance is not expected to have a material impact on our financial statements.

Tax Cuts and Jobs Act

On December 22, 2017, the President signed into law the Tax Cuts and Jobs Act (The “Tax Act”), which significantly changed the Code, including, a reduction in the corporate income tax rate, a new limitation on the deductibility of interest expense, and significant changes to the taxation of income earned from foreign sources and foreign subsidiaries. The Tax Act also authorizes the IRS to issue regulations with respect to the new provisions. We cannot predict how the changes in the Tax and Jobs Act, or regulations or other guidance issued under it, might affect us, our business or the business of our portfolio companies. However, our portfolio companies may or may not make certain elections under the Tax Act that could materially increase their taxable earnings and profits. Any such increase in the earnings and profits of a portfolio company may result in the characterization of certain distributions sourced from sale proceeds as dividend income, which may increase our distributable taxable income. During the year ended June 30, 2018, we received \$11,270 of such dividends from NPRC related to the sale of NPRC’s St. Marin and Central Park properties.

Item 7A. Quantitative and Qualitative Disclosures about Market Risk

We are subject to financial market risks, including changes in interest rates and equity price risk. Interest rate sensitivity refers to the change in our earnings that may result from changes in the level of interest rates impacting some of the loans in our portfolio which have floating interest rates. Additionally, because we fund a portion of our investments with borrowings, our net investment income is affected by the difference between the rate at which we invest and the rate at which we borrow. As a result, there can be no assurance that a significant change in market interest rates will not have a material adverse effect on our net investment income. See “Risk Factors - Risks Relating to Our Business - Changes in interest rates may affect our cost of capital and net investment income.”

Our debt investments may be based on floating rates or fixed rates. For our floating rate loans the rates are determined from the LIBOR, EURO Interbank Offer Rate, the Federal Funds Rate or the Prime Rate. The floating interest rate loans may be subject to a LIBOR floor. Our loans typically have durations of one to three months after which they reset to current market interest rates. As of June 30, 2018, 89.7% of the interest earning investments in our portfolio, at fair value, bore interest at floating rates.

We also have a revolving credit facility and certain Prospect Capital InterNotes® issuances that are based on floating LIBOR rates. Interest on borrowings under the revolving credit facility is one-month LIBOR plus 225 basis points with no minimum LIBOR floor and there is \$37,000 outstanding as of June 30, 2018. Interest on five Prospect Capital InterNotes® is three-month LIBOR plus a range of 300 to 350 basis points with no minimum LIBOR floor. The Convertible Notes, Public Notes and remaining Prospect Capital InterNotes® bear interest at fixed rates.

The following table shows the approximate annual impact on net investment income of base rate changes in interest rates (considering interest rate flows for floating rate instruments, excluding our investments in CLO residual interests) to our loan portfolio and outstanding debt as of June 30, 2018, assuming no changes in our investment and borrowing structure:

| (in thousands) | Interest | Interest | Net | Net |
|-----------------------|-----------|----------|------------|------------|
| Basis Point Change | Income | Expense | Investment | Investment |
| | | | Income | Income (1) |
| Up 300 basis points | \$97,878 | \$ 44 | \$ 97,834 | \$ 78,267 |
| Up 200 basis points | 65,354 | 30 | 65,324 | 52,259 |
| Up 100 basis points | 32,831 | 15 | 32,816 | 26,253 |
| Down 100 basis points | (28,908) | (33) | (28,875) | (23,100) |

(1) Includes the impact of income incentive fees. See Note 13 in the accompanying Consolidated Financial Statements for more information on income incentive fees.

As of June 30, 2018, one, three and six month LIBOR was 2.09%, 2.34%, and 2.50% respectively.

We may hedge against interest rate fluctuations by using standard hedging instruments such as futures, options and forward contracts subject to the requirements of the 1940 Act. While hedging activities may insulate us against adverse changes in interest rates, they may also limit our ability to participate in the benefits of higher interest rates with respect to our portfolio of investments. During the year ended June 30, 2018, we did not engage in hedging activities.

Item 8. Financial Statements

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

| | Page |
|--|------------|
| <u>Report of Independent Registered Public Accounting Firm</u> | <u>103</u> |
| <u>Consolidated Statements of Assets and Liabilities as of June 30, 2018 and June 30, 2017</u> | <u>104</u> |
| <u>Consolidated Statements of Operations for the years ended June 30, 2018, 2017 and 2016</u> | <u>105</u> |
| <u>Consolidated Statements of Changes in Net Assets for the years ended June 30, 2018, 2017 and 2016</u> | <u>106</u> |
| <u>Consolidated Statements of Cash Flows for the years ended June 30, 2018, 2017 and 2016</u> | <u>107</u> |
| <u>Consolidated Schedules of Investments as of June 30, 2018 and June 30, 2017</u> | <u>108</u> |
| <u>Notes to Consolidated Financial Statements</u> | <u>150</u> |

102

Report of Independent Registered Public Accounting Firm
Shareholders and Board of Directors
Prospect Capital Corporation
New York, New York
Opinion on the Consolidated Financial Statements

We have audited the accompanying consolidated statements of assets and liabilities of Prospect Capital Corporation and subsidiaries (the “Company”), including the consolidated schedules of investments, as of June 30, 2018 and 2017, and the related consolidated statements of operations, changes in net assets, and cash flows for each of the three years in the period ended June 30, 2018, and the related notes, including the financial highlights for each of the five years in the period ended June 30, 2018 (collectively referred to as the “consolidated financial statements”). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company at June 30, 2018 and 2017, and the results of its operations, the changes in its net assets, and its cash flows for each of the three years in the period ended June 30, 2018, and its financial highlights for each of the five years in the period ended June 30, 2018, in conformity with accounting principles generally accepted in the United States of America.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (“PCAOB”), the Company's internal control over financial reporting as of June 30, 2018, based on criteria established in Internal Control - Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (“COSO”) and our report dated August 28, 2018 expressed an unqualified opinion thereon.

Basis for Opinion

These consolidated financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on the Company’s consolidated financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud.

Our audits included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our procedures included confirmation of securities owned as of June 30, 2018 and 2017 by correspondence with the custodians, brokers and portfolio companies, or by other appropriate auditing procedures where replies were not received. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ BDO USA, LLP

BDO USA, LLP

We have served as the Company’s auditor since 2005.

New York, New York

August 28, 2018

PROSPECT CAPITAL CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF ASSETS AND LIABILITIES

(in thousands, except share and per share data)

| | June 30, 2018 | June 30, 2017 |
|---|------------------|------------------|
| Assets | | |
| Investments at fair value: | | |
| Control investments (amortized cost of \$2,300,526 and \$1,840,731, respectively) | \$2,404,326 | \$1,911,775 |
| Affiliate investments (amortized cost of \$55,637 and \$22,957, respectively) | 58,436 | 11,429 |
| Non-control/non-affiliate investments (amortized cost of \$3,475,295 and \$4,117,868, respectively) | 3,264,517 | 3,915,101 |
| Total investments at fair value (amortized cost of \$5,831,458 and \$5,981,556, respectively) | 5,727,279 | 5,838,305 |
| Cash | 83,758 | 318,083 |
| Receivables for: | | |
| Interest, net | 19,783 | 9,559 |
| Other | 1,867 | 924 |
| Due from broker | 3,029 | — |
| Prepaid expenses | 984 | 1,125 |
| Due from Affiliate | 88 | 14 |
| Deferred financing costs on Revolving Credit Facility (Note 4) | 2,032 | 4,779 |
| Total Assets | 5,838,820 | 6,172,789 |
| Liabilities | | |
| Revolving Credit Facility (Notes 4 and 8) | 37,000 | — |
| Convertible Notes (less unamortized debt issuance costs of \$13,074 and \$15,512, respectively) (Notes 5 and 8) | 809,073 | 937,641 |
| Prospect Capital InterNotes® (less unamortized debt issuance costs of \$11,998 and \$14,240, respectively) (Notes 7 and 8) | 748,926 | 966,254 |
| Public Notes (less unamortized discount and debt issuance costs of \$11,007 and \$10,981, respectively) (Notes 6 and 8) | 716,810 | 738,300 |
| Due to Prospect Capital Management (Note 13) | 49,045 | 48,249 |
| Interest payable | 33,741 | 38,630 |
| Dividends payable | 21,865 | 30,005 |
| Due to broker | 6,159 | 50,371 |
| Accrued expenses | 5,426 | 4,380 |
| Due to Prospect Administration (Note 13) | 2,212 | 1,910 |
| Other liabilities | 1,516 | 2,097 |
| Total Liabilities | 2,431,773 | 2,817,837 |
| Commitments and Contingencies (Note 3) | — | — |
| Net Assets | \$3,407,047 | \$3,354,952 |
| Components of Net Assets | | |
| Common stock, par value \$0.001 per share (1,000,000,000 common shares authorized; 364,409,938 and 360,076,933 issued and outstanding, respectively) (Note 9) | \$364 | \$360 |
| Paid-in capital in excess of par (Note 9) | 4,021,541 | 3,991,317 |
| Accumulated overdistributed net investment income | (45,186) | (54,039) |
| Accumulated net realized loss | (465,493) | (439,435) |
| Net unrealized loss | (104,179) | (143,251) |
| Net Assets | \$3,407,047 | \$3,354,952 |

| | | |
|-------------------------------------|--------|--------|
| Net Asset Value Per Share (Note 16) | \$9.35 | \$9.32 |
|-------------------------------------|--------|--------|

See notes to consolidated financial statements.

104

PROSPECT CAPITAL CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
(in thousands, except share and per share data)

| | Year Ended June 30, | | |
|---|---------------------|------------|------------|
| | 2018 | 2017 | 2016 |
| Investment Income | | | |
| Interest income: | | | |
| Control investments | \$ 195,487 | \$ 177,496 | \$ 207,377 |
| Affiliate investments | 553 | 297 | 896 |
| Non-control/non-affiliate investments | 285,473 | 342,696 | 347,132 |
| Structured credit securities | 125,499 | 148,228 | 176,213 |
| Total interest income | 607,012 | 668,717 | 731,618 |
| Dividend income: | | | |
| Control investments | 11,279 | 5,250 | 26,435 |
| Non-control/non-affiliate investments | 1,767 | 429 | 66 |
| Total dividend income | 13,046 | 5,679 | 26,501 |
| Other income: | | | |
| Control investments | 15,080 | 11,470 | 22,528 |
| Non-control/non-affiliate investments | 22,707 | 15,180 | 11,326 |
| Total other income (Note 10) | 37,787 | 26,650 | 33,854 |
| Total Investment Income | 657,845 | 701,046 | 791,973 |
| Operating Expenses | | | |
| Base management fee (Note 13) | 118,046 | 122,874 | 126,523 |
| Income incentive fee (Note 13) | 71,713 | 76,520 | 92,782 |
| Interest and credit facility expenses | 155,039 | 164,848 | 167,719 |
| Allocation of overhead from Prospect Administration (Note 13) | 10,031 | 13,246 | 12,647 |
| Audit, compliance and tax related fees | 5,539 | 5,088 | 4,428 |
| Directors' fees | 450 | 454 | 379 |
| Excise tax | — | (1,100) | 2,295 |
| Other general and administrative expenses | 10,177 | 13,034 | 14,072 |
| Total Operating Expenses | 370,995 | 394,964 | 420,845 |
| Net Investment Income | 286,850 | 306,082 | 371,128 |
| Net Realized and Change in Unrealized Gains (Losses) from Investments | | | |
| Net realized gains (losses) | | | |
| Control investments | 13 | (65,915) | (5,406) |
| Affiliate investments | (13,351) | 137 | (14,194) |
| Non-control/non-affiliate investments | (5,126) | (30,528) | (4,817) |
| Net realized losses | (18,464) | (96,306) | (24,417) |
| Net change in unrealized gains (losses) | | | |
| Control investments | 55,670 | 86,817 | (88,751) |
| Affiliate investments | 25,671 | 553 | (233) |
| Non-control/non-affiliate investments | (42,270) | (37,229) | (154,589) |
| Net change in unrealized gains (losses) | 39,071 | 50,141 | (243,573) |
| Net Realized and Change in Unrealized Gains (Losses) from Investments | 20,607 | (46,165) | (267,990) |
| Net realized (losses) gains on extinguishment of debt | (7,594) | (7,011) | 224 |
| Net Increase in Net Assets Resulting from Operations | \$ 299,863 | \$ 252,906 | \$ 103,362 |
| Net increase in net assets resulting from operations per share | \$ 0.83 | \$ 0.70 | \$ 0.29 |
| Dividends declared per share | \$(0.77) | \$(1.00) | \$(1.00) |

See notes to consolidated financial statements.

PROSPECT CAPITAL CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS
(in thousands, except share data)

| | Year Ended June 30, | | |
|--|---------------------|-------------|--------------|
| | 2018 | 2017 | 2016 |
| Operations | | | |
| Net investment income | \$286,850 | \$306,082 | \$371,128 |
| Net realized losses | (26,058) | (103,317) | (24,193) |
| Net change in unrealized gains (losses) | 39,071 | 50,141 | (243,573) |
| Net Increase in Net Assets Resulting from Operations | 299,863 | 252,906 | 103,362 |
| Distributions to Shareholders | | | |
| Distribution from net investment income | (277,224) | (358,987) | (356,110) |
| Net Decrease in Net Assets Resulting from Distributions to Shareholders | (277,224) | (358,987) | (356,110) |
| Common Stock Transactions | | | |
| Offering costs from issuance of common stock | — | — | 118 |
| Repurchase of common stock under stock repurchase program | — | — | (34,140) |
| Value of shares issued through reinvestment of dividends | 29,456 | 25,116 | 19,638 |
| Net Increase (Decrease) in Net Assets Resulting from Common Stock Transactions | 29,456 | 25,116 | (14,384) |
| Total Increase (Decrease) in Net Assets | 52,095 | (80,965) | (267,132) |
| Net assets at beginning of year | 3,354,952 | 3,435,917 | 3,703,049 |
| Net Assets at End of Year (Accumulated Overdistributed Net Investment Income of \$50,897, \$54,039, and \$3,623, respectively) | \$3,407,047 | \$3,354,952 | \$3,435,917 |
| Common Stock Activity | | | |
| Shares repurchased under stock repurchase program | — | — | (4,708,750) |
| Shares issued through reinvestment of dividends | 4,333,005 | 2,969,702 | 2,725,222 |
| Net shares issued (repurchased) due to common stock activity | 4,333,005 | 2,969,702 | (1,983,528) |
| Shares issued and outstanding at beginning of year | 360,076,933 | 357,107,231 | 359,090,759 |
| Shares Issued and Outstanding at End of Year | 364,409,938 | 360,076,933 | 357,107,231 |

See notes to consolidated financial statements.

PROSPECT CAPITAL CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands, except share data)

| | Year Ended June 30, | | |
|--|---------------------|-------------------|-------------------|
| | 2018 | 2017 | 2016 |
| Operating Activities | | | |
| Net increase in net assets resulting from operations | \$299,863 | \$252,906 | \$103,362 |
| Net realized losses (gains) on extinguishment of debt | 7,594 | 7,011 | (224) |
| Net realized losses on investments | 18,464 | 96,306 | 24,417 |
| Net change in unrealized (gains) losses on investments | (39,071) | (50,141) | 243,573 |
| Amortization of discounts, net | 31,005 | 88,827 | 84,087 |
| Accretion of discount on Public Notes (Note 6) | 226 | 269 | 200 |
| Amortization of deferred financing costs | 12,063 | 13,013 | 13,561 |
| Payment-in-kind interest | (9,404) | (17,808) | (20,531) |
| Structuring fees | (13,959) | (12,929) | (9,393) |
| Change in operating assets and liabilities: | | | |
| Payments for purchases of investments | (1,707,294) | (1,458,733) | (921,679) |
| Proceeds from sale of investments and collection of investment principal | 1,831,286 | 1,413,882 | 1,311,375 |
| (Decrease) increase in due to broker | (44,212) | 49,414 | (25,821) |
| (Decrease) increase in due to Prospect Capital Management | 796 | (5,900) | 51,599 |
| (Increase) in due from broker | (3,029) | — | — |
| (Increase) decrease in interest receivable, net | (10,224) | 2,568 | 8,281 |
| (Decrease) increase in interest payable | (4,889) | (2,174) | 1,145 |
| Increase (decrease) in accrued expenses | 1,046 | 2,121 | (1,149) |
| (Decrease) in other liabilities | (581) | (1,536) | (1,080) |
| (Increase) decrease in other receivables | (943) | (756) | 2,717 |
| (Increase) in due from affiliate | (74) | (14) | — |
| Decrease (increase) in prepaid expenses | 141 | (270) | (98) |
| Increase (decrease) in due to Prospect Administration | 302 | 145 | (2,473) |
| Net Cash Provided by Operating Activities | 369,106 | 376,201 | 861,869 |
| Financing Activities | | | |
| Borrowings under Revolving Credit Facility (Note 4) | 810,000 | 635,000 | 615,000 |
| Principal payments under Revolving Credit Facility (Note 4) | (773,000) | (635,000) | (983,700) |
| Issuances of Public Notes, net of original issue discount (Note 6) | 125,000 | 37,466 | 161,364 |
| Repurchase of Public Notes (Note 6) | (146,464) | — | — |
| Redemptions of Convertible Notes (Note 5) | (234,506) | (366,433) | (150,500) |
| Issuance of Convertible Notes (Note 5) | 103,500 | 225,000 | — |
| Issuances of Prospect Capital InterNotes® (Note 7) | 76,297 | 138,882 | 88,435 |
| Redemptions of Prospect Capital InterNotes®, net (Note 7) | (295,867) | (67,196) | (7,069) |
| Financing costs paid | (12,480) | (10,012) | (6,968) |
| Cost of shares repurchased under stock repurchase program | — | — | (34,140) |
| Offering costs from issuance of common stock | — | — | 118 |
| Dividends paid | (255,911) | (333,623) | (336,637) |
| Net Cash Used in Financing Activities | (603,431) | (375,916) | (654,097) |
| Net (Decrease) Increase in Cash | (234,325) | 285 | 207,772 |
| Cash at beginning of year | 318,083 | 317,798 | 110,026 |
| Cash at End of year | \$83,758 | \$318,083 | \$317,798 |
| Supplemental Disclosures | | | |
| Cash paid for interest | \$147,639 | \$153,740 | \$152,817 |

Non-Cash Financing Activities

| | | | |
|--|----------|----------|----------|
| Value of shares issued through reinvestment of dividends | \$29,456 | \$25,116 | \$19,638 |
| Cost basis of investments written off as worthless | \$20,316 | \$86,605 | \$25,138 |

See notes to consolidated financial statements.

107

PROSPECT CAPITAL CORPORATION AND SUBSIDIARIES
CONSOLIDATED SCHEDULES OF INVESTMENTS
(in thousands, except share data)

| Portfolio Company | Locale / Industry | Investments(1)(44) | June 30, 2018 | | % of Net Assets | |
|---|---|--|-----------------|----------------|-----------------|---------------|
| | | | Principal Value | Amortized Cost | | Fair Value(2) |
| LEVEL 3 PORTFOLIO INVESTMENTS | | | | | | |
| Control Investments (greater than 25.00% voting control)(47) | | | | | | |
| CCPI Inc.(19) | Ohio / Electronic Equipment, Instruments & Components | Senior Secured Term Loan A (10.00%, due 12/31/2020)(3) | \$2,881 | \$ 2,881 | \$ 2,881 | 0.1% |
| | | Senior Secured Term Loan B (12.00% plus 7.00% PIK, due 12/31/2020)(3)(46) | 17,819 | 17,819 | 17,819 | 0.5% |
| | | Common Stock (14,857 shares)(16) | — | 6,759 | 15,056 | 0.4% |
| | | | | 27,459 | 35,756 | 1.0% |
| CP Energy Services Inc.(20) | Oklahoma / Energy Equipment & Services | Senior Secured Term Loan (13.31% (LIBOR + 11.00% with 1.00% LIBOR floor), due 12/29/2022)(11) | 35,048 | 35,048 | 35,048 | 1.0% |
| | | Series B Convertible Preferred Stock (16.00%, 790 shares)(16) | — | 63,225 | 63,225 | 1.9% |
| | | Common Stock (102,924 shares)(16) | — | 81,203 | 24,988 | 0.7% |
| | | | | 179,476 | 123,261 | 3.6% |
| Credit Central Loan Company, LLC(21) | South Carolina / Consumer Finance | Subordinated Term Loan (10.00% plus 10.00% PIK, due 6/26/2024)(14)(46) | 51,855 | 47,496 | 51,855 | 1.5% |
| | | Class A Units (10,640,642 units)(14)(16) | — | 13,731 | 23,196 | 0.7% |
| | | Net Revenues Interest (25% of Net Revenues)(14)(16) | — | — | 1,626 | 0.1% |
| | | | | 61,227 | 76,677 | 2.3% |
| Echelon Transportation, LLC (f/a/a Echelon Aviation, LLC) | New York / Aerospace & Defense | Senior Secured Term Loan (11.75% (LIBOR + 9.75% with 2.00% LIBOR floor) plus 2.25% PIK, due 3/31/2022)(13)(46) | 31,055 | 31,055 | 31,055 | 0.9% |
| | | Senior Secured Term Loan (11.00% (LIBOR + 9.00% with 2.00% LIBOR floor) plus 1.00% PIK, due 12/7/2024)(13)(46) | 16,044 | 16,044 | 16,044 | 0.5% |
| | | Membership Interest (100%)(16) | — | 22,738 | 35,179 | 1.0% |
| | | | | 69,837 | 82,278 | 2.4% |
| First Tower Finance Company LLC(23) | Mississippi / Consumer Finance | Subordinated Term Loan to First Tower, LLC (10.00% plus 10.00% PIK, due 6/24/2019)(14)(46) | 273,066 | 273,066 | 273,066 | 8.0% |
| | | Class A Units (95,709,910 units)(14)(16) | — | 81,146 | 169,944 | 5.0% |

Edgar Filing: PROSPECT CAPITAL CORP - Form 10-K

| | | | | | | |
|-----------------------------------|---|--|---------|---------|---------|-------|
| | | | | 354,212 | 443,010 | 13.0% |
| Freedom Marine Solutions, LLC(24) | Louisiana / Energy Equipment & Services | Membership Interest (100%)(16) | — | 43,592 | 13,037 | 0.4% |
| | | | | 43,592 | 13,037 | 0.4% |
| | | Senior Secured Term Loan A (7.59% (LIBOR + 5.50% with 0.75% LIBOR floor), due 12/31/2017, past due)(13) | 77,994 | 77,994 | 77,994 | 2.3% |
| InterDent, Inc. (52) | California / Health Care Providers & Services | Senior Secured Term Loan B (8.34% (LIBOR + 6.25% with 0.75% LIBOR floor) plus 4.25% PIK, due 12/31/2017, past due)(13) | 131,558 | 31,558 | 119,627 | 3.5% |
| | | Senior Secured Term Loan C (18.00% PIK, due on demand)(46) | 3,149 | 3,149 | — | —% |
| | | Warrants (to purchase 4,900 shares of Common Stock, expires 3/22/2030)(16) | — | — | — | —% |
| | | | | 212,701 | 197,621 | 5.8% |

See notes to consolidated financial statements.

108

PROSPECT CAPITAL CORPORATION AND SUBSIDIARIES
CONSOLIDATED SCHEDULES OF INVESTMENTS (CONTINUED)
(in thousands, except share data)

| Portfolio Company | Locale / Industry | Investments(1)(44) | June 30, 2018 | | | % of Net Assets |
|--|---|---|-----------------|----------------|---------------|-----------------|
| | | | Principal Value | Amortized Cost | Fair Value(2) | |
| LEVEL 3 PORTFOLIO INVESTMENTS | | | | | | |
| Control Investments (greater than 25.00% voting control)(47) | | | | | | |
| MITY, Inc.(25) | Utah / Commercial Services & Supplies | Senior Secured Note A (10.00% (LIBOR + 7.00% with 3.00% LIBOR floor), due 1/30/2020)(3)(11) | \$26,250 | \$26,250 | \$26,250 | 0.8% |
| | | Senior Secured Note B (10.00% (LIBOR + 7.00% with 3.00% LIBOR floor) plus 10.00% PIK, due 1/30/2020)(3)(11)(46) | 24,442 | 24,442 | 24,442 | 0.7% |
| | | Subordinated Unsecured Note to Broda Enterprises ULC (10.00%, due on demand)(14) | 5,563 | 7,200 | 5,563 | 0.1% |
| | | Common Stock (42,053 shares)(16) | — | 6,849 | 2,639 | 0.1% |
| National Property REIT Corp.(26) | Various / Equity Real Estate Investment Trusts (REITs) / Online Lending | Senior Secured Term Loan A (6.00% (LIBOR + 4.00% with 2.00% LIBOR floor) plus 10.50% PIK, due 4/1/2019)(13)(46) | 293,203 | 293,203 | 293,203 | 8.6% |
| | | Senior Secured Term Loan E (11.00% (LIBOR + 9.00% with 2.00% LIBOR floor) plus 1.50% PIK, due 4/1/2019)(13)(46) | 226,180 | 226,180 | 226,180 | 6.7% |
| | | Common Stock (3,042,393 shares) | — | 307,604 | 436,105 | 12.8% |
| | | Net Operating Income Interest (5% of Net Operating Income) | — | — | 99,488 | 2.9% |
| | | | | 826,987 | 1,054,976 | 31.0% |
| | | | | | | |
| Nationwide Loan Company LLC(27) | Illinois / Consumer Finance | Senior Subordinated Term Loan to Nationwide Acceptance LLC (10.00% plus 10.00% PIK, due 6/18/2019)(14)(46) | 17,410 | 17,410 | 17,410 | 0.5% |
| | | Class A Units (32,456,159 units)(14)(16) | — | 21,962 | 16,443 | 0.5% |
| NMMB, Inc.(28) | New York / Media | Senior Secured Note (14.00%, due 5/6/2021)(3) | 3,714 | 3,714 | 3,714 | 0.1% |
| | | Senior Secured Note to Armed Forces Communications, Inc. (14.00%, due 5/6/2021)(3) | 4,900 | 4,900 | 4,900 | 0.2% |
| | | Series A Preferred Stock (7,200 shares)(16) | — | 7,200 | 5,663 | 0.2% |
| | | | — | 5,669 | 4,458 | 0.1% |

Edgar Filing: PROSPECT CAPITAL CORP - Form 10-K

| | | | | | | |
|-------------------------------|--------------------------------|--|--------|---------|---------|------|
| | | Series B Preferred Stock (5,669 shares)(16) | | 21,483 | 18,735 | 0.6% |
| | | Revolving Line of Credit – \$26,000 Commitment (9.34% (LIBOR + 7.25% with 1.00% LIBOR floor), due 9/26/2020)(13)(15) | 20,825 | 20,825 | 20,825 | 0.6% |
| | | Senior Secured Term Loan A (7.34% (LIBOR + 5.25% with 1.00% LIBOR floor), due 9/26/2020)(13) | 96,250 | 96,250 | 96,250 | 2.8% |
| Pacific World Corporation(40) | California / Personal Products | Senior Secured Term Loan B (11.34% PIK (LIBOR + 9.25% with 1.00% LIBOR floor), in non-accrual status effective 5/21/2018, due 9/26/2020)(13) | 96,500 | 96,500 | 47,945 | 1.4% |
| | | Convertible Preferred Equity (100,000 shares)(16) | — | 15,000 | — | —% |
| | | Common Stock (6,778,414 shares)(16) | — | — | — | —% |
| | | | | 228,575 | 165,020 | 4.8% |
| | | Senior Subordinated Note (11.34% (LIBOR + 9.00% with 1.00% LIBOR floor), due 3/31/2022)(11) | 28,622 | 28,622 | 28,622 | 0.8% |
| R-V Industries, Inc. | Pennsylvania / Machinery | Common Stock (745,107 shares)(16) | — | 6,866 | 3,264 | 0.1% |
| | | | | 35,488 | 31,886 | 0.9% |

See notes to consolidated financial statements.

109

PROSPECT CAPITAL CORPORATION AND SUBSIDIARIES
CONSOLIDATED SCHEDULES OF INVESTMENTS (CONTINUED)
(in thousands, except share data)

| Portfolio Company | Locale / Industry | Investments(1)(44) | June 30, 2018 | | % of Net Assets |
|--|---|---|--------------------|------------------|--------------------|
| | | | Principal Value | Fair Value(2) | |
| LEVEL 3 PORTFOLIO INVESTMENTS | | | | | |
| Control Investments (greater than 25.00% voting control)(47) | | | | | |
| SB Forging Company II, Inc. (f/k/a Gulf Coast Machine & Supply Company)(29) | Texas / Energy Equipment & Services | Series A Convertible Preferred Stock (6.50%, 99,000 shares)(16) | \$— | \$2,194 | 0.1% |
| | | Common Stock (100 shares)(16) | — | — | —% |
| | | | — | 2,194 | 0.1% |
| USES Corp.(30) | Texas / Commercial Services & Supplies | Senior Secured Term Loan A (9.00% PIK, in non-accrual status effective 4/1/2016, due 7/22/2020) | 36,360 | 16,319 | 0.5% |
| | | Senior Secured Term Loan B (15.50% PIK, in non-accrual status effective 4/1/2016, due 7/22/2020) | 47,368 | — | —% |
| | | Common Stock (268,962 shares)(16) | — | — | —% |
| | | | 67,169 | 16,319 | 0.5% |
| Valley Electric Company, Inc.(31) | Washington / Construction & Engineering | Senior Secured Note to Valley Electric Co. of Mt. Vernon, Inc. (8.00% (LIBOR + 5.00% with 3.00% LIBOR floor) plus 2.50% PIK, due 12/31/2024)(3)(11)(46) | 10,430 | 10,430 | 0.3% |
| | | Senior Secured Note (8.00% plus 10.00% PIK, due 6/23/2024)(46) | 27,781 | 27,781 | 0.8% |
| | | Consolidated Revenue Interest (2.0%) | — | — | —% |
| | | Common Stock (50,000 shares)(16) | — | 12,586 | 0.4% |
| | | | 64,415 | 50,797 | 1.5% |
| Wolf Energy, LLC(32) | Kansas / Energy Equipment & Services | Membership Interest (100%)(16) | — | — | —% |
| | | Membership Interest in Wolf Energy Services Company, LLC (100%)(16) | — | — | —% |
| | | Net Profits Interest (8% of Equity Distributions)(4)(16) | — | 12 | —% |
| | | 3,792 | 12 | —% | |
| Total Control Investments (Level 3) | | | \$2,300,526 | \$2,404,326 | 70.6% |

See notes to consolidated financial statements.

PROSPECT CAPITAL CORPORATION AND SUBSIDIARIES
CONSOLIDATED SCHEDULES OF INVESTMENTS (CONTINUED)
(in thousands, except share data)

| Portfolio Company | Locale / Industry | Investments(1)(44) | June 30, 2018 | | | % of Net Assets |
|--|---|---|-----------------|----------------|---------------|-----------------|
| | | | Principal Value | Amortized Cost | Fair Value(2) | |
| LEVEL 3 PORTFOLIO INVESTMENTS | | | | | | |
| Affiliate Investments (5.00% to 24.99% voting control)(48) | | | | | | |
| | | Second Lien Revolving Credit Facility to Edmentum, Inc. – \$7,834 Commitment (5.00%, due 12/9/2021)(15) | \$7,834 | \$ 7,834 | \$ 7,834 | 0.2 % |
| Edmentum Ultimate Holdings, LLC(22) | Minnesota / Diversified Consumer Services | Unsecured Senior PIK Note (8.50% PIK, due 12/9/2021)(46) | 7,520 | 7,520 | 7,520 | 0.2 % |
| | | Unsecured Junior PIK Note (10.00% PIK, in non-accrual status effective 1/1/2017, due 12/9/2021) | 35,226 | 23,828 | 19,862 | 0.6 % |
| | | Class A Units (370,964 units)(16) | — | 6,577 | — | — % |
| | | | | 45,759 | 35,216 | 1.0 % |
| Nixon, Inc.(39) | California / Textiles, Apparel & Luxury Goods | Common Stock (857 units)(16) | — | — | — | — % |
| | | | | — | — | — % |
| Targus International, LLC(33) | California / Textiles, Apparel & Luxury Goods | Common Stock (7,383,395 shares)(16) | — | 9,878 | 23,220 | 0.7 % |
| | | | | 9,878 | 23,220 | 0.7 % |
| Total Affiliate Investments (Level 3) | | | | \$ 55,637 | \$ 58,436 | 1.7 % |

See notes to consolidated financial statements.

Edgar Filing: PROSPECT CAPITAL CORP - Form 10-K

PROSPECT CAPITAL CORPORATION AND SUBSIDIARIES
CONSOLIDATED SCHEDULES OF INVESTMENTS (CONTINUED)
(in thousands, except share data)

| Portfolio Company | Locale / Industry | Investments(1)(44) | June 30, 2018 | | | % of Net Assets |
|--|---|---|-----------------|----------------|---------------|-----------------|
| | | | Principal Value | Amortized Cost | Fair Value(2) | |
| LEVEL 3 PORTFOLIO INVESTMENTS | | | | | | |
| Non-Control/Non-Affiliate Investments (less than 5.00% voting control) | | | | | | |
| ACE Cash Express, Inc. | Texas / Finance | Consumer Senior Secured Note (12.00%, due 12/15/2022)(8)(14) | \$20,000 | \$19,733 | \$21,594 | 0.6% |
| | | | | 19,733 | 21,594 | 0.6% |
| AgaMatrix, Inc. | New Hampshire / Healthcare Equipment and Supplies | Senior Secured Term Loan (11.33% (LIBOR + 9.00% with 1.25% LIBOR floor), due 9/29/2022)(3)(11) | 35,815 | 35,815 | 35,815 | 1.1% |
| | | | | 35,815 | 35,815 | 1.1% |
| American Gilsonite Company(34) | Utah / Chemicals | Membership Interest (0.05%, 131 shares)(16) | — | — | — | —% |
| | | | | — | — | —% |
| Apidos CLO IX | Cayman Islands / Structured Finance | Subordinated Notes (Residual Interest, current yield 0.00%, due 7/15/2023)(5)(14)(17) | 23,525 | 21 | 76 | —% |
| | | | | 21 | 76 | —% |
| Apidos CLO XI | Cayman Islands / Structured Finance | Subordinated Notes (Residual Interest, current yield 7.80%, due 1/17/2028)(5)(14) | 40,500 | 32,397 | 25,000 | 0.7% |
| | | | | 32,397 | 25,000 | 0.7% |
| Apidos CLO XII | Cayman Islands / Structured Finance | Subordinated Notes (Residual Interest, current yield 15.35%, due 4/15/2031)(5)(14) | 52,203 | 35,014 | 26,518 | 0.8% |
| | | | | 35,014 | 26,518 | 0.8% |
| Apidos CLO XV | Cayman Islands / Structured Finance | Subordinated Notes (Residual Interest, current yield 14.14%, due 4/20/2031)(5)(14) | 48,515 | 35,776 | 26,960 | 0.8% |
| | | | | 35,776 | 26,960 | 0.8% |
| Apidos CLO XXII | Cayman Islands / Structured Finance | Subordinated Notes (Residual Interest, current yield 12.65%, due 10/20/2027)(5)(6)(14) | 31,350 | 27,496 | 25,047 | 0.7% |
| | | | | 27,496 | 25,047 | 0.7% |
| Ark-La-Tex Wireline Services, LLC | Louisiana / Energy Equipment & Services | Senior Secured Term Loan B (13.59% (LIBOR + 11.50% with 1.00% LIBOR floor), in non-accrual status effective 4/1/2016, due 4/8/2019)(13) | 25,595 | 1,145 | 787 | —% |
| | | | | 1,145 | 787 | —% |
| Armor Holding II LLC | New York / Commercial Services & | Second Lien Term Loan (11.10% (LIBOR + 9.00% with 1.25% LIBOR floor), due 12/26/2020)(3)(8)(13) | 7,000 | 6,949 | 7,000 | 0.2% |

Edgar Filing: PROSPECT CAPITAL CORP - Form 10-K

| | | | | | |
|--|--|--|--------|--------|------|
| | Supplies | | 6,949 | 7,000 | 0.2% |
| | | Revolving Line of Credit – \$7,000 | | | |
| Atlantis Health Care Group (Puerto Rico), Inc. | Puerto Rico / Health Care Providers & Services | Commitment (10.81% (LIBOR + 8.50% with 1.50% LIBOR floor), due 8/21/2019)(11)(15) | 7,000 | 7,000 | 0.2% |
| | | Senior Term Loan (10.81% (LIBOR + 8.50% with 1.50% LIBOR floor), due 2/21/2020)(3)(11) | 77,713 | 77,713 | 2.2% |
| | | | 84,713 | 83,507 | 2.4% |

See notes to consolidated financial statements.

112

PROSPECT CAPITAL CORPORATION AND SUBSIDIARIES
CONSOLIDATED SCHEDULES OF INVESTMENTS (CONTINUED)
(in thousands, except share data)

| Portfolio Company | Locale / Industry | Investments(1)(44) | June 30, 2018 | | | % of Net Assets |
|--|--|---|-----------------|----------------|---------------|-----------------|
| | | | Principal Value | Amortized Cost | Fair Value(2) | |
| LEVEL 3 PORTFOLIO INVESTMENTS | | | | | | |
| Non-Control/Non-Affiliate Investments (less than 5.00% voting control) | | | | | | |
| ATS Consolidated, Inc. | Arizona / Electronic Equipment, Instruments & Components | Second Lien Term Loan (9.84% (LIBOR + 7.75%, due 2/27/2026)(8)(13) | \$ 15,000 | \$ 14,856 | \$ 14,873 | 0.4% |
| | | | | 14,856 | 14,873 | 0.4% |
| Autodata, Inc. / Autodata Solutions, Inc.(9) | Canada / Software | Second Lien Term Loan (9.34% (LIBOR + 7.25% with 1.00% LIBOR floor), due 12/12/2025)(8)(13) | 6,000 | 5,972 | 5,972 | 0.2% |
| | | | | 5,972 | 5,972 | 0.2% |
| Barings CLO 2018-III (f/k/a Babson CLO Ltd. 2014-III) | Cayman Islands / Structured Finance | Subordinated Notes (Residual Interest, current yield 11.35%, due 7/20/2029)(5)(6)(14) | 83,098 | 49,688 | 46,933 | 1.4% |
| | | | | 49,688 | 46,933 | 1.4% |
| Broder Bros., Co. | Pennsylvania / Textiles, Apparel & Luxury Goods | Senior Secured Note (10.33% (LIBOR + 8.00% with 1.25% LIBOR floor), due 12/02/2022)(3)(11) | 274,009 | 274,009 | 274,009 | 8.0% |
| | | | | 274,009 | 274,009 | 8.0% |
| Brookside Mill CLO Ltd. | Cayman Islands / Structured Finance | Subordinated Notes (Residual Interest, current yield 8.73%, due 1/18/2028)(5)(14) | 36,300 | 19,287 | 13,466 | 0.4% |
| | | | | 19,287 | 13,466 | 0.4% |
| California Street CLO IX Ltd. (f/k/a Symphony CLO IX Ltd.) | Cayman Islands / Structured Finance | Preference Shares (Residual Interest, current yield 12.20%, due 10/16/2028)(5)(14) | 58,915 | 41,645 | 35,852 | 1.1% |
| | | | | 41,645 | 35,852 | 1.1% |
| Candle-Lite Company, LLC | Ohio / Household & Personal Products | Senior Secured Term Loan A (7.81% (LIBOR + 5.50% with 1.25% LIBOR floor), due 1/23/2023)(3)(11) Senior Secured Term Loan B (11.81% (LIBOR + 9.50% with 1.25% LIBOR floor), due 1/23/2023)(3)(11) | 12,438 | 12,438 | 12,438 | 0.3% |
| | | | | 12,500 | 12,500 | 0.4% |
| | | | | 24,938 | 24,938 | 0.7% |
| Capstone Logistics Acquisition, Inc. | Georgia / Commercial | Second Lien Term Loan (10.34% (LIBOR + 8.25% with 1.00% | 101,030 | 100,669 | 100,136 | 2.9% |

Edgar Filing: PROSPECT CAPITAL CORP - Form 10-K

| | | | | | |
|---|-------------------------------------|--|---------|---------|-------------|
| | Services & Supplies | LIBOR floor), due 10/7/2022)(3)(8)(13) | 100,669 | 100,136 | 2.9% |
| Carlyle Global Market Strategies CLO 2014-4-R, Ltd. | Cayman Islands / Structured Finance | Subordinated Notes (Residual Interest, current yield 20.73%, due 7/15/2030)(5)(6)(14) | 25,534 | 17,832 | 18,807 0.6% |
| | | | 17,832 | 18,807 | 0.6% |
| Carlyle Global Market Strategies CLO 2016-3, Ltd. | Cayman Islands / Structured Finance | Subordinated Notes (Residual Interest, current yield 18.00%, due 10/20/2029)(5)(6)(14) | 32,200 | 32,364 | 29,080 0.9% |
| | | | 32,364 | 29,080 | 0.9% |
| Carlyle C17 CLO Limited (f/k/a Cent CLO 17 Limited) | Cayman Islands / Structured Finance | Subordinated Notes (Residual Interest, current yield 18.34%, due 4/30/2031)(5)(14) | 24,870 | 15,140 | 15,196 0.4% |
| | | | 15,140 | 15,196 | 0.4% |

See notes to consolidated financial statements.

113

PROSPECT CAPITAL CORPORATION AND SUBSIDIARIES
CONSOLIDATED SCHEDULES OF INVESTMENTS (CONTINUED)
(in thousands, except share data)

| Portfolio Company | Locale / Industry | Investments(1)(44) | June 30, 2018 | | | % of Net Assets |
|--|---|--|-----------------|----------------|---------------|-----------------|
| | | | Principal Value | Amortized Cost | Fair Value(2) | |
| LEVEL 3 PORTFOLIO INVESTMENTS | | | | | | |
| Non-Control/Non-Affiliate Investments (less than 5.00% voting control) | | | | | | |
| Cent CLO 20 Limited | Cayman Islands / Structured Finance | Subordinated Notes (Residual Interest, current yield 15.40%, due 1/25/2026)(5)(14) | \$40,275 | \$31,692 | \$28,269 | 0.8% |
| | | | | 31,692 | 28,269 | 0.8% |
| Cent CLO 21 Limited | Cayman Islands / Structured Finance | Subordinated Notes (Residual Interest, current yield 17.56%, due 7/27/2026)(5)(6)(14) | 48,528 | 36,311 | 33,703 | 1.0% |
| | | | | 36,311 | 33,703 | 1.0% |
| Centerfield Media Holding Company(35) | California / Internet Software & Services | Senior Secured Term Loan A (9.31% (LIBOR + 7.00% with 2.00% LIBOR floor), due 1/17/2022)(3)(11) | 66,300 | 66,300 | 66,300 | 1.9% |
| | | Senior Secured Term Loan B (14.81% (LIBOR + 12.50% with 2.00% LIBOR floor), due 1/17/2022)(11) | 68,000 | 68,000 | 68,000 | 2.0% |
| | | | | 134,300 | 134,300 | 3.9% |
| CIFC Funding 2013-III-R, Ltd. (f/k/a CIFC Funding 2013-III, Ltd.) | Cayman Islands / Structured Finance | Subordinated Notes (Residual Interest, current yield 14.43%, due 4/24/2031)(5)(14) | 44,100 | 27,624 | 25,250 | 0.7% |
| | | | | 27,624 | 25,250 | 0.7% |
| CIFC Funding 2013-IV, Ltd. | Cayman Islands / Structured Finance | Subordinated Notes (Residual Interest, current yield 14.31%, due 4/28/2031)(5)(14) | 45,500 | 31,503 | 27,697 | 0.8% |
| | | | | 31,503 | 27,697 | 0.8% |
| CIFC Funding 2014-IV Investor, Ltd. | Cayman Islands / Structured Finance | Income Notes (Residual Interest, current yield 8.46%, due 10/19/2026)(5)(6)(14) | 41,500 | 28,512 | 23,715 | 0.7% |
| | | | | 28,512 | 23,715 | 0.7% |
| CIFC Funding 2016-I, Ltd. | Cayman Islands / Structured Finance | Income Notes (Residual Interest, current yield 13.11%, due 10/21/2028)(5)(6)(14) | 34,000 | 31,179 | 27,998 | 0.8% |
| | | | | 31,179 | 27,998 | 0.8% |
| Cinedigm DC Holdings, LLC | New York / Media | Senior Secured Term Loan (11.31% (LIBOR + 9.00% with 2.00% LIBOR floor) plus 2.50% PIK, due 3/31/2021)(11)(46) | 31,460 | 31,410 | 31,460 | 0.9% |
| | | | | 31,410 | 31,460 | 0.9% |

Edgar Filing: PROSPECT CAPITAL CORP - Form 10-K

| | | | | | | |
|---------------------------------|--|---|--------|--------|--------|------|
| | | Revolving Line of Credit – \$1,500 Commitment (10.58% (LIBOR + 8.25% with 1.50% LIBOR floor), due 3/12/2020)(11)(15) | — | — | — | —% |
| Class Appraisal, LLC | Michigan / Real Estate Management & Development | Senior Secured Term Loan (10.58% (LIBOR + 8.25% with 1.50% LIBOR floor), due 3/10/2023)(3)(11) | 41,860 | 41,860 | 41,860 | 1.2% |
| | | | | 41,860 | 41,860 | 1.2% |
| | | Senior Secured Term Loan A (8.31% (LIBOR + 6.00% with 1.00% LIBOR floor), due 11/02/2020)(3)(11) | 19,100 | 19,100 | 19,100 | 0.6% |
| Coverall North America, Inc. | Florida / Commercial Services & Supplies | Senior Secured Term Loan B (13.31% (LIBOR + 11.00% with 1.00% LIBOR floor), due 11/02/2020)(3)(11) | 24,750 | 24,750 | 24,750 | 0.7% |
| | | | | 43,850 | 43,850 | 1.3% |

See notes to consolidated financial statements.

114

Edgar Filing: PROSPECT CAPITAL CORP - Form 10-K

PROSPECT CAPITAL CORPORATION AND SUBSIDIARIES
CONSOLIDATED SCHEDULES OF INVESTMENTS (CONTINUED)
(in thousands, except share data)

| Portfolio Company | Locale / Industry | Investments(1)(44) | June 30, 2018 | | | % of Net Assets |
|--|--|---|-----------------|----------------|---------------|-----------------|
| | | | Principal Value | Amortized Cost | Fair Value(2) | |
| LEVEL 3 PORTFOLIO INVESTMENTS | | | | | | |
| Non-Control/Non-Affiliate Investments (less than 5.00% voting control) | | | | | | |
| CP VI Bella Midco | Pennsylvania / IT Services | Second Lien Term Loan (8.84% (LIBOR + 6.75%, due 12/29/2025)(8)(13) | \$2,000 | \$ 1,990 | \$ 1,990 | 0.1% |
| | | | | 1,990 | 1,990 | 0.1% |
| CURO Financial Technologies Corp. | Canada / Consumer Finance | Senior Secured Notes (12.00%, due 3/1/2022)(8)(14) | 10,896 | 10,837 | 11,844 | 0.3% |
| | | | | 10,837 | 11,844 | 0.3% |
| Digital Room, LLC | California / Commercial Services & Supplies | First Lien Term Loan (7.10% (LIBOR + 5.00% with 1.00% LIBOR floor), due 12/29/2023)(3)(8)(13) | 9,950 | 9,857 | 9,925 | 0.3% |
| | | Second Lien Term Loan (10.85% (LIBOR + 8.75% with 1.00% LIBOR floor), due 12/29/2024)(3)(8)(13) | 57,100 | 56,295 | 57,100 | 1.7% |
| | | | | 66,152 | 67,025 | 2.0% |
| Dunn Paper, Inc. | Georgia / Paper & Forest Products | Second Lien Term Loan (10.84% (LIBOR + 8.75% with 1.00% LIBOR floor), due 8/26/2023)(3)(8)(13) | 11,500 | 11,328 | 11,226 | 0.3% |
| | | | | 11,328 | 11,226 | 0.3% |
| Easy Gardener Products, Inc. | Texas / Household Durables | Senior Secured Term Loan (12.31% (LIBOR + 10.00% with 0.25% LIBOR floor), due 09/30/2020)(11) | 16,894 | 16,894 | 15,728 | 0.5% |
| | | | | 16,894 | 15,728 | 0.5% |
| Engine Group, Inc.(7) | California / Media | Senior Secured Term Loan (7.08% (LIBOR + 4.75% with 1.00% LIBOR floor), due 9/15/2022)(8)(11) | 4,813 | 4,813 | 4,813 | 0.1% |
| | | Second Lien Term Loan (11.08% (LIBOR + 8.75% with 1.00% LIBOR floor), due 9/15/2023)(3)(8)(11) | 35,000 | 35,000 | 35,000 | 1.0% |
| | | | | 39,813 | 39,813 | 1.1% |
| EXC Holdings III Corp | Massachusetts / Technology Hardware, Storage & Peripherals | Second Lien Term Loan (9.97% (LIBOR + 7.50% with 1.00% LIBOR floor), due 12/01/2025)(8)(10) | 12,500 | 12,384 | 12,500 | 0.4% |
| | | | | 12,384 | 12,500 | 0.4% |

Edgar Filing: PROSPECT CAPITAL CORP - Form 10-K

| | | | | | | |
|---|---|--|--------|--------|--------|------|
| Fleetwash, Inc. | New Jersey / Commercial Services & Supplies | Senior Secured Term Loan B (11.31% (LIBOR + 9.00% with 1.00% LIBOR floor), due 4/30/2022)(3)(11) | 21,544 | 21,544 | 21,544 | 0.6% |
| | | Delayed Draw Term Loan – \$15,000 Commitment (10.31% (LIBOR + 8.00% with 1.00% LIBOR floor), expires 4/30/2022)(11)(15) | — | — | — | —% |
| | | | 21,544 | 21,544 | 0.6% | |
| Galaxy XV CLO, Ltd. | Cayman Islands / Structured Finance | Subordinated Notes (Residual Interest, current yield 12.42%, due 10/15/2030)(5)(14) | 50,525 | 34,853 | 30,457 | 0.9% |
| | | | | 34,853 | 30,457 | 0.9% |
| Galaxy XXVII CLO, Ltd. (f/k/a Galaxy XVI CLO, Ltd.) | Cayman Islands / Structured Finance | Subordinated Notes (Residual Interest, current yield 13.57%, due 5/16/2031)(5)(14) | 24,575 | 16,936 | 13,688 | 0.4% |
| | | | | 16,936 | 13,688 | 0.4% |

See notes to consolidated financial statements.

115

PROSPECT CAPITAL CORPORATION AND SUBSIDIARIES
CONSOLIDATED SCHEDULES OF INVESTMENTS (CONTINUED)
(in thousands, except share data)

| Portfolio Company | Locale / Industry | Investments(1)(44) | June 30, 2018 | | | |
|--|-------------------------------------|---|-----------------|----------------|---------------|-----------------|
| | | | Principal Value | Amortized Cost | Fair Value(2) | % of Net Assets |
| LEVEL 3 PORTFOLIO INVESTMENTS | | | | | | |
| Non-Control/Non-Affiliate Investments (less than 5.00% voting control) | | | | | | |
| Galaxy XXVIII CLO, Ltd. (f/k/a Galaxy XVII CLO, Ltd.) | Cayman Islands / Structured Finance | Subordinated Notes (Residual Interest, current yield 10.89%, due 7/15/2031)(5)(6)(14) | \$39,905 | \$28,009 | \$22,335 | 0.7% |
| | | | | 28,009 | 22,335 | 0.7% |
| Galaxy XXVIII CLO, Ltd. | Cayman Islands / Structured Finance | Class F Junior Notes (LIBOR + 8.48%, due 7/15/2031)(6)(11)(14)(53) | 6,658 | 6,159 | 6,159 | 0.2% |
| | | | | 6,159 | 6,159 | 0.2% |
| | | Revolving Line of Credit – \$5,000 Commitment (9.81% (LIBOR + 7.50% with 1.50% LIBOR floor), due 9/30/2018)(11) | — | — | — | —% |
| H.I.G. ECI Merger Sub, Inc. | Massachusetts / IT Services | Senior Secured Term Loan A (7.81% (LIBOR + 5.50% with 1.50% LIBOR floor), due 5/31/2023)(11) | 44,688 | 44,688 | 44,688 | 1.3% |
| | | Senior Secured Term Loan B (12.81% (LIBOR + 10.50% with 1.50% LIBOR floor), due 5/31/2023)(11) | 29,900 | 29,900 | 29,900 | 0.9% |
| | | | | 74,588 | 74,588 | 2.2% |
| Halcyon Loan Advisors Funding 2012-1 Ltd. | Cayman Islands / Structured Finance | Subordinated Notes (Residual Interest, current yield 0.00%, due 8/15/2023)(5)(14)(17) | 23,188 | 3,869 | 3,125 | 0.1% |
| | | | | 3,869 | 3,125 | 0.1% |
| Halcyon Loan Advisors Funding 2013-1 Ltd. | Cayman Islands / Structured Finance | Subordinated Notes (Residual Interest, current yield 0.00%, due 4/15/2025)(5)(14)(17) | 40,400 | 22,057 | 11,017 | 0.3% |
| | | | | 22,057 | 11,017 | 0.3% |
| Halcyon Loan Advisors Funding 2014-1 Ltd. | Cayman Islands / Structured Finance | Subordinated Notes (Residual Interest, current yield 10.30%, due 4/18/2026)(5)(14) | 24,500 | 14,007 | 11,647 | 0.3% |
| | | | | 14,007 | 11,647 | 0.3% |
| Halcyon Loan Advisors Funding 2014-2 Ltd. | Cayman Islands / Structured Finance | Subordinated Notes (Residual Interest, current yield 8.64%, due 4/28/2025)(5)(6)(14) | 41,164 | 24,290 | 19,050 | 0.6% |
| | | | | 24,290 | 19,050 | 0.6% |
| Halcyon Loan Advisors Funding 2015-3 Ltd. | Cayman Islands / Structured Finance | Subordinated Notes (Residual Interest, current yield 19.80%, due 10/18/2027)(5)(6)(14) | 39,598 | 34,675 | 32,513 | 1.0% |

Edgar Filing: PROSPECT CAPITAL CORP - Form 10-K

| | | | | | | |
|---|---|---|--------|--------|--------|------|
| | | | 34,675 | 32,513 | 1.0% | |
| Harbortouch Payments, LLC | Pennsylvania / Commercial Services & Supplies | Escrow Receivable | — | 917 | —% | |
| | | | — | 917 | —% | |
| HarbourView CLO VII-R, Ltd. (f/k/a HarbourView CLO VII, Ltd.) | Cayman Islands / Structured Finance | Subordinated Notes (Residual Interest, current yield 18.94%, due 7/18/2031)(5)(6)(14) | 19,025 | 13,411 | 13,689 | 0.4% |
| | | | | 13,411 | 13,689 | 0.4% |
| Help/Systems Holdings, Inc. | Minnesota / Software | Second Lien Term Loan (9.84% (LIBOR + 7.75%, due 3/27/2026)(8)(13) | 11,293 | 11,244 | 11,293 | 0.3% |
| | | | | 11,244 | 11,293 | 0.3% |

See notes to consolidated financial statements.

116

PROSPECT CAPITAL CORPORATION AND SUBSIDIARIES
CONSOLIDATED SCHEDULES OF INVESTMENTS (CONTINUED)
(in thousands, except share data)

| Portfolio Company | Locale / Industry | Investments(1)(44) | June 30, 2018 | | % of Net | |
|--|---|--|-----------------|----------------|----------|---------------|
| | | | Principal Value | Amortized Cost | | Fair Value(2) |
| LEVEL 3 PORTFOLIO INVESTMENTS | | | | | | |
| Non-Control/Non-Affiliate Investments (less than 5.00% voting control) | | | | | | |
| Ingenio, LLC | California / Internet Software & Services | Senior Secured Term Loan (9.82% (LIBOR + 7.50% with 1.25% LIBOR floor), due 9/26/2022)(3)(8)(11) | \$9,647 | \$ 9,647 | \$ 9,647 | 0.3% |
| | | | 9,647 | 9,647 | 9,647 | 0.3% |
| Inpatient Care Management Company, LLC | Florida / Health Care Providers & Services | Senior Secured Term Loan (10.31% (LIBOR + 8.00% with 1.00% LIBOR floor), due 6/8/2021)(3)(11) | 23,698 | 23,698 | 23,698 | 0.7% |
| | | | 23,698 | 23,698 | 23,698 | 0.7% |
| Janus International Group, LLC | Georgia / Building Products | Second Lien Term Loan (9.84% (LIBOR + 7.75% with 1.00% LIBOR floor), due 2/12/2026)(8)(13) | 10,000 | 9,905 | 10,000 | 0.3% |
| | | | 9,905 | 10,000 | 10,000 | 0.3% |
| JD Power and Associates | California / Capital Markets | Second Lien Term Loan (10.59% (LIBOR + 8.50% with 1.00% LIBOR floor), due 9/7/2024)(3)(8)(13) | 20,000 | 19,799 | 20,000 | 0.6% |
| | | | 19,799 | 20,000 | 20,000 | 0.6% |
| Jefferson Mill CLO Ltd. | Cayman Islands / Structured Finance | Subordinated Notes (Residual Interest, current yield 7.20%, due 7/20/2027)(5)(6)(14) | 19,500 | 16,078 | 12,392 | 0.4% |
| | | | 16,078 | 12,392 | 12,392 | 0.4% |
| K&N Parent, Inc. | California / Auto Components | Second Lien Term Loan (11.08% (LIBOR + 8.75% with 1.00% LIBOR floor), due 10/21/2024)(3)(8)(11) | 12,887 | 12,681 | 12,887 | 0.4% |
| | | | 12,681 | 12,887 | 12,887 | 0.4% |
| Keystone Acquisition Corp.(36) | Pennsylvania / Health Care Providers & Services | Second Lien Term Loan (11.58% (LIBOR + 9.25% with 1.00% LIBOR floor), due 5/1/2025)(3)(8)(11) | 50,000 | 50,000 | 50,000 | 1.5% |
| | | | 50,000 | 50,000 | 50,000 | 1.5% |
| LCM XIV Ltd. | Cayman Islands / Structured Finance | Income Notes (Residual Interest, current yield 16.28%, due 7/21/2031)(5)(14) | 49,934 | 26,516 | 24,257 | 0.7% |
| | | | 26,516 | 24,257 | 24,257 | 0.7% |
| Madison Park Funding IX, Ltd. | Cayman Islands / Structured Finance | Subordinated Notes (Residual Interest, current yield 57.45%, due 8/15/2022)(5)(14) | 43,110 | 2,058 | 2,200 | 0.1% |
| | | | 2,058 | 2,200 | 2,200 | 0.1% |
| Maverick Healthcare Equity, LLC | Arizona / Health Care Providers & | Preferred Units (10.00%, 1,250,000 units)(16) | 1,252 | 446 | — | —% |

Edgar Filing: PROSPECT CAPITAL CORP - Form 10-K

| | | | | | |
|--------------------------------|--|---|--------|--------|------|
| | Services | Class A Common Units (1,250,000 units)(16) | — | — | —% |
| | | | 1,252 | 446 | —% |
| MedMark Services, Inc.(51) | Texas / Health Care Providers & Services | Second Lien Term Loan (10.55% (LIBOR + 8.25% with 1.00% LIBOR floor), due 3/1/2025)(3)(8)(11) | 7,000 | 6,933 | 0.2% |
| | | | 6,933 | 6,933 | 0.2% |
| Memorial MRI & Diagnostic, LLC | Texas / Health Care Providers & Services | Senior Secured Term Loan (10.83% (LIBOR + 8.50% with 1.00% LIBOR floor), due 3/16/2022)(11) | 36,925 | 36,925 | 1.1% |
| | | | 36,925 | 36,925 | 1.1% |

See notes to consolidated financial statements.

117

PROSPECT CAPITAL CORPORATION AND SUBSIDIARIES
CONSOLIDATED SCHEDULES OF INVESTMENTS (CONTINUED)
(in thousands, except share data)

| Portfolio Company | Locale / Industry | Investments(1)(44) | June 30, 2018 | | | % of Net Assets |
|---|--|---|-----------------|----------------|---------------|-----------------|
| | | | Principal Value | Amortized Cost | Fair Value(2) | |
| LEVEL 3 PORTFOLIO INVESTMENTS | | | | | | |
| Non-Control/Non-Affiliate Investments (less than 5.00% voting control) | | | | | | |
| Mobile Posse, Inc. | Virginia / Media | First Lien Term Loan (10.83% (LIBOR + 8.50% with 2.00% LIBOR floor), due 4/3/2023)(3)(11) | \$27,700 | \$27,700 | \$27,700 | 0.8% |
| | | | | 27,700 | 27,700 | 0.8% |
| Mountain View CLO 2013-I Ltd. | Cayman Islands / Structured Finance | Subordinated Notes (Residual Interest, current yield 13.66%, due 10/15/2030)(5)(14) | 43,650 | 28,357 | 23,267 | 0.7% |
| | | | | 28,357 | 23,267 | 0.7% |
| Mountain View CLO IX Ltd. | Cayman Islands / Structured Finance | Subordinated Notes (Residual Interest, current yield 17.63%, due 7/15/2031)(5)(6)(14) | 47,830 | 31,528 | 37,333 | 1.1% |
| | | | | 31,528 | 37,333 | 1.1% |
| MRP Holdco, Inc. | Massachusetts / IT Services | Senior Secured Term Loan A (6.59% (LIBOR + 4.50% with 1.50% LIBOR floor), due 4/17/2024)(3)(13) | 43,000 | 43,000 | 43,000 | 1.3% |
| | | Senior Secured Term Loan B (10.59% (LIBOR + 8.50% with 1.50% LIBOR floor), due 4/17/2024)(13) | 43,000 | 43,000 | 43,000 | 1.3% |
| | | | | 86,000 | 86,000 | 2.6% |
| Octagon Investment Partners XV, Ltd. | Cayman Islands / Structured Finance | Income Notes (Residual Interest, current yield 14.58%, due 7/19/2030)(5)(14) | 42,063 | 31,734 | 26,350 | 0.8% |
| | | | | 31,734 | 26,350 | 0.8% |
| Octagon Investment Partners 18-R Ltd. (f/k/a Octagon Investment Partners XVIII, Ltd.) | Cayman Islands / Structured Finance | Income Notes (Residual Interest, current yield 17.26%, due 4/16/2031)(5)(6)(14) | 46,016 | 27,295 | 26,420 | 0.8% |
| | | | | 27,295 | 26,420 | 0.8% |
| Pearl Intermediate Parent LLC | Connecticut / Health Care Providers & Services | Second Lien Term Loan (8.33% (LIBOR + 6.25%, due 2/15/2026)(8)(13) | 5,000 | 4,976 | 5,000 | 0.1% |
| | | Revolving Line of Credit – \$1,000 Commitment (11.81% (LIBOR + 9.50% with 1.00% | 500 | 500 | 500 | —% |
| PeopleConnect Intermediate, LLC (f/k/a Intelius, Inc.) | Washington / Internet Software & Services | | | | | |

Edgar Filing: PROSPECT CAPITAL CORP - Form 10-K

| | | | | | | | |
|------------------------|---|---|---------|---------|---------|------|--|
| | | LIBOR floor), due 8/11/2020)(11)(15) | | | | | |
| | | Senior Secured Term Loan A (8.81% (LIBOR + 6.50% with 1.00% LIBOR floor), due 7/1/2020)(3)(11) | 18,828 | 18,828 | 18,828 | 0.6% | |
| | | Senior Secured Term Loan B (14.81% (LIBOR + 12.50% with 1.00% LIBOR floor), due 7/1/2020)(3)(11) | 20,163 | 20,163 | 20,163 | 0.6% | |
| | | | | 39,491 | 39,491 | 1.2% | |
| | | Second Lien Term Loan (11.09% (LIBOR + 9.00% with 1.00% LIBOR floor), due 9/29/2021)(3)(13) | 118,289 | 118,289 | 118,289 | 3.5% | |
| PGX Holdings, Inc. | Utah / Diversified Consumer Services | | | 118,289 | 118,289 | 3.5% | |
| | | | | 118,289 | 118,289 | 3.5% | |
| | | Second Lien Term Loan (9.80% (LIBOR + 7.75% with 1.00% LIBOR floor), due 12/7/2025)(8)(13) | 12,000 | 11,882 | 12,000 | 0.4% | |
| PharMerica Corporation | Kentucky / Pharmaceuticals | | | 11,882 | 12,000 | 0.4% | |

See notes to consolidated financial statements.

118

PROSPECT CAPITAL CORPORATION AND SUBSIDIARIES
CONSOLIDATED SCHEDULES OF INVESTMENTS (CONTINUED)
(in thousands, except share data)

| Portfolio Company | Locale / Industry | Investments(1)(44) | June 30, 2018 | | | % of Net Assets |
|--|---|--|-----------------|----------------|---------------|-----------------|
| | | | Principal Value | Amortized Cost | Fair Value(2) | |
| LEVEL 3 PORTFOLIO INVESTMENTS | | | | | | |
| Non-Control/Non-Affiliate Investments (less than 5.00% voting control) | | | | | | |
| Photonis Technologies SAS | France / Electronic Equipment, Instruments & Components | First Lien Term Loan (9.83% (LIBOR + 7.50% with 1.00% LIBOR floor), due 9/18/2019)(8)(11)(14) | \$ 12,872 | \$ 12,490 | \$ 12,335 | 0.4% |
| | | | | 12,490 | 12,335 | 0.4% |
| PlayPower, Inc. | North Carolina / Leisure Products | Second Lien Term Loan (11.08% (LIBOR + 8.75% with 1.00% LIBOR floor), due 6/23/2022)(3)(8)(11) | 11,000 | 10,904 | 11,000 | 0.3% |
| | | | | 10,904 | 11,000 | 0.3% |
| Research Now Group, Inc. | Connecticut / Professional Services | First Lien Term Loan (7.86% (LIBOR + 5.50% with 1.00% LIBOR floor), due 12/20/2024)(8)(10) | 9,950 | 9,468 | 9,608 | 0.3% |
| | | Second Lien Term Loan (11.82% (LIBOR + 9.50% with 1.00% LIBOR floor), due 12/20/2025)(8)(11) | 50,000 | 46,738 | 47,382 | 1.4% |
| | | | | 56,206 | 56,990 | 1.7% |
| RGIS Services, LLC | Michigan / Commercial Services & Supplies | Senior Secured Term Loan (9.59% (LIBOR + 7.50% with 1.00% LIBOR floor), due 3/31/2023)(3)(8)(13) | 15,173 | 15,113 | 14,339 | 0.4% |
| | | | | 15,113 | 14,339 | 0.4% |
| RME Group Holding Company | Florida / Media | Senior Secured Term Loan A (8.33% (LIBOR + 6.00% with 1.00% LIBOR floor), due 5/4/2022)(3)(11) | 35,146 | 35,146 | 35,146 | 1.0% |
| | | Senior Secured Term Loan B (13.33% (LIBOR + 11.00% with 1.00% LIBOR floor), due 5/4/2022)(3)(11) | 24,349 | 24,349 | 24,349 | 0.7% |
| | | | | 59,495 | 59,495 | 1.7% |
| Rocket Software, Inc. | Massachusetts / Software | Second Lien Term Loan (11.83% (LIBOR + 9.50% with 1.00% LIBOR floor), due 10/14/2024)(3)(8)(11) | 50,000 | 49,219 | 50,000 | 1.5% |
| | | | | 49,219 | 50,000 | 1.5% |
| | | | 27,724 | 21,494 | 17,961 | 0.5% |

Edgar Filing: PROSPECT CAPITAL CORP - Form 10-K

| | | | | | |
|---|---|---|--------|--------|------|
| Romark WM-R Ltd. (f/k/a Washington Mill CLO Ltd.) | Cayman Islands / Structured Finance | Subordinated Notes (Residual Interest, current yield 12.41%, due 4/20/2031)(5)(6)(14) | 21,494 | 17,961 | 0.5% |
| | | Revolving Line of Credit – \$2,500 Commitment (9.83% (LIBOR + 7.50% with 1.50% LIBOR floor), due 3/29/2023(11)(15) | — | — | —% |
| Rosa Mexicano | New York / Hotels, Restaurants & Leisure | Senior Secured Term Loan (9.83% (LIBOR + 7.50% with 1.50% LIBOR floor), due 3/29/2023(3)(11) | 29,813 | 29,813 | 0.9% |
| | | | 29,813 | 29,813 | 0.9% |
| SCS Merger Sub, Inc. | Texas / IT Services | Second Lien Term Loan (11.59% (LIBOR + 9.50% with 1.00% LIBOR floor), due 10/30/2023)(3)(8)(13) | 20,000 | 19,605 | 0.6% |
| | | | 19,605 | 20,000 | 0.6% |
| Securus Technologies Holdings, Inc. | Texas / Communications Equipment | Second Lien Term Loan (10.34% (LIBOR + 8.25% with 1.00% LIBOR floor), due 11/01/2025)(8)(13) | 40,000 | 39,860 | 1.2% |
| | | | 39,860 | 40,000 | 1.2% |

See notes to consolidated financial statements.

119

PROSPECT CAPITAL CORPORATION AND SUBSIDIARIES
CONSOLIDATED SCHEDULES OF INVESTMENTS (CONTINUED)
(in thousands, except share data)

| Portfolio Company | Locale / Industry | Investments(1)(44) | June 30, 2018 | | | % of Net Assets |
|--|--|---|-----------------|----------------|---------------|-----------------|
| | | | Principal Value | Amortized Cost | Fair Value(2) | |
| LEVEL 3 PORTFOLIO INVESTMENTS | | | | | | |
| Non-Control/Non-Affiliate Investments (less than 5.00% voting control) | | | | | | |
| SEOTownCenter, Inc | Utah / Internet Software & Services | Senior Secured Term Loan A (9.84% (LIBOR + 7.50% with 2.00% LIBOR floor), due 4/07/2023)(3)(11) | \$25,000 | \$25,000 | \$25,000 | 0.7% |
| | | Senior Secured Term Loan B (14.84% (LIBOR + 12.50% with 2.00% LIBOR floor), due 4/07/2023)(3)(11) | 17,000 | 17,000 | 17,000 | 0.5% |
| SESAC Holdco II LLC | Tennessee / Media | Second Lien Term Loan (9.34% (LIBOR + 7.25% with 1.00% LIBOR floor), due 2/23/2025)(8)(13) | 3,000 | 2,975 | 2,975 | 0.1% |
| | | 124 Small Business Loans purchased from On Deck Capital, Inc. | 30 | 30 | 17 | —% |
| SMG US Midco | Pennsylvania / Hotels, Restaurants & Leisure | Second Lien Term Loan (9.09% (LIBOR + 7.00%, due 1/23/2026)(8)(13) | 7,500 | 7,482 | 7,482 | 0.2% |
| | | Senior Secured Term Loan A (7.98% (LIBOR + 6.00% with 1.00% LIBOR floor), due 12/28/2018)(13) | 13,156 | 12,528 | 13,046 | 0.4% |
| Spartan Energy Services, Inc. | Louisiana / Energy Equipment & Services | Senior Secured Term Loan B (13.98% PIK (LIBOR + 12.00% with 1.00% LIBOR floor), due 12/28/2018)(13)(46) | 18,237 | 16,838 | 18,237 | 0.5% |
| | | Second Lien Term Loan (9.09% (LIBOR + 7.00% with 1.00% LIBOR floor), due 1/31/2026)(8)(13) | 7,500 | 7,464 | 7,464 | 0.2% |
| Spectrum Holdings III Corp | Georgia / Health Care Equipment & Supplies | Second Lien Term Loan (10.10% (LIBOR + 7.75% with 1.00% LIBOR floor), due 11/1/2025)(8)(11) | 7,000 | 6,936 | 6,936 | 0.2% |
| | | Overriding Royalty Interests (43) | — | — | — | —% |
| Strategic Materials | Texas / Household Durables | Second Lien Term Loan (9.09% (LIBOR + 7.00% with 1.00% LIBOR floor), due 1/31/2026)(8)(13) | 7,500 | 7,464 | 7,464 | 0.2% |
| | | Second Lien Term Loan (9.09% (LIBOR + 7.00% with 1.00% LIBOR floor), due 1/31/2026)(8)(13) | 7,500 | 7,464 | 7,464 | 0.2% |
| Stryker Energy, LLC | Louisiana / Energy Equipment & Services | Second Lien Term Loan (9.09% (LIBOR + 7.00% with 1.00% LIBOR floor), due 1/31/2026)(8)(13) | 7,500 | 7,464 | 7,464 | 0.2% |
| | | Overriding Royalty Interests (43) | — | — | — | —% |

Edgar Filing: PROSPECT CAPITAL CORP - Form 10-K

| | | | — | — | —% |
|-----------------------|-------------------------------------|--|--------|--------|-------------|
| Sudbury Mill CLO Ltd. | Cayman Islands / Structured Finance | Subordinated Notes (Residual Interest, current yield 5.47%, due 1/17/2026)(5)(14) | 28,200 | 18,183 | 14,218 0.4% |
| | | | | 18,183 | 14,218 0.4% |
| Symphony CLO XIV Ltd. | Cayman Islands / Structured Finance | Subordinated Notes (Residual Interest, current yield 3.78%, due 7/14/2026)(5)(6)(14) | 49,250 | 34,297 | 27,478 0.8% |
| | | | | 34,297 | 27,478 0.8% |
| Symphony CLO XV, Ltd. | Cayman Islands / Structured Finance | Subordinated Notes (Residual Interest, current yield 7.30%, due 10/17/2026)(5)(14) | 50,250 | 39,512 | 32,433 1.0% |
| | | | | 39,512 | 32,433 1.0% |

See notes to consolidated financial statements.

120

PROSPECT CAPITAL CORPORATION AND SUBSIDIARIES
CONSOLIDATED SCHEDULES OF INVESTMENTS (CONTINUED)
(in thousands, except share data)

| Portfolio Company | Locale / Industry | Investments(1)(44) | June 30, 2018 | | | % of Net Assets |
|--|---|---|-----------------|----------------|---------------|-----------------|
| | | | Principal Value | Amortized Cost | Fair Value(2) | |
| LEVEL 3 PORTFOLIO INVESTMENTS | | | | | | |
| Non-Control/Non-Affiliate Investments (less than 5.00% voting control) | | | | | | |
| TGP HOLDINGS III LLC | Oregon / Household Durables | Second Lien Term Loan (10.83% (LIBOR + 8.50% with 1.00% LIBOR floor), due 9/25/2025)(8)(11) | \$3,000 | \$ 2,959 | \$ 2,959 | 0.1% |
| | | | | 2,959 | 2,959 | 0.1% |
| TouchTunes Interactive Networks, Inc. | New York / Internet Software & Services | Second Lien Term Loan (10.25% (LIBOR + 8.25% with 1.00% LIBOR floor), due 5/29/2022)(3)(8)(13) | 14,000 | 13,926 | 14,000 | 0.4% |
| | | | | 13,926 | 14,000 | 0.4% |
| Town & Country Holdings, Inc. | New York / Distributors | First Lien Term Loan (11.33% (LIBOR + 9.00% with 1.25% LIBOR floor), due 1/26/2023)(3)(11) | 69,650 | 69,650 | 69,650 | 2.0% |
| | | | | 69,650 | 69,650 | 2.0% |
| Transplace Holdings, Inc. | Texas / Transportation Infrastructure | Second Lien Term Loan (10.79% (LIBOR + 8.75% with 1.00% LIBOR floor), due 10/6/2025)(8)(13) | 28,104 | 27,494 | 28,104 | 0.8% |
| | | | | 27,494 | 28,104 | 0.8% |
| Turning Point Brands, Inc.(42) | Kentucky / Tobacco | Second Lien Term Loan (9.04% (LIBOR + 7.00% with 0.00% LIBOR floor), due 3/7/2024)(3)(8)(13) | 14,500 | 14,392 | 14,392 | 0.4% |
| | | | | 14,392 | 14,392 | 0.4% |
| United Sporting Companies, Inc.(18) | South Carolina / Distributors | Second Lien Term Loan (13.09% (LIBOR + 11.00% with 1.75% LIBOR floor) plus 2.00% PIK, in non-accrual status effective 4/1/2017, due 11/16/2019)(13)(46) Common Stock (24,967 shares)(16) | 149,126 | 27,091 | 58,806 | 1.7% |
| | | | | — | — | —% |
| | | | | 127,091 | 58,806 | 1.7% |
| Universal Fiber Systems, LLC | Virginia / Textiles, Apparel & Luxury Goods | Second Lien Term Loan (11.60% (LIBOR + 9.50% with 1.00% LIBOR floor), due 10/02/2022)(3)(8)(12) | 37,000 | 36,551 | 37,000 | 1.1% |
| | | | | 36,551 | 37,000 | 1.1% |
| Universal Turbine Parts, LLC | Alabama / Trading Companies & Distributors | Senior Secured Term Loan A (8.06% (LIBOR + 5.75% with 1.00% LIBOR floor), due 7/22/2021)(3)(11) Senior Secured Term Loan B (14.06% (LIBOR + 11.75% with 1.00% LIBOR floor), due 7/22/2021)(11) | 31,363 | 31,363 | 27,926 | 0.8% |
| | | | | 63,863 | 56,199 | 1.6% |
| | | | | 2,500 | 2,500 | 0.1% |

Edgar Filing: PROSPECT CAPITAL CORP - Form 10-K

| | | | | | | |
|---------------------------|---------------------------------|------------------------------------|--------|--------|--------|------|
| USG Intermediate, LLC | Texas / Leisure Products | Revolving Line of Credit – \$2,500 | | | | |
| | | Commitment (11.34% (LIBOR + 9.25% | | | | |
| | | with 1.00% LIBOR floor), due | | | | |
| | | 8/24/2018)(13)(15) | | | | |
| | | Senior Secured Term Loan A (8.84% | | | | |
| | | (LIBOR + 6.75% with 1.00% LIBOR | 11,385 | 11,385 | 11,385 | 0.3% |
| | | floor), due 8/24/2022)(3)(13) | | | | |
| | | Senior Secured Term Loan B (13.84% | | | | |
| | | (LIBOR + 11.75% with 1.00% LIBOR | 20,741 | 20,741 | 20,741 | 0.6% |
| | | floor), due 8/24/2022)(3)(13) | | | | |
| | | Equity(16) | | 1 | — | —% |
| | | | | 34,627 | 34,626 | 1.0% |
| UTZ Quality Foods, LLC | Pennsylvania / Food Products | Second Lien Term Loan (9.34% | | | | |
| | | (LIBOR + 7.25%, due | 10,000 | 9,884 | 9,886 | 0.3% |
| | | 11/21/2025)(8)(13) | | | | |
| | | | | 9,884 | 9,886 | 0.3% |

See notes to consolidated financial statements.

121

PROSPECT CAPITAL CORPORATION AND SUBSIDIARIES
CONSOLIDATED SCHEDULES OF INVESTMENTS (CONTINUED)
(in thousands, except share data)

| Portfolio Company | Locale / Industry | Investments(1)(44) | June 30, 2018 | | Fair Value(2) | % of Net Assets |
|--|--|--|--------------------|-------------------|------------------|--------------------|
| | | | Principal Value | Amortized Cost | | |
| LEVEL 3 PORTFOLIO INVESTMENTS | | | | | | |
| Non-Control/Non-Affiliate Investments (less than 5.00% voting control) | | | | | | |
| VC GB Holdings, Inc. | Illinois / Household Durables | Subordinated Secured Term Loan (10.09% (LIBOR + 8.00% with 1.00% LIBOR floor), due 2/28/2025)(3)(8)(13) | \$ 16,000 | \$ 15,750 | \$ 16,000 | 0.5% |
| | | | | 15,750 | 16,000 | 0.5% |
| Venio LLC | Pennsylvania / Professional Services | Second Lien Term Loan (4.00% plus PIK 10.00% (LIBOR + 7.50% with 2.50% LIBOR floor), due 2/19/2020)(11)(46) | 22,048 | 18,066 | 20,001 | 0.6% |
| | | | | 18,066 | 20,001 | 0.6% |
| Voya CLO 2012-2, Ltd. | Cayman Islands / Structured Finance | Income Notes (Residual Interest, current yield 0.00%, due 10/15/2022)(5)(14)(17) | 38,070 | 450 | 595 | —% |
| | | | | 450 | 595 | —% |
| Voya CLO 2012-3, Ltd. | Cayman Islands / Structured Finance | Income Notes (Residual Interest, current yield 0.00%, due 10/15/2022)(5)(14)(17) | 46,632 | — | 585 | —% |
| | | | | — | 585 | —% |
| Voya CLO 2012-4, Ltd. | Cayman Islands / Structured Finance | Income Notes (Residual Interest, current yield 11.96%, due 10/16/2028)(5)(14) | 40,613 | 30,893 | 28,264 | 0.8% |
| | | | | 30,893 | 28,264 | 0.8% |
| Voya CLO 2014-1, Ltd. | Cayman Islands / Structured Finance | Subordinated Notes (Residual Interest, current yield 16.47%, due 4/18/2031)(5)(6)(14) | 40,773 | 28,205 | 26,931 | 0.8% |
| | | | | 28,205 | 26,931 | 0.8% |
| Voya CLO 2016-3, Ltd. | Cayman Islands / Structured Finance | Subordinated Notes (Residual Interest, current yield 12.68%, due 10/18/2027)(5)(6)(14) | 28,100 | 27,180 | 22,912 | 0.7% |
| | | | | 27,180 | 22,912 | 0.7% |
| Voya CLO 2017-3, Ltd. | Cayman Islands / Structured Finance | Subordinated Notes (Residual Interest, current yield 12.26%, due 7/20/2030)(5)(6)(14) | 44,885 | 47,400 | 43,351 | 1.3% |
| | | | | 47,400 | 43,351 | 1.3% |
| Wink Holdco, Inc. | Texas / Insurance | Second Lien Term Loan (8.85% (LIBOR + 6.75% with 1.00% LIBOR floor), due 12/1/2025)(8)(13) | 3,000 | 2,986 | 2,986 | 0.1% |
| | | | | 2,986 | 2,986 | 0.1% |
| Total Non-Control/Non-Affiliate Investments (Level 3) | | | | \$ 3,475,295 | \$ 3,264,517 | 95.8% |

| | | | |
|---------------------------------------|-------------|-------------|--------|
| Total Portfolio Investments (Level 3) | \$5,831,458 | \$5,727,279 | 168.1% |
|---------------------------------------|-------------|-------------|--------|

See notes to consolidated financial statements.

122

PROSPECT CAPITAL CORPORATION AND SUBSIDIARIES
CONSOLIDATED SCHEDULES OF INVESTMENTS (CONTINUED)
(in thousands, except share data)

| Portfolio Company | Locale / Industry | Investments(1)(45) | June 30, 2017 | | | % of Net Assets |
|--|---|--|-----------------|----------------|---------------|-----------------|
| | | | Principal Value | Amortized Cost | Fair Value(2) | |
| LEVEL 3 PORTFOLIO INVESTMENTS | | | | | | |
| Control Investments (greater than 25.00% voting control)(49) | | | | | | |
| Arctic Energy Services, LLC(37) | Wyoming / Energy Equipment & Services | Class D Units (32,915 units)(16) | \$ 31,640 | \$ 17,370 | 0.5% | |
| | | Class E Units (21,080 units)(16) | 20,230 | — | —% | |
| | | Class A Units (700 units)(16) | 9,006 | — | —% | |
| | | Class C Units (10 units)(16) | — | — | —% | |
| | | | 60,876 | 17,370 | 0.5% | |
| CCPI Inc.(19) | Ohio / Electronic Equipment, Instruments & Components | Senior Secured Term Loan A (10.00%, due 12/31/2020)(3) | \$2,966 | 2,966 | 2,966 | 0.1% |
| | | Senior Secured Term Loan B (12.00% plus 7.00% PIK, due 12/31/2020)(3)(46) | 18,216 | 18,216 | 18,216 | 0.5% |
| | | Common Stock (14,857 shares) | 6,759 | 21,870 | 43,052 | 0.7% |
| | | | 27,941 | 43,052 | 1.3% | |
| CP Energy Services, Inc.(20) | Oklahoma / Energy Equipment & Services | Series B Convertible Preferred Stock (1,043 shares)(16) | 98,273 | 72,216 | 72,216 | 2.2% |
| | | Common Stock (2,924 shares)(16) | 15,227 | — | — | —% |
| | | | 113,500 | 72,216 | 2.2% | |
| Credit Central Loan Company, LLC(21) | South Carolina / Consumer Finance | Subordinated Term Loan (10.00% plus 10.00% PIK, due 6/26/2019)(14)(46) | 51,855 | 45,255 | 51,855 | 1.5% |
| | | Class A Units (10,640,642 units)(14)(16) | 13,731 | 9,881 | 9,881 | 0.3% |
| | | Net Revenues Interest (25% of Net Revenues)(14)(16) | — | 2,699 | 2,699 | 0.1% |
| | | | 58,986 | 64,435 | 1.9% | |
| Echelon Aviation LLC | New York / Aerospace & Defense | Senior Secured Term Loan (11.75% (LIBOR + 9.75% with 2.00% LIBOR floor) plus 2.25% PIK, due 3/31/2022)(13)(46) | 31,055 | 31,055 | 31,055 | 0.9% |
| | | Senior Secured Term Loan (11.00% (LIBOR + 9.00% with 2.00% LIBOR floor) plus 1.00% PIK, due 12/7/2024)(13)(46) | 16,044 | 16,044 | 16,044 | 0.5% |
| | | Membership Interest (99%) | 22,738 | 24,219 | 24,219 | 0.7% |
| | | | 69,837 | 71,318 | 71,318 | 2.1% |
| Edmentum Ultimate Holdings, LLC(22) | Minnesota / Diversified Consumer Services | Second Lien Revolving Credit Facility to Edmentum, Inc. – \$7,834 Commitment (5.00%, due 6/9/2020)(15) | 7,834 | 7,834 | 7,834 | 0.2% |
| | | | 6,905 | 6,905 | 6,905 | 0.2% |

Edgar Filing: PROSPECT CAPITAL CORP - Form 10-K

| | | | | | | |
|--|-----------------------------------|--|---------|---------|---------|-------|
| | | Unsecured Senior PIK Note (8.50% PIK, due 6/9/2020)(46) | | | | |
| | | Unsecured Junior PIK Note (10.00% PIK, in non-accrual status effective 1/1/2017, due 6/9/2020) | 31,870 | 23,829 | 31,870 | 1.0% |
| | | Class A Units (370,964 units)(16) | 6,577 | | 286 | —% |
| | | | 45,145 | | 46,895 | 1.4% |
| | | Subordinated Term Loan to First Tower, LLC (10.00% plus 7.00% PIK, due 6/24/2019)(14)(46) | 261,114 | 261,114 | 261,114 | 7.8% |
| First Tower Finance Company LLC(23) | Mississippi / Consumer Finance | Class A Units (93,997,533 units)(14)(16) | 78,481 | | 104,474 | 3.1% |
| | | | 339,595 | | 365,588 | 10.9% |

See notes to consolidated financial statements.

123

PROSPECT CAPITAL CORPORATION AND SUBSIDIARIES
CONSOLIDATED SCHEDULES OF INVESTMENTS (CONTINUED)
(in thousands, except share data)

| Portfolio Company | Locale / Industry | Investments(1)(45) | June 30, 2017 | | | % of Net Assets |
|--|---|--|-----------------|----------------|---------------|-----------------|
| | | | Principal Value | Amortized Cost | Fair Value(2) | |
| LEVEL 3 PORTFOLIO INVESTMENTS | | | | | | |
| Control Investments (greater than 25.00% voting control)(49) | | | | | | |
| Freedom Marine Solutions, LLC(24) | Louisiana / Energy Equipment & Services | Membership Interest (100%)(16) | \$ 42,610 | \$ 23,994 | | 0.7% |
| | | | 42,610 | 23,994 | | 0.7% |
| | | Senior Secured Note A (10.00% (LIBOR + 7.00% with 3.00% LIBOR floor), due 1/30/2020)(3)(11) | \$ 26,250 | 26,250 | 26,250 | 0.8% |
| | | Senior Secured Note B (10.00% (LIBOR + 7.00% with 3.00% LIBOR floor) plus 10.00% PIK, due 1/30/2020)(3)(11)(46) | 24,442 | 24,442 | 24,442 | 0.7% |
| MITY, Inc.(25) | Utah / Commercial Services & Supplies | Subordinated Unsecured Note to Broda Enterprises ULC (10.00%, due on demand)(14) | 5,659 | 7,200 | 5,659 | 0.2% |
| | | Common Stock (42,053 shares) | | 6,849 | 20,161 | 0.6% |
| | | | | 64,741 | 76,512 | 2.3% |
| | | Senior Secured Term Loan A (6.00% (LIBOR + 4.00% with 2.00% LIBOR floor) plus 5.50% PIK, due 4/1/2019)(11)(46) | 291,315 | 291,315 | 291,315 | 8.7% |
| | | Senior Secured Term Loan E (11.00% (LIBOR + 9.00% with 2.00% LIBOR floor) plus 5.00% PIK, due 4/1/2019)(11)(46) | 122,314 | 122,314 | 122,314 | 3.6% |
| National Property REIT Corp.(26) | Various / Equity Real Estate Investment Trusts (REITs) / Online Lending | Senior Secured Term Loan C to ACL Loan Holdings, Inc. (11.00% (LIBOR + 9.00% with 2.00% LIBOR floor) plus 5.00% PIK, due 4/1/2019)(11)(14)(46) | 59,722 | 59,722 | 59,722 | 1.8% |
| | | Senior Secured Term Loan C to American Consumer Lending Limited (11.00% (LIBOR + 9.00% with 2.00% LIBOR floor) plus 5.00% PIK, due 12/15/2020)(11)(14)(46) | 87,130 | 87,130 | 87,130 | 2.6% |
| | | Common Stock (2,280,992 shares)(16) | | 229,815 | 338,046 | 10.1% |
| | | Net Operating Income Interest (5% of Net Operating Income) | | — | 88,777 | 2.6% |
| | | | | 790,296 | 987,304 | 29.4% |
| Nationwide Loan Company LLC(27) | Illinois / Consumer Finance | Senior Subordinated Term Loan to Nationwide Acceptance LLC (10.00% | 16,819 | 16,819 | 16,819 | 0.5% |

Edgar Filing: PROSPECT CAPITAL CORP - Form 10-K

| | | | | | | |
|----------------------|-----------------------------|--|--------|--------|--------|------|
| | | plus 10.00% PIK, due 6/18/2019)(14)(46) | | | | |
| | | Class A Units (32,456,159 units)(14) | | 18,183 | 20,126 | 0.6% |
| | | | | 35,002 | 36,945 | 1.1% |
| | | Senior Secured Note (14.00%, due 5/6/2021) | 3,714 | 3,714 | 3,714 | 0.1% |
| | | Senior Secured Note to Armed Forces Communications, Inc. (14.00%, due 5/6/2021) | 6,900 | 6,900 | 6,900 | 0.2% |
| NMMB, Inc.(28) | New York / Media | Series A Preferred Stock (7,200 shares)(16) | | 7,200 | 5,713 | 0.2% |
| | | Series B Preferred Stock (5,669 shares)(16) | | 5,669 | 4,498 | 0.1% |
| | | | | 23,483 | 20,825 | 0.6% |
| | | Senior Subordinated Note (10.30% (LIBOR + 9.00% with 1.00% LIBOR floor), due 3/31/2022)(3)(11) | 28,622 | 28,622 | 28,622 | 0.9% |
| R-V Industries, Inc. | Pennsylvania / Machinery | Common Stock (745,107 shares) | | 6,866 | 4,056 | 0.1% |
| | | | | 35,488 | 32,678 | 1.0% |

See notes to consolidated financial statements.

124

PROSPECT CAPITAL CORPORATION AND SUBSIDIARIES
CONSOLIDATED SCHEDULES OF INVESTMENTS (CONTINUED)
(in thousands, except share data)

| Portfolio Company | Locale / Industry | Investments(1)(45) | June 30, 2017 | | % of Net Assets | |
|---|---|---|-----------------|----------------|-----------------|---------------|
| | | | Principal Value | Amortized Cost | | Fair Value(2) |
| LEVEL 3 PORTFOLIO INVESTMENTS | | | | | | |
| Control Investments (greater than 25.00% voting control)(49) | | | | | | |
| SB Forging Company II, Inc. (f/k/a Gulf Coast Machine & Supply Company)(29) | Texas / Energy Equipment & Services | Series A Convertible Preferred Stock (99,900 shares)(16) | \$— | | \$1,940 | 0.1% |
| | | Common Stock (100 shares)(16) | — | | — | —% |
| | | | — | | 1,940 | 0.1% |
| | | Senior Secured Term Loan A (9.00% PIK, in non-accrual status effective 4/1/2016, due 7/22/2020) | \$31,068 | 28,604 | 12,517 | 0.4% |
| USES Corp.(30) | Texas / Commercial Services & Supplies | Senior Secured Term Loan B (15.50% PIK, in non-accrual status effective 4/1/2016, due 7/22/2020) | 41,475 | 35,568 | — | —% |
| | | Common Stock (268,962 shares)(16) | — | — | — | —% |
| | | | | 64,172 | 12,517 | 0.4% |
| | | Senior Secured Note to Valley Electric Co. of Mt. Vernon, Inc. (8.00% (LIBOR + 5.00% with 3.00% LIBOR floor) plus 2.50% PIK, due 12/31/2024)(3)(11)(46) | 10,430 | 10,430 | 10,430 | 0.3% |
| Valley Electric Company, Inc.(31) | Washington / Construction & Engineering | Senior Secured Note (10.00% plus 8.50% PIK, due 6/23/2024)(46) | 25,624 | 25,624 | 22,079 | 0.7% |
| | | Common Stock (50,000 shares)(16) | | 26,204 | — | —% |
| | | | | 62,258 | 32,509 | 1.0% |
| | | Membership Interest (100%)(16) | | — | — | —% |
| Wolf Energy, LLC(32) | Kansas / Energy Equipment & Services | Membership Interest in Wolf Energy Services Company, LLC (100%)(16) | | 6,801 | 5,662 | 0.1% |
| | | Net Profits Interest (8% of Equity Distributions)(4)(16) | | — | 15 | —% |
| | | | | 6,801 | 5,677 | 0.1% |
| Total Control Investments (Level 3) | | | \$1,840,731 | | \$1,911,775 | 57.0% |
| Affiliate Investments (5.00% to 24.99% voting control)(50) | | | | | | |
| Nixon, Inc.(39) | California / Textiles, Apparel & Luxury Goods | Senior Secured Term Loan (11.50% PIK, in non-accrual status effective 7/1/2016, due 11/12/2022)(8) | \$16,499 | | \$14,197 | —% |
| | | Common Stock (857 units)(16) | — | | — | —% |
| | | | | | 14,197 | —% |

Edgar Filing: PROSPECT CAPITAL CORP - Form 10-K

| | | | | | | |
|---------------------------------------|---|--|-------|----------|----------|------|
| Targus International, LLC(33) | California / Textiles, Apparel & Luxury Goods | Senior Secured Term Loan A (15.00% PIK, due 12/31/2019)(8)(46) | 1,532 | 1,320 | 1,532 | —% |
| | | Senior Secured Term Loan B (15.00% PIK, due 12/31/2019)(8)(46) | 4,596 | 3,961 | 4,596 | 0.1% |
| | | Common Stock (1,262,737 shares)(16) | — | 3,479 | 5,301 | 0.2% |
| | | | | 8,760 | 11,429 | 0.3% |
| Total Affiliate Investments (Level 3) | | | | \$22,957 | \$11,429 | 0.3% |

See notes to consolidated financial statements.

125

PROSPECT CAPITAL CORPORATION AND SUBSIDIARIES
CONSOLIDATED SCHEDULES OF INVESTMENTS (CONTINUED)
(in thousands, except share data)

| Portfolio Company | Locale / Industry | Investments(1)(45) | June 30, 2017 | | |
|--|--|---|-----------------|----------------|---------------|
| | | | Principal Value | Amortized Cost | Fair Value(2) |
| LEVEL 3 PORTFOLIO INVESTMENTS | | | | | |
| Non-Control/Non-Affiliate Investments (less than 5.00% voting control) | | | | | |
| American Gilsonite Company(34) | Utah / Chemicals | Membership Interest (1.93%)(16) | \$ — | \$ — | —% |
| Apidos CLO IX | Cayman Islands / Structured Finance | Subordinated Notes (Residual Interest, current yield 0.00%, due 7/15/2023)(5)(14)(17) | \$23,525 | 7,597 | 7,597 0.2% |
| Apidos CLO XI | Cayman Islands / Structured Finance | Subordinated Notes (Residual Interest, current yield 9.54%, due 10/17/2028)(5)(14) | 40,500 | 30,494 | 24,777 0.7% |
| Apidos CLO XII | Cayman Islands / Structured Finance | Subordinated Notes (Residual Interest, current yield 5.73%, due 4/15/2025)(5)(14) | 44,063 | 30,745 | 26,047 0.8% |
| Apidos CLO XV | Cayman Islands / Structured Finance | Subordinated Notes (Residual Interest, current yield 12.29%, due 10/20/2025)(5)(14) | 36,515 | 29,491 | 26,083 0.8% |
| Apidos CLO XXII | Cayman Islands / Structured Finance | Subordinated Notes (Residual Interest, current yield 14.51%, due 10/20/2027)(5)(6)(14) | 31,350 | 26,991 | 25,432 0.8% |
| Ark-La-Tex Wireline Services, LLC(32) | Louisiana / Energy Equipment & Services | Senior Secured Term Loan B (12.73% (LIBOR + 11.50% with 1.00% LIBOR floor), in non-accrual status effective 4/1/2016, due 4/8/2019)(13) | 26,080 | 1,630 | 1,630 —% |
| Armor Holding II LLC | New York / Commercial Services & Supplies | Second Lien Term Loan (10.30% (LIBOR + 9.00% with 1.25% LIBOR floor), due 12/26/2020)(3)(8)(11) | 7,000 | 6,928 | 7,000 0.2% |
| Atlantis Health Care Group (Puerto Rico), Inc. | Puerto Rico / Health Care Providers & Services | Revolving Line of Credit – \$7,000 Commitment (9.50% (LIBOR + 8.00% with 1.50% LIBOR floor), due 8/21/2018)(11)(15) | 3,850 | 3,850 | 3,850 0.1% |
| | | Senior Term Loan (9.50% (LIBOR + 8.00% with 1.50% LIBOR floor), due | 79,560 | 79,560 | 79,560 2.4% |

Edgar Filing: PROSPECT CAPITAL CORP - Form 10-K

| | | | | | | | | |
|-----------------------------|---|---|---------|---------|---------|--|---------|-------------|
| | | 2/21/2020)(3)(11) | | | | | | |
| | | | | | | | 83,410 | 83,4102.5% |
| Babson CLO Ltd. 2014-III | Cayman Islands / Structured Finance | Subordinated Notes (Residual Interest, current yield 15.01%, due 1/15/2026)(5)(6)(14) | 52,250 | 42,101 | 39,001 | | | 11.2% |
| | | | | | | | 42,101 | 39,0011.2% |
| Broder Bros., Co. | Pennsylvania / Textiles, Apparel & Luxury Goods | Senior Secured Term Loan A (7.05% (LIBOR + 5.75% with 1.25% LIBOR floor), due 6/03/2021)(3)(11) | 110,876 | 110,876 | 110,876 | | | 6.3% |
| | | Senior Secured Term Loan B (13.55% (LIBOR + 12.25% with 1.25% LIBOR floor), due 6/03/2021)(11) | 114,901 | 114,901 | 114,901 | | | 8.4% |
| | | | | | | | 225,777 | 225,7776.7% |

See notes to consolidated financial statements.

126

PROSPECT CAPITAL CORPORATION AND SUBSIDIARIES
CONSOLIDATED SCHEDULES OF INVESTMENTS (CONTINUED)
(in thousands, except share data)

| Portfolio Company | Locale / Industry | Investments(1)(45) | June 30, 2017 | | | % of Net Assets |
|--|---|--|-----------------|----------------|---------------|-----------------|
| | | | Principal Value | Amortized Cost | Fair Value(2) | |
| LEVEL 3 PORTFOLIO INVESTMENTS | | | | | | |
| Non-Control/Non-Affiliate Investments (less than 5.00% voting control) | | | | | | |
| Brookside Mill CLO Ltd. | Cayman Islands / Structured Finance | Subordinated Notes (Residual Interest, current yield 1.29%, due 4/17/2025)(5)(14) | \$26,000 | \$17,178 | \$14,022 | 0.4% |
| | | | | 17,178 | 14,022 | 0.4% |
| California Street CLO IX Ltd. (f/k/a Symphony CLO IX Ltd.) | Cayman Islands / Structured Finance | Preference Shares (Residual Interest, current yield 13.82%, due 10/16/2028)(5)(14) | 58,915 | 40,792 | 35,758 | 1.1% |
| | | | | 40,792 | 35,758 | 1.1% |
| Capstone Logistics Acquisition, Inc. | Georgia / Commercial Services & Supplies | Second Lien Term Loan (9.48% (LIBOR + 8.25% with 1.00% LIBOR floor), due 10/7/2022)(3)(8)(13) | 101,517 | 101,071 | 98,468 | 2.9% |
| | | | | 101,071 | 98,468 | 2.9% |
| Carlyle Global Market Strategies CLO 2014-4, Ltd. | Cayman Islands / Structured Finance | Subordinated Notes (Residual Interest, current yield 21.61%, due 10/15/2026)(5)(6)(14) | 25,534 | 19,494 | 19,757 | 0.6% |
| | | | | 19,494 | 19,757 | 0.6% |
| Carlyle Global Market Strategies CLO 2016-3, Ltd. | Cayman Islands / Structured Finance | Subordinated Notes (Residual Interest, current yield 15.04%, due 10/20/2029)(5)(6)(14) | 32,200 | 31,449 | 26,745 | 0.8% |
| | | | | 31,449 | 26,745 | 0.8% |
| Cent CLO 17 Limited | Cayman Islands / Structured Finance | Subordinated Notes (Residual Interest, current yield 10.00%, due 1/30/2025)(5)(14) | 24,870 | 18,100 | 16,708 | 0.5% |
| | | | | 18,100 | 16,708 | 0.5% |
| Cent CLO 20 Limited | Cayman Islands / Structured Finance | Subordinated Notes (Residual Interest, current yield 15.81%, due 1/25/2026)(5)(14) | 40,275 | 32,105 | 32,148 | 1.0% |
| | | | | 32,105 | 32,148 | 1.0% |
| Cent CLO 21 Limited | Cayman Islands / Structured Finance | Subordinated Notes (Residual Interest, current yield 15.47%, due 7/27/2026)(5)(6)(14) | 48,528 | 36,659 | 36,178 | 1.1% |
| | | | | 36,659 | 36,178 | 1.1% |
| Centerfield Media Holding Company(35) | California / Internet Software and Services | Senior Secured Term Loan A (8.30% (LIBOR + 7.00% with 1.00% LIBOR floor), due 1/17/2022)(3)(8)(11) | 67,320 | 67,320 | 67,320 | 2.0% |
| | | Senior Secured Term Loan B (13.80% (LIBOR + 12.50% with | 68,000 | 68,000 | 68,000 | 2.0% |

Edgar Filing: PROSPECT CAPITAL CORP - Form 10-K

| | | | | | | | |
|--|--|---|--------|--------|---------|---------|------|
| | | 1.00% LIBOR floor), due 1/17/2022)(8)(11) | | | 135,320 | 135,320 | 4.0% |
| CIFC Funding 2013-III, Ltd. | Cayman Islands / Subordinated Notes (Residual Structured Finance | Interest, current yield 15.42%, due 10/24/2025)(5)(14) | 44,100 | 31,233 | 30,265 | 0.9% | |
| | | | | 31,233 | 30,265 | 0.9% | |
| CIFC Funding 2013-IV, Ltd. | Cayman Islands / Subordinated Notes (Residual Structured Finance | Interest, current yield 16.16%, due 11/27/2024)(5)(14) | 45,500 | 32,859 | 32,708 | 1.0% | |
| | | | | 32,859 | 32,708 | 1.0% | |
| CIFC Funding 2014-IV Investor, Ltd. | Cayman Islands / Income Notes (Residual Interest, Structured Finance | current yield 13.85%, due 10/17/2026)(5)(6)(14) | 41,500 | 30,002 | 29,139 | 0.9% | |
| | | | | 30,002 | 29,139 | 0.9% | |

See notes to consolidated financial statements.

127

PROSPECT CAPITAL CORPORATION AND SUBSIDIARIES
CONSOLIDATED SCHEDULES OF INVESTMENTS (CONTINUED)
(in thousands, except share data)

| Portfolio Company | Locale / Industry | Investments(1)(45) | June 30, 2017 | | | % of Net Assets |
|--|---|--|-----------------|----------------|---------------|-----------------|
| | | | Principal Value | Amortized Cost | Fair Value(2) | |
| LEVEL 3 PORTFOLIO INVESTMENTS | | | | | | |
| Non-Control/Non-Affiliate Investments (less than 5.00% voting control) | | | | | | |
| CIFC Funding 2016-I, Ltd. | Cayman Islands / Finance | Income Notes (Residual Interest, Structured Finance current yield 16.33%, due 10/21/2028)(5)(6)(14) | \$34,000 | \$31,780 | \$29,513 | 0.9% |
| | | | | 31,780 | 29,513 | 0.9% |
| Cinedigm DC Holdings, LLC | New York / Media | Senior Secured Term Loan (11.00% (LIBOR + 9.00% with 2.00% LIBOR floor) plus 2.50% PIK, due 3/31/2021)(11)(46) | 49,156 | 49,106 | 49,156 | 1.5% |
| | | | | 49,106 | 49,156 | 1.5% |
| Coverall North America, Inc. | Florida / Commercial Services & Supplies | Senior Secured Term Loan A (7.30% (LIBOR + 6.00% with 1.00% LIBOR floor), due 11/02/2020)(3)(11) | 22,658 | 22,658 | 22,658 | 0.7% |
| | | Senior Secured Term Loan B (12.30% (LIBOR + 11.00% with 1.00% LIBOR floor), due 11/02/2020)(3)(11) | 24,938 | 24,938 | 24,938 | 0.7% |
| | | | | 47,596 | 47,596 | 1.4% |
| CURO Financial Technologies Corp. | Canada / Consumer Finance | Senior Secured Notes (12.00%, due 3/1/2022)(8)(14) | 10,000 | 9,831 | 10,000 | 0.3% |
| | | | | 9,831 | 10,000 | 0.3% |
| Digital Room LLC | California / Commercial Services & Supplies | Second Lien Term Loan (11.23% (LIBOR + 10.00% with 1.00% LIBOR floor), due 5/21/2023)(3)(8)(13) | 34,000 | 33,389 | 33,389 | 1.0% |
| | | | | 33,389 | 33,389 | 1.0% |
| Dunn Paper, Inc. | Georgia / Paper & Forest Products | Second Lien Term Loan (9.98% (LIBOR + 8.75% with 1.00% LIBOR floor), due 8/26/2023)(3)(8)(13) | 11,500 | 11,295 | 11,500 | 0.3% |
| | | | | 11,295 | 11,500 | 0.3% |
| Easy Gardener Products, Inc. | Texas / Household Durables | Senior Secured Term Loan (11.30% (LIBOR + 10.00% with .25% LIBOR floor), due 9/30/2020)(3)(11) | 17,194 | 17,194 | 17,066 | 0.5% |
| | | | | 17,194 | 17,066 | 0.5% |
| EZShield Parent, Inc. | Maryland / Internet Software & Services | Senior Secured Term Loan A (7.98% (LIBOR + 6.75% with 1.00% LIBOR floor), due 2/26/2021)(3)(13) | 14,963 | 14,963 | 14,963 | 0.4% |
| | | Senior Secured Term Loan B (12.98% (LIBOR + 11.75% with 1.00% LIBOR floor), due 2/26/2021)(3)(13) | 15,000 | 15,000 | 15,000 | 0.5% |

Edgar Filing: PROSPECT CAPITAL CORP - Form 10-K

| | | | | | |
|---------------------|---|---|--------|--------|------|
| | | | 29,963 | 29,963 | 0.9% |
| | | Senior Secured Term Loan B (10.30% (LIBOR + 9.00% with 1.00% LIBOR floor), due 4/30/2022)(3)(11) | 21,544 | 21,544 | 0.6% |
| Fleetwash, Inc. | New Jersey / Commercial Services & Supplies | Delayed Draw Term Loan – \$15,000 Commitment (9.80% (LIBOR + 8.50% with 1.00% LIBOR floor) expires 4/30/2022)(11)(15) | — | — | —% |
| | | | 21,544 | 21,544 | 0.6% |
| Galaxy XV CLO, Ltd. | Cayman Islands / Structured Finance | Subordinated Notes (Residual Interest, current yield 12.14%, due 4/15/2025)(5)(14) | 50,525 | 33,887 | 1.0% |
| | | | 33,887 | 33,794 | 1.0% |

See notes to consolidated financial statements.

128

PROSPECT CAPITAL CORPORATION AND SUBSIDIARIES
CONSOLIDATED SCHEDULES OF INVESTMENTS (CONTINUED)
(in thousands, except share data)

| Portfolio Company | Locale / Industry | Investments(1)(45) | June 30, 2017 | | | % of Net Assets |
|--|---|--|-----------------|----------------|---------------|-----------------|
| | | | Principal Value | Amortized Cost | Fair Value(2) | |
| LEVEL 3 PORTFOLIO INVESTMENTS | | | | | | |
| Non-Control/Non-Affiliate Investments (less than 5.00% voting control) | | | | | | |
| Galaxy XVI CLO, Ltd. | Cayman Islands / Structured Finance | Subordinated Notes (Residual Interest, current yield 11.71%, due 11/16/2025)(5)(14) | \$24,575 | \$ 17,854 | \$ 16,611 | 0.5% |
| | | | | 17,854 | 16,611 | 0.5% |
| Galaxy XVII CLO, Ltd. | Cayman Islands / Structured Finance | Subordinated Notes (Residual Interest, current yield 10.14%, due 7/15/2026)(5)(6)(14) | 39,905 | 29,502 | 26,833 | 0.8% |
| | | | | 29,502 | 26,833 | 0.8% |
| Global Employment Solutions, Inc. | Colorado / Professional Services | Senior Secured Term Loan (10.48% (LIBOR + 9.25% with 1.00% LIBOR floor), due 6/26/2020)(3)(13) | 48,131 | 48,131 | 48,131 | 1.4% |
| | | | | 48,131 | 48,131 | 1.4% |
| Halcyon Loan Advisors Funding 2012-1 Ltd. | Cayman Islands / Structured Finance | Subordinated Notes (Residual Interest, current yield 0.00%, due 8/15/2023)(5)(14)(17) | 23,188 | 5,086 | 5,086 | 0.2% |
| | | | | 5,086 | 5,086 | 0.2% |
| Halcyon Loan Advisors Funding 2013-1 Ltd. | Cayman Islands / Structured Finance | Subordinated Notes (Residual Interest, current yield 5.76%, due 4/15/2025)(5)(14) | 40,400 | 26,949 | 23,937 | 0.7% |
| | | | | 26,949 | 23,937 | 0.7% |
| Halcyon Loan Advisors Funding 2014-1 Ltd. | Cayman Islands / Structured Finance | Subordinated Notes (Residual Interest, current yield 9.70%, due 4/18/2026)(5)(14) | 24,500 | 15,982 | 15,984 | 0.5% |
| | | | | 15,982 | 15,984 | 0.5% |
| Halcyon Loan Advisors Funding 2014-2 Ltd. | Cayman Islands / Structured Finance | Subordinated Notes (Residual Interest, current yield 14.39%, due 4/28/2025)(5)(6)(14) | 41,164 | 27,617 | 27,869 | 0.8% |
| | | | | 27,617 | 27,869 | 0.8% |
| Halcyon Loan Advisors Funding 2015-3 Ltd. | Cayman Islands / Structured Finance | Subordinated Notes (Residual Interest, current yield 15.09%, due 10/18/2027)(5)(6)(14) | 39,598 | 34,205 | 34,938 | 1.0% |
| | | | | 34,205 | 34,938 | 1.0% |
| Harbortouch Payments, LLC | Pennsylvania / Commercial Services & Supplies | Escrow Receivable | — | — | 864 | —% |
| | | | | — | 864 | —% |
| | | | 19,025 | 14,955 | 14,047 | 0.4% |

Edgar Filing: PROSPECT CAPITAL CORP - Form 10-K

| | | | | | |
|--|---|--|--------|--------|------|
| HarbourView CLO VII, Ltd. | Cayman Islands / Subordinated Notes (Residual Structured Finance Interest, current yield 19.25%, due 11/18/2026)(5)(6)(14) | | 14,955 | 14,047 | 0.4% |
| Harley Marine Services, Inc. | Washington / Marine | Second Lien Term Loan (10.50% (LIBOR + 9.25% with 1.25% LIBOR floor), due 12/20/2019)(3)(8)(11) | 9,000 | 8,919 | 0.3% |
| Inpatient Care Management Company, LLC | Florida / Health Care Providers & Services | Senior Secured Term Loan (10.30% (LIBOR + 9.00% with 1.00% LIBOR floor), due 6/8/2021)(3)(11) | 25,467 | 25,467 | 0.8% |
| | | | 25,467 | 25,467 | 0.8% |

See notes to consolidated financial statements.

129

PROSPECT CAPITAL CORPORATION AND SUBSIDIARIES
CONSOLIDATED SCHEDULES OF INVESTMENTS (CONTINUED)
(in thousands, except share data)

| Portfolio Company | Locale / Industry | Investments(1)(45) | June 30, 2017 | | | % of Net Assets |
|--|---|--|-----------------|----------------|---------------|-----------------|
| | | | Principal Value | Amortized Cost | Fair Value(2) | |
| LEVEL 3 PORTFOLIO INVESTMENTS | | | | | | |
| Non-Control/Non-Affiliate Investments (less than 5.00% voting control) | | | | | | |
| Instant Web, LLC | Minnesota / Media | Senior Secured Term Loan A (5.80% (LIBOR + 4.50% with 1.00% LIBOR floor), due 3/28/2019)(11) | \$ 120,948 | \$ 120,948 | \$ 120,948 | 3.6% |
| | | Senior Secured Term Loan B (12.30% (LIBOR + 11.00% with 1.00% LIBOR floor), due 3/28/2019)(3)(11) | 158,100 | 158,100 | 158,100 | 4.7% |
| | | Senior Secured Term Loan C-1 (13.05% (LIBOR + 11.75% with 1.00% LIBOR floor), due 3/28/2019)(11) | 27,000 | 27,000 | 27,000 | 0.8% |
| | | Senior Secured Term Loan C-2 (13.80% (LIBOR + 12.50% with 1.00% LIBOR floor), due 3/28/2019)(11) | 25,000 | 25,000 | 25,000 | 0.8% |
| | | | | 331,048 | 331,048 | 9.9% |
| InterDent, Inc. | California / Health Care Providers & Services | Senior Secured Term Loan A (6.73% (LIBOR + 5.50% with 0.75% LIBOR floor), due 8/3/2017)(13) | 78,656 | 78,656 | 78,656 | 2.3% |
| | | Senior Secured Term Loan B (11.73% (LIBOR + 10.50% with 0.75% LIBOR floor), due 8/3/2017)(3)(13) | 131,125 | 131,125 | 129,857 | 3.9% |
| | | | | 209,781 | 208,513 | 6.2% |
| JD Power and Associates | California / Capital Markets | Second Lien Term Loan (9.80% (LIBOR + 8.50% with 1.00% LIBOR floor), due 9/7/2024)(3)(8)(11) | 15,000 | 14,796 | 15,000 | 0.4% |
| | | | | 14,796 | 15,000 | 0.4% |
| Jefferson Mill CLO Ltd. | Cayman Islands / Structured Finance | Subordinated Notes (Residual Interest, current yield 10.45%, due 7/20/2027)(5)(6)(14) | 19,500 | 16,501 | 13,507 | 0.4% |
| | | | | 16,501 | 13,507 | 0.4% |
| K&N Parent, Inc. | California / Auto Components | Second Lien Term Loan (9.98% (LIBOR + 8.75% with 1.00% LIBOR floor), due 10/20/2024)(3)(8)(13) | 13,000 | 12,762 | 13,000 | 0.4% |

Edgar Filing: PROSPECT CAPITAL CORP - Form 10-K

| | | | | | | |
|--------------------------------|---|--|--------|--------|--------|------|
| | | | 12,762 | 13,000 | 0.4% | |
| Keystone Acquisition Corp.(36) | Pennsylvania / Health Care Providers & Services | Second Lien Term Loan (10.55% (LIBOR + 9.25% with 1.00% LIBOR floor), due 5/1/2025)(3)(8)(11) | 50,000 | 50,000 | 50,000 | 1.5% |
| | | | 50,000 | 50,000 | 1.5% | |
| LaserShip, Inc. | Virginia / Air Freight & Logistics | Senior Secured Term Loan A (10.25% (LIBOR + 8.25% with 2.00% LIBOR floor), due 3/18/2019)(3)(13) | 32,184 | 32,184 | 32,184 | 1.0% |
| | | Senior Secured Term Loan B (10.25% (LIBOR + 8.25% with 2.00% LIBOR floor), due 3/18/2019)(3)(13) | 19,768 | 19,768 | 19,768 | 0.5% |
| | | | 51,952 | 51,952 | 1.5% | |
| LCM XIV Ltd. | Cayman Islands / Structured Finance | Income Notes (Residual Interest, current yield 14.99%, due 7/15/2025)(5)(14) | 30,500 | 21,243 | 21,567 | 0.6% |
| | | | 21,243 | 21,567 | 0.6% | |
| Madison Park Funding IX, Ltd. | Cayman Islands / Structured Finance | Subordinated Notes (Residual Interest, current yield 11.49%, due 8/15/2022)(5)(14) | 43,110 | 8,558 | 8,472 | 0.3% |
| | | | 8,558 | 8,472 | 0.3% | |

See notes to consolidated financial statements.

130

PROSPECT CAPITAL CORPORATION AND SUBSIDIARIES
CONSOLIDATED SCHEDULES OF INVESTMENTS (CONTINUED)
(in thousands, except share data)

| Portfolio Company | Locale / Industry | Investments(1)(45) | June 30, 2017 | | | % of Net Assets |
|--|---|---|-----------------|----------------|---------------|-----------------|
| | | | Principal Value | Amortized Cost | Fair Value(2) | |
| LEVEL 3 PORTFOLIO INVESTMENTS | | | | | | |
| Non-Control/Non-Affiliate Investments (less than 5.00% voting control) | | | | | | |
| Matrixx Initiatives, Inc. | New Jersey / Pharmaceuticals | Senior Secured Term Loan A (7.80% (LIBOR + 6.50% with 1.00% LIBOR floor), due 2/24/2020)(3)(11) | \$65,427 | \$65,427 | \$65,427 | 2.0% |
| | | Senior Secured Term Loan B (12.80% (LIBOR + 11.50% with 1.00% LIBOR floor), due 2/24/2020)(3)(11) | 52,562 | 52,562 | 52,562 | 1.6% |
| Maverick Healthcare Equity, LLC | Arizona / Health Care Providers & Services | Preferred Units (1,250,000 units)(16) | — | 117,989 | 117,989 | 3.6% |
| | | Class A Common Units (1,250,000 units)(16) | — | 1,252 | 782 | —% |
| | | | — | 1,252 | 782 | —% |
| Memorial MRI & Diagnostic, LLC | Texas / Health Care Providers & Services | Senior Secured Term Loan (9.80% (LIBOR + 8.50% with 1.00% LIBOR floor), due 3/16/2022)(11) | 37,810 | 37,810 | 37,810 | 1.1% |
| | | | — | 37,810 | 37,810 | 1.1% |
| Mountain View CLO 2013-I Ltd. | Cayman Islands / Structured Finance | Subordinated Notes (Residual Interest, current yield 9.43%, due 4/12/2024)(5)(14) | 43,650 | 28,554 | 26,314 | 0.8% |
| | | | — | 28,554 | 26,314 | 0.8% |
| Mountain View CLO IX Ltd. | Cayman Islands / Structured Finance | Subordinated Notes (Residual Interest, current yield 14.70%, due 7/15/2027)(5)(6)(14) | 47,830 | 40,832 | 39,857 | 1.2% |
| | | | — | 40,832 | 39,857 | 1.2% |
| National Home Healthcare Corp. | Michigan / Health Care Providers & Services | Second Lien Term Loan (10.08% (LIBOR + 9.00% with 1.00% LIBOR floor), due 12/8/2022)(3)(8)(13) | 15,407 | 15,199 | 15,407 | 0.5% |
| | | | — | 15,199 | 15,407 | 0.5% |
| NCP Finance Limited Partnership(38) | Ohio / Consumer Finance | Subordinated Secured Term Loan (11.00% (LIBOR + 9.75% with 1.25% LIBOR floor), due 9/30/2018)(3)(8)(13)(14) | 26,880 | 26,455 | 25,973 | 0.8% |
| | | | — | 26,455 | 25,973 | 0.8% |
| Octagon Investment Partners XV, Ltd. | Cayman Islands / Structured Finance | Income Notes (Residual Interest, current yield 13.13%, due 1/19/2025)(5)(14) | 42,064 | 29,704 | 24,250 | 0.7% |
| | | | — | 29,704 | 24,250 | 0.7% |
| Octagon Investment Partners XVIII, Ltd. | Cayman Islands / Structured Finance | Income Notes (Residual Interest, current yield 15.36%, due | 28,200 | 18,468 | 17,415 | 0.5% |

Edgar Filing: PROSPECT CAPITAL CORP - Form 10-K

| | | | | | | | | |
|---------------------------|--------------------------------|--|--------|--------|---------|---------|------|--|
| | | 12/16/2024)(5)(6)(14) | | | | | | |
| | | | | | 18,468 | 17,415 | 0.5% | |
| | | Revolving Line of Credit – \$15,000 | | | | | | |
| | | Commitment (8.23% (LIBOR + 7.00% with 1.00% LIBOR floor), due 9/26/2020)(13)(15) | 14,725 | 14,725 | 14,725 | 0.4% | | |
| Pacific World Corporation | California / Personal Products | Senior Secured Term Loan A (6.23% (LIBOR + 5.00% with 1.00% LIBOR floor), due 9/26/2020)(3)(13) | 97,250 | 97,250 | 94,834 | 2.8% | | |
| | | Senior Secured Term Loan B (10.23% (LIBOR + 9.00% with 1.00% LIBOR floor), due 9/26/2020)(3)(13) | 97,250 | 97,250 | 69,450 | 2.1% | | |
| | | | | | 209,225 | 179,009 | 5.3% | |
| Pelican Products, Inc. | California / Chemicals | Second Lien Term Loan (9.55% (LIBOR + 8.25% with 1.00% LIBOR floor), due 4/9/2021)(3)(8)(11) | 17,500 | 17,489 | 16,699 | 0.5% | | |
| | | | | | 17,489 | 16,699 | 0.5% | |

See notes to consolidated financial statements.

131

PROSPECT CAPITAL CORPORATION AND SUBSIDIARIES
CONSOLIDATED SCHEDULES OF INVESTMENTS (CONTINUED)
(in thousands, except share data)

| Portfolio Company | Locale / Industry | Investments(1)(45) | June 30, 2017 | | |
|--|--|--|--------------------|------------------|--------------------|
| | | | Principal Value | Fair Value(2) | % of Net Assets |
| LEVEL 3 PORTFOLIO INVESTMENTS | | | | | |
| Non-Control/Non-Affiliate Investments (less than 5.00% voting control) | | | | | |
| | | Revolving Line of Credit – \$1,000 Commitment (9.80% (LIBOR + 8.50% with 1.00% LIBOR floor), due 8/11/2017)(11)(15) | \$ \$- | \$ - | —% |
| PeopleConnect Intermediate, LLC (f/k/a Intelius, Inc.) | Washington / Internet Software & Services | Senior Secured Term Loan A (6.80% (LIBOR + 5.50% with 1.00% LIBOR floor), due 7/1/2020)(3)(11) | 19,066 | 19,606 | 0.6% |
| | | Senior Secured Term Loan B (12.80% (LIBOR + 11.50% with 1.00% LIBOR floor), due 7/1/2020)(3)(11) | 20,552 | 20,552 | 0.6% |
| | | | 40,158 | 40,158 | 1.2% |
| PGX Holdings, Inc. | Utah / Diversified Consumer Services | Second Lien Term Loan (10.23% (LIBOR + 9.00% with 1.00% LIBOR floor), due 9/29/2021)(3)(13) | 143,767 | 143,767 | 7.3% |
| | | | 143,767 | 143,767 | 7.3% |
| Photonis Technologies SAS | France / Electronic Equipment, Instruments & Components | First Lien Term Loan (8.80% (LIBOR + 7.50% with 1.00% LIBOR floor), due 9/18/2019)(8)(11)(14) | 9,755 | 8,794 | 0.3% |
| | | | 9,755 | 8,794 | 0.3% |
| Pinnacle (US) Acquisition Co. Limited | Texas / Software | Second Lien Term Loan (10.55% (LIBOR + 9.25% with 1.25% LIBOR floor), due 8/3/2020)(8)(11) | 7,097 | 5,150 | 0.2% |
| | | | 6,947 | 5,150 | 0.2% |
| PlayPower, Inc. | North Carolina / Leisure Products | Second Lien Term Loan (10.05% (LIBOR + 8.75% with 1.00% LIBOR floor), due 6/23/2022)(3)(8)(11) | 11,088 | 11,000 | 0.3% |
| | | | 10,880 | 11,000 | 0.3% |
| PrimeSport, Inc. | Georgia / Hotels, Restaurants & Leisure | Senior Secured Term Loan A (8.30% (LIBOR + 7.00% with 1.00% LIBOR floor), due 2/11/2021)(3)(11) | 53,338 | 49,312 | 1.5% |
| | | Senior Secured Term Loan B (13.30% (LIBOR + 12.00% with 1.00% LIBOR floor), due 2/11/2021)(3)(11) | 74,500 | 54,585 | 1.6% |
| | | | 127,638 | 103,897 | 3.1% |
| Prince Mineral Holding Corp. | New York / Metals & Mining | Senior Secured Term Loan (11.50%, due 12/15/2019)(8) | 10,000 | 10,000 | 0.3% |
| | | | 9,953 | 10,000 | 0.3% |
| RGIS Services, LLC | | | 14,934 | 14,744 | 0.4% |

Edgar Filing: PROSPECT CAPITAL CORP - Form 10-K

| | | | | | |
|---------------------------|---|--|--------|--------|------|
| | Michigan / Commercial Services & Supplies | Senior Secured Term Loan (8.80% (LIBOR + 7.50% with 1.00% LIBOR floor), due 3/31/2023)(8)(11) | 14,744 | 14,744 | 0.4% |
| | | Revolving Line of Credit – \$2,000 Commitment (9.30% (LIBOR + 8.00% with 1.00% LIBOR floor), due 8/4/2017)(11)(15) | — | — | —% |
| RME Group Holding Company | Florida / Media | Senior Secured Term Loan A (7.30% (LIBOR + 6.00% with 1.00% LIBOR floor), due 5/4/2022)(3)(11) | 37,500 | 37,500 | 1.1% |
| | | Senior Secured Term Loan B (12.30% (LIBOR + 11.00% with 1.00% LIBOR floor), due 5/4/2022)(3)(11) | 25,000 | 25,000 | 0.8% |
| | | | 62,500 | 62,500 | 1.9% |

See notes to consolidated financial statements.

132

PROSPECT CAPITAL CORPORATION AND SUBSIDIARIES
CONSOLIDATED SCHEDULES OF INVESTMENTS (CONTINUED)
(in thousands, except share data)

| Portfolio Company | Locale / Industry | Investments(1)(45) | June 30, 2017 | | | |
|--|---|---|-----------------|----------------|---------------|-----------------|
| | | | Principal Value | Amortized Cost | Fair Value(2) | % of Net Assets |
| LEVEL 3 PORTFOLIO INVESTMENTS | | | | | | |
| Non-Control/Non-Affiliate Investments (less than 5.00% voting control) | | | | | | |
| Rocket Software, Inc. | Massachusetts / Software | Second Lien Term Loan (10.80% (LIBOR + 9.50% with 1.00% LIBOR floor), due 10/14/2024)(3)(8)(11) | \$ 50,000 | \$ 49,094 | \$ 50,000 | 1.5% |
| | | | | 49,094 | 50,000 | 1.5% |
| SCS Merger Sub, Inc. | Texas / IT Services | Second Lien Term Loan (10.73% (LIBOR + 9.50% with 1.00% LIBOR floor), due 10/30/2023)(3)(8)(13) | 20,000 | 19,531 | 20,000 | 0.6% |
| | | | | 19,531 | 20,000 | 0.6% |
| SESAC Holdco II LLC | Tennessee / Media | Second Lien Term Loan (8.37% (LIBOR + 7.25% with 1.00% LIBOR floor), due 2/23/2025)(8)(12) | 3,000 | 2,971 | 2,971 | 0.1% |
| | | | | 2,971 | 2,971 | 0.1% |
| Small Business Whole Loan Portfolio(41) | New York / Online Lending | 781 Small Business Loans purchased from On Deck Capital, Inc. | 8,434 | 8,434 | 7,964 | 0.2% |
| | | | | 8,434 | 7,964 | 0.2% |
| Spartan Energy Services, Inc. | Louisiana / Energy Equipment & Services | Senior Secured Term Loan A (7.23% (LIBOR + 6.00% with 1.00% LIBOR floor), in non-accrual status effective 4/1/2016, due 12/28/2018)(13) | 13,156 | 11,933 | 8,833 | 0.3% |
| | | Senior Secured Term Loan B (13.23% (LIBOR + 12.00% with 1.00% LIBOR floor), in non-accrual status effective 4/1/2016, due 12/28/2018)(13) | 16,101 | 13,669 | — | —% |
| | | | | 25,602 | 8,833 | 0.3% |
| Stryker Energy, LLC | Ohio / Oil, Gas & Consumable Fuels | Overriding Royalty Interests(43) | — | — | — | —% |
| | | | | — | — | —% |
| Sudbury Mill CLO Ltd. | Cayman Islands / Structured Finance | Subordinated Notes (Residual Interest, current yield 10.70%, due 1/17/2026)(5)(14) | 28,200 | 19,519 | 17,304 | 0.5% |
| | | | | 19,519 | 17,304 | 0.5% |
| Symphony CLO XIV Ltd. | Cayman Islands / Structured Finance | Subordinated Notes (Residual Interest, current yield 10.41%, due 7/14/2026)(5)(6)(14) | 49,250 | 36,668 | 33,744 | 1.0% |
| | | | | 36,668 | 33,744 | 1.0% |
| Symphony CLO XV, Ltd. | Cayman Islands / Structured | Subordinated Notes (Residual Interest, current yield 13.68%, due | 50,250 | 41,383 | 38,123 | 1.1% |

Edgar Filing: PROSPECT CAPITAL CORP - Form 10-K

| | | | | | | |
|----------------------------|------------------------------|--|--------|---------|---------|------|
| | Finance | 10/17/2026)(5)(14) | | 41,383 | 38,123 | 1.1% |
| TouchTunes | New York / | Second Lien Term Loan (9.47% | | | | |
| Interactive Networks, Inc. | Internet Software & Services | (LIBOR + 8.25% with 1.00% LIBOR floor), due 5/29/2022)(3)(8)(11) | 14,000 | 13,907 | 13,907 | 0.4% |
| | | | | 13,907 | 13,907 | 0.4% |
| Traeger Pellet Grills LLC | Oregon / Household Durables | Senior Secured Term Loan A (6.50% (LIBOR + 4.50% with 2.00% LIBOR floor), due 6/18/2019)(3)(11) | 53,094 | 53,094 | 53,094 | 1.6% |
| | | Senior Secured Term Loan B (11.50% (LIBOR + 9.50% with 2.00% LIBOR floor), due 6/18/2019)(3)(11) | 56,031 | 56,031 | 56,031 | 1.6% |
| | | | | 109,125 | 109,125 | 3.2% |

See notes to consolidated financial statements.

133

PROSPECT CAPITAL CORPORATION AND SUBSIDIARIES
CONSOLIDATED SCHEDULES OF INVESTMENTS (CONTINUED)
(in thousands, except share data)

| Portfolio Company | Locale / Industry | Investments(1)(45) | June 30, 2017 | | | |
|--|--|--|-----------------|----------------|---------------|-----------------|
| | | | Principal Value | Amortized Cost | Fair Value(2) | % of Net Assets |
| LEVEL 3 PORTFOLIO INVESTMENTS | | | | | | |
| Non-Control/Non-Affiliate Investments (less than 5.00% voting control) | | | | | | |
| Transaction Network Services, Inc. | Virginia / Diversified Telecommunication Services | Second Lien Term Loan (9.23% (LIBOR + 8.00% with 1.00% LIBOR floor), due 8/14/2020)(3)(8)(13) | \$4,410 | \$ 4,395 | \$ 4,410 | 0.1% |
| | | | | 4,395 | 4,410 | 0.1% |
| Turning Point Brands, Inc.(42) | Kentucky / Tobacco | Second Lien Term Loan (11.00%, due 8/17/2022)(3)(8) | 14,500 | 14,365 | 14,431 | 0.4% |
| | | | | 14,365 | 14,431 | 0.4% |
| United Sporting Companies, Inc.(18) | South Carolina / Distributors | Second Lien Term Loan (12.75% (LIBOR + 11.00% with 1.75% LIBOR floor) plus 2.00% PIK, in non-accrual status effective 4/1/2017, due 11/16/2019)(3)(13) Common Stock (24,967 shares)(16) | 141,559 | 140,847 | 83,225 | 2.5% |
| | | | — | — | — | —% |
| | | | | 140,847 | 83,225 | 2.5% |
| Universal Fiber Systems, LLC | Virginia / Textiles, Apparel & Luxury Goods | Second Lien Term Loan (10.76% (LIBOR + 9.50% with 1.00% LIBOR floor), due 10/02/2022)(3)(8)(12) | 37,000 | 36,446 | 37,000 | 1.1% |
| | | | | 36,446 | 37,000 | 1.1% |
| Universal Turbine Parts, LLC | Alabama / Trading Companies & Distributors | Senior Secured Term Loan A (6.98% (LIBOR + 5.75% with 1.00% LIBOR floor), due 7/22/2021)(3)(13) | 32,013 | 32,013 | 32,013 | 1.0% |
| | | | | | | |
| | | Senior Secured Term Loan B (12.98% (LIBOR + 11.75% with 1.00% LIBOR floor), due 7/22/2021)(3)(13) | 32,500 | 32,500 | 32,500 | 0.9% |
| | | | | 64,513 | 64,513 | 1.9% |
| | Revolving Line of Credit – \$2,500 Commitment (10.98% (LIBOR + 9.75% with 1.00% LIBOR floor), due 4/15/2018)(13)(15) | 1,000 | 1,000 | 1,000 | —% | |
| USG Intermediate, LLC | Texas / Leisure Products | Senior Secured Term Loan A (8.48% (LIBOR + 7.25% with 1.00% LIBOR floor), due 4/15/2020)(3)(13) | 13,307 | 13,307 | 13,307 | 0.4% |
| | | | | | | |
| | | Senior Secured Term Loan B (13.48% (LIBOR + 12.25% with 1.00% LIBOR floor), due 4/15/2020)(3)(13) | 18,897 | 18,897 | 18,897 | 0.6% |
| | | | | | | |
| | Equity(16) | — | 1 | — | —% | |
| | | | | 33,205 | 33,204 | 1.0% |

Edgar Filing: PROSPECT CAPITAL CORP - Form 10-K

| | | | | | | |
|-----------------------|--------------------------------------|---|--------|--------|--------|------|
| VC GB Holdings, Inc. | Illinois / Household Durables | Subordinated Secured Term Loan (9.23% (LIBOR + 8.00% with 1.00% LIBOR floor), due 2/28/2025)(8)(13) | 20,000 | 19,712 | 19,992 | 0.6% |
| | | | | 19,712 | 19,992 | 0.6% |
| Venio LLC | Pennsylvania / Professional Services | Second Lien Term Loan (4.00% plus PIK 10.00% (LIBOR + 7.50% with 2.50% LIBOR floor), in non-accrual status effective 12/31/15, due 2/19/2020)(11) | 20,442 | 16,111 | 16,342 | 0.5% |
| | | | | 16,111 | 16,342 | 0.5% |
| Voya CLO 2012-2, Ltd. | Cayman Islands / Structured Finance | Income Notes (Residual Interest, current yield 0.00%, due 10/15/2022)(5)(14)(17) | 38,070 | 22,667 | 22,667 | 0.7% |
| | | | | 22,667 | 22,667 | 0.7% |
| Voya CLO 2012-3, Ltd. | Cayman Islands / Structured Finance | Income Notes (Residual Interest, current yield 0.00%, due 10/15/2022)(5)(14)(17) | 46,632 | 26,445 | 26,445 | 0.8% |
| | | | | 26,445 | 26,445 | 0.8% |

See notes to consolidated financial statements.

134

Edgar Filing: PROSPECT CAPITAL CORP - Form 10-K

PROSPECT CAPITAL CORPORATION AND SUBSIDIARIES
CONSOLIDATED SCHEDULES OF INVESTMENTS (CONTINUED)
(in thousands, except share data)

| Portfolio Company | Locale / Industry Investments(1)(45) | June 30, 2017 | | Fair Value(2) | % of Net Assets | |
|--|---|--|----------------|---------------|-----------------|--------|
| | | Principal Value | Amortized Cost | | | |
| LEVEL 3 PORTFOLIO INVESTMENTS | | | | | | |
| Non-Control/Non-Affiliate Investments (less than 5.00% voting control) | | | | | | |
| Voya CLO 2012-4, Ltd. | Cayman Islands /Income Notes (Residual Interest, Structured Finance | current yield 14.13%, due 10/15/2028)(5)(14) | \$40,613 | \$31,018 | \$30,544 | 0.9% |
| | | | | 31,018 | 30,544 | 0.9% |
| Voya CLO 2014-1, Ltd. | Cayman Islands /Subordinated Notes (Residual Structured Finance | Interest, current yield 15.96%, due 4/18/2026)(5)(6)(14) | 32,383 | 24,613 | 26,177 | 0.8% |
| | | | | 24,613 | 26,177 | 0.8% |
| Voya CLO 2016-3, Ltd. | Cayman Islands /Subordinated Notes (Residual Structured Finance | Interest, current yield 12.55%, due 10/18/2027)(5)(6)(14) | 28,100 | 27,130 | 23,497 | 0.7% |
| | | | | 27,130 | 23,497 | 0.7% |
| Voya CLO 2017-3, Ltd. | Cayman Islands /Subordinated Notes (Residual Structured Finance | Interest, current yield 14.89%, due 7/20/2030)(5)(6)(14) | 44,885 | 44,885 | 44,670 | 1.3% |
| | | | | 44,885 | 44,670 | 1.3% |
| Washington Mill CLO Ltd. | Cayman Islands /Subordinated Notes (Residual Structured Finance | Interest, current yield 8.53%, due 4/20/2026)(5)(6)(14) | 22,600 | 16,711 | 14,182 | 0.4% |
| | | | | 16,711 | 14,182 | 0.4% |
| Water Pik, Inc. | Colorado / Personal Products | Second Lien Term Loan (10.05% (LIBOR + 8.75% with 1.00% LIBOR floor), due 1/8/2021)(3)(8)(11) | 13,739 | 13,473 | 13,739 | 0.4% |
| | | | | 13,473 | 13,739 | 0.4% |
| Wheel Pros, LLC | Colorado / Auto Components | Senior Subordinated Secured Note (11.00% (LIBOR + 7.00% with 4.00% LIBOR floor), due 6/29/2020)(3)(11) | 12,000 | 12,000 | 12,000 | 0.4% |
| | | Senior Subordinated Secured Note (11.00% (LIBOR + 7.00% with 4.00% LIBOR floor), due 6/29/2020)(3)(11) | 5,460 | 5,460 | 5,460 | 0.2% |
| | | | | 17,460 | 17,460 | 0.6% |
| Total Non-Control/Non-Affiliate Investments (Level 3) | | | \$4,117,868 | \$3,915,101 | \$3,915,101 | 116.7% |
| Total Portfolio Investments (Level 3) | | | \$5,981,556 | \$5,838,305 | \$5,838,305 | 174.0% |

See notes to consolidated financial statements.

135

PROSPECT CAPITAL CORPORATION AND SUBSIDIARIES
 CONSOLIDATED SCHEDULES OF INVESTMENTS (CONTINUED)
 (in thousands, except share data)

Endnote Explanations as of June 30, 2018 and June 30, 2017

- The terms “Prospect,” “we,” “us” and “our” mean Prospect Capital Corporation and its subsidiaries unless the context specifically requires otherwise. The securities in which Prospect has invested were acquired in transactions that
- (1) were exempt from registration under the Securities Act of 1933, as amended (the “Securities Act”). These securities may be resold only in transactions that are exempt from registration under the Securities Act. Fair value is determined by or under the direction of our Board of Directors. As of June 30, 2018 and June 30, 2017, all of our investments were valued using significant unobservable inputs. In accordance with ASC 820, such
 - (2) investments are classified as Level 3 within the fair value hierarchy. See Notes 2 and 3 within the accompanying notes to consolidated financial statements for further discussion. Security, or a portion thereof, is held by Prospect Capital Funding LLC (“PCF”), our wholly-owned subsidiary and a bankruptcy remote special purpose entity, and is pledged as collateral for the Revolving Credit Facility and such
 - (3) security is not available as collateral to our general creditors (see Note 4). The fair values of the investments held by PCF at June 30, 2018 and June 30, 2017 were \$1,307,955 and \$1,513,413, respectively, representing 22.8% and 25.9% of our total investments, respectively.
 - (4) In addition to the stated returns, the net profits interest held will be realized upon sale of the borrower or a sale of the interests. This investment is in the equity class of the collateralized loan obligation (“CLO”) security. The CLO equity investments are entitled to recurring distributions which are generally equal to the excess cash flow generated from the underlying investments after payment of the contractual payments to debt holders and fund expenses. The
 - (5) current estimated yield, calculated using amortized cost, is based on the current projections of this excess cash flow taking into account assumptions which have been made regarding expected prepayments, losses and future reinvestment rates. These assumptions are periodically reviewed and adjusted. Ultimately, the actual yield may be higher or lower than the estimated yield if actual results differ from those used for the assumptions.
 - (6) Co-investment with another fund managed by an affiliate of our investment adviser, Prospect Capital Management L.P. See Note 13 for further discussion.
 - (7) Engine Group. Inc., Clearstream TV, Inc., and ORC International, Inc., are joint borrowers on the senior secured and the second lien term loans.
 - (8) Syndicated investment which was originated by a financial institution and broadly distributed.
 - (9) Autodata, Inc. and Autodata Solutions, Inc. are joint borrowers. The interest rate on these investments is subject to the base rate of 6-Month LIBOR, which was 2.50% and 1.45%
 - (10) at June 30, 2018 and June 30, 2017, respectively. The current base rate for each investment may be different from the reference rate on June 30, 2018 and June 30, 2017. The interest rate on these investments is subject to the base rate of 3-Month LIBOR, which was 2.34% and 1.30%
 - (11) at June 30, 2018 and June 30, 2017, respectively. The current base rate for each investment may be different from the reference rate on June 30, 2018 and June 30, 2017. The interest rate on these investments is subject to the base rate of 2-Month LIBOR, which was 2.17% and
 - (12) 1.25% at June 30, 2018 and June 30, 2017, respectively.. The current base rate for each investment may be different from the reference rate on June 30, 2018 and June 30, 2017. The interest rate on these investments is subject to the base rate of 1-Month LIBOR, which was 2.09% and 1.23%
 - (13) at June 30, 2018 and June 30, 2017, respectively. The current base rate for each investment may be different from the reference rate on June 30, 2018 and June 30, 2017. Investment has been designated as an investment not “qualifying” under Section 55(a) of the Investment Company Act of 1940 (the “1940 Act”). Under the 1940 Act, we may not acquire any non-qualifying asset unless, at the time
 - (14) such acquisition is made, qualifying assets represent at least 70% of our total assets. As of June 30, 2018 and June 30, 2017, our qualifying assets as a percentage of total assets, stood at 73.20% and 71.75%, respectively. We monitor the status of these assets on an ongoing basis.

Undrawn committed revolvers and delayed draw term loans to our portfolio companies incur commitment and (15) unused fees ranging from 0.00% to 5.00%. As of June 30, 2018 and June 30, 2017, we had \$29,675 and \$22,925, respectively, of undrawn revolver and delayed draw term loan commitments to our portfolio companies.

See notes to consolidated financial statements.

136

PROSPECT CAPITAL CORPORATION AND SUBSIDIARIES
 CONSOLIDATED SCHEDULES OF INVESTMENTS (CONTINUED)
 (in thousands, except share data)

Endnote Explanations as of June 30, 2018 and June 30, 2017 (Continued)

- (16) Represents non-income producing security that has not paid a dividend in the year preceding the reporting date. The effective yield has been estimated to be 0% as expected future cash flows are anticipated to not be sufficient to repay the investment at cost. If the expected investment proceeds increase, there is a potential for future investment income from the investment. Distributions, once received, will be recognized as return of capital with any remaining unamortized investment costs written off if the actual distributions are less than the amortized investment cost.
- (17) Ellett Brothers, LLC, Evans Sports, Inc., Jerry's Sports, Inc., Simmons Gun Specialties, Inc., Bonitz Brothers, Inc., and Outdoor Sports Headquarters, Inc. are joint borrowers on the second lien term loan. United Sporting Companies, Inc. is a parent guarantor of this debt investment.
- (18) CCPI Holdings Inc., a consolidated entity in which we own 100% of the common stock, owns 94.59% of CCPI Inc. ("CCPI"), the operating company, as of June 30, 2018 and June 30, 2017. We report CCPI as a separate controlled company.
- (19) CP Holdings of Delaware LLC, a consolidated entity in which we own 100% of the membership interests, owns 99.8% of CP Energy Services Inc. ("CP Energy") as of June 30, 2018, which is an increase from 82.3% as of June 30, 2017. CP Energy owns directly or indirectly 100% of each of CP Well Testing, LLC; Wright Foster Disposals, LLC; Foster Testing Co., Inc.; ProHaul Transports, LLC; and Wright Trucking, Inc. We report CP Energy as a separate controlled company. On October 1, 2017 we restructured our investment in CP Energy.
- (20) Concurrent with the restructuring, we exchanged \$35,048 of Series B Convertible Preferred Stock for \$35,048 of senior secured debt. On January 18, 2018, CP Energy redeemed common shares belonging to senior management, which increased our ownership percentage from 82.3% to 94.2% as of March 31, 2018. Our ownership percentage in CP Energy further increased to 99.8% as of June 30, 2018 following the April 6, 2018 merger between Arctic Oilfield Equipment USA, Inc. ("Arctic Equipment"), a controlled portfolio company, and CP Energy. (See endnote #37 and Note 14)
- (21) Credit Central Holdings of Delaware, LLC ("Credit Central Delaware"), a consolidated entity in which we own 100% of the membership interests, owns 98.26% of Credit Central Loan Company, LLC (f/k/a Credit Central Holdings, LLC ("Credit Central")) as of June 30, 2018 and June 30, 2017. Credit Central owns 100% of each of Credit Central, LLC; Credit Central South, LLC; Credit Central of Texas, LLC; and Credit Central of Tennessee, LLC, the operating companies. We report Credit Central as a separate controlled company.
- (22) As of June 30, 2017, Prospect held a 37.1% membership interest in Edmentum Ultimate Holdings, LLC ("Edmentum Holdings"), which owns 100% of the equity of Edmentum, Inc. On February 23, 2018, certain participating members of Edmentum Holdings increased their revolving credit commitment and extended additional credit to Edmentum, Inc. in exchange for additional common units of Edmentum Holdings. As a result, Prospect's equity ownership was diluted to 11.51% and the investment was transferred from control to affiliate investment classification as of March 31, 2018.
- (23) First Tower Holdings of Delaware LLC, a consolidated entity in which we own 100% of the membership interests, owns 80.1% of First Tower Finance Company LLC ("First Tower Finance"), which owns 100% of First Tower, LLC, the operating company as of June 30, 2018 and June 30, 2017. We report First Tower Finance as a separate controlled company.
- (24) Energy Solutions Holdings Inc., a consolidated entity in which we own 100% of equity, owns 100% of Freedom Marine Solutions, LLC ("Freedom Marine"), which owns Vessel Company, LLC, Vessel Company II, LLC and Vessel Company III, LLC. We report Freedom Marine as a separate controlled company.
- (25) MITY Holdings of Delaware Inc. ("MITY Delaware"), a consolidated entity in which we own 100% of the common stock, owns 95.48% of the equity of MITY, Inc. (f/k/a MITY Enterprises, Inc.) ("MITY"), as of June 30, 2018 and June 30, 2017. MITY owns 100% of each of MITY-Lite, Inc. ("Mity-Lite"); Broda Enterprises USA, Inc.; and

Broda Enterprises ULC (“Broda Canada”). We report MITY as a separate controlled company. MITY Delaware has a subordinated unsecured note issued and outstanding to Broda Canada that is denominated in Canadian Dollars (“CAD”). As of June 30, 2018 and June 30, 2017, the principal balance of this note was CAD 7,371. In accordance with ASC 830, Foreign Currency Matters (“ASC 830”), this note was remeasured into our functional currency, US Dollars (USD), and is presented on our Consolidated Schedule of Investments in USD. We formed a separate legal entity domiciled in the United States, MITY FSC, Inc., (“MITY FSC”) in which Prospect owns 96.88% of the equity, and MITY-Lite management owns the remaining portion. MITY FSC does not have material operations. This entity earns commission payments from MITY-Lite based on its sales to foreign customers, and distribute it to its shareholders based on pro-rata ownership. During the three months ended December 31, 2016, we received \$406 of such commission, which we recognized as other income. On January 17, 2017, we invested an additional \$8,000 of Senior Secured Term Loan A and \$8,000 of Senior Secured Term Loan B debt investments in MITY, to fund an acquisition.

See notes to consolidated financial statements.

137

PROSPECT CAPITAL CORPORATION AND SUBSIDIARIES
 CONSOLIDATED SCHEDULES OF INVESTMENTS (CONTINUED)
 (in thousands, except share data)

Endnote Explanations as of June 30, 2018 and June 30, 2017 (Continued)

NPH Property Holdings, LLC, a consolidated entity in which we own 100% of the membership interests, owns 100% of the common equity of National Property REIT Corp. (“NPRC”) (f/k/a National Property Holdings Corp.), a property REIT which holds investments in several real estate properties. Additionally, NPRC invests in online consumer loans through ACL Loan Holdings, Inc. (“ACLLH”) and American Consumer Lending Limited (“ACLL”), its wholly-owned subsidiaries. We report NPRC as a separate controlled company. See Note 3 for further discussion of the properties held by NPRC. On August 1, 2016, we made an investment into ACLL, under the (26) ACLL credit agreement, for senior secured term loans, Term Loan C, with the same terms as the existing ACLLH Term Loan C due to us. On January 1, 2017, we restructured our investment in NPRC and exchanged \$55,000 of Senior Secured Term Loan E for common stock. During the quarter ended March 31, 2018, we restructured our investment in NPRC and exchanged \$14,274 of ACLLH Senior Secured Term Loan C and \$97,578 of ACLL Senior Secured Term Loan C for \$111,852 of Senior Secured Term Loan E. On March 31, 2018, Prospect contributed \$48,832 to NPRC as an increase to the NPRC Senior Secured Term Loan E. On the same day, NPRC distributed \$48,832 as a return of capital to Prospect.

Nationwide Acceptance Holdings LLC, a consolidated entity in which we own 100% of the membership interests, owns 94.48% of Nationwide Loan Company LLC (f/k/a Nationwide Acceptance LLC), the operating company, as of June 30, 2018 and June 30, 2017. We report Nationwide Loan Company LLC as a separate controlled company. On June 1, 2015, Nationwide Acceptance LLC completed a reorganization and was renamed (27) Nationwide Loan Company LLC (“Nationwide”) and formed two new wholly-owned subsidiaries: Pelican Loan Company LLC (“Pelican”) and Nationwide Consumer Loans LLC. Nationwide assigned 100% of the equity interests in its other subsidiaries to Pelican which, in turn, assigned these interests to a new operating company wholly-owned by Pelican named Nationwide Acceptance LLC (“New Nationwide”). New Nationwide also assumed the existing senior subordinated term loan due to Prospect.

NMMB Holdings, a consolidated entity in which we own 100% of the equity, owns 91.52% and 96.33% of the fully diluted equity of NMMB, Inc. (“NMMB”) as of June 30, 2018 and June 30, 2017, respectively. NMMB owns (28) 100% of Refuel Agency, Inc., which owns 100% of Armed Forces Communications, Inc. We report NMMB as a separate controlled company.

On June 3, 2017, Gulf Coast Machine & Supply Company (“Gulf Coast”) sold all of its assets to a third party, for total consideration of \$10,250, including escrowed amounts. The proceeds from the sale were primarily used to repay a \$6,115 third party revolving credit facility, and the remainder was used to pay other legal and (29) administrative costs incurred by Gulf Coast. As no proceeds were allocated to Prospect our debt and equity investment in Gulfco was written-off and we recorded a realized loss of \$66,103 during the year ended June 30, 2017. In June 2018, Gulf Coast received escrow proceeds of \$2,050 related to the sale. On June 28, 2017, Gulf Coast was renamed to SB Forging Company II, Inc.

(30) Prospect owns 99.96% of the equity of USES Corp. as of June 30, 2018 and June 30, 2017.

Valley Electric Holdings I, Inc., a consolidated entity in which we own 100% of the common stock, owns 100% of Valley Electric Holdings II, Inc. (“Valley Holdings II”), another consolidated entity. Valley Holdings II owns (31) 94.99% of Valley Electric Company, Inc. (“Valley Electric”). Valley Electric owns 100% of the equity of VE Company, Inc., which owns 100% of the equity of Valley Electric Co. of Mt. Vernon, Inc. We report Valley Electric as a separate controlled company.

(32) On March 14, 2017, assets previously held by Ark-La-Tex Wireline Services, LLC (“Ark-La-Tex”) were assigned to Wolf Energy Services Company, LLC, a new wholly-owned subsidiary of Wolf Energy Holdings, in exchange for a full reduction of Ark-La-Tex’s Senior Secured Term Loan A and a partial reduction of the Senior Secured Term Loan B cost basis, in total equal to \$22,145. The cost basis of the transferred assets is equal to the appraised fair value of assets at the time of transfer. During the three months ended June 30, 2017, Ark-La-Tex Term Loan

B was written-off and a loss of \$19,818 was realized. On June 30, 2017, the 18.00% Senior Secured Promissory Note, due April 15, 2018, in Wolf Energy, LLC was contributed to equity of Wolf Energy LLC. There was no impact from the transaction due to the note being on non-accrual status and having zero cost basis.

(33) Prospect owns 16.04% and 12.63% of the equity in Targus Cayman HoldCo Limited, the parent company of Targus International LLC (“Targus”) as of June 30, 2018 and June 30, 2017, respectively. On September 25, 2017, Prospect exchanged \$1,600 of Senior Secured Term Loan A and \$4,799 of Senior Secured Term Loan B investments in Targus into 6,120,658 of common shares, and recorded a realized gain of \$846, as a result of this transaction.

(34) We own 99.9999% of AGC/PEP, LLC (“AGC/PEP”). As of September 30, 2016, AGC/PEP, LLC owned 2,038 out of a total of 93,485 shares (including 7,456 vested and unvested management options) of American Gilsonite Holding Company (“AGC Holdco”), which owns 100% of American Gilsonite Company (“AGC”). On October 24, 2016, AGC filed for a joint prepackaged plan of reorganization under Chapter 11 of the bankruptcy code. During the year ended June 30, 2017, AGC emerged from bankruptcy and AGC Holdco was dissolved. AGC/PEP received a total of 131 shares, representing a total ownership stake of 0.05% in AGC.

See notes to consolidated financial statements.

138

PROSPECT CAPITAL CORPORATION AND SUBSIDIARIES
CONSOLIDATED SCHEDULES OF INVESTMENTS (CONTINUED)
(in thousands, except share data)

Endnote Explanations as of June 30, 2018 and June 30, 2017 (Continued)

- (35) Centerfield Media Holding Company and Oology Direct Holdings, Inc. are joint borrowers and guarantors on the senior secured loan facilities.
Keystone Acquisition Corp. is the parent borrower on the second lien term loan. Other joint borrowers on this
- (36) debt investment include Keystone Peer Review Organization, Inc., KEPRO Acquisitions, Inc., APS Healthcare Bethesda, Inc., Ohio KEPRO, Inc., and APS Healthcare Quality Review, Inc.
Arctic Oilfield Equipment USA, Inc., a consolidated entity in which we own 100% of the common equity, owns 70% of the equity units of Arctic Energy Services, LLC (“Arctic Energy”), the operating company. Our ownership of Arctic Energy as of June 30, 2017 includes a preferred interest in their holdings of all the Class D, Class E, Class C, and Class A Units (in order of priority returns). These unit classes are senior to management’s interests in the F and B Units. As of June 30, 2017, we reported Arctic Energy as a separate controlled company. On April 6, 2018, Arctic Equipment merged with CP Energy, with CP Energy continuing as the surviving corporation. As a result of the transaction, our equity interest in Arctic Equipment was exchanged for newly issued common shares of CP Energy (See Note 14).
- (37) Arctic Oilfield Equipment USA, Inc., a consolidated entity in which we own 100% of the common equity, owns 70% of the equity units of Arctic Energy Services, LLC (“Arctic Energy”), the operating company. Our ownership of Arctic Energy as of June 30, 2017 includes a preferred interest in their holdings of all the Class D, Class E, Class C, and Class A Units (in order of priority returns). These unit classes are senior to management’s interests in the F and B Units. As of June 30, 2017, we reported Arctic Energy as a separate controlled company. On April 6, 2018, Arctic Equipment merged with CP Energy, with CP Energy continuing as the surviving corporation. As a result of the transaction, our equity interest in Arctic Equipment was exchanged for newly issued common shares of CP Energy (See Note 14).
- (38) NCP Finance Limited Partnership, NCP Finance Ohio, LLC, and certain affiliates thereof are joint borrowers on the subordinated secured term loan.
As of June 30, 2018 and June 30, 2017, Prospect owns 8.57% of the equity in Encinitas Watches Holdco, LLC (f/k/a Nixon Holdco, LLC), the parent company of Nixon, Inc. On February 26, 2018, Prospect entered into a debt
- (39) forgiveness agreement with Nixon, Inc., which terminated \$17,472 Senior Secured Term Loan receivable due to us. We recorded a realized loss of \$14,197 in our Consolidated Statement of Operations for the year ended June 30, 2018 as a result of this transaction.
On May 29, 2018, Prospect exercised its rights and remedies under its loan documents to exercise the shareholder voting rights in respect of the stock of Pacific World Corporation (“Pacific World”) and to appoint a new Board of Directors of Pacific World. As a result, as of June 30, 2018, Prospect’s investment in Pacific World is classified as a control investment.
- (40) Our wholly-owned subsidiary Prospect Small Business Lending, LLC purchases small business whole loans from small business loan originators, including On Deck Capital, Inc.
- (41) Turning Point Brands, Inc. and North Atlantic Trading Company, Inc. are joint borrowers and guarantors on the secured loan facility.
- (42) The overriding royalty interests held receive payments at the stated rates based upon operations of the borrower.
- (43) The following shows the composition of our investment portfolio at cost by control designation, investment type, and by industry as of June 30, 2018:
- (44)

| Industry | 1st Lien Term Loan | 2nd Lien Term Loan | CLO (C) | Unsecured Debt | Equity (B) | Cost Total |
|--|-----------------------|--------------------------|------------|-------------------|---------------|------------|
| Control Investments | | | | | | |
| Aerospace & Defense | \$47,099 | \$— | \$ | \$— | \$22,738 | \$69,837 |
| Commercial Services & Supplies | 117,861 | — | — | 7,200 | 6,849 | 131,910 |
| Construction & Engineering | 38,211 | — | — | — | 26,204 | 64,415 |
| Consumer Finance | — | 337,972 | — | — | 116,839 | 454,811 |
| Electronic Equipment, Instruments & Components | 20,700 | — | — | — | 6,759 | 27,459 |
| Energy Equipment & Services | 35,048 | — | — | — | 191,812 | 226,860 |
| Equity Real Estate Investment Trusts (REITs) | 293,203 | — | — | — | 206,655 | 499,858 |
| Health Care Providers & Services | 212,701 | — | — | — | — | 212,701 |
| Machinery | — | 28,622 | — | — | 6,866 | 35,488 |

Edgar Filing: PROSPECT CAPITAL CORP - Form 10-K

| | | | | | | |
|-------------------------------|-------------|-----------|----|-----------|-----------|-------------|
| Media | 8,614 | — | — | — | 12,869 | 21,483 |
| Online Lending | 226,180 | — | — | — | 100,949 | 327,129 |
| Personal Products | 213,575 | — | — | — | 15,000 | 228,575 |
| Total Control Investments | \$1,213,192 | \$366,594 | \$ | -\$7,200 | \$713,540 | \$2,300,526 |
| Affiliate Investments | | | | | | |
| Diversified Consumer Services | \$— | \$7,834 | \$ | -\$31,348 | \$6,577 | \$45,759 |

See notes to consolidated financial statements.

139

PROSPECT CAPITAL CORPORATION AND SUBSIDIARIES
CONSOLIDATED SCHEDULES OF INVESTMENTS (CONTINUED)
(in thousands, except share data)

Endnote Explanations as of June 30, 2018 and June 30, 2017 (Continued)

| Industry | 1st Lien Term Loan | 2nd Lien Term Loan | CLO (C) | Unsecured Debt | Equity (B) | Cost Total |
|--|-----------------------|-----------------------|-------------|-------------------|---------------|-------------|
| Textiles, Apparel & Luxury Goods | — | — | — | — | 9,878 | 9,878 |
| Total Affiliate Investments | \$— | \$7,834 | \$— | \$31,348 | \$16,455 | \$55,637 |
| Non-Control/Non-Affiliate Investments | | | | | | |
| Auto Components | \$— | \$12,681 | \$— | \$— | \$— | \$12,681 |
| Building Products | — | 9,905 | — | — | — | 9,905 |
| Capital Markets | — | 19,799 | — | — | — | 19,799 |
| Commercial Services & Supplies | 90,364 | 163,913 | — | — | — | 254,277 |
| Communications Equipment | — | 39,860 | — | — | — | 39,860 |
| Consumer Finance | 30,570 | — | — | — | — | 30,570 |
| Distributors | 343,659 | 127,091 | — | — | — | 470,750 |
| Diversified Consumer Services | 9,647 | 118,289 | — | — | — | 127,936 |
| Electronic Equipment, Instruments & Components | 12,490 | 14,856 | — | — | — | 27,346 |
| Energy Equipment & Services | 30,511 | — | — | — | — | 30,511 |
| Food Products | — | 9,884 | — | — | — | 9,884 |
| Health Care Equipment & Supplies | 35,815 | 7,464 | — | — | — | 43,279 |
| Health Care Providers & Services | 145,336 | 61,909 | — | — | 1,252 | 208,497 |
| Hotels, Restaurants & Leisure | 29,813 | 7,482 | — | — | — | 37,295 |
| Household & Personal Products | 24,938 | — | — | — | — | 24,938 |
| Household Durables | 16,894 | 25,645 | — | — | — | 42,539 |
| Insurance | — | 2,986 | — | — | — | 2,986 |
| Internet & Direct Marketing Retail | 4,813 | 35,000 | — | — | — | 39,813 |
| Internet Software & Services | 215,791 | 13,926 | — | — | — | 229,717 |
| IT Services | 160,588 | 21,595 | — | — | — | 182,183 |
| Leisure Products | 34,626 | 10,904 | — | — | 1 | 45,531 |
| Media | 118,605 | 2,975 | — | — | — | 121,580 |
| Online Lending | — | — | — | 30 | — | 30 |
| Paper & Forest Products | — | 11,328 | — | — | — | 11,328 |
| Pharmaceuticals | — | 11,882 | — | — | — | 11,882 |
| Professional Services | 9,468 | 64,804 | — | — | — | 74,272 |
| Real Estate Management & Development | 41,860 | — | — | — | — | 41,860 |
| Software | — | 66,435 | — | — | — | 66,435 |
| Technology Hardware, Storage & Peripherals | — | 12,384 | — | — | — | 12,384 |
| Textiles, Apparel & Luxury Goods | — | 36,551 | — | — | — | 36,551 |
| Tobacco | — | 14,392 | — | — | — | 14,392 |
| Trading Companies & Distributors | 63,863 | — | — | — | — | 63,863 |
| Transportation Infrastructure | — | 27,494 | — | — | — | 27,494 |
| Structured Finance (A) | — | — | 1,102,927 | — | — | 1,102,927 |
| Total Non-Control/ Non-Affiliate | \$1,419,651 | \$951,434 | \$1,102,927 | \$30 | \$1,253 | \$3,475,295 |
| Total Portfolio Investment Cost | \$2,632,843 | \$1,325,862 | \$1,102,927 | \$38,578 | \$731,248 | \$5,831,458 |

The following shows the composition of our investment portfolio at fair value by control designation, investment type, and by industry as of June 30, 2018:

Edgar Filing: PROSPECT CAPITAL CORP - Form 10-K

| Industry | 1st Lien Term Loan | 2nd Lien Term Loan | CLO (C) | Unsecured Debt | Equity (B) | Fair Value Total | Fair Value % of Net Assets |
|--------------------------------|--------------------------|-----------------------------|------------|-------------------|---------------|------------------------|--|
| Control Investments | | | | | | | |
| Aerospace & Defense | \$47,099 | \$ | \$ | | -\$35,179 | \$82,278 | 2.4 % |
| Commercial Services & Supplies | 67,011 | — | — | 5,563 | 2,639 | 75,213 | 2.2 % |

See notes to consolidated financial statements.

140

PROSPECT CAPITAL CORPORATION AND SUBSIDIARIES
CONSOLIDATED SCHEDULES OF INVESTMENTS (CONTINUED)
(in thousands, except share data)

Endnote Explanations as of June 30, 2018 and June 30, 2017 (Continued)

| Industry | 1st Lien Term Loan | 2nd Lien Term Loan | CLO (C) | Unsecured Debt | Equity (B) | Fair Value Total | Fair Value % of Net Assets |
|---|-----------------------|-----------------------|------------|-------------------|------------|---------------------|--|
| Construction & Engineering | 38,211 | — | — | — | 12,586 | 50,797 | 1.5 % |
| Consumer Finance | — | 342,331 | — | — | 211,209 | 553,540 | 16.2 % |
| Electronic Equipment, Instruments & Components | 20,700 | — | — | — | 15,056 | 35,756 | 1.1 % |
| Energy Equipment & Services | 35,048 | — | — | — | 103,456 | 138,504 | 4.1 % |
| Equity Real Estate Investment Trusts (REITs) | 293,203 | — | — | — | 518,712 | 811,915 | 23.8 % |
| Health Care Providers & Services | 197,621 | — | — | — | — | 197,621 | 5.8 % |
| Machinery | — | 28,622 | — | — | 3,264 | 31,886 | 0.9 % |
| Media | 8,614 | — | — | — | 10,121 | 18,735 | 0.6 % |
| Online Lending | 226,180 | — | — | — | 16,881 | 243,061 | 7.1 % |
| Personal Products | 165,020 | — | — | — | — | 165,020 | 4.9 % |
| Total Control Investments | \$1,098,707 | \$370,953 | \$— | \$5,563 | \$929,103 | \$2,404,326 | 70.6 % |
| Fair Value % of Net Assets | 32.2 | %10.9 | %— | %0.2 | %27.3 | %70.6 | % |
| Affiliate Investments | | | | | | | |
| Diversified Consumer Services | — | 7,834 | — | 27,382 | — | 35,216 | 1.0 % |
| Textiles, Apparel & Luxury Goods | — | — | — | — | 23,220 | 23,220 | 0.7 % |
| Total Affiliate Investments | \$— | \$7,834 | \$— | \$27,382 | \$23,220 | \$58,436 | 1.7 % |
| Fair Value % of Net Assets | — | %0.2 | %— | %0.8 | %0.7 | %1.7 | % |
| Non-Control/Non-Affiliate Investments | | | | | | | |
| Auto Components | \$— | \$12,887 | \$— | \$— | \$— | \$12,887 | 0.4 % |
| Building Products | — | 10,000 | — | — | — | 10,000 | 0.3 % |
| Capital Markets | — | 20,000 | — | — | — | 20,000 | 0.6 % |
| Commercial Services & Supplies | 89,658 | 164,236 | — | — | 917 | 254,811 | 7.5 % |
| Communications Equipment | — | 40,000 | — | — | — | 40,000 | 1.2 % |
| Consumer Finance | 33,438 | — | — | — | — | 33,438 | 1.0 % |
| Distributors | 343,659 | 58,806 | — | — | — | 402,465 | 11.8 % |
| Diversified Consumer Services | 9,647 | 118,289 | — | — | — | 127,936 | 3.8 % |
| Electronic Equipment, Instruments & Components | 12,335 | 14,873 | — | — | — | 27,208 | 0.8 % |
| Energy Equipment & Services | 32,070 | — | — | — | — | 32,070 | 0.9 % |
| Food Products | — | 9,886 | — | — | — | 9,886 | 0.3 % |
| Health Care Equipment & Supplies | 35,815 | 7,464 | — | — | — | 43,279 | 1.3 % |
| Health Care Providers & Services | 144,130 | 61,933 | — | — | 446 | 206,509 | 6.0 % |
| Hotels, Restaurants & Leisure | 29,813 | 7,482 | — | — | — | 37,295 | 1.1 % |
| Household & Personal Products | 24,938 | — | — | — | — | 24,938 | 0.7 % |
| Household Durables | 15,728 | 25,895 | — | — | — | 41,623 | 1.2 % |
| Insurance | — | 2,986 | — | — | — | 2,986 | 0.1 % |
| Internet & Direct Marketing Retail | 4,813 | 35,000 | — | — | — | 39,813 | 1.2 % |

Edgar Filing: PROSPECT CAPITAL CORP - Form 10-K

| | | | | | | | |
|--------------------------------------|---------|--------|---|----|---|---------|-------|
| Internet Software & Services | 215,791 | 14,000 | — | — | — | 229,791 | 6.7 % |
| IT Services | 160,588 | 21,990 | — | — | — | 182,578 | 5.4 % |
| Leisure Products | 34,626 | 11,000 | — | — | — | 45,626 | 1.3 % |
| Media | 118,655 | 2,975 | — | — | — | 121,630 | 3.6 % |
| Online Lending | — | — | — | 17 | — | 17 | — % |
| Paper & Forest Products | — | 11,226 | — | — | — | 11,226 | 0.3 % |
| Pharmaceuticals | — | 12,000 | — | — | — | 12,000 | 0.3 % |
| Professional Services | 9,608 | 67,383 | — | — | — | 76,991 | 2.3 % |
| Real Estate Management & Development | 41,860 | — | — | — | — | 41,860 | 1.2 % |
| Software | — | 67,265 | — | — | — | 67,265 | 2.0 % |

See notes to consolidated financial statements.

141

PROSPECT CAPITAL CORPORATION AND SUBSIDIARIES
CONSOLIDATED SCHEDULES OF INVESTMENTS (CONTINUED)
(in thousands, except share data)

Endnote Explanations as of June 30, 2018 and June 30, 2017 (Continued)

| Industry | 1st Lien Term Loan | 2nd Lien Term Loan | CLO (C) | Unsecured Debt | Equity (B) | Fair Value Total | Fair Value % of Net Assets |
|---|-----------------------|-----------------------|-----------|-------------------|------------|---------------------|--|
| Technology Hardware, Storage & Peripherals | — | 12,500 | — | — | — | 12,500 | 0.4 % |
| Textiles, Apparel & Luxury Goods | — | 37,000 | — | — | — | 37,000 | 1.1 % |
| Tobacco | — | 14,392 | — | — | — | 14,392 | 0.4 % |
| Trading Companies & Distributors | 56,199 | — | — | — | — | 56,199 | 1.6 % |
| Transportation Infrastructure | — | 28,104 | — | — | — | 28,104 | 0.8 % |
| Structured Finance (A) | — | — | 960,194 | — | — | 960,194 | 28.2 % |
| Total Non-Control/ Non-Affiliate | \$1,413,371 | \$889,572 | \$960,194 | \$17 | \$1,363 | \$3,264,517 | 95.8 % |
| Fair Value % of Net Assets | 41.5 | %26.1 | %28.2 | %— | %— | %95.8 | % |
| Total Portfolio | \$2,512,078 | \$1,268,359 | \$960,194 | \$32,962 | \$953,686 | \$5,727,279 | 168.1 % |
| Fair Value % of Net Assets | 73.7 | %37.2 | %28.2 | %1.0 | %28.0 | %168.1 | % |

(A) Our CLO investments do not have industry concentrations and as such have been separated in the table above.

(B) Equity, unless specifically stated otherwise, includes our investments in preferred stock, common stock, membership interests, net profits interests, net operating income interests, net revenue interests, overriding royalty interests, escrows receivable, and warrants.

(C) We hold one CLO debt investment in the Class F Subordinated Notes of Galaxy XXVIII CLO, Ltd. As of June 30, 2018 the cost and fair value are \$6,159 and \$6,159, respectively, and makes up 0.2% of our net assets. Our remaining CLO investments are held in CLO equity tranches which earn residual interest. As of June 30, 2018 the cost and fair value of our investment in the equity tranches are \$1,096,768 and \$954,035, respectively, and make up 28.0% of our net assets.

(45)The following shows the composition of our investment portfolio at cost by control designation, investment type, and by industry as of June 30, 2017:

| Industry | 1st Lien | 2nd Lien | CLO Residual Interest | Unsecured Debt | Equity (C) | Cost Total |
|--|----------|----------|-----------------------------|-------------------|---------------|------------|
| Control Investments | | | | | | |
| Aerospace & Defense | \$47,099 | \$— | \$ | —\$— | \$22,738 | \$69,837 |
| Commercial Services & Supplies | 114,864 | — | — | 7,200 | 6,849 | 128,913 |
| Construction & Engineering | 36,054 | — | — | — | 26,204 | 62,258 |
| Consumer Finance | — | 323,188 | — | — | 110,395 | 433,583 |
| Diversified Consumer Services | — | 7,834 | — | 30,734 | 6,577 | 45,145 |
| Electronic Equipment, Instruments & Components | 21,182 | — | — | — | 6,759 | 27,941 |
| Energy Equipment & Services | — | — | — | — | 223,787 | 223,787 |
| Equity Real Estate Investment Trusts (REITs) | 291,315 | — | — | — | 83,065 | 374,380 |
| Machinery | — | 28,622 | — | — | 6,866 | 35,488 |

Edgar Filing: PROSPECT CAPITAL CORP - Form 10-K

| | | | | | | |
|---------------------------------------|------------|------------|------|------------|------------|--------------|
| Media | 10,614 | — | — | — | 12,869 | 23,483 |
| Online Lending | 269,166 | — | — | — | 146,750 | 415,916 |
| Total Control Investments | \$ 790,294 | \$ 359,644 | \$ — | —\$ 37,934 | \$ 652,859 | \$ 1,840,731 |
| Affiliate Investments | | | | | | |
| Textiles, Apparel & Luxury Goods | \$ 19,478 | \$ — | \$ — | —\$ — | \$ 3,479 | \$ 22,957 |
| Total Affiliate Investments | \$ 19,478 | \$ — | \$ — | —\$ — | \$ 3,479 | \$ 22,957 |
| Non-Control/Non-Affiliate Investments | | | | | | |
| Air Freight & Logistics | \$ 51,952 | \$ — | \$ — | —\$ — | \$ — | \$ 51,952 |
| Auto Components | — | 30,222 | — | — | — | 30,222 |
| Capital Markets | — | 14,796 | — | — | — | 14,796 |
| Chemicals | — | 17,489 | — | — | — | 17,489 |
| Commercial Services & Supplies | 83,884 | 141,388 | — | — | — | 225,272 |
| Consumer Finance | 9,831 | 26,455 | — | — | — | 36,286 |
| Distributors | — | 140,847 | — | — | — | 140,847 |
| Diversified Consumer Services | — | 143,767 | — | — | — | 143,767 |

See notes to consolidated financial statements.

142

PROSPECT CAPITAL CORPORATION AND SUBSIDIARIES
CONSOLIDATED SCHEDULES OF INVESTMENTS (CONTINUED)
(in thousands, except share data)

Endnote Explanations as of June 30, 2018 and June 30, 2017 (Continued)

| Industry | 1st Lien | 2nd Lien | CLO Residual Interest | Unsecured Debt | Equity (C) | Cost Total |
|--|-------------|-------------|-----------------------------|-------------------|---------------|-------------|
| Diversified Telecommunication Services | — | 4,395 | — | — | — | 4,395 |
| Electronic Equipment, Instruments & Components | 9,755 | — | — | — | — | 9,755 |
| Energy Equipment & Services | 27,232 | — | — | — | — | 27,232 |
| Health Care Providers & Services | 356,468 | 65,199 | — | — | 1,252 | 422,919 |
| Hotels, Restaurants & Leisure | 127,638 | — | — | — | — | 127,638 |
| Household Durables | 126,319 | 19,712 | — | — | — | 146,031 |
| Internet Software & Services | 205,441 | 13,907 | — | — | — | 219,348 |
| IT Services | — | 19,531 | — | — | — | 19,531 |
| Leisure Products | 33,204 | 10,880 | — | — | 1 | 44,085 |
| Marine | — | 8,919 | — | — | — | 8,919 |
| Media | 442,654 | 2,971 | — | — | — | 445,625 |
| Metals & Mining | 9,953 | — | — | — | — | 9,953 |
| Online Lending | — | — | — | 8,434 | — | 8,434 |
| Paper & Forest Products | — | 11,295 | — | — | — | 11,295 |
| Personal Products | 209,225 | 13,473 | — | — | — | 222,698 |
| Pharmaceuticals | 117,989 | — | — | — | — | 117,989 |
| Professional Services | 48,131 | 16,111 | — | — | — | 64,242 |
| Software | — | 56,041 | — | — | — | 56,041 |
| Textiles, Apparel & Luxury Goods | 225,777 | 36,446 | — | — | — | 262,223 |
| Tobacco | — | 14,365 | — | — | — | 14,365 |
| Trading Companies & Distributors | 64,513 | — | — | — | — | 64,513 |
| Structured Finance (B) | — | — | 1,150,006 | — | — | 1,150,006 |
| Total Non-Control/ Non-Affiliate | \$2,149,966 | \$808,209 | \$1,150,006 | \$8,434 | \$1,253 | \$4,117,868 |
| Total Portfolio Investment Cost | \$2,959,738 | \$1,167,853 | \$1,150,006 | \$46,368 | \$657,591 | \$5,981,556 |

The following shows the composition of our investment portfolio at fair value by control designation, investment type, and by industry as of June 30, 2017:

| Industry | 1st Lien Term Loan | 2nd Lien Term Loan | CLO Residual Interest | Unsecured Debt | Equity (C) | Fair Value Total | Fair Value % of Net Assets |
|--|-----------------------|-----------------------|-----------------------------|-------------------|------------|---------------------|--|
| Control Investments | | | | | | | |
| Aerospace & Defense | \$47,099 | \$— | \$ — | \$— | \$24,219 | \$71,318 | 2.1 % |
| Commercial Services & Supplies | 63,209 | — | — | 5,659 | 20,161 | 89,029 | 2.7 % |
| Construction & Engineering | 32,509 | — | — | — | — | 32,509 | 1.0 % |
| Consumer Finance | — | 329,788 | — | — | 137,180 | 466,968 | 13.9 % |
| Diversified Consumer Services | — | 7,834 | — | 38,775 | 286 | 46,895 | 1.4 % |
| Electronic Equipment, Instruments & Components | 21,182 | — | — | — | 21,870 | 43,052 | 1.3 % |
| Energy Equipment & Services | — | — | — | — | 121,197 | 121,197 | 3.6 % |

Edgar Filing: PROSPECT CAPITAL CORP - Form 10-K

| | | | | | | | |
|--|-----------|-----------|------|----------|-----------|-------------|--------|
| Equity Real Estate Investment Trusts (REITs) | 291,315 | — | — | — | 333,022 | 624,337 | 18.6 % |
| Machinery | — | 28,622 | — | — | 4,056 | 32,678 | 1.0 % |
| Media | 10,614 | — | — | — | 10,211 | 20,825 | 0.6 % |
| Online Lending | 269,166 | — | — | — | 93,801 | 362,967 | 10.8 % |
| Total Control Investments | \$735,094 | \$366,244 | \$ — | \$44,434 | \$766,003 | \$1,911,775 | 57.0 % |
| Fair Value % of Net Assets | 21.9 | % 10.9 | % — | % | 1.3 | % 22.8 | % 57.0 |
| Affiliate Investments | | | | | | | |
| Textiles, Apparel & Luxury Goods | \$6,128 | \$— | \$ — | \$— | \$5,301 | \$11,429 | 0.3 % |
| Total Affiliate Investments | \$6,128 | \$— | \$ — | \$— | \$5,301 | \$11,429 | 0.3 % |
| Fair Value % of Net Assets | 0.2 | % — | % — | % | — | % 0.2 | % 0.3 |

See notes to consolidated financial statements.

143

PROSPECT CAPITAL CORPORATION AND SUBSIDIARIES
CONSOLIDATED SCHEDULES OF INVESTMENTS (CONTINUED)
(in thousands, except share data)

Endnote Explanations as of June 30, 2018 and June 30, 2017 (Continued)

| Industry | 1st Lien Term Loan | 2nd Lien Term Loan | CLO Residual Interest | Unsecured Debt | Equity (C) | Fair Value Total | Fair Value % of Net Assets |
|--|-----------------------|-----------------------|-----------------------------|-------------------|------------|---------------------|--|
| Non-Control/Non-Affiliate Investments | | | | | | | |
| Air Freight & Logistics | \$51,952 | \$— | \$— | \$— | \$— | \$51,952 | 1.5 % |
| Auto Components | — | 30,460 | — | — | — | 30,460 | 0.9 % |
| Capital Markets | — | 15,000 | — | — | — | 15,000 | 0.4 % |
| Chemicals | — | 16,699 | — | — | — | 16,699 | 0.5 % |
| Commercial Services & Supplies | 83,884 | 138,857 | — | — | 864 | 223,605 | 6.7 % |
| Consumer Finance | 10,000 | 25,973 | — | — | — | 35,973 | 1.1 % |
| Distributors | — | 83,225 | — | — | — | 83,225 | 2.5 % |
| Diversified Consumer Services | — | 143,767 | — | — | — | 143,767 | 4.3 % |
| Diversified Telecommunication Services | — | 4,410 | — | — | — | 4,410 | 0.1 % |
| Electronic Equipment, Instruments & Components | 8,794 | — | — | — | — | 8,794 | 0.3 % |
| Energy Equipment & Services | 10,463 | — | — | — | — | 10,463 | 0.3 % |
| Health Care Providers & Services | 355,200 | 65,407 | — | — | 782 | 421,389 | 12.6 % |
| Hotels, Restaurants & Leisure | 103,897 | — | — | — | — | 103,897 | 3.1 % |
| Household Durables | 126,191 | 19,992 | — | — | — | 146,183 | 4.4 % |
| Internet Software & Services | 205,441 | 13,907 | — | — | — | 219,348 | 6.5 % |
| IT Services | — | 20,000 | — | — | — | 20,000 | 0.6 % |
| Leisure Products | 33,204 | 11,000 | — | — | — | 44,204 | 1.3 % |
| Marine (A) | — | 8,800 | — | — | — | 8,800 | 0.3 % |
| Media | 442,704 | 2,971 | — | — | — | 445,675 | 13.3 % |
| Metals & Mining | 10,000 | — | — | — | — | 10,000 | 0.3 % |
| Online Lending | — | — | — | 7,964 | — | 7,964 | 0.2 % |
| Paper & Forest Products | — | 11,500 | — | — | — | 11,500 | 0.3 % |
| Personal Products | 179,009 | 13,739 | — | — | — | 192,748 | 5.7 % |
| Pharmaceuticals | 117,989 | — | — | — | — | 117,989 | 3.5 % |
| Professional Services | 48,131 | 16,342 | — | — | — | 64,473 | 1.9 % |
| Software | — | 55,150 | — | — | — | 55,150 | 1.6 % |
| Textiles, Apparel & Luxury Goods | 225,777 | 37,000 | — | — | — | 262,777 | 7.8 % |
| Tobacco | — | 14,431 | — | — | — | 14,431 | 0.4 % |
| Trading Companies & Distributors | 64,513 | — | — | — | — | 64,513 | 1.9 % |
| Structured Finance (B) | — | — | 1,079,712 | — | — | 1,079,712 | 32.2 % |
| | \$2,077,149 | \$748,630 | \$1,079,712 | \$7,964 | \$1,646 | \$3,915,101 | 116.7 % |

Total Non-Control/
Non-Affiliate

| | | | | | | | |
|----------------------------|-------------|-------------|-------------|----------|-----------|-------------|-------|
| Fair Value % of Net Assets | 61.9 | % 22.3 | % 32.2 | % 0.2 | % — | % 116.7 | % |
| Total Portfolio | \$2,818,371 | \$1,114,874 | \$1,079,712 | \$52,398 | \$772,950 | \$5,838,305 | 174 % |
| Fair Value % of Net Assets | 84.0 | % 33.2 | % 32.2 | % 1.6 | % 23.0 | % 174.0 | % |

(A) Industry includes exposure to the energy markets through our investments in Harley Marine Services, Inc. Including this investment, our overall fair value exposure to the broader energy industry, including energy equipment and services as noted above, as of June 30, 2017 is \$140,460.

(B) Our CLO investments do not have industry concentrations and as such have been separated in the table above.

(C) Equity, unless specifically stated otherwise, includes our investments in preferred stock, common stock, membership interests, net profits interests, net operating income interests, net revenue interests, overriding royalty interests, escrows receivable, and warrants.

See notes to consolidated financial statements.

144

PROSPECT CAPITAL CORPORATION AND SUBSIDIARIES
CONSOLIDATED SCHEDULES OF INVESTMENTS (CONTINUED)
(in thousands, except share data)

Endnote Explanations as of June 30, 2018 and June 30, 2017 (Continued)

(46) The interest rate on these investments, excluding those on non-accrual, contains a paid in kind (“PIK”) provision, whereby the issuer has either the option or the obligation to make interest payments with the issuance of additional securities. The interest rate in the schedule represents the current interest rate in effect for these investments.

The following table provides additional details on these PIK investments, including the maximum annual PIK interest rate allowed under the existing credit agreements, as of and for three months ended June 30, 2018:

| Security Name | PIK Rate - Capitalized | PIK Rate - Paid as cash | Maximum Current PIK Rate | |
|---|------------------------|-------------------------|--------------------------|-----|
| CCPI Inc. | —% | 7.00% | 7.00% | |
| Cinedigm DC Holdings, LLC | —% | 2.50% | 2.50% | |
| Credit Central Loan Company | —% | 10.00% | 10.00% | |
| Echelon Transportation, LLC (f/k/a Echelon Aviation LLC) | N/A | N/A | 2.25% | (A) |
| Echelon Transportation, LLC (f/k/a Echelon Aviation LLC) | N/A | N/A | 1.00% | (A) |
| Edmentum Ultimate Holdings, LLC - Unsecured Senior PIK Note | 8.50% | —% | 8.50% | |
| First Tower Finance Company LLC | 1.45% | 8.55% | 10.00% | |
| InterDent, Inc. - Senior Secured Team Loan B | 4.25% | —% | 4.25% | |
| InterDent, Inc. - Senior Secured Team Loan C | 18.00% | —% | 18.00% | |
| MITY, Inc. | —% | 10.00% | 10.00% | |
| National Property REIT Corp. - Senior Secured Term Loan A | —% | 10.50% | 10.50% | |
| National Property REIT Corp. - Senior Secured Term Loan E | —% | 1.50% | 1.50% | |
| Nationwide Loan Company LLC | —% | 10.00% | 10.00% | |
| Spartan Energy Services, Inc. | 13.98% | —% | 13.98% | |
| Valley Electric Co. of Mt. Vernon, Inc. | —% | 2.50% | 2.50% | |
| Valley Electric Company, Inc. | 7.17% | 2.83% | 10.00% | |
| Venio LLC | 10.00% | —% | 10.00% | |

(A) Next PIK payment/capitalization date is July 31, 2018.

See notes to consolidated financial statements.

PROSPECT CAPITAL CORPORATION AND SUBSIDIARIES
CONSOLIDATED SCHEDULES OF INVESTMENTS (CONTINUED)
(in thousands, except share data)

Endnote Explanations as of June 30, 2018 and June 30, 2017 (Continued)

The following table provides additional details on these PIK investments, including the maximum annual PIK interest rate allowed under the existing credit agreements, as of and for three months ended June 30, 2017:

| Security Name | PIK Rate - Capitalized | PIK Rate - Paid as cash | Maximum Current PIK Rate | |
|--|------------------------|-------------------------|--------------------------|-----|
| CCPI Inc. | —% | 7.00% | 7.00% | |
| Cinedigm DC Holdings, LLC | —% | 2.50% | 2.50% | |
| Credit Central Loan Company | —% | 10.00% | 10.00% | |
| Echelon Aviation LLC | N/A | N/A | 2.25% | (C) |
| Echelon Aviation LLC | N/A | N/A | 1.00% | (D) |
| Edmentum Ultimate Holdings, LLC - Unsecured Senior PIK Note | 8.50% | —% | 8.50% | |
| First Tower Finance Company LLC | 3.92% | 3.08% | 7.00% | |
| MITY, Inc. | —% | 10.00% | 10.00% | |
| National Property REIT Corp. - Senior Secured Term Loan A | —% | 5.50% | 5.50% | |
| National Property REIT Corp. - Senior Secured Term Loan E | —% | 5.00% | 5.00% | |
| National Property REIT Corp. - Senior Secured Term Loan C to ACL Loan Holdings, Inc. | —% | 5.00% | 5.00% | |
| National Property REIT Corp. - Senior Secured Term Loan C to American Consumer Lending Limited | —% | 5.00% | 5.00% | |
| Nationwide Loan Company LLC | —% | 10.00% | 10.00% | |
| Targus International, LLC - Senior Secured Term Loan A | 15.00% | —% | 15.00% | |
| Targus International, LLC - Senior Secured Term Loan B | 15.00% | —% | 15.00% | |
| Valley Electric Co. of Mt. Vernon, Inc. | —% | 2.50% | 2.50% | |
| Valley Electric Company, Inc. | 8.50% | —% | 8.50% | |

(C) The previous PIK payment/capitalization date was July 31, 2017. The company paid 2.25% PIK in cash.

(D) The previous PIK payment/capitalization date was July 31, 2017. The company paid 1.00% PIK in cash.

See notes to consolidated financial statements.

PROSPECT CAPITAL CORPORATION AND SUBSIDIARIES
CONSOLIDATED SCHEDULES OF INVESTMENTS (CONTINUED)
(in thousands, except share data)

Endnote Explanations as of June 30, 2018 and June 30, 2017 (Continued)

As defined in the 1940 Act, we are deemed to “Control” these portfolio companies because we own more than 25% (47) of the portfolio company’s outstanding voting securities. Transactions during the year ended June 30, 2018 with these controlled investments were as follows:

| Portfolio Company | Fair Value at June 30, 2017 | Gross Additions (Cost)* | Gross Reductions (Cost)** | Net change in unrealized gains (losses) | Fair Value at June 30, 2018 | Interest income | Dividend income | Other income | Net realized gains (losses) |
|---|-----------------------------|-------------------------|---------------------------|---|-----------------------------|-----------------|-----------------|--------------|-----------------------------|
| Arctic Energy Services, LLC *** | \$17,370 | \$— | \$(60,876) | \$43,506 | \$— | \$— | \$— | \$— | \$— |
| CCPI Inc. | 43,052 | — | (482) | (6,814) | 35,756 | 3,704 | — | — | — |
| CP Energy Services Inc. *** | 72,216 | 65,976 | — | (14,931) | 123,261 | 3,394 | — | 228 | — |
| Credit Central Loan Company, LLC | 64,435 | 2,240 | — | 10,002 | 76,677 | 12,755 | — | 903 | — |
| Echelon Transportation, LLC (f/k/a Echelon Aviation LLC) | 71,318 | — | — | 10,960 | 82,278 | 6,360 | — | — | — |
| Edmentum Ultimate Holdings, LLC ***** | 46,895 | 5,394 | (39,196) | (13,093) | — | 572 | — | — | — |
| First Tower Finance Company LLC | 365,588 | 21,352 | (6,735) | 62,805 | 443,010 | 47,422 | — | 2,664 | — |
| Freedom Marine Solutions, LLC | 23,994 | 982 | — | (11,939) | 13,037 | — | — | — | — |
| Interdent, Inc. ***** | — | 209,120 | — | (11,499) | 197,621 | 4,775 | — | — | — |
| MITY, Inc. | 76,512 | — | — | (17,618) | 58,894 | 8,206 | — | 1,093 | 13 |
| National Property REIT Corp. | 987,304 | 160,769 | (124,078) | 30,981 | 1,054,976 | 90,582 | 11,279 | 8,834 | — |
| Nationwide Loan Company LLC | 36,945 | 4,370 | — | (7,462) | 33,853 | 3,485 | — | — | — |
| NMMB, Inc. | 20,825 | — | (1,999) | (91) | 18,735 | 1,455 | — | — | — |
| Pacific World Corporation ***** | — | 198,149 | (250) | (32,879) | 165,020 | 3,742 | — | — | — |
| R-V Industries, Inc. | 32,678 | — | — | (792) | 31,886 | 3,064 | — | — | — |
| SB Forging Company II, Inc. (f/k/a Gulf Coast Machine & Supply Company) | 1,940 | — | — | 254 | 2,194 | — | — | — | — |
| USES Corp. | 12,517 | 3,000 | (3) | 805 | 16,319 | — | — | — | — |
| Valley Electric Company, Inc. | 32,509 | 2,157 | — | 16,131 | 50,797 | 5,971 | — | 138 | — |
| Wolf Energy, LLC | 5,677 | — | (3,009) | (2,656) | 12 | — | — | 1,220 | — |
| Total | \$1,911,775 | \$673,509 | \$(236,628) | \$55,670 | \$2,404,326 | \$195,487 | \$11,279 | \$15,080 | \$13 |

* Gross additions include increases in the cost basis of the investments resulting from new portfolio investments, OID accretion, PIK interest, and any transfer of investments.

** Gross reductions include decreases in the cost basis of investments resulting from principal collections related to investments repayments or sales, impairments and any transfer of investments.

*** Arctic Energy Services, LLC cost basis was transferred to CP Energy Services Inc. on April 6, 2018 as a result of the merger between these controlled portfolio companies. There were no realized gain or loss recognized by us since this was a merger amongst two portfolio companies under our control. Refer to endnote #37.

**** The investment was transferred to affiliate investment classification at \$31,362, the fair market value of the investment at the beginning of the three month period ended March 31, 2018. Refer to endnote #22.

***** The investment was transferred to control investment classification at \$208,549, the fair market value of the investment at the beginning of the three month period ended June 30, 2018. Refer to endnote #52.

***** The investment was transferred from non-control/ non-affiliate to control investment classification at \$183,151, the fair market value of the investment at the beginning of the three month period ended June 30, 2018. Refer to endnote #40.

See notes to consolidated financial statements.

147

PROSPECT CAPITAL CORPORATION AND SUBSIDIARIES
CONSOLIDATED SCHEDULES OF INVESTMENTS (CONTINUED)
(in thousands, except share data)

Endnote Explanations as of June 30, 2018 and June 30, 2017 (Continued)

As defined in the 1940 Act, we are deemed to be an “Affiliated company” of these portfolio companies because we (48) own more than 5% of the portfolio company’s outstanding voting securities. Transactions during the year ended June 30, 2018 with these affiliated investments were as follows:

| Portfolio Company | Fair Value at June 30, 2017 | Gross Additions (Cost)* | Gross Reductions (Cost)** | Net unrealized gains (losses) | Fair Value at June 30, 2018 | Interest income | Dividend income | Other income | Net realized gains (losses) |
|------------------------------------|-----------------------------|-------------------------|---------------------------|-------------------------------|-----------------------------|-----------------|-----------------|--------------|-----------------------------|
| Edmentum Ultimate Holdings, LLC*** | \$— | \$ 34,416 | \$— | \$ 800 | \$35,216 | \$ 348 | \$— | \$— | \$— |
| Nixon, Inc. | — | — | (14,197) | 14,197 | — | — | — | — | (14,197) |
| Targus International, LLC | 11,429 | 1,117 | — | 10,674 | 23,220 | 205 | — | — | 846 |
| Total | \$11,429 | \$35,533 | \$(14,197) | \$25,671 | \$58,436 | \$553 | \$— | \$— | \$(13,351) |

* Gross additions include increases in the cost basis of the investments resulting from new portfolio investments, PIK interest, and any transfer of investments.

** Gross reductions include decreases in the cost basis of investments resulting from principal collections related to investments repayments or sales, impairments, and any transfer of investments.

*** The investment was transferred from controlled investment classification at \$31,362, the fair market value of the investment at the beginning of the three month period ended March 31, 2018. Refer to endnote #22.

As defined in the 1940 Act, we are deemed to “Control” these portfolio companies because we own more than 25% (49) of the portfolio company’s outstanding voting securities. Transactions during the year ended June 30, 2017 with these controlled investments were as follows:

| Portfolio Company | Fair Value at June 30, 2016 | Gross Additions (Cost)* | Gross Reductions (Cost)** | Net unrealized gains (losses) | Fair Value at June 30, 2017 | Interest income | Dividend income | Other income | Net realized gains (losses) |
|----------------------------------|-----------------------------|-------------------------|---------------------------|-------------------------------|-----------------------------|-----------------|-----------------|--------------|-----------------------------|
| Arctic Energy Services, LLC | \$38,340 | \$— | \$— | \$(20,970) | \$17,370 | \$— | \$— | \$— | \$— |
| CCPI Inc. | 41,356 | — | (327) | 2,023 | 43,052 | 2,992 | 123 | 153 | — |
| CP Energy Services Inc. | 76,002 | — | — | (3,786) | 72,216 | — | — | — | — |
| Credit Central Loan Company, LLC | 52,254 | 10,826 | (403) | 1,758 | 64,435 | 10,873 | — | — | — |
| Echelon Aviation LLC | 60,821 | 18,875 | (6,800) | (1,578) | 71,318 | 5,734 | 200 | 1,121 | — |
| Edmentum Ultimate Holdings, LLC | 44,346 | 9,892 | (6,424) | (919) | 46,895 | 1,726 | — | — | — |
| First Tower Finance Company LLC | 352,666 | 15,577 | (2,220) | (435) | 365,588 | 51,116 | — | — | — |
| Freedom Marine Solutions, LLC | 26,618 | 1,801 | — | (4,425) | 23,994 | — | — | — | — |
| MITY, Inc. | 54,049 | 16,000 | — | 6,463 | 76,512 | 6,848 | 468 | 886 | 16 |
| National Property REIT Corp. | 843,933 | 237,851 | (174,931) | 80,451 | 987,304 | 84,777 | — | 9,186 | — |

Edgar Filing: PROSPECT CAPITAL CORP - Form 10-K

| | | | | | | | | | |
|---|-------------|-----------|-------------|----------|-------------|-----------|---------|----------|------------|
| Nationwide Loan Company LLC | 35,813 | 2,104 | — | (972 |)36,945 | 3,406 | 4,310 | — | — |
| NMMB, Inc. | 10,007 | — | (100 |)10,918 | 20,825 | 1,518 | — | — | — |
| R-V Industries, Inc. | 36,877 | — | 96 | (4,295 |)32,678 | 2,877 | 149 | 124 | 172 |
| SB Forging II United States Environmental Services, LLC | 7,312 | 8,750 | (69,125 |)55,003 | 1,940 | — | — | — | (66,103) |
| Valley Electric Company, Inc. | 40,286 | 2,599 | (154 |)30,214 |)12,517 | — | — | — | — |
| Wolf Energy, LLC | 31,091 | 1,821 | — | (403 |)32,509 | 5,629 | — | — | — |
| Total | 678 | 22,145 | (15,344 |)1,802 |)5,677 | — | — | — | — |
| | \$1,752,449 | \$348,241 | \$(275,732) | \$86,817 | \$1,911,775 | \$177,496 | \$5,250 | \$11,470 | \$(65,915) |

* Gross additions include increases in the cost basis of the investments resulting from new portfolio investments, PIK interest and any transfers of investments.

** Gross reductions include decreases in the cost basis of investments resulting from principal collections related to investments repayments or sales, impairments and any transfer of investments.

See notes to consolidated financial statements.

148

PROSPECT CAPITAL CORPORATION AND SUBSIDIARIES
CONSOLIDATED SCHEDULES OF INVESTMENTS (CONTINUED)
(in thousands, except share data)

Endnote Explanations as of June 30, 2018 and June 30, 2017 (Continued)

As defined in the 1940 Act, we are deemed to be an “Affiliated company” of these portfolio companies because we (50) own more than 5% of the portfolio company’s outstanding voting securities. Transactions during the year ended June 30, 2017 with these affiliated investments were as follows:

| Portfolio Company | Fair Value at June 30, 2016 | Gross Additions (Cost)* | Gross Reductions (Cost)** | Net unrealized gains (losses) | Fair Value at June 30, 2017 | Interest income | Dividend income | Other income | Net realized gains (losses) |
|--------------------------|-----------------------------|-------------------------|---------------------------|-------------------------------|-----------------------------|-----------------|-----------------|--------------|-----------------------------|
| BNN Holdings Corp. | \$2,842 | \$ — | \$ (2,227) | \$ (615) | \$ — | \$ — | \$ — | — | —\$ 137 |
| Nixon, Inc.*** | — | 1,552 | — | (1,552) | — | — | — | — | — |
| Targus International LLC | 8,478 | 231 | — | 2,720 | 11,429 | 297 | — | — | — |
| Total | \$11,320 | \$ 1,783 | \$ (2,227) | \$ 553 | \$11,429 | \$ 297 | \$ — | —\$ | —\$ 137 |

* Gross additions include increases in the cost basis of the investments resulting from new portfolio investments, OID accretion and PIK interest and any transfer of investments.

** Gross reductions include decreases in the cost basis of investments resulting from principal collections related to investments repayments or sales and impairments, and any transfer of investments.

*** Investment was transferred at fair market value at the beginning of the three month period ended June 30, 2017. (51) BAART Programs, Inc. and MedMark Services, Inc. are joint borrowers of the second lien term loan.

Prospect exercised its rights and remedies under its loan documents to exercise the shareholder voting rights in (52) respect of the stock of InterDent, Inc. (“InterDent”) and to appoint a new Board of Directors of InterDent. As a result, Prospect’s investment in InterDent is classified as a control investment as of June 30, 2018.

(53) This investment is in the debt class of a CLO security. The all-in interest rate has not been determined as the investment is unsettled as of June 30, 2018.

See notes to consolidated financial statements.

PROSPECT CAPITAL CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(in thousands, except share and per share data)

Note 1. Organization

In this report, the terms “Prospect,” “we,” “us” and “our” mean Prospect Capital Corporation and its subsidiaries unless the context specifically requires otherwise.

Prospect is a financial services company that primarily lends to and invests in middle market privately-held companies. We are a closed-end investment company incorporated in Maryland. We have elected to be regulated as a business development company (“BDC”) under the Investment Company Act of 1940 (the “1940 Act”). As a BDC, we have elected to be treated as a regulated investment company (“RIC”), under Subchapter M of the Internal Revenue Code of 1986 (the “Code”). We were organized on April 13, 2004 and were funded in an initial public offering completed on July 27, 2004.

On May 15, 2007, we formed a wholly-owned subsidiary Prospect Capital Funding LLC (“PCF”), a Delaware limited liability company and a bankruptcy remote special purpose entity, which holds certain of our portfolio loan investments that are used as collateral for the revolving credit facility at PCF. Our wholly-owned subsidiary Prospect Small Business Lending, LLC (“PSBL”) was formed on January 27, 2014 and purchases small business whole loans on a recurring basis from online small business loan originators, including On Deck Capital, Inc. (“OnDeck”). On September 30, 2014, we formed a wholly-owned subsidiary Prospect Yield Corporation, LLC (“PYC”) and effective October 23, 2014, PYC holds our investments in collateralized loan obligations (“CLOs”). Each of these subsidiaries have been consolidated since operations commenced.

We consolidate certain of our wholly-owned and substantially wholly-owned holding companies formed by us in order to facilitate our investment strategy. The following companies are included in our consolidated financial statements and are collectively referred to as the “Consolidated Holdings Companies”: APH Property Holdings, LLC (“APH”); Arctic Oilfield Equipment USA, Inc. (“Arctic Equipment”); CCPI Holdings Inc.; CP Holdings of Delaware LLC (“CP Holdings”); Credit Central Holdings of Delaware, LLC; Energy Solutions Holdings Inc.; First Tower Holdings of Delaware LLC (“First Tower Delaware”); Harbortouch Holdings of Delaware Inc.; MITY Holdings of Delaware Inc.; Nationwide Acceptance Holdings LLC; NMMB Holdings, Inc. (“NMMB Holdings, Inc.”); NPH Property Holdings, LLC (“NPH”); STI Holding, Inc.; UPH Property Holdings, LLC (“UPH”); Valley Electric Holdings I, Inc.; Valley Electric Holdings II, Inc.; and Wolf Energy Holdings Inc. (“Wolf Energy Holdings”). On October 10, 2014, concurrent with the sale of the operating company, our ownership increased to 100% of the outstanding equity of ARRM Services, Inc. (“ARRM”), which was renamed SB Forging Company, Inc. (“SB Forging”). As such, we began consolidating SB Forging on October 11, 2014. Effective May 23, 2016, in connection with the merger of American Property REIT Corp. (“APRC”) and United Property REIT Corp. (“UPRC”) with and into National Property REIT Corp. (“NPRC”), APH and UPH merged with and into NPH, and were dissolved. Effective April 6, 2018, Arctic Equipment merged with and into CP Energy Services, Inc. (“CP Energy”), a substantially wholly-owner subsidiary of CP Holdings, with CP Energy continuing as the surviving entity.

We are externally managed by our investment adviser, Prospect Capital Management L.P. (“Prospect Capital Management” or the “Investment Adviser”). Prospect Administration LLC (“Prospect Administration” or the “Administrator”), a wholly-owned subsidiary of the Investment Adviser, provides administrative services and facilities necessary for us to operate.

Our investment objective is to generate both current income and long-term capital appreciation through debt and equity investments. We invest primarily in senior and subordinated debt and equity of private companies in need of capital for acquisitions, divestitures, growth, development, recapitalizations and other purposes. We work with the management teams or financial sponsors to identify investments with historical cash flows, asset collateral or contracted pro-forma cash flows for investment.

Note 2. Significant Accounting Policies

Basis of Presentation and Consolidation

The accompanying consolidated financial statements have been prepared in accordance with United States generally accepted accounting principles (“GAAP”) pursuant to the requirements for reporting on Form 10-K, ASC 946, Financial Services—Investment Companies (“ASC 946”), and Articles 3, 6 and 12 of Regulation S-X. Under the 1940 Act, ASC 946, and the regulations pursuant to Article 6 of Regulation S-X, we are precluded from consolidating any entity other than another investment company or an operating company which provides substantially all of its services to benefit us. Our consolidated financial statements include the accounts of Prospect, PCF, PSBL, PYC, and the Consolidated Holding Companies. All intercompany balances and transactions have been eliminated in consolidation. The financial results of our non-substantially wholly-owned holding companies and operating portfolio company investments are not consolidated in the financial statements. Any operating companies owned by the Consolidated Holding Companies are not consolidated.

150

PROSPECT CAPITAL CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(in thousands, except share and per share data)

Reclassifications

Certain reclassifications have been made in the presentation of prior consolidated financial statements and accompanying notes to conform to the presentation as of and for the year ended June 30, 2018.

Use of Estimates

The preparation of the consolidated financial statements in accordance with GAAP requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the consolidated financial statements and the reported amounts of income, expenses, and gains and losses during the reported period. Changes in the economic environment, financial markets, creditworthiness of the issuers of our investment portfolio and any other parameters used in determining these estimates could cause actual results to differ, and these differences could be material.

Investment Classification

We are a non-diversified company within the meaning of the 1940 Act. As required by the 1940 Act, we classify our investments by level of control. As defined in the 1940 Act, “Control Investments” are those where there is the ability or power to exercise a controlling influence over the management or policies of a company. Control is generally deemed to exist when a company or individual possesses or has the right to acquire within 60 days or less, a beneficial ownership of more than 25% of the voting securities of an investee company. Under the 1940 Act, “Affiliate Investments” are defined by a lesser degree of influence and are deemed to exist through the possession outright or via the right to acquire within 60 days or less, beneficial ownership of 5% or more of the outstanding voting securities of another person. “Non-Control/Non-Affiliate Investments” are those that are neither Control Investments nor Affiliate Investments.

As a BDC, we must not acquire any assets other than “qualifying assets” specified in the 1940 Act unless, at the time the acquisition is made, at least 70% of our total assets are qualifying assets (with certain limited exceptions). As of June 30, 2018 and June 30, 2017, our qualifying assets as a percentage of total assets, stood at 73.20% and 71.75%, respectively.

Investment Transactions

Investments are recognized when we assume an obligation to acquire a financial instrument and assume the risks for gains or losses related to that instrument. Specifically, we record all security transactions on a trade date basis. Investments are derecognized when we assume an obligation to sell a financial instrument and forego the risks for gains or losses related to that instrument. In accordance with ASC 325-40, Beneficial Interest in Securitized Financial Assets, investments in CLOs are periodically assessed for other-than-temporary impairment (“OTTI”). When the Company determines that a CLO has OTTI, the amortized cost basis of the CLO is written down to its fair value as of the date of the determination based on events and information evaluated and that write-down is recognized as a realized loss. Amounts for investments traded but not yet settled are reported in Due to Broker or Due from Broker, in the Consolidated Statements of Assets and Liabilities.

Foreign Currency

Foreign currency amounts are translated into US Dollars (USD) on the following basis:

- i. fair value of investment securities, other assets and liabilities—at the spot exchange rate on the last business day of the period; and
- ii. purchases and sales of investment securities, income and expenses—at the rates of exchange prevailing on the respective dates of such investment transactions, income or expenses.

We do not isolate that portion of the results of operations resulting from changes in foreign exchange rates on investments from the fluctuations arising from changes in fair values of investments held or disposed of during the period. Such fluctuations are included within the net realized and net change in unrealized gains or losses from investments in the Consolidated Statements of Operations.

Investment Risks

Our investments are subject to a variety of risks. Those risks include the following:

151

PROSPECT CAPITAL CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(in thousands, except share and per share data)

Market Risk

Market risk represents the potential loss that can be caused by a change in the fair value of the financial instrument.

Credit Risk

Credit risk represents the risk that we would incur if the counterparties failed to perform pursuant to the terms of their agreements with us.

Liquidity Risk

Liquidity risk represents the possibility that we may not be able to rapidly adjust the size of our investment positions in times of high volatility and financial stress at a reasonable price.

Interest Rate Risk

Interest rate risk represents a change in interest rates, which could result in an adverse change in the fair value of an interest-bearing financial instrument.

Prepayment Risk

Many of our debt investments allow for prepayment of principal without penalty. Downward changes in interest rates may cause prepayments to occur at a faster than expected rate, thereby effectively shortening the maturity of the security and making us less likely to fully earn all of the expected income of that security and reinvesting in a lower yielding instrument.

Structured Credit Related Risk

CLO investments may be riskier and less transparent to us than direct investments in underlying companies. CLOs typically will have no significant assets other than their underlying senior secured loans. Therefore, payments on CLO investments are and will be payable solely from the cash flows from such senior secured loans.

Online Small-and-Medium-Sized Business Lending Risk

With respect to our online small-and-medium-sized business (“SME”) lending initiative, we invest primarily in marketplace loans through marketplace lending facilitators. We do not conduct loan origination activities ourselves. Therefore, our ability to purchase SME loans, and our ability to grow our portfolio of SME loans, is directly influenced by the business performance and competitiveness of the marketplace loan origination business of the marketplace lending facilitators from which we purchase SME loans. In addition, our ability to analyze the risk-return profile of SME loans is significantly dependent on the marketplace facilitators’ ability to effectively evaluate a borrower’s credit profile and likelihood of default. If we are unable to effectively evaluate borrowers’ credit profiles or the credit decisioning and scoring models implemented by each facilitator, we may incur unanticipated losses which could adversely impact our operating results.

Foreign Currency

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

Investment Valuation

To value our investments, we follow the guidance of ASC 820, Fair Value Measurement (“ASC 820”), that defines fair value, establishes a framework for measuring fair value in conformity with GAAP, and requires disclosures about fair value measurements. In accordance with ASC 820, the fair value of our investments is defined as the price that we would receive upon selling an investment in an orderly transaction to an independent buyer in the principal or most advantageous market in which that investment is transacted.

PROSPECT CAPITAL CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(in thousands, except share and per share data)

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

Level 1: Quoted prices in active markets for identical assets or liabilities, accessible by us at the measurement date.

Level 2: Quoted prices for similar assets or liabilities in active markets, or quoted prices for identical or similar assets or liabilities in markets that are not active, or other observable inputs other than quoted prices.

Level 3: Unobservable inputs for the asset or liability.

In all cases, the level in the fair value hierarchy within which the fair value measurement in its entirety falls has been determined based on the lowest level of input that is significant to the fair value measurement. Our assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment and considers factors specific to each investment.

Our Board of Directors has established procedures for the valuation of our investment portfolio. These procedures are detailed below.

Investments for which market quotations are readily available are valued at such market quotations.

For most of our investments, market quotations are not available. With respect to investments for which market quotations are not readily available or when such market quotations are deemed not to represent fair value, our Board of Directors has approved a multi-step valuation process each quarter, as described below.

1. Each portfolio company or investment is reviewed by our investment professionals with independent valuation firms engaged by our Board of Directors.
2. The independent valuation firms prepare independent valuations for each investment based on their own independent assessments and issue their report.
3. The Audit Committee of our Board of Directors reviews and discusses with the independent valuation firms the valuation reports, and then makes a recommendation to the Board of Directors of the value for each investment. The Board of Directors discusses valuations and determines the fair value of each investment in our portfolio in good faith based on the input of the Investment Adviser, the respective independent valuation firm and the Audit Committee.

Our non-CLO investments are valued utilizing a yield technique, enterprise value (“EV”) technique, net asset value technique, liquidation technique, discounted cash flow technique, or a combination of techniques, as appropriate. The yield technique uses loan spreads for loans and other relevant information implied by market data involving identical or comparable assets or liabilities. Under the EV technique, the EV of a portfolio company is first determined and allocated over the portfolio company’s securities in order of their preference relative to one another (i.e., “waterfall” allocation). To determine the EV, we typically use a market (multiples) valuation approach that considers relevant and applicable market trading data of guideline public companies, transaction metrics from precedent merger and acquisitions transactions, and/or a discounted cash flow technique. The net asset value technique, an income approach, is used to derive a value of an underlying investment (such as real estate property) by dividing a relevant earnings stream by an appropriate capitalization rate. For this purpose, we consider capitalization rates for similar properties as may be obtained from guideline public companies and/or relevant transactions. The liquidation technique is intended to approximate the net recovery value of an investment based on, among other things, assumptions regarding liquidation proceeds based on a hypothetical liquidation of a portfolio company’s assets. The discounted cash flow technique converts future cash flows or earnings to a range of fair values from which a single estimate may be derived utilizing an appropriate discount rate. The fair value measurement is based on the net present value indicated by current market expectations about those future amounts.

In applying these methodologies, additional factors that we consider in valuing our investments may include, as we deem relevant: security covenants, call protection provisions, and information rights; the nature and realizable value of any collateral; the portfolio company’s ability to make payments; the principal markets in which the portfolio company does business; publicly available financial ratios of peer companies; the principal market; and enterprise values, among other factors.

Our investments in CLOs are classified as Level 3 fair value measured securities under ASC 820 and are valued using a discounted multi-path cash flow model. The CLO structures are analyzed to identify the risk exposures and to determine an appropriate call date (i.e., expected maturity). These risk factors are sensitized in the multi-path cash flow model using Monte Carlo simulations, which is a simulation used to model the probability of different outcomes, to generate probability-weighted (i.e., multi-path) cash flows from the underlying assets and liabilities. These cash flows are discounted using appropriate market discount rates, and relevant data in the CLO market as well as certain benchmark credit indices are considered, to determine the value of each CLO

153

PROSPECT CAPITAL CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(in thousands, except share and per share data)

investment. In addition, we generate a single-path cash flow utilizing our best estimate of expected cash receipts, and assess the reasonableness of the implied discount rate that would be effective for the value derived from the multi-path cash flows. We are not responsible for and have no influence over the asset management of the portfolios underlying the CLO investments we hold, as those portfolios are managed by non-affiliated third party CLO collateral managers. The main risk factors are default risk, prepayment risk, interest rate risk, downgrade risk, and credit spread risk.

Valuation of Other Financial Assets and Financial Liabilities

ASC 825, Financial Instruments, specifically ASC 825-10-25, permits an entity to choose, at specified election dates, to measure eligible items at fair value (the "Fair Value Option"). We have not elected the Fair Value Option to report selected financial assets and financial liabilities. See Note 8 for the disclosure of the fair value of our outstanding debt and the market observable inputs used in determining fair value.

Convertible Notes

We have recorded the Convertible Notes at their contractual amounts. We have determined that the embedded conversion options in the Convertible Unsecured Notes are not required to be separately accounted for as a derivative under ASC 815, Derivatives and Hedging. See Note 5 for further discussion.

Revenue Recognition

Realized gains or losses on the sale of investments are calculated using the specific identification method.

Interest income, adjusted for amortization of premium and accretion of discount, is recorded on an accrual basis. Loan origination fees, original issue discount, and market discounts are capitalized and accreted into interest income over the respective terms of the applicable loans using the effective interest method or straight-line, as applicable, and adjusted only for material amendments or prepayments. Upon a prepayment of a loan, prepayment premiums, original issue discount, or market discounts are recorded as interest income.

Loans are placed on non-accrual status when there is reasonable doubt that principal or interest will be collected.

Unpaid accrued interest is generally reversed when a loan is placed on non-accrual status. Interest payments received on non-accrual loans are either applied to the cost basis or interest income, depending upon management's judgment of the collectibility of the loan receivable. Non-accrual loans are restored to accrual status when past due principal and interest is paid and in management's judgment, is likely to remain current and future principal and interest collections when due are probable. Interest received and applied against cost while a loan is on non-accrual, and PIK interest capitalized but not recognized while on non-accrual, is recognized prospectively on the effective yield basis through maturity of the loan when placed back on accrual status, to the extent deemed collectible by management. As of June 30, 2018, approximately 2.5% of our total assets at fair value are in non-accrual status.

Some of our loans and other investments may have contractual payment-in-kind ("PIK") interest or dividends. PIK income computed at the contractual rate is accrued into income and reflected as receivable up to the capitalization date. PIK investments offer issuers the option at each payment date of making payments in cash or in additional securities. When additional securities are received, they typically have the same terms, including maturity dates and interest rates as the original securities issued. On these payment dates, we capitalize the accrued interest (reflecting such amounts in the basis as additional securities received). PIK generally becomes due at maturity of the investment or upon the investment being called by the issuer. At the point that we believe PIK is not fully expected to be realized, the PIK investment will be placed on non-accrual status. When a PIK investment is placed on non-accrual status, the accrued, uncapitalized interest or dividends are reversed from the related receivable through interest or dividend income, respectively. We do not reverse previously capitalized PIK interest or dividends. Upon capitalization, PIK is subject to the fair value estimates associated with their related investments. PIK investments on non-accrual status are restored to accrual status if we believe that PIK is expected to be realized.

Interest income from investments in the "equity" class of security of CLO funds (typically preferred shares, income notes or subordinated notes) and "equity" class of security of securitized trust is recorded based upon an estimation of an effective yield to expected maturity utilizing assumed cash flows in accordance with ASC 325-40, Beneficial Interests

in Securitized Financial Assets. We monitor the expected cash inflows from our CLO and securitized trust equity investments, including the expected residual payments, and the effective yield is determined and updated periodically.

Dividend income is recorded on the ex-dividend date.

154

PROSPECT CAPITAL CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(in thousands, except share and per share data)

Other income generally includes amendment fees, commitment fees, administrative agent fees and structuring fees which are recorded when earned. Excess deal deposits, net profits interests and overriding royalty interests are included in other income. See Note 10 for further discussion.

Federal and State Income Taxes

We have elected to be treated as a RIC and intend to continue to comply with the requirements of the Code applicable to regulated investment companies. We are required to distribute at least 90% of our investment company taxable income and intend to distribute (or retain through a deemed distribution) all of our investment company taxable income and net capital gains to stockholders; therefore, we have made no provision for income taxes. The character of income and gains that we will distribute is determined in accordance with income tax regulations that may differ from GAAP. Book and tax basis differences relating to stockholder dividends and distributions and other permanent book and tax differences are reclassified to paid-in capital.

If we do not distribute (or are not deemed to have distributed) at least 98% of our annual ordinary income and 98.2% of our capital gains in the calendar year earned, we will generally be required to pay an excise tax equal to 4% of the amount by which 98% of our annual ordinary income and 98.2% of our capital gains exceed the distributions from such taxable income for the year. To the extent that we determine that our estimated current year annual taxable income will be in excess of estimated current year dividend distributions from such taxable income, we accrue excise taxes, if any, on estimated excess taxable income. As of June 30, 2018, we do not expect to have any excise tax due for the 2018 calendar year. Thus, we have not accrued any excise tax for this period.

If we fail to satisfy the annual distribution requirement or otherwise fail to qualify as a RIC in any taxable year, we would be subject to tax on all of our taxable income at regular corporate income tax rates. We would not be able to deduct distributions to stockholders, nor would we be required to make distributions. Distributions would generally be taxable to our individual and other non-corporate taxable stockholders as ordinary dividend income eligible for the reduced maximum rate applicable to qualified dividend income to the extent of our current and accumulated earnings and profits, provided certain holding period and other requirements are met. Subject to certain limitations under the Code, corporate distributions would be eligible for the dividends-received deduction. To qualify again to be taxed as a RIC in a subsequent year, we would be required to distribute to our shareholders our accumulated earnings and profits attributable to non-RIC years. In addition, if we failed to qualify as a RIC for a period greater than two taxable years, then, in order to qualify as a RIC in a subsequent year, we would be required to elect to recognize and pay tax on any net built-in gain (the excess of aggregate gain, including items of income, over aggregate loss that would have been realized if we had been liquidated) or, alternatively, be subject to taxation on such built-in gain recognized for a period of five years.

We follow ASC 740, Income Taxes (“ASC 740”). ASC 740 provides guidance for how uncertain tax positions should be recognized, measured, presented, and disclosed in the consolidated financial statements. ASC 740 requires the evaluation of tax positions taken or expected to be taken in the course of preparing our tax returns to determine whether the tax positions are “more-likely-than-not” of being sustained by the applicable tax authority. Tax positions not deemed to meet the more-likely-than-not threshold are recorded as a tax benefit or expense in the current year. As of June 30, 2018, we did not record any unrecognized tax benefits or liabilities. Management’s determinations regarding ASC 740 may be subject to review and adjustment at a later date based upon factors including, but not limited to, an on-going analysis of tax laws, regulations and interpretations thereof. Although we file both federal and state income tax returns, our major tax jurisdiction is federal. Our federal tax returns for the tax years ended August 31, 2015 and thereafter remain subject to examination by the Internal Revenue Service.

Dividends and Distributions

Dividends and distributions to common stockholders are recorded on the ex-dividend date. The amount, if any, to be paid as a monthly dividend or distribution is approved by our Board of Directors quarterly and is generally based upon our management’s estimate of our future taxable earnings. Net realized capital gains, if any, are distributed at least

annually.

Financing Costs

We record origination expenses related to our Revolving Credit Facility, and Convertible Notes, Public Notes and Prospect Capital InterNotes® (collectively, our “Unsecured Notes”) as deferred financing costs. These expenses are deferred and amortized as part of interest expense using the straight-line method over the stated life of the obligation for our Revolving Credit Facility. The same methodology is used to approximate the effective yield method for our Prospect Capital InterNotes® and our at-the-market offering of our existing unsecured notes that mature on June 15, 2024 (“2024 Notes Follow-on Program”). The effective interest method is used to amortize deferred financing costs for our remaining Unsecured Notes over the respective expected life or maturity. In the event that we modify or extinguish our debt before maturity, we follow the guidance in ASC 470-50, Modification and Extinguishments (“ASC 470-50”). For modifications to or exchanges of our Revolving Credit Facility, any unamortized deferred

155

PROSPECT CAPITAL CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(in thousands, except share and per share data)

costs relating to lenders who are not part of the new lending group are expensed. For extinguishments of our Unsecured Notes, any unamortized deferred costs are deducted from the carrying amount of the debt in determining the gain or loss from the extinguishment.

Unamortized deferred financing costs are presented as a direct deduction to the respective Unsecured Notes (see Notes 5, 6, and 7).

We may record registration expenses related to shelf filings as prepaid expenses. These expenses consist principally of the Securities and Exchange Commission (“SEC”) registration fees, legal fees and accounting fees incurred. These prepaid expenses are charged to capital upon the receipt of proceeds from an equity offering or charged to expense if no offering is completed. As of June 30, 2018 and June 30, 2017, there are no prepaid expenses related to registration expenses and all amounts incurred have been expensed.

Guarantees and Indemnification Agreements

We follow ASC 460, Guarantees (“ASC 460”). ASC 460 elaborates on the disclosure requirements of a guarantor in its interim and annual consolidated financial statements about its obligations under certain guarantees that it has issued. It also requires a guarantor to recognize, at the inception of a guarantee, for those guarantees that are covered by ASC 460, the fair value of the obligation undertaken in issuing certain guarantees.

Per Share Information

Net increase or decrease in net assets resulting from operations per share is calculated using the weighted average number of common shares outstanding for the period presented. In accordance with ASC 946, convertible securities are not considered in the calculation of net asset value per share.

Recent Accounting Pronouncements

In June 2016, the FASB issued ASU 2016-13, Financial Instruments-Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments (“ASU 2016-13”), which amends the financial instruments impairment guidance so that an entity is required to measure expected credit losses for financial assets based on historical experience, current conditions and reasonable and supportable forecasts. As such, an entity will use forward-looking information to estimate credit losses. ASU 2016-13 also amends the guidance in FASB ASC Subtopic No. 325-40, Investments-Other, Beneficial Interests in Securitized Financial Assets, related to the subsequent measurement of accretible yield recognized as interest income over the life of a beneficial interest in securitized financial assets under the effective yield method. ASU 2016-13 is effective for financial statements issued for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. Early adoption is permitted as of the fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. We are currently evaluating the impact, if any, of adopting this ASU on our consolidated financial statements.

In August 2016, the FASB issued ASU 2016-15, Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments (“ASU 2016-15”), which addresses certain aspects of cash flow statement classification. One such amendment requires cash payments for debt prepayment or debt extinguishment costs to be classified as cash outflows for financing activities. ASU 2016-15 is effective for financial statements issued for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years. Early adoption is permitted, including adoption in an interim period. If an entity early adopts the amendments in an interim period, any adjustments should be reflected as of the beginning of the fiscal year that includes that interim period. An entity that elects early adoption must adopt all of the amendments in the same period. The adoption of the amended guidance in ASU 2016-15 is not expected to have a significant effect on our consolidated financial statements and disclosures. In May 2014, the FASB issued ASU No. 2014-09, Revenue from Contracts with Customers (Topic 606), which amends accounting guidance for revenue recognition arising from contracts with customers. Under the new guidance, an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration the entity expects to be entitled to in exchange for those goods or services. In August 2015, the FASB also issued ASU 2015-14, Revenue from Contracts with Customers (Topic 606): Deferral of the Effective

Date, which deferred the effective date of the standard for one year. As a result, the guidance is effective for financial statements issued for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years. Early adoption is permitted as of fiscal years beginning after December 15, 2016, including interim periods within those fiscal years. The application of this guidance is not expected to have a material impact on our financial statements.

PROSPECT CAPITAL CORPORATION AND SUBSIDIARIES
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 (in thousands, except share and per share data)

Tax Cuts and Jobs Act

On December 22, 2017, the President signed into law the Tax Cuts and Jobs Act (The “Tax Act”), which significantly changed the Code, including, a reduction in the corporate income tax rate, a new limitation on the deductibility of interest expense, and significant changes to the taxation of income earned from foreign sources and foreign subsidiaries. The Tax Act also authorizes the IRS to issue regulations with respect to the new provisions. We cannot predict how the changes in the Tax and Jobs Act, or regulations or other guidance issued under it, might affect us, our business or the business of our portfolio companies. However, our portfolio companies may or may not make certain elections under the Tax Act that could materially increase their taxable earnings and profits. Any such increase in the earnings and profits of a portfolio company may result in the characterization of certain distributions sourced from sale proceeds as dividend income, which may increase our distributable taxable income. During the year ended June 30, 2018, we received \$11,270 of such dividends from NPRC related to the sale of NPRC’s St. Marin and Central Park properties.

Note 3. Portfolio Investments

At June 30, 2018, we had investments in 135 long-term portfolio investments, which had an amortized cost of \$5,831,458 and a fair value of \$5,727,279. At June 30, 2017, we had investments in 121 long-term portfolio investments, which had an amortized cost of \$5,981,556 and a fair value of \$5,838,305.

The original cost basis of debt placement and equity securities acquired, including follow-on investments for existing portfolio companies, payment-in-kind interest, and structuring fees, totaled \$1,730,657 and \$1,489,470 during the years ended June 30, 2018 and June 30, 2017, respectively. Debt repayments and considerations from sales of equity securities of approximately \$1,831,286 and \$1,413,882 were received during the years ended June 30, 2018 and June 30, 2017, respectively.

The following table shows the composition of our investment portfolio as of June 30, 2018 and June 30, 2017:

| | June 30, 2018 | | June 30, 2017 | |
|-----------------------------|---------------|-------------|---------------|-------------|
| | Cost | Fair Value | Cost | Fair Value |
| Revolving Line of Credit | \$38,659 | \$38,559 | \$27,409 | \$27,409 |
| Senior Secured Debt | 2,602,018 | 2,481,353 | 2,940,163 | 2,798,796 |
| Subordinated Secured Debt | 1,318,028 | 1,260,525 | 1,160,019 | 1,107,040 |
| Subordinated Unsecured Debt | 38,548 | 32,945 | 37,934 | 44,434 |
| Small Business Loans | 30 | 17 | 8,434 | 7,964 |
| CLO Debt | 6,159 | 6,159 | — | — |
| CLO Residual Interest | 1,096,768 | 954,035 | 1,150,006 | 1,079,712 |
| Equity | 731,248 | 953,686 | 657,591 | 772,950 |
| Total Investments | \$5,831,458 | \$5,727,279 | \$5,981,556 | \$5,838,305 |

PROSPECT CAPITAL CORPORATION AND SUBSIDIARIES
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 (in thousands, except share and per share data)

In the previous table and throughout the remainder of this footnote, we aggregate our portfolio investments by type of investment, which may differ slightly from the nomenclature used by the constituent instruments defining the rights of holders of the investment, as disclosed on our Consolidated Schedules of Investments (“SOI”). The following investments are included in each category:

• **Revolving Line of Credit** includes our investments in delayed draw term loans.

• **Senior Secured Debt** includes investments listed on the SOI such as senior secured term loans, senior term loans, secured promissory notes, senior demand notes, and first lien term loans.

• **Subordinated Secured Debt** includes investments listed on the SOI such as subordinated secured term loans, subordinated term loans, senior subordinated notes, and second lien term loans.

• **Subordinated Unsecured Debt** includes investments listed on the SOI such as subordinated unsecured notes and senior unsecured notes.

• **Small Business Loans** includes our investments in SME whole loans purchased from OnDeck.

• **CLO Debt** includes our investments in the “debt” class of security of CLO funds.

• **CLO Residual Interest** includes our investments in the “equity” security class of CLO funds such as income notes, preference shares, and subordinated notes.

Equity, unless specifically stated otherwise, includes our investments in preferred stock, common stock, membership interests, net profits interests, net operating income interests, net revenue interests, overriding royalty interests, escrows receivable, and warrants.

The following table shows the fair value of our investments disaggregated into the three levels of the ASC 820 valuation hierarchy as of June 30, 2018:

| | Level 1 | Level 2 | Level 3 | Total |
|-----------------------------|---------|---------|--------------|-------------|
| Revolving Line of Credit | \$ | —\$ | —\$38,559 | \$38,559 |
| Senior Secured Debt | — | — | 2,481,353 | 2,481,353 |
| Subordinated Secured Debt | — | — | 1,260,525 | 1,260,525 |
| Subordinated Unsecured Debt | — | — | 32,945 | 32,945 |
| Small Business Loans | — | — | 17 | 17 |
| CLO Debt | — | — | 6,159 | 6,159 |
| CLO Residual Interest | — | — | 954,035 | 954,035 |
| Equity | — | — | 953,686 | 953,686 |
| Total Investments | \$ | —\$ | —\$5,727,279 | \$5,727,279 |

The following table shows the fair value of our investments disaggregated into the three levels of the ASC 820 valuation hierarchy as of June 30, 2017:

| | Level 1 | Level 2 | Level 3 | Total |
|-----------------------------|---------|---------|--------------|-------------|
| Revolving Line of Credit | \$ | —\$ | —\$27,409 | \$27,409 |
| Senior Secured Debt | — | — | 2,798,796 | 2,798,796 |
| Subordinated Secured Debt | — | — | 1,107,040 | 1,107,040 |
| Subordinated Unsecured Debt | — | — | 44,434 | 44,434 |
| Small Business Loans | — | — | 7,964 | 7,964 |
| CLO Residual Interest | — | — | 1,079,712 | 1,079,712 |
| Equity | — | — | 772,950 | 772,950 |
| Total Investments | \$ | —\$ | —\$5,838,305 | \$5,838,305 |

PROSPECT CAPITAL CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(in thousands, except share and per share data)

The following tables show the aggregate changes in the fair value of our Level 3 investments during the year ended June 30, 2018:

| | Fair Value Measurements Using Unobservable Inputs (Level 3) | | | | | | | | |
|---|---|-----------------------|---------------------------------------|-----------------------------|----------------------|----------|-----------------------|-----------|--------------|
| | Control Investments | Affiliate Investments | Non-Control/Non-Affiliate Investments | Total | | | | | |
| Fair value as of June 30, 2017 | \$ 1,911,775 | \$ 11,429 | \$ 3,915,101 | \$ 5,838,305 | | | | | |
| Net realized gains (losses) on investments | 13 | (13,351) | (6,036) | (19,374) | | | | | |
| Net change in unrealized gains (losses) | 55,670 | 25,671 | (42,270) | 39,071 | | | | | |
| Net realized and unrealized gains (losses) | 55,683 | 12,320 | (48,306) | 19,697 | | | | | |
| Purchases of portfolio investments | 212,531 | 3,588 | 1,505,134 | 1,721,253 | | | | | |
| Payment-in-kind interest | 6,164 | 583 | 2,657 | 9,404 | | | | | |
| Accretion (amortization) of discounts and premiums, net | 2,240 | — | (33,245) | (31,005) | | | | | |
| Repayments and sales of portfolio investments | (144,405) | (846) | (1,685,124) | (1,830,375) | | | | | |
| Transfers within Level 3(1) | 360,338 | 31,362 | (391,700) | — | | | | | |
| Transfers in (out) of Level 3(1) | — | — | — | — | | | | | |
| Fair value as of June 30, 2018 | \$ 2,404,326 | \$ 58,436 | \$ 3,264,517 | \$ 5,727,279 | | | | | |
| | Revolving Line of Credit | Senior Secured Debt | Subordinated Secured Debt | Subordinated Unsecured Debt | Small Business Loans | CLO Debt | CLO Residual Interest | Equity | Total |
| Fair value as of June 30, 2017 | \$27,409 | \$2,798,796 | \$1,107,040 | \$44,434 | \$7,964 | \$— | \$1,079,712 | \$772,950 | \$5,838,305 |
| Net realized (losses) gains on investments | — | (16,795) | — | 13 | (357) | — | (2,275) | 40 | (19,374) |
| Net change in unrealized gains (losses) | (100) | 20,701 | (4,524) | (12,103) | 456 | — | (72,439) | 107,080 | 39,071 |
| Net realized and unrealized (losses) gains | (100) | 3,906 | (4,524) | (12,090) | 99 | — | (74,714) | 107,120 | 19,697 |
| Purchases of portfolio investments | 19,308 | 1,138,304 | 365,845 | — | 7,552 | 6,159 | 48,187 | 135,898 | 1,721,253 |
| Payment-in-kind interest | — | 5,360 | 3,429 | 615 | — | — | — | — | 9,404 |
| Accretion (amortization) of discounts and premiums | — | 3,307 | 5,756 | — | — | — | (40,068) | — | (31,005) |
| Repayments and sales of portfolio investments | (8,058) | (1,511,024) | (217,021) | (14) | (15,598) | — | (59,082) | (19,578) | (1,830,375) |
| | — | 42,704 | — | — | — | — | — | (42,704) | — |

Transfers within
Level 3(1)

Transfers in

(out) of Level 3(1) — — — — — — — — — —

Fair value as of June 30, 2018 \$38,559 \$2,481,353 \$1,260,525 \$32,945 \$17 \$6,159 \$954,035 \$953,686 \$5,727,279

(1) Transfers are assumed to have occurred at the beginning of the quarter during which the asset was transferred. The following tables show the aggregate changes in the fair value of our Level 3 investments during the year ended June 30, 2017:

| | Fair Value Measurements Using Unobservable Inputs (Level 3) | | | |
|---|---|-----------------------|---|--------------|
| | Control Investments | Affiliate Investments | Non-Control/ Non-Affiliate Investments | Total |
| Fair value as of June 30, 2016 | \$ 1,752,449 | \$ 11,320 | \$ 4,133,939 | \$ 5,897,708 |
| Net realized (losses) gains on investments | (65,915 |) 137 | (32,625 |) (98,403 |
| Net change in unrealized gains (losses) | 86,817 | 553 | (37,229 |) 50,141 |
| Net realized and unrealized gains (losses) | 20,902 | 690 | (69,854 |) (48,262 |
| Purchases of portfolio investments | 310,922 | — | 1,160,740 | 1,471,662 |
| Payment-in-kind interest | 14,252 | 231 | 3,325 | 17,808 |
| Accretion (amortization) of discounts and premiums, net | 922 | — | (89,749 |) (88,827 |
| Repayments and sales of portfolio investments | (209,817 |) (2,364 |) (1,199,603 |) (1,411,784 |
| Transfers within Level 3(1) | 22,145 | 1,552 | (23,697 |) — |
| Transfers in (out) of Level 3(1) | — | — | — | — |
| Fair value as of June 30, 2017 | \$ 1,911,775 | \$ 11,429 | \$ 3,915,101 | \$ 5,838,305 |

PROSPECT CAPITAL CORPORATION AND SUBSIDIARIES
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 (in thousands, except share and per share data)

| | Revolving Line of Credit | Senior Secured Debt | Subordinated Secured Debt | Subordinated Unsecured Debt | Small Business Loans | CLO Debt | CLO Residual Interest | Equity | Total |
|---|--------------------------------|---------------------------|------------------------------|-----------------------------------|----------------------------|-------------|-----------------------------|------------|--------------|
| Fair value as of June 30, 2016 | \$ 13,274 | \$ 2,941,722 | \$ 1,209,604 | \$ 68,358 | \$ 14,215 | \$ — | \$ 1,009,696 | \$ 640,839 | \$ 5,897,708 |
| Net realized (losses) gains on investments | — | (59,730) | (382) | 6 | (3,013) | — | (17,239) | (18,045) | (98,403) |
| Net change in unrealized (losses) gains | — | (10,245) | (33,990) | 14,020 | (83) | — | 3,550 | 76,889 | 50,141 |
| Net realized and unrealized (losses) gains | — | (69,975) | (34,372) | 14,026 | (3,096) | — | (13,689) | 58,844 | (48,262) |
| Purchases of portfolio investments | 21,559 | 762,505 | 378,793 | — | 51,802 | — | 178,452 | 78,551 | 1,471,662 |
| Payment-in-kind interest | — | 5,127 | 10,624 | 2,057 | — | — | — | — | 17,808 |
| Accretion (amortization) of discounts and premiums | — | 531 | 5,389 | — | — | — | (94,747) | — | (88,827) |
| Repayments and sales of portfolio investments | (7,424) | (763,969) | (462,998) | (40,007) | (54,957) | — | — | (82,429) | (1,411,784) |
| Transfers within Level 3(1) | — | (77,145) | — | — | — | — | — | 77,145 | — |
| Transfers in (out) of Level 3(1) | — | — | — | — | — | — | — | — | — |
| Fair value as of June 30, 2017 | \$ 27,409 | \$ 2,798,796 | \$ 1,107,040 | \$ 44,434 | \$ 7,964 | \$ — | \$ 1,079,712 | \$ 772,950 | \$ 5,838,305 |

(1) Transfers are assumed to have occurred at the beginning of the quarter during which the asset was transferred. The net change in unrealized gains on the investments that use Level 3 inputs was \$12,075 and \$10,082 for investments still held as of June 30, 2018 and June 30, 2017, respectively.

PROSPECT CAPITAL CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(in thousands, except share and per share data)

The ranges of unobservable inputs used in the fair value measurement of our Level 3 investments as of June 30, 2018 were as follows:

| Asset Category | Fair Value | Primary Valuation Approach or Technique | Unobservable Input | | Weighted Average |
|--------------------------------------|-------------|---|-----------------------------|----------------|------------------|
| | | | Input | Range | |
| Senior Secured Debt | \$1,409,584 | Discounted Cash Flow (Yield analysis) | Market yield | 7.0% - 21.2% | 11.3% |
| Senior Secured Debt | 361,720 | Enterprise Value Waterfall (Market approach) | EBITDA multiple | 4.0x - 10.3x | 8.3x |
| Senior Secured Debt | 181,339 | Enterprise Value Waterfall (Market approach) | Revenue multiple | 0.3x - 1.6x | 1.4x |
| Senior Secured Debt | 47,099 | Enterprise Value Waterfall (Discounted cash flow) | Discount rate | 7.5% - 16.1% | 10.7% |
| Senior Secured Debt | 787 | Liquidation Analysis | N/A | N/A | N/A |
| Senior Secured Debt (1) | 226,180 | Enterprise Value Waterfall | Loss-adjusted discount rate | 3.0% - 14.2% | 11.0% |
| Senior Secured Debt (2) | 293,203 | Enterprise Value Waterfall (NAV Analysis) | Capitalization Rate | 3.3% - 8.7% | 6.0% |
| Senior Secured Debt (2) | — | Discounted Cash Flow | Discount rate | 6.5% - 7.5% | 7.0% |
| Subordinated Secured Debt | 830,766 | Discounted Cash Flow (Yield analysis) | Market yield | 7.6% - 22.5% | 11.7% |
| Subordinated Secured Debt | 28,622 | Enterprise Value Waterfall (Market approach) | EBITDA multiple | 6.5x - 7.5x | 7.0x |
| Subordinated Secured Debt | 58,806 | Enterprise Value Waterfall (Market approach) | Revenue multiple | 0.3x - 0.4x | 0.4x |
| Subordinated Secured Debt (3) | 342,331 | Enterprise Value Waterfall (Market approach) | Book value multiple | 0.8x - 3.1x | 2.5x |
| Subordinated Secured Debt (3) | — | Enterprise Value Waterfall (Market approach) | Earnings multiple | 7.5x - 13.0x | 11.9x |
| Subordinated Unsecured Debt | 32,945 | Enterprise Value Waterfall (Market approach) | EBITDA multiple | 5.8x - 11.5x | 9.7% |
| Small Business Loans (4) | 17 | Discounted Cash Flow | Loss-adjusted discount rate | 13.0% - 24.3% | 15.5% |
| CLO Interests | 960,194 | Discounted Cash Flow | Discount rate (6) | 2.33% - 24.28% | 17.24% |
| Preferred Equity | 73,792 | Enterprise Value Waterfall (Market approach) | EBITDA multiple | 4.0x - 9.0x | 7.9x |
| Preferred Equity | 2,194 | Liquidation Analysis | N/A | N/A | N/A |
| Common Equity/Interests/Warrants | 81,753 | Enterprise value waterfall (Market approach) | EBITDA multiple | 5.0x - 9.0x | 6.8x |
| Common Equity/Interests/Warrants (1) | 16,881 | Enterprise value waterfall | Loss-adjusted discount rate | 3.0% - 14.2% | 11.0% |
| Common Equity/Interests/Warrants (2) | 419,224 | Enterprise value waterfall (NAV analysis) | Capitalization Rate | 3.3% - 8.7% | 6.0% |
| | — | Discounted cash flow | Discount rate | | 7.0% |

Edgar Filing: PROSPECT CAPITAL CORP - Form 10-K

| | | | | | |
|--------------------------------------|-------------|--|---------------------|--------------|-------|
| Common Equity/Interests/Warrants (2) | | | | 6.5% - 7.5% | |
| Common Equity/Interests/Warrants (3) | 209,583 | Enterprise value waterfall (Market approach) | Book value multiple | 0.8x - 3.1x | 2.4x |
| Common Equity/Interests/Warrants (3) | — | Enterprise value waterfall (Market approach) | Earnings multiple | 7.5x - 13.0x | 11.9x |
| Common Equity/Interests/Warrants (5) | 99,488 | Discounted cash flow | Discount rate | 6.5% - 7.5% | 7.0% |
| Common Equity/Interests/Warrants | 36,805 | Discounted cash flow | Discount rate | 7.5% - 15.5% | 8.8% |
| Common Equity/Interests/Warrants | 13,049 | Liquidation analysis | N/A | N/A | N/A |
| Escrow Receivable | 917 | Discounted cash flow | Discount rate | 7.3% - 8.4% | 7.9% |
| Total Level 3 Investments | \$5,727,279 | | | | |

PROSPECT CAPITAL CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(in thousands, except share and per share data)

- Represents an investment in a Real Estate Investment subsidiary. The Enterprise Value analysis includes the fair value of our investments in such indirect subsidiary's consumer loans purchased from online consumer lending (1) platforms, which are valued using a discounted cash flow valuation technique. The key unobservable input to the discounted cash flow analysis is noted above. In addition, the valuation also used projected loss rates as an unobservable input ranging from 0.0%-20.7%, with a weighted average of 4.2%.
- (2) Represents our REIT investments. EV waterfall methodology uses both the net asset value analysis and discounted cash flow technique, which are weighted equally (50%).
- Represents investments in consumer finance subsidiaries. The enterprise value waterfall methodology utilizes book value and earnings multiples, as noted above. In addition, the valuation of certain consumer finance companies (3) utilizes the discounted cash flow technique whereby the significant unobservable input is the discount rate. For these companies each valuation technique (book value multiple, earnings multiple and discount rate) is weighted equally. For these companies the discount rate ranged from 13.5% to 15.5% with a weighted average of 14.2%.
- (4) Includes our investments in small business whole loans purchased from OnDeck. Valuation also used projected loss rates as an unobservable input ranging from 0.00%-0.06%, with a weighted average of 0.01%.
- (5) Represents net operating income interests in our REIT investments.
- (6) Represents the implied discount rate based on our internally generated single-cash flows that is derived from the fair value estimated by the corresponding multi-path cash flow model utilized by the independent valuation firm.

PROSPECT CAPITAL CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(in thousands, except share and per share data)

The ranges of unobservable inputs used in the fair value measurement of our Level 3 investments as of June 30, 2017 were as follows:

| Asset Category | Fair Value | Primary Valuation Approach or Technique | Unobservable Input | | Weighted Average |
|--------------------------------------|-------------|---|-----------------------------|-------------|------------------|
| | | | Input | Range | |
| Senior Secured Debt | \$1,977,660 | Discounted Cash Flow (Yield analysis) | Market Yield | 5.1%-27.0% | 10.7% |
| Senior Secured Debt | 211,856 | Enterprise Value Waterfall (Market approach) | EBITDA Multiple | 4.0x-9.0x | 6.7x |
| Senior Secured Debt | 27,479 | Enterprise Value Waterfall (Market approach) | Revenue Multiple | 0.3x-0.6x | 0.4x |
| Senior Secured Debt | 47,099 | Enterprise Value Waterfall (Discounted cash flow) | Discount Rate | 7.3%-15.9% | 11.6% |
| Senior Secured Debt | 1,630 | Liquidation Analysis | N/A | N/A | N/A |
| Senior Secured Debt (1) | 269,166 | Enterprise Value Waterfall | Loss-adjusted discount rate | 3.0%-14.2% | 10.6% |
| Senior Secured Debt (2) | 291,315 | Enterprise Value Waterfall (NAV Analysis) | Capitalization Rate | 3.4%-8.0% | 6.1% |
| Senior Secured Debt (2) | | Discounted Cash Flow | Discount Rate | 6.5%-7.5% | 7.0% |
| Subordinated Secured Debt | 665,405 | Discounted Cash Flow (Yield analysis) | Market Yield | 5.9%-27.0% | 11.4% |
| Subordinated Secured Debt | 111,847 | Enterprise Value Waterfall (Market approach) | EBITDA Multiple | 6.3x-8.0x | 7.3x |
| Subordinated Secured Debt (3) | 329,788 | Enterprise Value Waterfall (Market approach) | Book Value Multiple | 1.2x-2.8x | 2.4x |
| Subordinated Secured Debt (3) | | Enterprise Value Waterfall (Market approach) | Earnings Multiple | 7.5x-12.0x | 11.0x |
| Subordinated Unsecured Debt | 44,434 | Enterprise Value Waterfall (Market approach) | EBITDA Multiple | 5.8x-8.5x | 7.7x |
| Small Business Loans (4) | 7,964 | Discounted Cash Flow | Loss-adjusted Discount Rate | 3.0%-25.9% | 25.9% |
| CLO Residual Interest | 1,079,712 | Discounted Cash Flow | Discount Rate | 12.0%-21.9% | 15.7% |
| Preferred Equity | 10,992 | Enterprise Value Waterfall (Market approach) | EBITDA Multiple | 4.0x-9.0x | 4.8x |
| Preferred Equity | 72,216 | Enterprise Value Waterfall (Market approach) | Revenue Multiple | 2.3x-2.8x | 2.6x |
| Common Equity/Interests/Warrants | 46,373 | Enterprise Value Waterfall (Market approach) | EBITDA Multiple | 4.0x-8.5x | 6.0x |
| Common Equity/Interests/Warrants | 22,671 | Enterprise Value Waterfall (Market approach) | Revenue Multiple | 0.3x-2.8x | 1.2x |
| Common Equity/Interests/Warrants (1) | 93,801 | Enterprise Value Waterfall | Loss-adjusted discount rate | 3.0%-14.2% | 10.6% |
| Common Equity/Interests/Warrants (2) | 244,245 | Enterprise Value Waterfall (NAV analysis) | Capitalization Rate | 3.4%-8.0% | 6.1% |

Edgar Filing: PROSPECT CAPITAL CORP - Form 10-K

| | | | | | |
|--|-------------|---|------------------------|------------|-------|
| Common Equity/Interests/Warrants (2) | | Discounted Cash Flow | Discount Rate | 6.5%-7.5% | 0.07 |
| Common Equity/Interests/Warrants (2) | 134,481 | Enterprise Value Waterfall (Market approach) | Book Value Multiple | 1.2x-2.8x | 2.3x |
| Common Equity/Interests/Warrants (2) | | Enterprise Value Waterfall (Market approach) | Earnings Multiple | 7.5x-12.0x | 10.8x |
| Common Equity/Interests/Warrants (5) | 88,777 | Discounted Cash Flow | Discount Rate | 6.5%-7.5% | 7.0% |
| Common Equity/Interests/Warrants | 28,858 | Discounted Cash Flow | Discount Rate | 6.4%-18.0% | 11.8% |
| Common Equity/Interests/Warrants | 29,672 | Liquidation Analysis | N/A | N/A | N/A |
| Escrow Receivable | 864 | Discounted Cash Flow | Discount Rate | 6.4%-7.5% | 7.0% |
| Total Level 3 Investments | \$5,838,305 | | | | |

163

PROSPECT CAPITAL CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(in thousands, except share and per share data)

Represents an investment in a subsidiary of our controlled investment NPRC. The Enterprise Value Waterfall analysis of NPRC includes the fair value of the investments in such indirect subsidiary's consumer loans purchased (1) from online consumer lending platforms, which are valued using a discounted cash flow valuation technique. The key unobservable input to the discounted cash flow analysis is noted in the table. In addition, the valuation also used projected loss rates as an unobservable input ranging from 0.16-18.46%, with a weighted average of 8.57%.

(2) Represents our REIT investments. EV waterfall methodology uses both the net asset value analysis and discounted cash flow analysis, which are weighted equally (50%).

Represents investments in consumer finance subsidiaries. The enterprise value waterfall methodology utilizes book value and earnings multiples, as noted above. In addition, the valuation of certain consumer finance companies (3) utilizes the discounted cash flow technique whereby the significant unobservable input is the discount rate. For these companies each valuation technique (book value multiple, earnings multiple and discount rate) is weighted equally. For these companies the discount rate ranged from 13.5% to 18.0% with a weighted average of 14.7%.

(4) Includes our investments in small business whole loans purchased from OnDeck. Valuation also used projected loss rates as an unobservable input ranging from 0.01%-1.16%, with a weighted average of 0.88%.

(5) Represents net operating income interests in our REIT investments.

In determining the range of values for debt instruments, except CLOs and debt investments in controlling portfolio companies, management and the independent valuation firm estimated corporate and security credit ratings and identified corresponding yields to maturity for each loan from relevant market data. A discounted cash flow technique was then applied using the appropriate yield to maturity as the discount rate, to determine a range of values. In determining the range of values for debt investments of controlled companies and equity investments, the enterprise value was determined by applying a market approach such as using earnings before income interest, tax, depreciation and amortization ("EBITDA") multiples, net income and/or book value multiples for similar guideline public companies and/or similar recent investment transactions and/or an income approach, such as the discounted cash flow technique. For stressed debt and equity investments, a liquidation analysis was used.

In determining the range of values for our investments in CLOs, the independent valuation firm uses a discounted multi-path cash flow model. The valuations were accomplished through the analysis of the CLO deal structures to identify the risk exposures from the modeling point of view as well as to determine an appropriate call date (i.e., expected maturity). These risk factors are sensitized in the multi-path cash flow model using Monte Carlo simulations to generate probability-weighted (i.e., multi-path) cash flows for the underlying assets and liabilities. These cash flows are discounted using appropriate market discount rates, and relevant data in the CLO market and certain benchmark credit indices are considered, to determine the value of each CLO investment. In addition, we generate a single-path cash flow utilizing our best estimate of expected cash receipts, and assess the reasonableness of the implied discount rate that would be effective for the value derived from the corresponding multi-path cash flow model.

Our portfolio consists of residual interests in CLOs, which involve a number of significant risks. CLOs are typically very highly levered (10 - 14 times), and therefore the residual interest tranches that we invest in are subject to a higher degree of risk of total loss. In particular, investors in CLO residual interests indirectly bear risks of the underlying loan investments held by such CLOs. We generally have the right to receive payments only from the CLOs, and generally do not have direct rights against the underlying borrowers or the entity that sponsored the CLOs. While the CLOs we target generally enable the investor to acquire interests in a pool of senior loans without the expenses associated with directly holding the same investments, the prices of indices and securities underlying our CLOs will rise or fall. These prices (and, therefore, the prices of the CLOs) will be influenced by the same types of political and economic events that affect issuers of securities and capital markets generally. The failure by a CLO investment in which we invest to satisfy financial covenants, including with respect to adequate collateralization and/or interest coverage tests, could lead to a reduction in its payments to us. In the event that a CLO fails certain tests, holders of debt senior to us would be entitled to additional payments that would, in turn, reduce the payments we would otherwise be entitled to receive. Separately, we may incur expenses to the extent necessary to seek recovery upon default or to negotiate new terms

with a defaulting CLO or any other investment we may make. If any of these occur, it could materially and adversely affect our operating results and cash flows.

The interests we have acquired in CLOs are generally thinly traded or have only a limited trading market. CLOs are typically privately offered and sold, even in the secondary market. As a result, investments in CLOs may be characterized as illiquid securities. In addition to the general risks associated with investing in debt securities, CLO residual interests carry additional risks, including, but not limited to: (i) the possibility that distributions from collateral securities will not be adequate to make interest or other payments; (ii) the quality of the collateral may decline in value or default; (iii) our investments in CLO tranches will likely be subordinate to other senior classes of note tranches thereof; and (iv) the complex structure of the security may not be fully understood at the time of investment and may produce disputes with the CLO investment or unexpected investment results. Our net asset value may also decline over time if our principal recovery with respect to CLO residual interests is less than the cost of those investments.

PROSPECT CAPITAL CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(in thousands, except share and per share data)

Our CLO investments and/or the CLOs' underlying senior secured loans may prepay more quickly than expected, which could have an adverse impact on our value.

An increase in LIBOR would materially increase the CLO's financing costs. Since most of the collateral positions within the CLOs have LIBOR floors, there may not be corresponding increases in investment income (if LIBOR increases but stays below the LIBOR floor rate of such investments) resulting in materially smaller distribution payments to the residual interest investors.

On July 27, 2017, the Financial Conduct Authority ("FCA") announced that it will no longer persuade or compel banks to submit rates for the calculation of the LIBOR rates after 2021 (the "FCA Announcement"). Furthermore, in the United States, efforts to identify a set of alternative U.S. dollar reference interest rates include proposals by the Alternative Reference Rates Committee of the Federal Reserve Board and the Federal Reserve Bank of New York. On August 24, 2017, the Federal Reserve Board requested public comment on a proposal by the Federal Reserve Bank of New York, in cooperation with the Office of Financial Research, to produce three new reference rates intended to serve as alternatives to LIBOR. These alternative rates are based on overnight repurchase agreement transactions secured by U.S. Treasury Securities. On December 12, 2017, following consideration of public comments, the Federal Reserve Board concluded that the public would benefit if the Federal Reserve Bank of New York published the three proposed reference rates as alternatives to LIBOR (the "Federal Reserve Board Notice"). The Federal Reserve Bank of New York said that the publication of these alternative rates is targeted to commence by mid-2018.

At this time, it is not possible to predict the effect of the FCA Announcement, the Federal Reserve Board Notice, or other regulatory changes or announcements, any establishment of alternative reference rates or any other reforms to LIBOR that may be enacted in the United Kingdom, the United States or elsewhere. As such, the potential effect of any such event on our net investment income cannot yet be determined. The CLOs in which the Company is invested generally contemplate a scenario where LIBOR is no longer available by requiring the CLO administrator to calculate a replacement rate primarily through dealer polling on the applicable measurement date. However, there is uncertainty regarding the effectiveness of the dealer polling processes, including the willingness of banks to provide such quotations, which could adversely impact our net investment income. In addition, the effect of a phase out of LIBOR on U.S. senior secured loans, the underlying assets of the CLOs in which we invest, is currently unclear. To the extent that any replacement rate utilized for senior secured loans differs from that utilized for a CLO that holds those loans, the CLO would experience an interest rate mismatch between its assets and liabilities which could have an adverse impact on the Company's net investment income and portfolio returns.

We hold more than a 10% interest in certain foreign corporations that are treated as controlled foreign corporations ("CFC") for U.S. federal income tax purposes (including our residual interest tranche investments in CLOs). Therefore, we are treated as receiving a deemed distribution (taxable as ordinary income) each year from such foreign corporations in an amount equal to our pro rata share of the corporation's income for that tax year (including both ordinary earnings and capital gains). We are required to include such deemed distributions from a CFC in our taxable income and we are required to distribute at least 90% of such income to maintain our RIC status, regardless of whether or not the CFC makes an actual distribution during such year.

If we acquire shares in "passive foreign investment companies" ("PFICs") (including residual interest tranche investments in CLOs that are PFICs), we may be subject to federal income tax on a portion of any "excess distribution" or gain from the disposition of such shares even if such income is distributed as a taxable dividend to our stockholders. Certain elections may be available to mitigate or eliminate such tax on excess distributions, but such elections (if available) will generally require us to recognize our share of the PFIC's income for each year regardless of whether we receive

any distributions from such PFICs. We must nonetheless distribute such income to maintain our status as a RIC.

Legislation enacted in 2010 imposes a withholding tax of 30% on payments of U.S. source interest and dividends paid after December 31, 2013, or gross proceeds from the disposition of an instrument that produces U.S. source interest or dividends paid after December 31, 2016, to certain non-U.S. entities, including certain non-U.S. financial institutions and investment funds, unless such non-U.S. entity complies with certain reporting requirements regarding its United States account holders and its United States owners. Most CLOs in which we invest will be treated as non-U.S. financial entities for this purpose, and therefore will be required to comply with these reporting requirements to avoid the 30% withholding. If a CLO in which we invest fails to properly comply with these reporting requirements, it could reduce the amounts available to distribute to residual interest and junior debt holders in such CLO vehicle, which could materially and adversely affect our operating results and cash flows.

If we are required to include amounts in income prior to receiving distributions representing such income, we may have to sell some of our investments at times and/or at prices management would not consider advantageous, raise additional debt or equity capital or forgo new investment opportunities for this purpose.

PROSPECT CAPITAL CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(in thousands, except share and per share data)

The significant unobservable input used to value our investments based on the yield technique and discounted cash flow technique is the market yield (or applicable discount rate) used to discount the estimated future cash flows expected to be received from the underlying investment, which includes both future principal and interest/dividend payments. Increases or decreases in the market yield (or applicable discount rate) would result in a decrease or increase, respectively, in the fair value measurement. Management and the independent valuation firms consider the following factors when selecting market yields or discount rates: risk of default, rating of the investment and comparable company investments, and call provisions.

The significant unobservable inputs used to value our investments based on the EV analysis may include market multiples of specified financial measures such as EBITDA, net income, or book value of identified guideline public companies, implied valuation multiples from precedent M&A transactions, and/or discount rates applied in a discounted cash flow technique. The independent valuation firm identifies a population of publicly traded companies with similar operations and key attributes to that of the portfolio company. Using valuation and operating metrics of these guideline public companies and/or as implied by relevant precedent transactions, a range of multiples of the latest twelve months EBITDA, or other measure such as net income or book value, is typically calculated. The independent valuation firm utilizes the determined multiples to estimate the portfolio company's EV generally based on the latest twelve months EBITDA of the portfolio company (or other meaningful measure). Increases or decreases in the multiple would result in an increase or decrease, respectively, in EV which would result in an increase or decrease in the fair value measurement of the debt of controlled companies and/or equity investment, as applicable. In certain instances, a discounted cash flow analysis may be considered in estimating EV, in which case, discount rates based on a weighted average cost of capital and application of the capital asset pricing model may be utilized.

The significant unobservable input used to value our private REIT investments based on the net asset value analysis is the capitalization rate applied to the earnings measure of the underlying property. Increases or decreases in the capitalization rate would result in a decrease or increase, respectively, in the fair value measurement.

Changes in market yields, discount rates, capitalization rates or EBITDA multiples, each in isolation, may change the fair value measurement of certain of our investments. Generally, an increase in market yields, discount rates or capitalization rates, or a decrease in EBITDA (or other) multiples may result in a decrease in the fair value measurement of certain of our investments.

Due to the inherent uncertainty of determining the fair value of investments that do not have a readily available market value, the fair value of our investments may fluctuate from period to period. Additionally, the fair value of our investments may differ significantly from the values that would have been used had a ready market existed for such investments and may differ materially from the values that we may ultimately realize. Further, such investments are generally subject to legal and other restrictions on resale or otherwise are less liquid than publicly traded securities. If we were required to liquidate a portfolio investment in a forced or liquidation sale, we could realize significantly less than the value at which we have recorded it.

In addition, changes in the market environment and other events that may occur over the life of the investments may cause the gains or losses ultimately realized on these investments to be different than the unrealized gains or losses reflected in the currently assigned valuations.

During the year ended June 30, 2018, the valuation methodology for Spartan Energy Services, Inc. ("Spartan") changed to remove the waterfall and liquidation analysis and incorporated an income method approach. As a result of the company's improved performance and current market conditions, the fair value of our investment in Spartan increased to \$31,283 as of June 30, 2018, a premium of \$1,917 from its amortized cost, compared to the \$16,769 unrealized depreciation recorded at June 30, 2017.

As of June 30, 2018, Prospect's investment in InterDent is classified as a control investment. As a result, the valuation methodology changed to remove the income method approach and incorporate the waterfall approach. The fair value of our investment in InterDent decreased to \$197,621 as of June 30, 2018, a discount of \$15,080 to its amortized cost, compared to a discount of \$1,268 to its amortized cost as of June 30, 2017. The decline in fair value was due to lower

projected future earnings as a result of customer attrition.

As of June 30, 2018, Prospect's investment in Pacific World is classified as a control investment. As a result, the valuation methodology for the TLA changed to remove the income method approach and incorporate the waterfall approach. The fair value of our investment in Pacific World decreased to \$165,020 as of June 30, 2018, a discount of \$63,555 to its amortized cost, compared to a discount of \$30,216 to its amortized cost as of June 30, 2017. Our investment in Pacific World declined in value due to a decrease in revenues and profitability, as well as a decrease in comparable company trading multiples.

PROSPECT CAPITAL CORPORATION AND SUBSIDIARIES
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 (in thousands, except share and per share data)

During the year ended June 30, 2018, one of our CLO investments was deemed to have an other-than-temporary loss. In accordance with ASC 325-40, we recorded a total loss of \$2,495 related to these investments for the amount our amortized cost exceeded fair value as of the respective determination dates. During the year ended June 30, 2017, four of our CLO investments were deemed to have an other-than-temporary loss. In accordance with ASC 325-40, we recorded a total loss of \$17,239 related to these investments for the amount our amortized cost exceeded fair value as of the respective determination dates.

During the year ended June 30, 2018, we provided \$96,199 of equity financing to NPRC for the acquisition of real estate properties and \$1,112 of debt and \$27,391 of equity financing to NPRC to fund capital expenditures for existing properties.

During the year ended June 30, 2018, we provided \$21,858 of debt and \$13,434 of debt and equity financing, respectively, to NPRC and its wholly-owned subsidiaries to support the online consumer lending initiative. In addition, during the year ended June 30, 2018, we received partial repayments of \$113,675 of our loans previously outstanding with NPRC and its wholly-owned subsidiaries and \$10,403 as a return of capital on our equity investment in NPRC.

The online consumer loan investments held by certain of NPRC's wholly-owned subsidiaries are unsecured obligations of individual borrowers that are issued in amounts ranging from \$1 to \$50, with fixed terms ranging from 24 to 84 months. As of June 30, 2018, the outstanding investment in online consumer loans by certain of NPRC's wholly-owned subsidiaries was comprised of 62,973 individual loans and residual interest in two securitizations, and had an aggregate fair value of \$367,479. The average outstanding individual loan balance is approximately \$5 and the loans mature on dates ranging from July 1, 2018 to April 19, 2025 with a weighted-average outstanding term of 27 months as of June 30, 2018. Fixed interest rates range from 4.0% to 36.0% with a weighted-average current interest rate of 27.4%. As of June 30, 2018, our investment in NPRC and its wholly-owned subsidiaries relating to online consumer lending had a fair value of \$243,061.

As of June 30, 2018, based on outstanding principal balance, 6.3% of the portfolio was invested in super prime loans (borrowers with a Fair Isaac Corporation ("FICO") score, of 720 or greater), 19.5% of the portfolio in prime loans (borrowers with a FICO score of 660 to 719) and 74.2% of the portfolio in near prime loans (borrowers with a FICO score of 580 to 659).

| Loan Type | Outstanding Principal Balance | Fair Value | Weighted Average Interest Rate* |
|-------------|-------------------------------|------------|---------------------------------|
| Super Prime | \$ 20,714 | \$20,063 | 13.8% |
| Prime | 63,565 | 60,554 | 17.9% |
| Near Prime | 241,907 | 224,652 | 31.1% |

*Weighted by outstanding principal balance of the online consumer loans.

As of June 30, 2018, our investment in NPRC and its wholly-owned subsidiaries had an amortized cost of \$826,987 and a fair value of \$1,054,976, including our investment in online consumer lending as discussed above. The fair value of \$811,915 related to NPRC's real estate portfolio was comprised of forty-two multi-families properties, twelve self-storage units, eight student housing properties and three commercial properties. The following table shows the location, acquisition date, purchase price, and mortgage outstanding due to other parties for each of the properties held by NPRC as of June 30, 2018.

| No. | Property Name | City | Acquisition Date | Purchase Price | Mortgage Outstanding |
|-----|--------------------------|-----------------|------------------|----------------|----------------------|
| 1 | Filet of Chicken | Forest Park, GA | 10/24/2012 | \$ 7,400 | \$ — |
| 2 | 5100 Live Oaks Blvd, LLC | Tampa, FL | 1/17/2013 | 63,400 | 46,426 |
| 3 | Lofton Place, LLC | Tampa, FL | 4/30/2013 | 26,000 | 20,273 |

Edgar Filing: PROSPECT CAPITAL CORP - Form 10-K

| | | | | | |
|----|-------------------------------|--------------------|------------|---------|---------|
| 4 | Arlington Park Marietta, LLC | Marietta, GA | 5/8/2013 | 14,850 | 9,650 |
| 5 | NPRC Carroll Resort, LLC | Pembroke Pines, FL | 6/24/2013 | 225,000 | 175,885 |
| 6 | Cordova Regency, LLC | Pensacola, FL | 11/15/2013 | 13,750 | 11,375 |
| 7 | Crestview at Oakleigh, LLC | Pensacola, FL | 11/15/2013 | 17,500 | 13,845 |
| 8 | Inverness Lakes, LLC | Mobile, AL | 11/15/2013 | 29,600 | 24,700 |
| 9 | Kings Mill Pensacola, LLC | Pensacola, FL | 11/15/2013 | 20,750 | 17,550 |
| 10 | Plantations at Pine Lake, LLC | Tallahassee, FL | 11/15/2013 | 18,000 | 14,092 |
| 11 | Verandas at Rocky Ridge, LLC | Birmingham, AL | 11/15/2013 | 15,600 | 10,205 |

167

PROSPECT CAPITAL CORPORATION AND SUBSIDIARIES
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 (in thousands, except share and per share data)

| No. | Property Name | City | Acquisition Date | Purchase Price | Mortgage Outstanding |
|-----|--|----------------------|------------------|----------------|----------------------|
| 12 | Matthews Reserve II, LLC | Matthews, NC | 11/19/2013 | 22,063 | 19,765 |
| 13 | City West Apartments II, LLC | Orlando, FL | 11/19/2013 | 23,562 | 23,084 |
| 14 | Vinings Corner II, LLC | Smyrna, GA | 11/19/2013 | 35,691 | 32,649 |
| 15 | Atlanta Eastwood Village LLC | Stockbridge, GA | 12/12/2013 | 25,957 | 22,546 |
| 16 | Atlanta Monterey Village LLC | Jonesboro, GA | 12/12/2013 | 11,501 | 10,969 |
| 17 | Atlanta Hidden Creek LLC | Morrow, GA | 12/12/2013 | 5,098 | 4,696 |
| 18 | Atlanta Meadow Springs LLC | College Park, GA | 12/12/2013 | 13,116 | 12,914 |
| 19 | Atlanta Meadow View LLC | College Park, GA | 12/12/2013 | 14,354 | 12,968 |
| 20 | Atlanta Peachtree Landing LLC | Fairburn, GA | 12/12/2013 | 17,224 | 15,361 |
| 21 | APH Carroll Bartram Park, LLC | Jacksonville, FL | 12/31/2013 | 38,000 | 27,157 |
| 22 | Crestview at Cordova, LLC | Pensacola, FL | 1/17/2014 | 8,500 | 7,785 |
| 23 | APH Carroll Atlantic Beach, LLC | Atlantic Beach, FL | 1/31/2014 | 13,025 | 8,443 |
| 24 | Taco Bell, OK | Yukon, OK | 6/4/2014 | 1,719 | — |
| 25 | Taco Bell, MO | Marshall, MO | 6/4/2014 | 1,405 | — |
| 26 | 23 Mile Road Self Storage, LLC | Chesterfield, MI | 8/19/2014 | 5,804 | 4,350 |
| 27 | 36th Street Self Storage, LLC | Wyoming, MI | 8/19/2014 | 4,800 | 3,600 |
| 28 | Ball Avenue Self Storage, LLC | Grand Rapids, MI | 8/19/2014 | 7,281 | 5,460 |
| 29 | Ford Road Self Storage, LLC | Westland, MI | 8/29/2014 | 4,642 | 3,480 |
| 30 | Ann Arbor Kalamazoo Self Storage, LLC | Ann Arbor, MI | 8/29/2014 | 4,458 | 3,345 |
| 31 | Ann Arbor Kalamazoo Self Storage, LLC | Ann Arbor, MI | 8/29/2014 | 8,927 | 6,695 |
| 32 | Ann Arbor Kalamazoo Self Storage, LLC | Kalamazoo, MI | 8/29/2014 | 2,363 | 1,775 |
| 33 | Canterbury Green Apartments Holdings LLC | Fort Wayne, IN | 9/29/2014 | 85,500 | 74,046 |
| 34 | Abbie Lakes OH Partners, LLC | Canal Winchester, OH | 9/30/2014 | 12,600 | 13,055 |
| 35 | Kengary Way OH Partners, LLC | Reynoldsburg, OH | 9/30/2014 | 11,500 | 13,502 |
| 36 | Lakeview Trail OH Partners, LLC | Canal Winchester, OH | 9/30/2014 | 26,500 | 23,256 |
| 37 | Lakepoint OH Partners, LLC | Pickerington, OH | 9/30/2014 | 11,000 | 14,480 |
| 38 | Sunbury OH Partners, LLC | Columbus, OH | 9/30/2014 | 13,000 | 14,115 |
| 39 | Heatherbridge OH Partners, LLC | Blacklick, OH | 9/30/2014 | 18,416 | 18,328 |
| 40 | Jefferson Chase OH Partners, LLC | Blacklick, OH | 9/30/2014 | 13,551 | 17,200 |
| 41 | Goldenstrand OH Partners, LLC | Hilliard, OH | 10/29/2014 | 7,810 | 9,600 |
| 42 | Jolly Road Self Storage, LLC | Okemos, MI | 1/16/2015 | 7,492 | 5,620 |
| 43 | Eaton Rapids Road Self Storage, LLC | Lansing West, MI | 1/16/2015 | 1,741 | 1,305 |
| 44 | Haggerty Road Self Storage, LLC | Novi, MI | 1/16/2015 | 6,700 | 5,025 |
| 45 | Waldon Road Self Storage, LLC | Lake Orion, MI | 1/16/2015 | 6,965 | 5,225 |
| 46 | Tyler Road Self Storage, LLC | Ypsilanti, MI | 1/16/2015 | 3,507 | 2,630 |
| 47 | SSIL I, LLC | Aurora, IL | 11/5/2015 | 34,500 | 26,450 |
| 48 | Vesper Tuscaloosa, LLC | Tuscaloosa, AL | 9/28/2016 | 54,500 | 43,120 |
| 49 | Vesper Iowa City, LLC | Iowa City, IA | 9/28/2016 | 32,750 | 24,825 |
| 50 | Vesper Corpus Christi, LLC | Corpus Christi, TX | 9/28/2016 | 14,250 | 10,800 |
| 51 | Vesper Campus Quarters, LLC | Corpus Christi, TX | 9/28/2016 | 18,350 | 14,175 |
| 52 | Vesper College Station, LLC | College Station, TX | 9/28/2016 | 41,500 | 32,057 |
| 53 | Vesper Kennesaw, LLC | Kennesaw, GA | 9/28/2016 | 57,900 | 48,668 |
| 54 | Vesper Statesboro, LLC | Statesboro, GA | 9/28/2016 | 7,500 | 6,076 |
| 55 | Vesper Manhattan KS, LLC | Manhattan, KS | 9/28/2016 | 23,250 | 15,145 |

PROSPECT CAPITAL CORPORATION AND SUBSIDIARIES
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 (in thousands, except share and per share data)

| No. | Property Name | City | Acquisition Date | Purchase Price | Mortgage Outstanding |
|-----|-----------------------------------|------------------|------------------|----------------|----------------------|
| 56 | JSIP Union Place, LLC | Franklin, MA | 12/7/2016 | 64,750 | 51,800 |
| 57 | 9220 Old Lantern Way, LLC | Laurel, MD | 1/30/2017 | 187,250 | 153,580 |
| 58 | 7915 Baymeadows Circle Owner, LLC | Jacksonville, FL | 10/31/2017 | 95,700 | 76,560 |
| 59 | 8025 Baymeadows Circle Owner, LLC | Jacksonville, FL | 10/31/2017 | 15,300 | 12,240 |
| 60 | 23275 Riverside Drive Owner, LLC | Southfield, MI | 11/8/2017 | 52,000 | 44,044 |
| 61 | 23741 Pond Road Owner, LLC | Southfield, MI | 11/8/2017 | 16,500 | 14,185 |
| 62 | 150 Steeplechase Way Owner, LLC | Largo, MD | 1/10/2018 | 44,500 | 36,668 |
| 63 | Laurel Pointe Holdings, LLC | Forest Park, GA | 5/9/2018 | 33,005 | 26,400 |
| 64 | Bradford Ridge Holdings, LLC | Forest Park, GA | 5/9/2018 | 12,500 | 10,000 |
| 65 | Olentangy Commons Owner LLC | Columbus, OH | 6/1/2018 | 113,000 | 92,876 |
| | | | | \$ 1,866,627 | \$ 1,528,099 |

On July 1, 2016, BNN Holdings Corp. was sold. The sale provided net proceeds for our minority position of \$2,365, resulting in a realized gain of \$137. During the three months ended December 31, 2016 we received remaining escrow proceeds, realizing an additional gain of \$50.

On August 17, 2016, we made a \$5,000 investment in BCD Acquisition, Inc. (“Big Tex”). On August 18, 2016, we sold our \$5,000 investment in Big Tex and realized a gain of \$138 on the sale.

On August 19, 2016, we sold our investment in Nathan’s Famous, Inc. for net proceeds of \$3,240 and realized a gain of \$240 on the sale.

On September 27, 2016, we received additional bankruptcy proceeds for our previously impaired investment in New Century Transportation, Inc., and recorded a realized gain of \$936, offsetting the previously recognized loss.

On October 18, 2016, we received additional proceeds of \$434 related to the May 31, 2016 sale of Harbortouch Payments, LLC. We realized a gain for the same amount.

On December 27, 2016, we exercised our warrants in R-V Industries, Inc. (“R-V”) to purchase additional common stock in R-V. As a result, we realized a gain of \$172 on this transaction.

On March 14, 2017, assets previously held by Ark-La-Tex Wireline Services, LLC (“Ark-La-Tex”) were assigned to Wolf Energy Services, a new wholly-owned subsidiary of Wolf Energy Holdings, in exchange for a full reduction of Ark-La-Tex’s Senior Secured Term Loan A and a partial reduction of the Senior Secured Term Loan B cost basis, in total equal to \$22,145. The cost basis of the transferred assets is equal to the appraised fair value of assets at the time of transfer.

On April 3, 2017, AFI Shareholder, LLC was sold. The sale provided net proceeds for our minority position of \$965, resulting in a realized gain of \$693.

On June 3, 2017, SB Forging Company II, Inc. (f/k/a Gulf Coast Machine & Supply Company) (“Gulfco”) sold all of its assets to a third party, for total consideration of \$10,250, including escrowed amounts. The proceeds from the sale were primarily used to repay a \$6,115 third party revolving credit facility, and the remainder was used to pay other legal and administrative costs incurred by Gulfco. As no proceeds were allocated to Prospect, our debt and equity investment in Gulfco was written-off for tax purposes and we recorded a realized loss of \$66,103. In June 2018, Gulfco received escrow proceeds of \$2,050 related to the sale.

On June 30, 2017, Mineral Fusion Natural Brands was sold. The sale provided net proceeds for our minority position of \$490, resulting in a realized gain of the same amount.

On June 30, 2017, we received \$169 of escrow proceeds related to SB Forging, realizing a gain of the same amount. During the three months ended June 30, 2017, Ark-La-Tex Term Loan B was partially written-off for tax purposes and a loss of \$19,818 was realized.

PROSPECT CAPITAL CORPORATION AND SUBSIDIARIES
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 (in thousands, except share and per share data)

During the year ended June 30, 2017, we received additional proceeds of \$6,287 related to the May 31, 2016 sale of Harbortouch, \$4,286 of which are from an escrow release. We realized a gain for the same amount.

On September 25, 2017, Prospect exchanged \$1,600 of Senior Secured Term Loan A and \$4,799 of Senior Secured Term Loan B investments in Targus International, LLC into 6,120,658 of common shares of Targus Cayman HoldCo Limited, and recorded a realized gain of \$846, as a result of this transaction.

On December 11, 2017, Primesport, Inc. repaid the \$53,001 Senior Secured Term Loan A and \$71,481 Senior Secured Term Loan B loan receivable to us, for which we agreed to a payment to satisfy the loan less than the par amount and recorded a realized loss of \$3,019, as a result of this transaction.

On February 26, 2018, we entered into a debt forgiveness agreement with Nixon, Inc., which terminated the \$17,472 Senior Secured Term Loan receivable due to us. We recorded a realized loss of \$14,197 as a result of this transaction.

On April 17 and April 18, 2018, we sold 49.71% of the outstanding principal balance of the senior secured term loan investment

in RGIS Services, LLC, for a total of \$15,000 at 93.5% of par. We realized a \$423 loss on the sale.

As of June 30, 2018, \$3,323,420 of our loans to portfolio companies, at fair value, bear interest at floating rates and have LIBOR floors ranging from 0.0% to 3.0%. As of June 30, 2018, \$489,962 of our loans to portfolio companies, at fair value, bear interest at fixed rates ranging from 5.0% to 20.0%. As of June 30, 2017, \$3,488,678 of our loans to portfolio companies, at fair value, bore interest at floating rates and have LIBOR floors ranging from 0.3% to 4.0%. As of June 30, 2017, \$489,007 of our loans to portfolio companies, at fair value, bore interest at fixed rates ranging from 5.0% to 20.0%.

At June 30, 2018, five loan investments were on non-accrual status: Ark-La-Tex, Edmentum Ultimate Holdings, LLC Unsecured Junior PIK Note, Pacific World Corporation Senior Secured Term Loan B, USC, and USES. At June 30, 2017, seven loan investments were on non-accrual status: Ark-La-Tex, Edmentum Ultimate Holdings, LLC Unsecured Junior PIK Note, Nixon, Spartan, USC, USES, and Venio. Cost balances of these loans amounted to \$315,733 and \$286,388 as of June 30, 2018 and June 30, 2017, respectively. The fair value of these loans amounted to \$143,719 and \$154,417 as of June 30, 2018 and June 30, 2017, respectively. The fair values of these investments represent approximately 2.5% and 2.5% of our total assets at fair value as of June 30, 2018 and June 30, 2017, respectively.

Undrawn committed revolvers and delayed draw term loans to our portfolio companies incur commitment and unused fees ranging from 0.00% to 5.00%. As of June 30, 2018 and June 30, 2017, we had \$29,675 and \$22,925, respectively, of undrawn revolver and delayed draw term loan commitments to our portfolio companies. The fair value of our undrawn committed revolvers and delayed draw term loans was zero as of June 30, 2018 and June 30, 2017.

Unconsolidated Significant Subsidiaries

Our investments are generally in small and mid-sized companies in a variety of industries. In accordance with Rules 3-09 and 4-08(g) of Regulation S-X, we must determine which of our unconsolidated controlled portfolio companies are considered "significant subsidiaries", if any. In evaluating these investments, there are three tests utilized to determine if any of our controlled investments are considered significant subsidiaries: the asset test, the income test and the investment test. Rule 3-09 of Regulation S-X requires separate audited financial statements of an unconsolidated subsidiary in an annual report if any of the three tests exceed 20%. Rule 4-08(g) of Regulation S-X requires summarized financial information in an annual report if any of the three tests exceeds 10%.

The following table summarizes the results of our analysis for the three tests for the years ended June 30, 2018, 2017 and 2016:

| Asset Test | | Income Test | | Investment Test | |
|-------------------|----------|------------------|--------------|-------------------|----------|
| Greater than 10% | Greater | Greater than 10% | Greater than | Greater than 10% | Greater |
| but Less than 20% | than 20% | Less than 20% | 20% | but Less than 20% | than 20% |

Edgar Filing: PROSPECT CAPITAL CORP - Form 10-K

| | | | | | | |
|-----------------------------|---|------|---------------------|--------------------------------|------|---|
| Year Ended June 30, 2018 | - | NPRC | Arctic (1) | First Tower Finance NPRC | NPRC | - |
| Year Ended June 30, 2017 | - | NPRC | USES | First Tower Finance NPRC | NPRC | - |
| Year Ended June 30, 2016 | - | NPRC | First Tower Finance | NPRC | NPRC | - |

(1) On April 6, 2018, our common equity investment in Arctic Equipment was exchanged for newly issued common shares of CP Energy as a result of a merger between the two companies.

PROSPECT CAPITAL CORPORATION AND SUBSIDIARIES
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 (in thousands, except share and per share data)

Income, consisting of interest, dividends, fees, other investment income and realization of gains or losses, can fluctuate upon repayment or sale of an investment or the marking to fair value of an investment in any given year can be highly concentrated among several investments. After performing the income analysis for the year ended June 30, 2018, as currently promulgated by the SEC, we determined that two of our controlled investments individually generated more than 20% of our income. We do not believe that the calculation promulgated by the SEC correctly identifies significant subsidiaries but have included First Tower Finance Company LLC (“First Tower Finance”) and NPRC as significant subsidiaries. NPRC, an unconsolidated majority-owned portfolio company, was considered a significant subsidiary at the 20% level as of and during the years ended June 30, 2018, June 30, 2017 and June 30, 2016. We included the audited financial statements of NPRC, and its subsidiaries, for the year ended December 31, 2017 as Exhibit 99.1 and for the years ended December 31, 2016 and 2015 as Exhibit 99.2. First Tower Finance was considered a significant subsidiary at the 20% level for the years ended June 30, 2018 and 2017 and at the 10%-20% level for the year ended June 30, 2016; therefore, we have included the audited financial statement for the years ended December 31, 2017 and 2016 Exhibit 99.3 and audited financial statements for the year ended December 31, 2015 as Exhibit 99.4.

The following tables show summarized financial information for Arctic, which met the 10% income test for the year ended June 30, 2018:

| | December 31, 2017 |
|---|----------------------|
| Balance Sheet Data | |
| Cash and cash equivalents | \$ 1,815 |
| Accounts receivable, net | 3,991 |
| Property, plant and equipment, net | 28,438 |
| Intangibles, including goodwill | 8,041 |
| Other assets | 576 |
| Notes payable, due to Prospect or Affiliate | 3,040 |
| Other liabilities | 2,213 |
| Total equity | (37,608) |

Year
Ended
December
31,
2017

| | |
|-----------------------|-------------|
| Summary of Operations | |
| Total revenue | \$ 23,155 |
| Total expenses | 26,179 |
| Net (loss) | \$ (3,024) |

The following tables show summarized financial information for USES, which met the 10% income test for the year ended June 30, 2017:

| | December 31, 2017 | December 31, 2016 |
|------------------------------------|----------------------|----------------------|
| Balance Sheet Data | | |
| Cash and cash equivalents | \$ 41 | \$ 168 |
| Accounts receivable, net | 19,774 | 15,609 |
| Property, plant and equipment, net | 20,694 | 25,727 |
| Intangibles, including goodwill | 15,792 | 15,959 |
| Other assets | 3,053 | 1,700 |

Edgar Filing: PROSPECT CAPITAL CORP - Form 10-K

| | | | | |
|---|---------|---|--------|---|
| Notes payable, due to Prospect or Affiliate | 78,767 | | 61,726 | |
| Other liabilities | 14,888 | | 6,469 | |
| Total equity | (34,301 |) | (9,032 |) |

171

PROSPECT CAPITAL CORPORATION AND SUBSIDIARIES
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 (in thousands, except share and per share data)

| | Year Ended December 31, | | |
|-----------------------|-------------------------|------------|------------|
| | 2017 | 2016 | 2015 |
| Summary of Operations | | | |
| Total revenue | \$72,355 | \$68,287 | \$106,248 |
| Total expenses | 97,624 | 92,496 | 130,416 |
| Net (loss) | \$(25,269) | \$(24,209) | \$(24,168) |

The SEC has requested comments on the proper mechanics of how the calculations related to Rules 3-09 and 4-08(g) of Regulation S-X should be completed. There is currently diversity in practice for the calculations. We expect that the SEC will clarify the calculation methods in the future.

Note 4. Revolving Credit Facility

On August 29, 2014, we renegotiated our previous credit facility and closed an expanded five and a half year revolving credit facility (the “2014 Facility” or the “Revolving Credit Facility”). The lenders have extended commitments of \$885,000 under the 2014 Facility as of June 30, 2018. The 2014 Facility includes an accordion feature which allows commitments to be increased up to \$1,500,000 in the aggregate. The revolving period of the 2014 Facility extends through March 2019, with an additional one year amortization period (with distributions allowed) after the completion of the revolving period. During such one year amortization period, all principal payments on the pledged assets will be applied to reduce the balance. At the end of the one year amortization period, the remaining balance will become due, if required by the lenders.

The 2014 Facility contains restrictions pertaining to the geographic and industry concentrations of funded loans, maximum size of funded loans, interest rate payment frequency of funded loans, maturity dates of funded loans and minimum equity requirements. The 2014 Facility also contains certain requirements relating to portfolio performance, including required minimum portfolio yield and limitations on delinquencies and charge-offs, violation of which could result in the early termination of the 2014 Facility. The 2014 Facility also requires the maintenance of a minimum liquidity requirement. As of June 30, 2018, we were in compliance with the applicable covenants.

Interest on borrowings under the 2014 Facility is one-month LIBOR plus 225 basis points. Additionally, the lenders charge a fee on the unused portion of the 2014 Facility equal to either 50 basis points if at least 35% of the credit facility is drawn or 100 basis points otherwise. The 2014 Facility requires us to pledge assets as collateral in order to borrow under the credit facility.

As of June 30, 2018 and June 30, 2017, we had \$547,205 and \$665,409, respectively, available to us for borrowing under the Revolving Credit Facility, of which \$37,000 was outstanding as of June 30, 2018. We did not have any borrowings outstanding under the Revolving Credit Facility as of June 30, 2017. As additional eligible investments are transferred to PCF and pledged under the Revolving Credit Facility, PCF will generate additional availability up to the current commitment amount of \$885,000. As of June 30, 2018, the investments, including cash and money market funds, used as collateral for the Revolving Credit Facility had an aggregate fair value of \$1,327,583, which represents 22.8% of our total investments, including cash and money market funds. These assets are held and owned by PCF, a bankruptcy remote special purpose entity, and as such, these investments are not available to our general creditors. The release of any assets from PCF requires the approval of the facility agent.

In connection with the origination and amendments of the Revolving Credit Facility, we incurred \$12,405 of new fees and \$3,539 were carried over for continuing participants from the previous facility, all of which are being amortized over the term of the facility in accordance with ASC 470-50. As of June 30, 2018, \$2,032 remains to be amortized and is reflected as deferred financing costs on the Consolidated Statements of Assets and Liabilities.

During the years ended June 30, 2018, 2017 and 2016, we recorded \$13,170, \$12,173 and \$13,213, respectively, of interest costs, unused fees and amortization of financing costs on the Revolving Credit Facility as interest expense.

Note 5. Convertible Notes

On December 21, 2010, we issued \$150,000 aggregate principal amount of convertible notes that matured on December 15, 2015 (the “2015 Notes”). The 2015 Notes bore interest at a rate of 6.25% per year, payable semi-annually

on June 15 and December 15 of each year, beginning June 15, 2011. Total proceeds from the issuance of the 2015 Notes, net of underwriting discounts and offering costs, were \$145,200. On December 15, 2015, we repaid the outstanding principal amount of the 2015 Notes, plus interest. No gain or loss was realized on the transaction.

PROSPECT CAPITAL CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(in thousands, except share and per share data)

On February 18, 2011, we issued \$172,500 aggregate principal amount of convertible notes that matured on August 15, 2016 (the "2016 Notes"). The 2016 Notes bore interest at a rate of 5.50% per year, payable semi-annually on February 15 and August 15 of each year, beginning August 15, 2011. Total proceeds from the issuance of the 2016 Notes, net of underwriting discounts and offering costs, were \$167,325. Between January 30, 2012 and February 2, 2012, we repurchased \$5,000 aggregate principal amount of the 2016 Notes at a price of 97.5, including commissions. The transactions resulted in our recognizing \$10 of loss in the year ended June 30, 2012. On August 15, 2016, we repaid the outstanding principal amount of the 2016 Notes, plus interest. No gain or loss was realized on the transaction.

On April 16, 2012, we issued \$130,000 aggregate principal amount of convertible notes that matured on October 15, 2017 (the "2017 Notes"). The 2017 Notes bore interest at a rate of 5.375% per year, payable semi-annually on April 15 and October 15 of each year, beginning October 15, 2012. Total proceeds from the issuance of the 2017 Notes, net of underwriting discounts and offering costs, were \$126,035. On March 28, 2016, we repurchased \$500 aggregate principal amount of the 2017 Notes at a price of 98.25, including commissions. The transaction resulted in our recognizing a \$9 gain for the period ended March 31, 2016. On April 6, 2017, we repurchased \$78,766 aggregate principal amount of the 2017 Notes at a price of 102.0, including commissions. The transaction resulted in our recognizing a \$1,786 loss during the three months ended June 30, 2017. On October 15, 2017, we repaid the outstanding principal amount of \$50,734 of the 2017 Notes, plus interest. No gain or loss was realized on the transaction.

On August 14, 2012, we issued \$200,000 aggregate principal amount of convertible notes that matured on March 15, 2018 (the "2018 Notes"). The 2018 Notes bore interest at a rate of 5.75% per year, payable semi-annually on March 15 and September 15 of each year, beginning March 15, 2013. Total proceeds from the issuance of the 2018 Notes, net of underwriting discounts and offering costs, were \$193,600. On April 6, 2017, we repurchased \$114,581 aggregate principal amount of the 2018 Notes at a price of 103.5, including commissions. The transaction resulted in our recognizing a \$4,700 loss during the three months ended June 30, 2017. On March 15, 2018, we repaid the outstanding principal amount of \$85,419, plus interest. No gain or loss was realized on the transaction.

On December 21, 2012, we issued \$200,000 aggregate principal amount of convertible notes that mature on January 15, 2019 (the "2019 Notes"), unless previously converted or repurchased in accordance with their terms. The 2019 Notes bear interest at a rate of 5.875% per year, payable semi-annually on January 15 and July 15 of each year, beginning July 15, 2013. Total proceeds from the issuance of the 2019 Notes, net of underwriting discounts and offering costs, were \$193,600. On May 30, 2018, we repurchased \$98,353 aggregate principal amounts of the 2019 Notes at a price of 102.0, including commissions. The transaction resulted in our recognizing a \$2,383 loss during the three months ended June 30, 2018. Following the repurchase of the 2019 Notes, the outstanding aggregate principal amount of the 2019 Notes is \$101,647 as of June 30, 2018.

On April 11, 2014, we issued \$400,000 aggregate principal amount of convertible notes that mature on April 15, 2020 (the "2020 Notes"), unless previously converted or repurchased in accordance with their terms. The 2020 Notes bear interest at a rate of 4.75% per year, payable semi-annually on April 15 and October 15 each year, beginning October 15, 2014. Total proceeds from the issuance of the 2020 Notes, net of underwriting discounts and offering costs, were \$387,500. On January 30, 2015, we repurchased \$8,000 aggregate principal amount of the 2020 Notes at a price of 93.0, including commissions. As a result of this transaction, we recorded a gain of \$332, in the amount of the difference between the reacquisition price and the net carrying amount of the notes, net of the proportionate amount of unamortized debt issuance costs. As of June 30, 2018, the outstanding aggregate principal amount of the 2020 Notes is \$392,000.

On April 11, 2017, we issued \$225,000 aggregate principal amount of convertible notes that mature on July 15, 2022 (the "Original 2022 Notes"), unless previously converted or repurchased in accordance with their terms. The Original 2022 Notes bear interest at a rate of 4.95% per year, payable semi-annually on January 15 and July 15 each year, beginning July 15, 2017. Total proceeds from the issuance of the 2022 Notes, net of underwriting discounts and

offering costs, were \$218,010. On May 18, 2018, we issued an additional \$103,500 aggregate principal amount of convertible notes that mature on July 15, 2022 (the “Additional 2022 Notes”, and together with the Original 2022 Notes, the “2022 Notes”), unless previously converted or repurchased in accordance with their terms. The Additional 2022 Notes were a further issuance of, and are fully fungible and rank equally in right of payment with, the Original 2022 Notes and bear interest at a rate of 4.95% per year, payable semi-annually on January 15 and July 15 each year, beginning July 15, 2018. Total proceeds from the issuance of the Additional 2022 Notes, net of underwriting discounts and offering costs, were \$100,749. Following the issuance of the Additional 2022 Notes, the outstanding aggregate principal amount of the 2022 Notes is \$328,500 as of June 30, 2018.

PROSPECT CAPITAL CORPORATION AND SUBSIDIARIES
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 (in thousands, except share and per share data)

Certain key terms related to the convertible features for the 2019 Notes, the 2020 Notes and the 2022 Notes (collectively, the “Convertible Notes”) are listed below.

| | 2019 Notes | 2020 Notes | 2022 Notes |
|--|------------|---------------|---------------|
| Initial conversion rate(1) | 79.7766 | 80.6647 | 100.2305 |
| Initial conversion price | \$12.54 | \$12.40 | \$9.98 |
| Conversion rate at June 30, 2018(1)(2) | 79.8360 | 80.6670 | 100.2305 |
| Conversion price at June 30, 2018(2)(3) | \$12.53 | \$12.40 | \$9.98 |
| Last conversion price calculation date | 12/21/2017 | 4/11/2018 | 4/11/2018 |
| Dividend threshold amount (per share)(4) | \$0.110025 | \$0.110525 | \$0.083330 |

(1) Conversion rates denominated in shares of common stock per \$1 principal amount of the Convertible Notes converted.

(2) Represents conversion rate and conversion price, as applicable, taking into account certain de minimis adjustments that will be made on the conversion date.

(3) The conversion price will increase only if the current monthly dividends (per share) exceed the dividend threshold amount (per share).

(4) The conversion rate is increased if monthly cash dividends paid to common shares exceed the monthly dividend threshold amount, subject to adjustment. Current dividend rates are at or below the minimum dividend threshold amount for further conversion rate adjustments for all bonds.

Upon conversion, unless a holder converts after a record date for an interest payment but prior to the corresponding interest payment date, the holder will receive a separate cash payment with respect to the notes surrendered for conversion representing accrued and unpaid interest to, but not including, the conversion date. Any such payment will be made on the settlement date applicable to the relevant conversion on the Convertible Notes.

No holder of Convertible Notes will be entitled to receive shares of our common stock upon conversion to the extent (but only to the extent) that such receipt would cause such converting holder to become, directly or indirectly, a beneficial owner (within the meaning of Section 13(d) of the Securities Exchange Act of 1934 and the rules and regulations promulgated thereunder) of more than 5.0% of the shares of our common stock outstanding at such time. The 5.0% limitation shall no longer apply following the effective date of any fundamental change. We will not issue any shares in connection with the conversion or redemption of the Convertible Notes which would equal or exceed 20% of the shares outstanding at the time of the transaction in accordance with NASDAQ rules.

Subject to certain exceptions, holders may require us to repurchase, for cash, all or part of their Convertible Notes upon a fundamental change at a price equal to 100% of the principal amount of the Convertible Notes being repurchased plus any accrued and unpaid interest up to, but excluding, the fundamental change repurchase date. In addition, upon a fundamental change that constitutes a non-stock change of control we will also pay holders an amount in cash equal to the present value of all remaining interest payments (without duplication of the foregoing amounts) on such Convertible Notes through and including the maturity date.

In connection with the issuance of the Convertible Notes, we incurred \$27,166 of fees which are being amortized over the terms of the notes, of which \$13,074 remains to be amortized and is included as a reduction within Convertible Notes on the Consolidated Statement of Assets and Liabilities as of June 30, 2018.

During the years ended June 30, 2018, 2017 and 2016, we recorded \$51,020, \$55,217 and \$68,966, respectively, of interest costs and amortization of financing costs on the Convertible Notes as interest expense.

Note 6. Public Notes

On March 15, 2013, we issued \$250,000 aggregate principal amount of unsecured notes that mature on March 15, 2023 (the “Original 2023 Notes”). The Original 2023 Notes bear interest at a rate of 5.875% per year, payable semi-annually on March 15 and September 15 of each year, beginning September 15, 2013. Total proceeds from the issuance of the Original 2023 Notes, net of underwriting discounts and offering costs, were \$243,641. On June 20,

2018, we issued an additional \$70,000 aggregate principal amount of unsecured notes that mature on March 15, 2023 (the “Additional 2023 Notes”, and together with the Original 2023 Notes, the “2023 Notes”). The Additional 2023 Notes were a further issuance of, and are fully fungible and rank equally in right of payment with, the Original 2023 Notes and bear interest at a rate of 5.875% per year, payable semi-annually on March 15 and September 15 of each year, beginning September 15, 2018. Total proceeds from the issuance of the Additional 2023 Notes, net of

174

PROSPECT CAPITAL CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(in thousands, except share and per share data)

underwriting discounts, were \$69,403. Following the issuance of the Additional 2023 Notes, the outstanding aggregate principal amount of our 5.875% Senior Notes due 2023 is \$320,000.

On April 7, 2014, we issued \$300,000 aggregate principal amount of unsecured notes that mature on July 15, 2019 (the "5.00% 2019 Notes"). Included in the issuance is \$45,000 of Prospect Capital InterNotes® that were exchanged for the 5.00% 2019 Notes. The 5.00% 2019 Notes bear interest at a rate of 5.00% per year, payable semi-annually on January 15 and July 15 of each year, beginning July 15, 2014. Total proceeds from the issuance of the 5.00% 2019 Notes, net of underwriting discounts and offering costs, were \$295,998. On June 7, 2018, we commenced a tender offer to purchase for cash any and all of the \$300,000 aggregate principal amount outstanding of the 5.00% 2019 Notes. On June 20, 2018, \$146,464 aggregate principal amount of the 5.00% 2019 Notes, representing 48.8% of the previously outstanding 5.00% 2019 Notes, were validly tendered and accepted. The transaction resulted in our recognizing a \$3,705 loss during the three months ended June 30, 2018.

On December 10, 2015, we issued \$160,000 aggregate principal amount of unsecured notes that mature on June 15, 2024 (the "2024 Notes"). The 2024 Notes bear interest at a rate of 6.25% per year, payable quarterly on March 15, June 15, September 15 and December 15 of each year, beginning March 15, 2016. Total proceeds from the issuance of the 2024 Notes, net of underwriting discounts and offering costs, were \$155,043. On June 16, 2016, we entered into an at-the-market program with FBR Capital Markets & Co. through which we could sell, by means of at-the-market offerings, from time to time, up to \$100,000 in aggregate principal amount of our existing 2024 Notes. As of June 30, 2018, we issued \$199,281 in aggregate principal amount of our 2024 Notes for net proceeds of \$193,253 after commissions and offering costs.

On June 7, 2018, we issued \$55,000 aggregate principal amount of unsecured notes that mature on June 15, 2028 (the "2028 Notes"). The 2028 Notes bear interest at a rate of 6.25% per year, payable quarterly on March 15, June 15, September 15, and December 15 of each year, beginning September 15, 2018. Total proceeds from the issuance of the 2028 Notes, net of underwriting discounts and offering costs were \$53,119.

The 2023 Notes, the 5.00% 2019 Notes, the 2024 Notes, and the 2028 Notes (collectively, the "Public Notes") are direct unsecured obligations and rank equally with all of our unsecured indebtedness from time to time outstanding. In connection with the issuance of the 2023 Notes, the 5.00% 2019 Notes, the 2024 Notes, and the 2028 Notes we recorded a discount of \$2,777 and debt issuance costs of \$15,644, which are being amortized over the term of the notes. As of June 30, 2018, \$1,664 of the original issue discount and \$9,343 of the debt issuance costs remain to be amortized and are included as a reduction within Public Notes on the Consolidated Statement of Assets and Liabilities.

During the years ended June 30, 2018, 2017 and 2016, we recorded \$44,269, \$43,898 and \$36,859, respectively, of interest costs and amortization of financing costs on the Public Notes as interest expense.

Note 7. Prospect Capital InterNotes®

On February 16, 2012, we entered into a selling agent agreement (the "Selling Agent Agreement") with Incapital LLC, as purchasing agent for our issuance and sale from time to time of up to \$500,000 of Prospect Capital InterNotes® (the "InterNotes® Offering"), which was increased to \$1,500,000 in May 2014. Additional agents may be appointed by us from time to time in connection with the InterNotes® Offering and become parties to the Selling Agent Agreement.

These notes are direct unsecured obligations and rank equally with all of our unsecured indebtedness from time to time outstanding. Each series of notes will be issued by a separate trust. These notes bear interest at fixed interest rates and offer a variety of maturities no less than twelve months from the original date of issuance.

During the year ended June 30, 2018, we issued \$76,297 aggregate principal amount of Prospect Capital InterNotes® for net proceeds of \$75,159. These notes were issued with stated interest rates ranging from 4.00% to 5.25% with a weighted average interest rate of 4.42%. These notes will mature between July 15, 2022 and May 15,

Edgar Filing: PROSPECT CAPITAL CORP - Form 10-K

2026. The following table summarizes the Prospect Capital InterNotes® issued during the year ended June 30, 2018.

| Tenor at Origination (in years) | Principal Amount | Interest Rate Range | Weighted Average Interest Rate | Maturity Date Range |
|---------------------------------------|---------------------|------------------------|---|--------------------------------|
| 5 | \$46,893 | 4.00% - 5.00% | 4.24 % | July 15, 2022 - June 15, 2023 |
| 7 | 4,684 | 4.75% - 5.25% | 5.06 % | July 15, 2024 - June 15, 2025 |
| 8 | 24,720 | 4.50% - 5.25% | 4.65 % | August 15, 2025 - May 15, 2026 |
| | \$76,297 | | | |

175

PROSPECT CAPITAL CORPORATION AND SUBSIDIARIES
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 (in thousands, except share and per share data)

During the year ended June 30, 2017, we issued \$138,882 aggregate principal amount of our Prospect Capital InterNotes® for net proceeds of \$137,150. The following table summarizes the Prospect Capital InterNotes® issued during the year ended June 30, 2017.

| Tenor at Origination (in years) | Principal Amount | Interest Rate Range | Weighted Average Interest Rate | Maturity Date Range |
|---------------------------------|------------------|---------------------|--------------------------------|-------------------------------|
| 5 | \$138,882 | 4.75% - 5.50% | 5.08 % | July 15, 2021 - June 15, 2022 |
| | \$138,882 | | | |

During the year ended June 30, 2018, we redeemed, prior to maturity, \$269,375 aggregate principal amount of Prospect Capital InterNotes® at par with a weighted average interest rate of 4.89% in order to replace shorter maturity debt with longer-term debt. During the year ended June 30, 2018, we repaid \$6,899 aggregate principal amount of Prospect Capital InterNotes® at par in accordance with the Survivor's Option, as defined in the InterNotes® Offering prospectus. As a result of these transactions, we recorded a loss in the amount of the unamortized debt issuance costs. The net loss on the extinguishment of Prospect Capital InterNotes® in the year ended June 30, 2018 was \$1,506. The following table summarizes the Prospect Capital InterNotes® outstanding as of June 30, 2018.

| Tenor at Origination (in years) | Principal Amount | Interest Rate Range | Weighted Average Interest Rate | Maturity Date Range |
|---------------------------------|------------------|---------------------|--------------------------------|---------------------------------------|
| 5 | \$228,835 | 4.00% - 5.50% | 4.92 % | July 15, 2020 - June 15, 2023 |
| 5.2 | 4,440 | 4.63% | 4.63 % | August 15, 2020 - September 15, 2020 |
| 5.3 | 2,636 | 4.63% | 4.63 % | September 15, 2020 |
| 5.5 | 86,097 | 4.25% - 4.75% | 4.61 % | May 15, 2020 - November 15, 2020 |
| 6 | 2,182 | 4.88% | 4.88 % | April 15, 2021 - May 15, 2021 |
| 6.5 | 38,832 | 5.10% - 5.25% | 5.23 % | December 15, 2021 - May 15, 2022 |
| 7 | 147,349 | 4.00% - 5.75% | 5.05 % | January 15, 2020 - June 15, 2025 |
| 7.5 | 1,996 | 5.75% | 5.75 % | February 15, 2021 |
| 8 | 24,720 | 4.50% - 5.25% | 4.65 % | August 15, 2025 - May 15, 2026 |
| 10 | 37,424 | 5.34% - 7.00% | 6.19 % | March 15, 2022 - December 15, 2025 |
| 12 | 2,978 | 6.00% | 6.00 % | November 15, 2025 - December 15, 2025 |
| 15 | 17,163 | 5.25% - 6.00% | 5.35 % | May 15, 2028 - November 15, 2028 |
| 18 | 20,677 | 4.13% - 6.25% | 5.55 % | December 15, 2030 - August 15, 2031 |
| 20 | 4,120 | 5.75% - 6.00% | 5.89 % | November 15, 2032 - October 15, 2033 |
| 25 | 33,139 | 6.25% - 6.50% | 6.39 % | August 15, 2038 - May 15, 2039 |
| 30 | 108,336 | 5.50% - 6.75% | 6.24 % | November 15, 2042 - October 15, 2043 |
| | \$760,924 | | | |

PROSPECT CAPITAL CORPORATION AND SUBSIDIARIES
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 (in thousands, except share and per share data)

During the year ended June 30, 2017, we redeemed \$49,947 aggregate principal amount of Prospect Capital InterNotes® at par with a weighted average interest rate of 4.87% in order to replace debt with shorter maturity dates. During the year ended June 30, 2017, we repaid \$8,880 aggregate principal amount of Prospect Capital InterNotes® at par in accordance with the Survivor's Option, as defined in the InterNotes® Offering prospectus. As a result of these transactions, we recorded a loss in the amount of the difference between the reacquisition price and the net carrying amount of the notes, net of the proportionate amount of unamortized debt issuance costs. The net gain on the extinguishment of Prospect Capital InterNotes® in the year ended June 30, 2017 was \$525. The following table summarizes the Prospect Capital InterNotes® outstanding as of June 30, 2017.

| Tenor at Origination (in years) | Principal Amount | Interest Rate Range | Weighted Average Interest Rate | Maturity Date Range |
|---------------------------------|------------------|---------------------|--------------------------------|---------------------------------------|
| 4 | \$39,038 | 3.75% - 4.00% | 3.92 % | November 15, 2017 - May 15, 2018 |
| 5 | 354,805 | 4.25% - 5.50% | 5.00 % | July 15, 2018 - June 15, 2022 |
| 5.2 | 4,440 | 4.63% | 4.63 % | August 15, 2020 - September 15, 2020 |
| 5.3 | 2,686 | 4.63% | 4.63 % | September 15, 2020 |
| 5.4 | 5,000 | 4.75% | 4.75 % | August 15, 2019 |
| 5.5 | 109,068 | 4.25% - 5.00% | 4.67 % | February 15, 2019 - November 15, 2020 |
| 6 | 2,182 | 4.88% | 4.88 % | April 15, 2021 - May 15, 2021 |
| 6.5 | 40,702 | 5.10% - 5.50% | 5.24 % | February 15, 2020 - May 15, 2022 |
| 7 | 191,356 | 4.00% - 6.55% | 5.38 % | June 15, 2019 - December 15, 2022 |
| 7.5 | 1,996 | 5.75% | 5.75 % | February 15, 2021 |
| 10 | 37,509 | 4.27% - 7.00% | 6.20 % | March 15, 2022 - December 15, 2025 |
| 12 | 2,978 | 6.00 | % 6.00 % | November 15, 2025 - December 15, 2025 |
| 15 | 17,245 | 5.25% - 6.00% | 5.36 % | May 15, 2028 - November 15, 2028 |
| 18 | 21,532 | 4.13% - 6.25% | 5.47 % | December 15, 2030 - August 15, 2031 |
| 20 | 4,248 | 5.63% - 6.00% | 5.84 % | November 15, 2032 - October 15, 2033 |
| 25 | 34,218 | 6.25% - 6.50% | 6.39 % | August 15, 2038 - May 15, 2039 |
| 30 | 111,491 | 5.50% - 6.75% | 6.22 % | November 15, 2042 - October 15, 2043 |
| | \$980,494 | | | |

In connection with the issuance of Prospect Capital InterNotes®, we incurred \$24,465 of fees which are being amortized over the term of the notes, of which \$11,998 remains to be amortized and is included as a reduction within Prospect Capital InterNotes® on the Consolidated Statement of Assets and Liabilities as of June 30, 2018.

During the years ended June 30, 2018, 2017 and 2016, we recorded \$46,580, \$53,560 and \$48,681, respectively, of interest costs and amortization of financing costs on the Prospect Capital InterNotes® as interest expense.

PROSPECT CAPITAL CORPORATION AND SUBSIDIARIES
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 (in thousands, except share and per share data)

Note 8. Fair Value and Maturity of Debt Outstanding

The following table shows our outstanding debt as of June 30, 2018.

| | Principal Outstanding | Unamortized Discount & Debt Issuance Costs | Net Carrying Value | Fair Value (1) | Effective Interest Rate | |
|------------------------------|--------------------------|--|--------------------------|-------------------|----------------------------|------|
| Revolving Credit Facility(2) | \$ 37,000 | \$ 2,032 | \$ 37,000 | (3)\$37,000 | 1ML+2.25% | (6) |
| 2019 Notes | 101,647 | 339 | 101,308 | 103,562 | (4)6.51 | %(7) |
| 2020 Notes | 392,000 | 4,270 | 387,730 | 392,529 | (4)5.38 | %(7) |
| 2022 Notes | 328,500 | 8,465 | 320,035 | 320,084 | (4)5.69 | %(7) |
| Convertible Notes | 822,147 | | 809,073 | 816,175 | | |
| 5.00% 2019 Notes | 153,536 | 456 | 153,080 | 155,483 | (4)5.29 | %(7) |
| 2023 Notes | 320,000 | 4,120 | 315,880 | 328,909 | (4)6.09 | %(7) |
| 2024 Notes | 199,281 | 4,559 | 194,722 | 202,151 | (4)6.74 | %(7) |
| 2028 Notes | 55,000 | 1,872 | 53,128 | 55,220 | (4)6.72 | %(7) |
| Public Notes | 727,817 | | 716,810 | 741,763 | | |
| Prospect Capital InterNotes® | 760,924 | 11,998 | 748,926 | 779,400 | (5)5.76 | %(8) |
| Total | \$ 2,347,888 | | \$ 2,311,809 | \$ 2,374,338 | | |

As permitted by ASC 825-10-25, we have not elected to value our Revolving Credit Facility, Convertible Notes, (1)Public Notes and Prospect Capital InterNotes® at fair value. The fair value of these debt obligations are categorized as Level 2 under ASC 820 as of June 30, 2018.

(2)The maximum draw amount of the Revolving Credit facility as of June 30, 2018 is \$885,000.

(3)Net Carrying Value excludes deferred financing costs associated with the Revolving Credit Facility. See Note 2 for accounting policy details.

(4)We use available market quotes to estimate the fair value of the Convertible Notes and Public Notes.

(5)The fair value of Prospect Capital InterNotes® is estimated by discounting remaining payments using current Treasury rates plus spread based on observable market inputs.

(6)Represents the rate on drawn down and outstanding balances. Deferred debt issuance costs are amortized on a straight-line method over the stated life of the obligation.

The effective interest rate is equal to the effect of the stated interest, the accretion of original issue discount and (7)amortization of debt issuance costs. For the 2024 Notes, the rate presented is a combined effective interest rate of the 2024 Notes and 2024 Notes Follow-on Program.

For the Prospect Capital InterNotes®, the rate presented is the weighted average effective interest rate. Interest (8)expense and deferred debt issuance costs, which are amortized on a straight-line method over the stated life of the obligation, are weighted against the average year-to-date principal balance.

PROSPECT CAPITAL CORPORATION AND SUBSIDIARIES
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 (in thousands, except share and per share data)

The following table shows our outstanding debt as of June 30, 2017.

| | Principal Outstanding | Unamortized Discount & Debt Issuance Costs | Net Carrying Value | Fair Value (1) | Effective Interest Rate | |
|------------------------------|--------------------------|--|--------------------------|-------------------|----------------------------|------|
| Revolving Credit Facility(2) | \$— | \$ 4,779 | \$— | (3)\$— | 1ML+2.25% | (6) |
| 2017 Notes | 50,734 | 77 | 50,657 | 51,184 | (4)5.91 | %(7) |
| 2018 Notes | 85,419 | 394 | 85,025 | 87,660 | (4)6.42 | %(7) |
| 2019 Notes | 200,000 | 1,846 | 198,154 | 206,614 | (4)6.51 | %(7) |
| 2020 Notes | 392,000 | 6,458 | 385,542 | 394,689 | (4)5.38 | %(7) |
| 2022 Notes | 225,000 | 6,737 | 218,263 | 223,875 | (4)5.63 | %(7) |
| Convertible Notes | 953,153 | | 937,641 | 964,022 | | |
| 5.00% 2019 Notes | 300,000 | 1,705 | 298,295 | 308,439 | (4)5.29 | %(7) |
| 2023 Notes | 250,000 | 4,087 | 245,913 | 258,045 | (4)6.22 | %(7) |
| 2024 Notes | 199,281 | 5,189 | 194,092 | 207,834 | (4)6.72 | %(7) |
| Public Notes | 749,281 | | 738,300 | 774,318 | | |
| Prospect Capital InterNotes® | 980,494 | 14,240 | 966,254 | 1,003,852 | (5)5.55 | %(8) |
| Total | \$ 2,682,928 | | \$ 2,642,195 | \$ 2,742,192 | | |

As permitted by ASC 825-10-25, we have not elected to value our Revolving Credit Facility, Convertible Notes, (1)Public Notes and Prospect Capital InterNotes® at fair value. The fair value of these debt obligations are categorized as Level 2 under ASC 820 as of June 30, 2017.

(2)The maximum draw amount of the Revolving Credit facility as of June 30, 2017 is \$885,000.

(3)Net Carrying Value excludes deferred financing costs associated with the Revolving Credit Facility. See Note 2 for accounting policy details.

(4)We use available market quotes to estimate the fair value of the Convertible Notes and Public Notes.

(5)The fair value of Prospect Capital InterNotes® is estimated by discounting remaining payments using current Treasury rates plus spread based on observable market inputs.

(6)Represents the rate on drawn down and outstanding balances. Deferred debt issuance costs are amortized on a straight-line method over the stated life of the obligation.

The effective interest rate is equal to the effect of the stated interest, the accretion of original issue discount and (7)amortization of debt issuance costs. For the 2024 Notes, the rate presented is a combined effective interest rate of the 2024 Notes and 2024 Notes Follow-on Program.

For the Prospect Capital InterNotes®, the rate presented is the weighted average effective interest rate. Interest (8)expense and deferred debt issuance costs, which are amortized on a straight-line method over the stated life of the obligation, are weighted against the average year-to-date principal balance.

The following table shows the contractual maturities of our Revolving Credit Facility, Convertible Notes, Public Notes and Prospect Capital InterNotes® as of June 30, 2018.

| | Payments Due by Period | | | | |
|---------------------------|------------------------|---------------------|-------------|-------------|------------------|
| | Total | Less than 1 Year | 1 – 3 Years | 3 – 5 Years | After 5 Years |
| Revolving Credit Facility | \$37,000 | \$— | \$ 37,000 | \$— | \$— |

Edgar Filing: PROSPECT CAPITAL CORP - Form 10-K

| | | | | | |
|-------------------------------|-------------|------------|------------|------------|------------|
| Convertible Notes | 822,147 | 101,647 | 392,000 | 328,500 | — |
| Public Notes | 727,817 | — | 153,536 | 320,000 | 254,281 |
| Prospect Capital InterNotes® | 760,924 | — | 276,484 | 246,525 | 237,915 |
| Total Contractual Obligations | \$2,347,888 | \$ 101,647 | \$ 859,020 | \$ 895,025 | \$ 492,196 |

179

PROSPECT CAPITAL CORPORATION AND SUBSIDIARIES
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 (in thousands, except share and per share data)

The following table shows the contractual maturities of our Revolving Credit Facility, Convertible Notes, Public Notes and Prospect Capital InterNotes® as of June 30, 2017.

| | Payments Due by Period | | | | |
|-------------------------------|------------------------|---------------------|-------------|-------------|------------------|
| | Total | Less than 1 Year | 1 – 3 Years | 3 – 5 Years | After 5 Years |
| Revolving Credit Facility | \$— | \$— | \$— | \$— | \$— |
| Convertible Notes | 953,153 | 136,153 | 592,000 | — | 225,000 |
| Public Notes | 749,281 | — | 300,000 | — | 449,281 |
| Prospect Capital InterNotes® | 980,494 | 39,038 | 325,661 | 399,490 | 216,305 |
| Total Contractual Obligations | \$2,682,928 | \$ 175,191 | \$1,217,661 | \$399,490 | \$890,586 |

Note 9. Stock Repurchase Program, Equity Offerings, Offering Expenses, and Distributions

On August 24, 2011, our Board of Directors approved a share repurchase plan (the “Repurchase Program”) under which we may repurchase up to \$100,000 of our common stock at prices below our net asset value per share. Prior to any repurchase, we are required to notify shareholders of our intention to purchase our common stock. Our last notice was delivered with our annual proxy mailing on September 22, 2017.

We did not repurchase any shares of our common stock under the Repurchase Program for the years ended June 30, 2018 and June 30, 2017.

During the year ended June 30, 2016, we repurchased 4,708,750 shares of our common stock pursuant to the Repurchase Program. Our NAV per share was increased by approximately \$0.02 for the year ended June 30, 2016 as a result of the share repurchases. The following table summarizes our share repurchases under our Repurchase Program for the year ended June 30, 2016.

| | Year Ended June 30, 2016 |
|--|-----------------------------------|
| Repurchases of Common Stock | |
| Dollar amount repurchased | \$34,140 |
| Shares Repurchased | 4,708,750 |
| Weighted average price per share | \$7.25 |
| Weighted average discount to June 30, 2015 Net Asset Value | 30 % |

As of June 30, 2018, the approximate dollar value of shares that may yet be purchased under the plan is \$65,860.

Excluding dividend reinvestments, during the years ended June 30, 2018, June 30, 2017, and June 30, 2016, we did not issue any shares of our common stock.

Our shareholders’ equity accounts as of June 30, 2018, June 30, 2017 and June 30, 2016 reflect cumulative shares issued, net of shares repurchased, as of those respective dates. Our common stock has been issued through public offerings, a registered direct offering, the exercise of over-allotment options on the part of the underwriters, our dividend reinvestment plan and in connection with the acquisition of certain controlled portfolio companies. When our common stock is issued, the related offering expenses have been charged against paid-in capital in excess of par. All underwriting fees and offering expenses were borne by us.

On August 31, 2016, we filed a registration statement on Form N-2 (File No. 333-213391) with the SEC. We subsequently filed a Pre-Effective Amendment No. 2 thereto on November 1, 2016, which the SEC declared effective on November 3, 2016. On October 26, 2017, we filed Post-Effective Amendment No. 50 to the registration statement, which the SEC declared effective on October 30, 2017. The registration statement permits us to issue, through one or more transactions, up to an aggregate of \$5,000,000 in securities, consisting of common stock, preferred stock, debt securities, subscription rights to purchase our securities, warrants representing rights to purchase our securities or separately tradeable units combining two or more of our securities. As of June 30, 2018, we have the ability to issue

up to \$4,386,415 of additional debt and equity securities under the registration statement.

180

PROSPECT CAPITAL CORPORATION AND SUBSIDIARIES
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 (in thousands, except share and per share data)

During the years ended June 30, 2018 and June 30, 2017, we distributed approximately \$277,224 and \$358,987, respectively, to our stockholders. The following table summarizes our distributions declared and payable for the years ended June 30, 2017 and June 30, 2018.

| Declaration Date | Record Date | Payment Date | Amount Per Share | Amount Distributed (in thousands) |
|---|-------------|--------------|------------------|-----------------------------------|
| 5/9/2016 | 7/29/2016 | 8/18/2016 | \$0.083330 | \$ 29,783 |
| 5/9/2016 | 8/31/2016 | 9/22/2016 | 0.083330 | 29,809 |
| 8/25/2016 | 9/30/2016 | 10/20/2016 | 0.083330 | 29,837 |
| 8/25/2016 | 10/31/2016 | 11/17/2016 | 0.083330 | 29,863 |
| 11/8/2016 | 11/30/2016 | 12/22/2016 | 0.083330 | 29,890 |
| 11/8/2016 | 12/30/2016 | 1/19/2017 | 0.083330 | 29,915 |
| 11/8/2016 | 1/31/2017 | 2/16/2017 | 0.083330 | 29,940 |
| 2/7/2017 | 2/28/2017 | 3/23/2017 | 0.083330 | 29,963 |
| 2/7/2017 | 3/31/2017 | 4/20/2017 | 0.083330 | 29,989 |
| 2/7/2017 | 4/28/2017 | 5/18/2017 | 0.083330 | 29,994 |
| 5/9/2017 | 5/31/2017 | 6/22/2017 | 0.083330 | 29,999 |
| 5/9/2017 | 6/30/2017 | 7/20/2017 | 0.083330 | 30,005 |
| Total declared and payable for the year ended June 30, 2017 | | | | \$ 358,987 |
| 5/9/2017 | 7/31/2017 | 8/24/2017 | \$0.083330 | \$ 30,011 |
| 5/9/2017 | 8/31/2017 | 9/21/2017 | 0.083330 | 30,017 |
| 8/28/2017 | 9/29/2017 | 10/19/2017 | 0.060000 | 21,619 |
| 8/28/2017 | 10/31/2017 | 11/22/2017 | 0.060000 | 21,623 |
| 11/8/2017 | 11/30/2017 | 12/21/2017 | 0.060000 | 21,630 |
| 11/8/2017 | 12/29/2017 | 1/18/2018 | 0.060000 | 21,659 |
| 11/8/2017 | 1/31/2018 | 2/15/2018 | 0.060000 | 21,691 |
| 2/7/2018 | 2/28/2018 | 3/22/2018 | 0.060000 | 21,724 |
| 2/7/2018 | 3/30/2018 | 4/19/2018 | 0.060000 | 21,759 |
| 2/7/2018 | 4/30/2018 | 5/24/2018 | 0.060000 | 21,797 |
| 5/9/2018 | 5/31/2018 | 6/21/2018 | 0.060000 | 21,829 |
| 5/9/2018 | 6/29/2018 | 7/19/2018 | 0.060000 | 21,865 |
| Total declared and payable for the year ended June 30, 2018 | | | | \$ 277,224 |

Dividends and distributions to common stockholders are recorded on the ex-dividend date. As such, the table above includes distributions with record dates during years ended June 30, 2018 and June 30, 2017. It does not include distributions previously declared to stockholders of record on any future dates, as those amounts are not yet determinable. The following dividends were previously declared and will be recorded and payable subsequent to June 30, 2018:

\$0.06 per share for July 2018 to holders of record on July 31, 2018 with a payment date of August 23, 2018.

\$0.06 per share for August 2018 to holders of record on August 31, 2018 with a payment date of September 20, 2018.

During the years ended June 30, 2018 and June 30, 2017, we issued 4,333,005 and 2,969,702 shares of our common stock, respectively, in connection with the dividend reinvestment plan.

On February 9, 2016, we amended our dividend reinvestment plan that provided for reinvestment of our dividends or distributions on behalf of our stockholders, unless a stockholder elects to receive cash, to add the ability of stockholders to purchase additional shares by making optional cash investments. Under the revised dividend reinvestment and direct stock repurchase plan, stockholders may elect to purchase additional shares through our transfer agent in the open market or in negotiated transactions.

PROSPECT CAPITAL CORPORATION AND SUBSIDIARIES
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 (in thousands, except share and per share data)

During the year ended June 30, 2018, Prospect officers purchased 12,241,104 shares of our stock, or 3.36% of total outstanding shares as of June 30, 2018, both through the open market transactions and shares issued in connection with our dividend reinvestment plan.

As of June 30, 2018, we have reserved 39,736,566 shares of our common stock for issuance upon conversion of the Convertible Notes (see Note 5).

Note 10. Other Income

Other income consists of structuring fees, overriding royalty interests, revenue receipts related to net profit interests, deal deposits, administrative agent fees, and other miscellaneous and sundry cash receipts. The following table shows income from such sources during the years ended June 30, 2018, 2017 and 2016.

| | Year Ended June 30, | | |
|--|---------------------|----------|----------|
| | 2018 | 2017 | 2016 |
| Structuring and amendment fees (refer to Note 3) | \$29,658 | \$20,419 | \$26,207 |
| Royalty and Net Revenue interests | 7,652 | 5,547 | 6,853 |
| Administrative agent fees | 477 | 684 | 794 |
| Total Other Income | \$37,787 | \$26,650 | \$33,854 |

Note 11. Net Increase in Net Assets per Share

The following information sets forth the computation of net increase in net assets resulting from operations per share during the years ended June 30, 2018, 2017, and 2016.

| | Year Ended June 30, | | |
|--|---------------------|-------------|-------------|
| | 2018 | 2017 | 2016 |
| Net increase in net assets resulting from operations | \$299,863 | \$252,906 | \$103,362 |
| Weighted average common shares outstanding | 361,456,075 | 358,841,714 | 356,134,297 |
| Net increase in net assets resulting from operations per share | \$0.83 | \$0.70 | \$0.29 |

Note 12. Income Taxes

While our fiscal year end for financial reporting purposes is June 30 of each year, our tax year end is August 31 of each year. The information presented in this footnote is based on our tax year end for each period presented, unless otherwise specified.

For income tax purposes, dividends paid and distributions made to shareholders are reported as ordinary income, capital gains, non-taxable return of capital, or a combination thereof. The tax character of dividends paid to shareholders during the tax years ended August 31, 2017, 2016 and 2015 were as follows:

| | Tax Year Ended August 31, | | |
|--|---------------------------|-----------|-----------|
| | 2017 | 2016 | 2015 |
| Ordinary income | \$359,215 | \$355,985 | \$413,640 |
| Capital gain | — | — | — |
| Return of capital | — | — | — |
| Total distributions paid to shareholders | \$359,215 | \$355,985 | \$413,640 |

We generate certain types of income that may be exempt from U.S. withholding tax when distributed to non-U.S. shareholders. Under IRC Section 871(k), a RIC is permitted to designate distributions of qualified interest income and short-term capital gains as exempt from U.S. withholding tax when paid to non-U.S. shareholders with proper documentation. For the 2018 calendar year, 48.33% of our distributions as of June 30, 2018 qualified as interest related dividends which are exempt from U.S. withholding tax applicable to non U.S. shareholders.

For the tax year ending August 31, 2018, the tax character of dividends paid to shareholders through June 30, 2018 is expected to be ordinary income. Because of the difference between our fiscal and tax year ends, the final determination of the tax character of dividends will not be made until we file our tax return for the tax year ending August 31, 2018.

PROSPECT CAPITAL CORPORATION AND SUBSIDIARIES
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 (in thousands, except share and per share data)

Taxable income generally differs from net increase in net assets resulting from operations for financial reporting purposes due to temporary and permanent differences in the recognition of income and expenses, and generally excludes net unrealized gains or losses, as unrealized gains or losses are generally not included in taxable income until they are realized. The following reconciles the net increase in net assets resulting from operations to taxable income for the tax years ended August 31, 2017, 2016 and 2015:

| | Tax Year Ended August 31, | | |
|--|---------------------------|-----------|------------|
| | 2017 | 2016 | 2015 |
| Net increase in net assets resulting from operations | \$254,904 | \$262,831 | \$360,572 |
| Net realized loss on investments | 100,765 | 22,666 | 164,230 |
| Net unrealized (gains) losses on investments | (61,939) | 73,181 | (157,745) |
| Other temporary book-to-tax differences | (32,117) | (56,036) | 98,289 |
| Permanent differences | (772) | 2,489 | 2,436 |
| Taxable income before deductions for distributions | \$260,841 | \$305,131 | \$467,782 |

Capital losses in excess of capital gains earned in a tax year may generally be carried forward and used to offset capital gains, subject to certain limitations. The Regulated Investment Company Modernization Act (the “RIC Modernization Act”) was enacted on December 22, 2010. Under the RIC Modernization Act, capital losses incurred by taxpayers in taxable years beginning after the date of enactment will be allowed to be carried forward indefinitely and are allowed to retain their character as either short-term or long-term losses. As such, the capital loss carryforwards generated by us after the August 31, 2011 tax year will not be subject to expiration. Any losses incurred in post-enactment tax years will be required to be utilized prior to the losses incurred in pre-enactment tax years. As of August 31, 2017, we had capital loss carryforwards of approximately \$302,590 available for use in later tax years. Of the amount available as of August 31, 2017, \$46,156 will expire on August 31, 2018, and \$256,434 is not subject to expiration. The unused balance each year will be carried forward and utilized as gains are realized, subject to limitations. While our ability to utilize losses in the future depends upon a variety of factors that cannot be known in advance, some of our capital loss carryforwards may become permanently unavailable due to limitations by the Code. For the tax year ended August 31, 2017, we had no cumulative taxable income in excess of cumulative distributions. As of June 30, 2018, the cost basis of investments for tax purposes was \$5,871,043 resulting in estimated gross unrealized gains and losses of \$476,197 and \$619,961, respectively. As of June 30, 2017, the cost basis of investments for tax purposes was \$5,999,218 resulting in estimated gross unrealized gains and losses of \$337,903 and \$498,816, respectively. Due to the difference between our fiscal year end and tax year end, the cost basis of our investments for tax purposes as of June 30, 2018 and June 30, 2017 was calculated based on the book cost of investments as of June 30, 2018 and June 30, 2017, respectively, with cumulative book-to-tax adjustments for investments through August 31, 2017 and 2016, respectively.

In general, we may make certain adjustments to the classification of net assets as a result of permanent book-to-tax differences, which may include merger-related items, differences in the book and tax basis of certain assets and liabilities, and nondeductible federal excise taxes, among other items. During the tax year ended August 31, 2017, we increased overdistributed net investment income by \$772 and increased capital in excess of par value by \$772. During the tax year ended August 31, 2016, we decreased overdistributed net investment income by \$2,489, increased accumulated net realized loss on investments by \$1,296 and decreased capital in excess of par value by 1,193. Due to the difference between our fiscal and tax year end, the reclassifications for the taxable year ended August 31, 2017 is being recorded in the fiscal year ended June 30, 2018 and the reclassifications for the taxable year ended August 31, 2016 were recorded in the fiscal year ended June 30, 2017.

Note 13. Related Party Agreements and Transactions
 Investment Advisory Agreement

We have entered into an investment advisory and management agreement with the Investment Adviser (the “Investment Advisory Agreement”) under which the Investment Adviser, subject to the overall supervision of our Board of Directors, manages the day-to-day operations of, and provides investment advisory services to, us. Under the terms of the Investment Advisory Agreement, the Investment Adviser: (i) determines the composition of our portfolio, the nature and timing of the changes to our portfolio and the manner of implementing such changes, (ii) identifies, evaluates and negotiates the structure of the investments we make (including performing due diligence on our prospective portfolio companies), and (iii) closes and monitors investments we make.

The Investment Adviser’s services under the Investment Advisory Agreement are not exclusive, and it is free to furnish similar services to other entities so long as its services to us are not impaired. For providing these services the Investment Adviser receives

183

PROSPECT CAPITAL CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(in thousands, except share and per share data)

a fee from us, consisting of two components: a base management fee and an incentive fee. The base management fee is calculated at an annual rate of 2.00% on our total assets. For services currently rendered under the Investment Advisory Agreement, the base management fee is payable quarterly in arrears. The base management fee is calculated based on the average value of our 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.

The total gross base management fee incurred to the favor of the Investment Adviser was \$118,768, \$124,077 and \$128,416 during the years ended June 30, 2018, 2017, and 2016, respectively.

The Investment Adviser has entered into a servicing agreement with certain institutions that purchased loans with us, where we serve as the agent and collect a servicing fee on behalf of the Investment Adviser. During the years ended June 30, 2018, 2017 and 2016, we received payments of \$722, \$1,203 and \$1,893, respectively, from these institutions, on behalf of the Investment Adviser, for providing such services under the servicing agreement. We were given a credit for these payments, which reduced the base management fees to \$118,046, \$122,874 and \$126,523 for the years ended June 30, 2018, 2017, and 2016, respectively.

The incentive fee has two parts. The first part, the income incentive fee, is calculated and payable quarterly in arrears based on our pre-incentive fee net investment income for the immediately preceding calendar quarter. For this purpose, pre-incentive fee net investment income means interest income, dividend income and any other income (including any other fees (other than fees for providing managerial assistance), such as commitment, origination, structuring, diligence and consulting fees and other fees that we receive from portfolio companies) accrued during the calendar quarter, minus our operating expenses for the quarter (including the base management fee, expenses payable under the Administration Agreement described below, and any interest expense and dividends paid on any issued and outstanding preferred stock, but excluding the incentive fee). Pre-incentive fee net investment income includes, in the case of investments with a deferred interest feature (such as original issue discount, debt instruments with payment-in-kind interest and zero coupon securities), accrued income that we have not yet received in cash. Pre-incentive fee net investment income does not include any realized capital gains, realized capital losses or unrealized capital gains or losses. Pre-incentive fee net investment income, expressed as a rate of return on the value of our net assets at the end of the immediately preceding calendar quarter, is compared to a "hurdle rate" of 1.75% per quarter (7.00% annualized).

The net investment income used to calculate this part of the incentive fee is also included in the amount of the gross assets used to calculate the 2.00% base management fee. We pay the Investment Adviser an income incentive fee with respect to our pre-incentive fee net investment income in each calendar quarter as follows:

No incentive fee in any calendar quarter in which our pre-incentive fee net investment income does not exceed the hurdle rate;

100.00% of our pre-incentive fee net investment income with respect to that portion of such pre-incentive fee net investment income, if any, that exceeds the hurdle rate but is less than 125.00% of the quarterly hurdle rate in any calendar quarter (8.75% annualized assuming a 7.00% annualized hurdle rate); and

20.00% of the amount of our pre-incentive fee net investment income, if any, that exceeds 125.00% of the quarterly hurdle rate in any calendar quarter (8.75% annualized assuming a 7.00% annualized hurdle rate).

These calculations are appropriately prorated for any period of less than three months and adjusted for any share issuances or repurchases during the current quarter.

PROSPECT CAPITAL CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(in thousands, except share and per share data)

The second part of the incentive fee, the capital gains incentive fee, is determined and payable in arrears as of the end of each calendar year (or upon termination of the Investment Advisory Agreement, as of the termination date), and equals 20.00% of our realized capital gains for the calendar year, if any, computed net of all realized capital losses and unrealized capital depreciation at the end of such year. In determining the capital gains incentive fee payable to the Investment Adviser, we calculate the aggregate realized capital gains, aggregate realized capital losses and aggregate unrealized capital depreciation, as applicable, with respect to each investment that has been in our portfolio. For the purpose of this calculation, an “investment” is defined as the total of all rights and claims which may be asserted against a portfolio company arising from our participation in the debt, equity, and other financial instruments issued by that company. Aggregate realized capital gains, if any, equal the sum of the differences between the aggregate net sales price of each investment and the aggregate amortized cost basis of such investment when sold or otherwise disposed. Aggregate realized capital losses equal the sum of the amounts by which the aggregate net sales price of each investment is less than the aggregate amortized cost basis of such investment when sold or otherwise disposed. Aggregate unrealized capital depreciation equals the sum of the differences, if negative, between the aggregate valuation of each investment and the aggregate amortized cost basis of such investment as of the applicable calendar year-end. At the end of the applicable calendar year, the amount of capital gains that serves as the basis for our calculation of the capital gains incentive fee involves netting aggregate realized capital gains against aggregate realized capital losses on a since-inception basis and then reducing this amount by the aggregate unrealized capital depreciation. If this number is positive, then the capital gains incentive fee payable is equal to 20.00% of such amount, less the aggregate amount of any capital gains incentive fees paid since inception.

The total income incentive fee incurred was \$71,713, \$76,520 and \$92,782 during the years ended June 30, 2018, 2017 and 2016, respectively. No capital gains incentive fee was incurred during the years ended June 30, 2018, 2017 and 2016.

Administration Agreement

We have also entered into an administration agreement (the “Administration Agreement”) with Prospect Administration under which Prospect Administration, among other things, provides (or arranges for the provision of) administrative services and facilities for us. For providing these services, we reimburse Prospect Administration for our allocable portion of overhead incurred by Prospect Administration in performing its obligations under the Administration Agreement, including rent and our allocable portion of the costs of our Chief Financial Officer and Chief Compliance Officer and her staff, including the internal legal staff. Under this agreement, Prospect Administration furnishes us with office facilities, equipment and clerical, bookkeeping and record keeping services at such facilities. Prospect Administration also performs, or oversees the performance of, our required administrative services, which include, among other things, being responsible for the financial records that we are required to maintain and preparing reports to our stockholders and reports filed with the SEC. In addition, Prospect Administration assists us in determining and publishing our net asset value, overseeing the preparation and filing of our tax returns and the printing and dissemination of reports to our stockholders, and generally oversees the payment of our expenses and the performance of administrative and professional services rendered to us by others. Under the Administration Agreement, Prospect Administration also provides on our behalf managerial assistance to those portfolio companies to which we are required to provide such assistance (see Managerial Assistance section below). The Administration Agreement may be terminated by either party without penalty upon 60 days’ written notice to the other party. Prospect Administration is a wholly-owned subsidiary of the Investment Adviser.

The Administration Agreement provides that, absent willful misfeasance, bad faith or negligence in the performance of its duties or by reason of the reckless disregard of its duties and obligations, Prospect Administration and its officers, managers, partners, agents, employees, controlling persons, members and any other person or entity affiliated with it are entitled to indemnification from us for any damages, liabilities, costs and expenses (including reasonable attorneys’ fees and amounts reasonably paid in settlement) arising from the rendering of Prospect Administration’s services under the Administration Agreement or otherwise as administrator for us. Our payments to Prospect

Administration are reviewed quarterly by our Board of Directors.

The allocation of gross overhead expense from Prospect Administration was \$20,715, \$22,882 and \$20,313 for the years ended June 30, 2018, 2017 and 2016, respectively. Prospect Administration received estimated payments of \$10,684, \$8,760 and \$7,445 directly from our portfolio companies and certain funds managed by the Investment Adviser for legal, tax and portfolio level accounting services during the years ended June 30, 2018, 2017 and 2016, respectively. Estimated payments received by Prospect Administration during the year ended June 30, 2018 additionally included \$2,631 received from our insurance carrier. We were given a credit for these payments as a reduction of the administrative services cost payable by us to Prospect Administration. Had Prospect Administration not received these payments, Prospect Administration's charges for its administrative services would have increased by these amounts. During the year ended June 30, 2017, other operating expenses in the amount of \$876 incurred by us, which were attributable to CCPI Inc. ("CCPI"), have been reimbursed by CCPI and are reflected as an offset to our overhead allocation. No such reimbursements or expenses occurred during the years ended June 30, 2018 or June 30, 2016. During the year ended June 30, 2016, we renegotiated the managerial assistance agreement with First Tower LLC ("First Tower") and reversed \$1,200 of previously accrued managerial assistance at First Tower Delaware, \$600 of which was expensed during the three months

PROSPECT CAPITAL CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(in thousands, except share and per share data)

ended June 30, 2015, as the fee was paid by First Tower, which decreased our overhead expense. During the year ended June 30, 2016, we also incurred \$379 of overhead expense related to our consolidated entity SB Forging. Net overhead during the years ended June 30, 2018, 2017 and 2016 totaled \$10,031, \$13,246 and \$12,647, respectively.

Managerial Assistance

As a BDC, we are obligated under the 1940 Act to make available to certain of our portfolio companies significant managerial assistance. "Making available significant managerial assistance" refers to any arrangement whereby we provide significant guidance and counsel concerning the management, operations, or business objectives and policies of a portfolio company. We are also deemed to be providing managerial assistance to all portfolio companies that we control, either by ourselves or in conjunction with others. The nature and extent of significant managerial assistance provided by us to controlled and non-controlled portfolio companies will vary according to the particular needs of each portfolio company. Examples of such activities include (i) advice on recruiting, hiring, management and termination of employees, officers and directors, succession planning and other human resource matters; (ii) advice on capital raising, capital budgeting, and capital expenditures; (iii) advice on advertising, marketing, and sales; (iv) advice on fulfillment, operations, and execution; (v) advice on managing relationships with unions and other personnel organizations, financing sources, vendors, customers, lessors, lessees, lawyers, accountants, regulators and other important counterparties; (vi) evaluating acquisition and divestiture opportunities, plant expansions and closings, and market expansions; (vii) participating in audit committee, nominating committee, board and management meetings; (viii) consulting with and advising board members and officers of portfolio companies (on overall strategy and other matters); and (ix) providing other organizational, operational, managerial and financial guidance.

Prospect Administration, when performing a managerial assistance agreement executed with each portfolio company to which we provide managerial assistance, arranges for the provision of such managerial assistance on our behalf. When doing so, Prospect Administration utilizes personnel of our Investment Adviser. We, on behalf of Prospect Administration, invoice portfolio companies receiving and paying for managerial assistance, and we remit to Prospect Administration its cost of providing such services, including the charges deemed appropriate by our Investment Adviser for providing such managerial assistance. No income is recognized by Prospect.

During the years ended June 30, 2018, 2017 and 2016, we received payments of \$6,343, \$6,923 and \$6,102, respectively, from our portfolio companies for managerial assistance and subsequently remitted these amounts to Prospect Administration. During the year ended June 30, 2016, we reversed \$1,200 of managerial assistance expense related to our consolidated entity First Tower Delaware which was included within allocation from Prospect Administration on our Consolidated Statement of Operations for the year ended June 30, 2016. The \$1,200 was subsequently paid to Prospect Administration by First Tower LLC, the operating company. See Note 14 for further discussion.

Co-Investments

On February 10, 2014, we received an exemptive order from the SEC (the "Order") that gave us the ability to negotiate terms other than price and quantity of co-investment transactions with other funds managed by the Investment Adviser or certain affiliates, including Priority Income Fund, Inc. and Pathway Capital Opportunity Fund, Inc. (f/k/a Pathway Energy Infrastructure Fund, Inc.), subject to the conditions included therein. Under the terms of the relief permitting us to co-invest with other funds managed by our Investment Adviser or its affiliates, a "required majority" (as defined in Section 57(o) of the 1940 Act) of our independent directors must make certain conclusions in connection with a co-investment transaction, including that (1) the terms of the proposed transaction, including the consideration to be paid, are reasonable and fair to us and our stockholders and do not involve overreaching of us or our stockholders on the part of any person concerned and (2) the transaction is consistent with the interests of our stockholders and is consistent with our investment objective and strategies. In certain situations where co-investment with one or more funds managed by the Investment Adviser or its affiliates is not covered by the Order, such as when there is an opportunity to invest in different securities of the same issuer, the personnel of the Investment Adviser or its affiliates will need to decide which fund will proceed with the investment. Such personnel will make these determinations

based on policies and procedures, which are designed to reasonably ensure that investment opportunities are allocated fairly and equitably among affiliated funds over time and in a manner that is consistent with applicable laws, rules and regulations. Moreover, except in certain circumstances, when relying on the Order, we will be unable to invest in any issuer in which one or more funds managed by the Investment Adviser or its affiliates has previously invested.

We reimburse CLO investment valuation services fees initially incurred by Priority Income Fund, Inc. During the years ended June 30, 2018, 2017 and 2016, we recognized expenses that were reimbursed for valuation services of \$207, \$117 and \$113, respectively. Conversely, Priority Income Fund, Inc. and Pathway Capital Opportunity Fund, Inc. reimburse us for software fees, expenses which were initially incurred by Prospect. As of June 30, 2018 and June 30, 2017, we accrued a receivable from Priority

PROSPECT CAPITAL CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(in thousands, except share and per share data)

Income Fund, Inc. and Pathway Capital Opportunity Fund, Inc. for software fees of \$88 and \$14, respectively, that will be reimbursed to us. No such payable was recorded as of June 30, 2016.

As of June 30, 2018, we had co-investments with Priority Income Fund, Inc. in the following CLO funds: Apidos CLO XXII, Barings CLO Ltd. 2018-III (f/k/a Babson CLO Ltd. 2014-III), Carlyle Global Market Strategies CLO 2016-3, Ltd., Cent CLO 21 Limited, CIFC Funding 2014-IV Investor, Ltd., CIFC Funding 2016-I, Ltd., Galaxy XXVIII CLO, Ltd. (f/k/a Galaxy XVII CLO, Ltd.), Halcyon Loan Advisors Funding 2014-2 Ltd., Halcyon Loan Advisors Funding 2015-3 Ltd., HarbourView CLO VII-R, Ltd. (f/k/a HarbourView CLO VII, Ltd.), Jefferson Mill CLO Ltd., Mountain View CLO IX Ltd., Octagon Investment Partners 18-R Ltd. (f/k/a Octagon Investment Partners XVIII, Ltd.), Symphony CLO XIV Ltd., Voya IM CLO 2014-1 Ltd., Voya CLO 2016-3, Ltd., Voya CLO 2017-3, Ltd. and Romark WM-R Ltd. (f/k/a Washington Mill CLO Ltd); however HarbourView CLO VII-R, Ltd. and Octagon Investment Partners 18-R Ltd. are not considered co-investments pursuant to the Order as they were purchased on the secondary market.

As of June 30, 2018, we had a co-investment with Pathway Capital Opportunity Fund, Inc. in Carlyle Global Market Strategies CLO 2014-4-R, Ltd. (f/k/a Carlyle Global Market Strategies CLO 2014-4, Ltd.); however, this investment is not considered a co-investment pursuant to the Order as it was purchased on the secondary market.

Note 14. Transactions with Controlled Companies

The descriptions below detail the transactions which we have entered into with each of our controlled companies. Certain of the controlled entities discussed below were consolidated effective July 1, 2014 (see Note 1). As such, transactions with these Consolidated Holding Companies are presented on a consolidated basis.

Airmall Inc.

Prospect owned 100% of the equity of AMU Holdings Inc. (“AMU”), a Consolidated Holding Company. AMU owned 98% of Airmall Inc. (f/k/a Airmall USA Holdings, Inc.) (“Airmall”). Airmall is a developer and manager of airport retail operations.

On August 1, 2014, Prospect sold its investments in Airmall. On August 2, 2016, Prospect received the remaining escrow proceeds of \$3,916, reducing the cost basis to zero.

Arctic Energy Services, LLC

Prospect owned 100% of the equity of Arctic Oilfield Equipment USA, Inc. (“Arctic Equipment”), a Consolidated Holding Company. Arctic Equipment owns 70% of the equity of Arctic Energy Services, LLC (“Arctic Energy”), with Ailport Holdings, LLC (“Ailport”) (100% owned and controlled by Arctic Energy management) owning the remaining 30% of the equity of Arctic Energy. Arctic Energy provides oilfield service personnel, well testing flowback equipment, frac support systems and other services to exploration and development companies in the Rocky Mountains. As of June 30, 2017, we reported Arctic Energy as a separate controlled company. On April 6, 2018, Arctic Equipment merged with CP Energy and our equity interest was exchanged for newly issued common shares of CP Energy. Refer to discussion on CP Energy ownership below.

The following interest payments were accrued and paid from Arctic Energy to Prospect and recognized by Prospect as interest income:

| | |
|--------------------------|---------|
| Year Ended June 30, 2016 | \$1,123 |
| Year Ended June 30, 2017 | — |
| Year Ended June 30, 2018 | — |

The following managerial assistance payments were paid from Arctic Energy to Prospect and subsequently remitted to Prospect Administration (no income was recognized by Prospect):

Year Ended June 30, 2016 \$50

Year Ended June 30, 2017 —

Year Ended June 30, 2018 —

187

PROSPECT CAPITAL CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(in thousands, except share and per share data)

The following managerial assistance recognized had not yet been paid by Arctic Energy to Prospect and was included by Prospect within other receivables and due to Prospect Administration:

June 30, 2017 \$ 150

June 30, 2018 225

CCPI Inc.

Prospect owns 100% of the equity of CCPI Holdings Inc. ("CCPI Holdings"), a Consolidated Holding Company. CCPI Holdings owns 94.59% of the equity of CCPI Inc. ("CCPI"), with CCPI management owning the remaining 5.41% of the equity. CCPI owns 100% of each of CCPI Europe Ltd. and MEFEC B.V., and 45% of Gulf Temperature Sensors W.L.L.

During the three months ended June 30, 2017, Prospect recognized \$153 in other income related to amendment fee income.

On August 1, 2017, we entered into a participation agreement with CCPI management, and sold \$144 of Prospect's investment in the Term Loan B debt.

The following amounts were paid from CCPI to Prospect and recorded by Prospect as repayment of loan receivable:

Year Ended June 30, 2016 \$4,450

Year Ended June 30, 2017 450

Year Ended June 30, 2018 338

The following cash distributions were declared and paid from CCPI to Prospect and recognized as a return of capital by Prospect:

Year Ended June 30, 2016 \$1,918

Year Ended June 30, 2017 —

Year Ended June 30, 2018 —

During the year ended June 30, 2017, Prospect reclassified \$123 of return of capital received from CCPI in prior periods as dividend income.

The following dividends were declared and paid from CCPI to Prospect and recognized as dividend income by Prospect:

Year Ended June 30, 2016 \$3,196

Year Ended June 30, 2017 123

Year Ended June 30, 2018 —

All dividends were paid from earnings and profits of CCPI.

The following interest payments were accrued and paid from CCPI to Prospect and recognized by Prospect as interest income:

Year Ended June 30, 2016 \$3,123

Year Ended June 30, 2017 2,992

Year Ended June 30, 2018 3,704

Included above, the following payment-in-kind interest from CCPI was capitalized and recognized by Prospect as interest income:

Year Ended June 30, 2016 \$475

Year Ended June 30, 2017 —

Year Ended June 30, 2018 —

PROSPECT CAPITAL CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(in thousands, except share and per share data)

The following interest income recognized had not yet been paid by CCPI to Prospect and was included by Prospect within interest receivable:

June 30, 2017 \$ —

June 30, 2018 306

The following managerial assistance payments were paid from CCPI to Prospect and subsequently remitted to Prospect Administration (no income was recognized by Prospect):

Year Ended June 30, 2016 \$240

Year Ended June 30, 2017 240

Year Ended June 30, 2018 180

The following managerial assistance payments received by Prospect had not yet been remitted to Prospect Administration and were included by Prospect within due to Prospect Administration:

June 30, 2017 \$60

June 30, 2018 —

The following managerial assistance recognized had not yet been paid by CCPI to Prospect and was included by Prospect within other receivables and due to Prospect Administration:

June 30, 2017 \$ —

June 30, 2018 60

The following payments were paid from CCPI to Prospect Administration as reimbursement for legal, tax and portfolio level accounting services provided directly to CCPI (no direct income was recognized by Prospect, but Prospect was given credit for these payments as a reduction of the administrative services costs payable by Prospect to Prospect Administration):

Year Ended June 30, 2016 \$96

Year Ended June 30, 2017 —

Year Ended June 30, 2018 45

The following amounts were due from CCPI to Prospect for reimbursement of expenses paid by Prospect on behalf of CCPI and were included by Prospect within other receivables:

June 30, 2017 \$1

June 30, 2018 7

CP Energy Services Inc.

Prospect owns 100% of the equity of CP Holdings of Delaware LLC (“CP Holdings”), a Consolidated Holding Company. CP Holdings owns 99.8%% of the equity of CP Energy, and the remaining equity is owned by CP Energy management. CP Energy owns directly or indirectly 100% of each of CP Well; Wright Foster Disposals, LLC; Foster Testing Co., Inc.; ProHaul Transports, LLC; and Wright Trucking, Inc. CP Energy provides oilfield flowback services and fluid hauling and disposal services through its subsidiaries.

On October 1, 2017 we restructured our investment in CP Energy. Concurrent with the restructuring, we exchanged \$35,048 of Series B Convertible Preferred Stock for \$35,048 of senior secured debt. We received \$228 of an advisory fee related to the above transaction, which we recognized as other income.

On January 18, 2018, CP Energy redeemed common shares belonging to senior management, which increased our ownership percentage from 82.3% to 94.2% as of March 31, 2018.

On April 6, 2018, our common equity investment cost in the amount of \$60,876 at the date of the merger in Arctic Equipment was exchanged for newly issued common shares of CP Energy. As a result of this merger between these controlled portfolio

PROSPECT CAPITAL CORPORATION AND SUBSIDIARIES
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 (in thousands, except share and per share data)

companies, our equity ownership percentage in CP Energy increased to 99.8%. There were no realized gain or loss recognized by us since this was a merger amongst two portfolio companies under our control.

The following interest payments were accrued and paid from CP Well to Prospect and recognized by Prospect as interest income:

Year Ended June 30, 2016 \$(390)
 Year Ended June 30, 2017 —
 Year Ended June 30, 2018 3,394

Included above, the following payment-in-kind interest from CP Well was capitalized and recognized by Prospect as interest income:

Year Ended June 30, 2016 \$(2,819)
 Year Ended June 30, 2017 —
 Year Ended June 30, 2018 —

The following managerial assistance payments were paid from CP Energy to Prospect and subsequently remitted to Prospect Administration (no income was recognized by Prospect):

Year Ended June 30, 2016 \$300
 Year Ended June 30, 2017 300
 Year Ended June 30, 2018 425

The following managerial assistance payments received by Prospect had not yet been remitted to Prospect Administration and were included by Prospect within due to Prospect Administration:

June 30, 2017 \$75
 June 30, 2018 150

The following payments were paid from CP Energy to Prospect Administration as reimbursement for legal, tax and portfolio level accounting services provided directly to CP Energy (no direct income was recognized by Prospect, but Prospect was given credit for these payments as a reduction of the administrative services costs payable by Prospect to Prospect Administration):

Year Ended June 30, 2016 \$ —
 Year Ended June 30, 2017 15
 Year Ended June 30, 2018 —

The following amounts were due from CP Energy to Prospect for reimbursement of expenses paid by Prospect on behalf of CP Energy and were included by Prospect within other receivables:

June 30, 2017 \$ —
 June 30, 2018 55

Credit Central Loan Company, LLC

Prospect owns 100% of the equity of Credit Central Holdings of Delaware, LLC (“Credit Central Delaware”), a Consolidated Holding Company. Credit Central Delaware owns 98.26% of the equity of Credit Central Loan Company, LLC (f/k/a Credit Central Holdings, LLC) (“Credit Central”), with entities owned by Credit Central management owning the remaining 1.74% of the equity. Credit Central owns 100% of each of Credit Central, LLC; Credit Central South, LLC; Credit Central of Texas, LLC; and Credit Central of Tennessee, LLC. Credit Central is a branch-based provider of installment loans.

On September 28, 2016, Prospect performed a buyout of Credit Central management’s ownership stake, purchasing additional subordinated debt of \$12,523 at a discount of \$7,521. Prospect also purchased \$2,098 of additional shares, increasing its ownership to 98.26%.

During the year ended June 30, 2018 and June 30, 2017, the following amounts of the aforementioned original issue discount of \$7,521 accreted during the respective period, and included in interest income.

PROSPECT CAPITAL CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(in thousands, except share and per share data)

Year Ended June 30, 2017 \$923

Year Ended June 30, 2018 2,240

The following amounts were paid from Credit Central to Prospect and recorded by Prospect as repayment of loan receivable:

Year Ended June 30, 2016 \$323

Year Ended June 30, 2017 403

Year Ended June 30, 2018 —

The following interest payments were accrued and paid from Credit Central to Prospect and recognized by Prospect as interest income:

Year Ended June 30, 2016 \$7,398

Year Ended June 30, 2017 9,950

Year Ended June 30, 2018 10,515

Included above, the following payment-in-kind interest from Credit Central was capitalized and recognized by Prospect as interest income:

Year Ended June 30, 2016 \$921

Year Ended June 30, 2017 2,804

Year Ended June 30, 2018 —

The following interest income recognized had not yet been paid by Credit Central to Prospect and was included by Prospect within interest receivable:

June 30, 2017 \$29

June 30, 2018 —

The following net revenue interest payments were paid from Credit Central to Prospect and recognized by Prospect as other income:

Year Ended June 30, 2016 \$2,067

Year Ended June 30, 2017 —

Year Ended June 30, 2018 903

The following managerial assistance payments were paid from Credit Central to Prospect and subsequently remitted to Prospect Administration (no income was recognized by Prospect):

Year Ended June 30, 2016 \$700

Year Ended June 30, 2017 700

Year Ended June 30, 2018 148

The following managerial assistance payments received by Prospect had not yet been remitted to Prospect Administration and were included by Prospect within due to Prospect Administration:

June 30, 2017 \$175

June 30, 2018 175

The following amounts were due from Credit Central from Prospect for reimbursement of expenses paid by Credit Central on behalf of Prospect and were included by Prospect within other liabilities:

June 30, 2017 \$ —

June 30, 2018 33

PROSPECT CAPITAL CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(in thousands, except share and per share data)

Echelon Transportation LLC (f/k/a Echelon Aviation LLC)

Prospect owns 100% of the membership interests of Echelon Transportation LLC (“Echelon”). Echelon owns 60.7% of the equity of AerLift Leasing Limited (“AerLift”).

On September 28, 2016, Echelon made an optional partial prepayment of \$6,800 of the Senior Secured Revolving Credit Facility outstanding.

During the three months ended September 30, 2016, Echelon issued 36,275 Class B shares to the company’s President, decreasing Prospect’s ownership to 98.56%.

On December 9, 2016, Prospect made a follow-on \$16,044 first lien senior secured debt and \$2,830 equity investment in Echelon to support an asset acquisition, increasing Prospect’s ownership to 98.71%. Prospect also recognized \$1,121 in structuring fee income as a result of the transaction.

The following dividends were declared and paid from Echelon to Prospect and recognized as dividend income by Prospect:

Year Ended June 30, 2016 \$7,250

Year Ended June 30, 2017 200

Year Ended June 30, 2018 —

All dividends were paid from earnings and profits of Echelon.

The following interest payments were accrued and paid from Echelon to Prospect and recognized by Prospect as interest income:

Year Ended June 30, 2016 \$5,700

Year Ended June 30, 2017 5,734

Year Ended June 30, 2018 6,360

The following interest income recognized had not yet been paid by Echelon to Prospect and was included by Prospect within interest receivable:

June 30, 2017 \$2,631

June 30, 2018 2,631

The following managerial assistance payments were paid from Echelon to Prospect and subsequently remitted to Prospect Administration (no income was recognized by Prospect):

Year Ended June 30, 2016 \$250

Year Ended June 30, 2017 250

Year Ended June 30, 2018 188

The following managerial assistance payments received by Prospect had not yet been remitted to Prospect Administration and were included by Prospect within due to Prospect Administration:

June 30, 2017 \$63

June 30, 2018 —

The following managerial assistance recognized had not yet been paid by Echelon to Prospect and was included by Prospect within other receivables and due to Prospect Administration:

June 30, 2017 \$ —

June 30, 2018 63

PROSPECT CAPITAL CORPORATION AND SUBSIDIARIES
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 (in thousands, except share and per share data)

The following payments were paid from Echelon to Prospect Administration as reimbursement for legal, tax and portfolio level accounting services provided directly to Echelon (no direct income was recognized by Prospect, but Prospect was given credit for these payments as a reduction of the administrative services costs payable by Prospect to Prospect Administration):

Year Ended June 30, 2016 \$120
 Year Ended June 30, 2017 217
 Year Ended June 30, 2018 —

The following amounts were due from Echelon to Prospect for reimbursement of expenses paid by Prospect on behalf of Echelon and were included by Prospect within other receivables:

June 30, 2017 \$0
 June 30, 2018 18

Edmentum Ultimate Holdings, LLC

As of June 30, 2017, Prospect held a 37.1% membership interest in Edmentum Ultimate Holdings, LLC (“Edmentum Holdings”). Edmentum Holdings owns 100% of the equity of Edmentum, Inc. (“Edmentum”). On February 23, 2018, certain participating members of Edmentum Holdings increased their revolving credit commitment and extended additional credit to Edmentum, Inc. in exchange for additional common units of Edmentum Holdings. As a result, Prospect's equity ownership was diluted to 11.51% and the investment was transferred from a controlled to an affiliate investment classification as of March 31, 2018. Edmentum is the largest all subscription based, software as a service provider of online curriculum and assessments to the U.S. education market. Edmentum provides high-value, comprehensive online solutions that support educators to successfully transition learners from one stage to the next. During the year ended June 30, 2017, Prospect funded an additional \$7,835 in the second lien revolving credit facility. During the year ended June 30, 2018, Prospect funded an additional \$7,834 in the second lien revolving credit facility. The following amounts were paid from Edmentum to Prospect and recorded by Prospect as repayment of loan receivable:

Year Ended June 30, 2016 \$4,896
 Year Ended June 30, 2017 6,424
 Year Ended June 30, 2018 7,834

The following interest payments were accrued and paid from Edmentum to Prospect and recognized by Prospect as interest income:

Year Ended June 30, 2016 \$3,650
 Year Ended June 30, 2017 1,726
 Year Ended June 30, 2018 920

Included above, the following payment-in-kind interest from Edmentum was capitalized and recognized by Prospect as interest income:

Year Ended June 30, 2016 \$2,934
 Year Ended June 30, 2017 2,057
 Year Ended June 30, 2018 614

The following interest income recognized had not yet been paid by Edmentum to Prospect and was included by Prospect within interest receivable:

June 30, 2017 \$167
 June 30, 2018 274

PROSPECT CAPITAL CORPORATION AND SUBSIDIARIES
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 (in thousands, except share and per share data)

Energy Solutions Holdings Inc.

Prospect owns 100% of the equity of Energy Solutions Holdings Inc. (f/k/a Gas Solutions Holdings Inc.) (“Energy Solutions”), a Consolidated Holding Company. Energy Solutions owns 100% of each of Change Clean Energy Company, LLC (f/k/a Change Clean Energy Holdings, LLC) (“Change Clean”); Freedom Marine Solutions, LLC (f/k/a Freedom Marine Services Holdings, LLC) (“Freedom Marine”); and Yatesville Coal Company, LLC (f/k/a Yatesville Coal Holdings, LLC) (“Yatesville”). Change Clean owns 100% of each of Change Clean Energy, LLC and Down East Power Company, LLC, and 50.1% of BioChips LLC. Freedom Marine owns 100% of each of Vessel Company, LLC (f/k/a Vessel Holdings, LLC) (“Vessel”); Vessel Company II, LLC (f/k/a Vessel Holdings II, LLC) (“Vessel II”); and Vessel Company III, LLC (f/k/a Vessel Holdings III, LLC) (“Vessel III”). Yatesville owns 100% of North Fork Collieries, LLC.

Energy Solutions owns interests in companies operating in the energy sector. These include companies operating offshore supply vessels, ownership of a non-operating biomass electrical generation plant and several coal mines. Energy Solutions subsidiaries formerly owned interests in gathering and processing business in east Texas. Transactions between Prospect and Freedom Marine are separately discussed below under “Freedom Marine Solutions, LLC.”

First Tower Finance Company LLC

Prospect owns 100% of the equity of First Tower Holdings of Delaware LLC (“First Tower Delaware”), a Consolidated Holding Company. First Tower Delaware owns 80.1% of First Tower Finance Company LLC (f/k/a First Tower Holdings LLC) (“First Tower Finance”). First Tower Finance owns 100% of First Tower, LLC (“First Tower”), a multiline specialty finance company.

During the three months ended December 31, 2016, Prospect made an additional \$8,005 equity investment to First Tower.

During the three months ended March 31, 2018, we made a follow-on \$16,921 subordinated debt investment in First Tower, and a \$2,664 equity investment in First Tower Finance, to support an acquisition. In connection with this transaction, we received a \$2,664 advisory fee from First Tower, which was recognized as other income.

The following amounts were paid from First Tower to Prospect and recorded by Prospect as repayment of loan receivable:

Year Ended June 30, 2016 \$ 679
 Year Ended June 30, 2017 2,220
 Year Ended June 30, 2018 6,735

The following interest payments were accrued and paid from First Tower to Prospect and recognized by Prospect as interest income:

Year Ended June 30, 2016 \$56,698
 Year Ended June 30, 2017 51,116
 Year Ended June 30, 2018 47,422

Included above, the following payment-in-kind interest from First Tower was capitalized and recognized by Prospect as interest income:

Year Ended June 30, 2016 \$ 861
 Year Ended June 30, 2017 7,572
 Year Ended June 30, 2018 1,767

The following interest income recognized had not yet been paid by First Tower to Prospect and was included by Prospect within interest receivable:

June 30, 2017 \$ 123
 June 30, 2018 4,703

PROSPECT CAPITAL CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(in thousands, except share and per share data)

During the year ended June 30, 2016, the managerial assistance agreement between First Tower Delaware and Prospect Administration was amended and \$1,200 of managerial assistance expense was reversed at Prospect. First Tower replaced First Tower Delaware in the managerial assistance agreement with Prospect Administration as of December 14, 2015.

The following managerial assistance payments were accrued and paid from First Tower Delaware to Prospect Administration and recognized by Prospect as an expense:

Year Ended June 30, 2016 \$(600)

Year Ended June 30, 2017 —

Year Ended June 30, 2018 —

The following managerial assistance payments were paid from First Tower to Prospect and subsequently remitted to Prospect Administration (no income was recognized by Prospect):

Year Ended June 30, 2016 \$1,200

Year Ended June 30, 2017 1,800

Year Ended June 30, 2018 1,200

The following managerial assistance payments received by Prospect have not yet been remitted to Prospect Administration and were included by Prospect within due to Prospect Administration:

June 30, 2017 \$600

June 30, 2018 —

The following managerial assistance recognized had not yet been paid by First Tower to Prospect and was included by Prospect within other receivables and due to Prospect Administration:

June 30, 2017 \$ —

March 31, 2018 600

The following amounts were due from First Tower to Prospect for reimbursement of expenses paid by Prospect on behalf of First Tower and were included by Prospect within other receivables:

June 30, 2017 \$1

June 30, 2018 26

Freedom Marine Solutions, LLC

As discussed above, Prospect owns 100% of the equity of Energy Solutions, a Consolidated Holding Company. Energy Solutions owns 100% of Freedom Marine. Freedom Marine owns 100% of each of Vessel, Vessel II, and Vessel III.

As of July 1, 2014, the cost basis of Prospect's total debt and equity investment in Freedom Marine was \$39,811, which consisted of the following: \$3,500 senior secured note to Vessel; \$12,504 senior secured note to Vessel II; \$16,000 senior secured note to Vessel III; and \$7,807 of equity.

During the year ended June 30, 2017, Prospect purchased an additional \$1,200 in membership interests in Freedom Marine to support its ongoing operations and liquidity needs.

During the year ended June 30, 2018, Prospect purchased an additional \$982 in membership interests in Freedom Marine to support its ongoing operations and liquidity needs.

PROSPECT CAPITAL CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(in thousands, except share and per share data)

The following interest payments were accrued and paid from Vessel to Prospect and recognized by Prospect as interest income:

Year Ended June 30, 2016 \$ 159

Year Ended June 30, 2017 —

Year Ended June 30, 2018 —

The following interest payments were accrued and paid from Vessel II to Prospect and recognized by Prospect as interest income:

Year Ended June 30, 2016 \$427

Year Ended June 30, 2017 —

Year Ended June 30, 2018 —

The following interest payments were accrued and paid from Vessel III to Prospect and recognized by Prospect as interest income:

Year Ended June 30, 2016 \$526

Year Ended June 30, 2017 —

Year Ended June 30, 2018 —

The following managerial assistance payments were paid from Freedom Marine to Prospect and subsequently remitted to Prospect Administration (no income was recognized by Prospect):

Year Ended June 30, 2016 \$75

Year Ended June 30, 2017 —

Year Ended June 30, 2018 —

The following managerial assistance recognized had not yet been paid by Freedom Marine to Prospect and was included by Prospect within other receivables and due to Prospect Administration:

June 30, 2017 \$525

June 30, 2018 825

The following payments were paid from Freedom Marine to Prospect Administration as reimbursement for legal, tax and portfolio level accounting services provided directly to Freedom Marine (no direct income was recognized by Prospect, but Prospect was given credit for these payments as a reduction of the administrative services costs payable by Prospect to Prospect Administration):

Year Ended June 30, 2016 \$65

Year Ended June 30, 2017 —

Year Ended June 30, 2018 —

InterDent, Inc.

Following our assumption of assuming control, Prospect exercised its rights and remedies under its loan documents to exercise the shareholder voting rights in respect of the stock of InterDent, Inc. ("InterDent") and to appoint a new Board of Directors of InterDent, all the members of which are our Investment Adviser's professionals. As a result, as of June 30, 2018, Prospect's investment in InterDent is classified as a control investment.

The following interest payments were accrued and paid from InterDent to Prospect and recognized by Prospect as interest income:

Year Ended June 30, 2018 \$4,775

Included in the above, are the following payment-in-kind interest from InterDent, which was capitalized and recognized by Prospect as interest income:

Year Ended June 30, 2018 \$582

PROSPECT CAPITAL CORPORATION AND SUBSIDIARIES
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 (in thousands, except share and per share data)

The following interest income recognized had not yet been paid by InterDent to Prospect and was included by Prospect within interest receivable:

June 30, 2017 \$ —

June 30, 2018 127

MITY, Inc.

Prospect owns 100% of the equity of MITY Holdings of Delaware Inc. (“MITY Delaware”), a Consolidated Holding Company. MITY Delaware holds 95.48% of the equity of MITY, Inc. (f/k/a MITY Enterprises, Inc.) (“MITY”), with management of MITY owning the remaining 4.52% of the equity of MITY. MITY owns 100% of each of MITY-Lite, Inc. (“MITY-Lite”); Broda USA, Inc. (f/k/a Broda Enterprises USA, Inc.) (“Broda USA”); and Broda Enterprises ULC (“Broda Canada”). MITY is a designer, manufacturer and seller of multipurpose room furniture and specialty healthcare seating products.

During the three months ended December 31, 2016, Prospect formed a separate legal entity, MITY FSC, Inc., (“MITY FSC”) in which Prospect owns 96.88% of the equity, and MITY-Lite management owns the remaining portion. MITY FSC does not have material operations. This entity earns commission payments from MITY-Lite based on its sales to foreign customers, and distribute it to its shareholders based on pro-rata ownership. During the years ended June 30, 2018 and June 30, 2017, we received \$1,093 and \$886, respectively, of such commission, which we recognized as other income.

On January 17, 2017, Prospect invested an additional \$8,000 of Senior Secured Note A and \$8,000 of Senior Secured Term Loan B debt investments in MITY to fund an acquisition. Prospect recognized structuring fee income of \$480 from this additional investment.

The following dividends were declared and paid from MITY to Prospect and recognized by Prospect as divided income:

Year Ended June 30, 2016 \$711

Year Ended June 30, 2017 468

Year Ended June 30, 2018 —

All dividends were paid from earnings and profits of MITY.

The following interest payments were accrued and paid from MITY to Prospect and recognized by Prospect as interest income:

Year Ended June 30, 2016 \$5,196

Year Ended June 30, 2017 6,284

Year Ended June 30, 2018 7,618

Included above, the following payment-in-kind interest from MITY was capitalized and recognized by Prospect as interest income:

Year Ended June 30, 2016 \$139

Year Ended June 30, 2017 —

Year Ended June 30, 2018 —

The following interest income recognized had not yet been paid by MITY to Prospect and was included by Prospect within interest receivable:

June 30, 2017 \$21

June 30, 2018 —

The following interest payments were accrued and paid from Broda Canada to Prospect and recognized by Prospect as interest income:

Year Ended June 30, 2016 \$566

Year Ended June 30, 2017 564

Year Ended June 30, 2018 588

PROSPECT CAPITAL CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(in thousands, except share and per share data)

The following interest income recognized had not yet been paid by Broda Canada to Prospect and was included by Prospect within interest receivable:

June 30, 2017 \$46

June 30, 2018 —

During the nine months ended March 31, 2017, there was a favorable fluctuation in the foreign currency exchange rate and Prospect recognized \$12 of realized gain related to its investment in Broda Canada. During the year ended June 30, 2018, there was a favorable fluctuation in the foreign currency exchange rate and Prospect recognized \$13 of realized gain related to its investment in Broda Canada.

The following managerial assistance payments were paid from MITY to Prospect and subsequently remitted to Prospect Administration (no income was recognized by Prospect):

Year Ended June 30, 2016 \$300

Year Ended June 30, 2017 300

Year Ended June 30, 2018 300

The following managerial assistance payments received by Prospect had not yet been remitted to Prospect Administration and were included by Prospect within due to Prospect Administration:

June 30, 2017 \$75

June 30, 2018 75

The following payments were paid from MITY to Prospect Administration as reimbursement for legal, tax and portfolio level accounting services provided directly to MITY (no direct income was recognized by Prospect, but Prospect was given credit for these payments as a reduction of the administrative services costs payable by Prospect to Prospect Administration):

Year Ended June 30, 2016 \$60

Year Ended June 30, 2017 224

Year Ended June 30, 2018 —

The following amounts were due from MITY to Prospect for reimbursement of expenses paid by Prospect on behalf of First Tower and were included by Prospect within other receivables:

June 30, 2017 \$ —

June 30, 2018 51

National Property REIT Corp.

Prospect owns 100% of the equity of NPH, a Consolidated Holding Company. NPH owns 100% of the common equity of NPRC. Effective May 23, 2016, in connection with the merger of APRC and UPRC with and into NPRC, APH and UPH merged with and into NPH, and were dissolved.

NPRC is a Maryland corporation and a qualified REIT for federal income tax purposes. In order to qualify as a REIT, NPRC issued 125 shares of Series A Cumulative Non-Voting Preferred Stock to 125 accredited investors. The preferred stockholders are entitled to receive cumulative dividends semi-annually at an annual rate of 12.5% and do not have the ability to participate in the management or operation of NPRC.

NPRC was formed to hold for investment, operate, finance, lease, manage, and sell a portfolio of real estate assets and engage in any and all other activities as may be necessary, incidental or convenient to carry out the foregoing. NPRC acquires real estate assets, including, but not limited to, industrial, commercial, multi-family, self-storage, and student housing properties. NPRC may acquire real estate assets directly or through joint ventures by making a majority equity investment in a property-owning entity (the "JV"). Additionally, through its wholly-owned subsidiaries, NPRC invests in online consumer loans.

PROSPECT CAPITAL CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(in thousands, except share and per share data)

On July 22, 2016 Prospect made a \$2,700 investment in NPRC used to purchase additional common equity of NPRC through NPH. The proceeds were utilized by NPRC to purchase additional ownership interest in twelve multi-family properties for \$2,698 and pay \$2 of legal services provided by attorneys at Prospect Administration. The minority interest holder also invested an additional \$49 in the JVs. The proceeds were used by the JVs to fund \$2,747 of capital expenditures.

On August 4, 2016, Prospect made a \$393 investment in NPRC used to purchase additional common equity of NPRC through NPH. The proceeds were utilized by NPRC to purchase additional ownership interest in four multi-family properties for \$392 and pay \$1 of legal services provided by attorneys at Prospect Administration. The minority interest holder also invested an additional \$21 in the JVs. The proceeds were used by the JVs to fund \$413 of capital expenditures.

On September 1, 2016, we made an investment into American Consumer Lending Limited (“ACLL”), a wholly-owned subsidiary of NPRC, under the ACLL credit agreement, for senior secured term loans, Term Loan C, with the same terms as the existing ACL Loan Holdings, Inc. (“ACLLH”) Term Loan C due to us.

On September 28, 2016 Prospect made a \$46,381 investment in NPRC, of which \$35,295 was a Senior Term Loan and \$11,086 was used to purchase additional common equity of NPRC through NPH. The proceeds were utilized by NPRC to purchase a 64.2% ownership interest in Vesper Portfolio JV, LLC for \$46,324 and to pay \$57 for tax and legal services provided by professionals at Prospect Administration. The JV was purchased for \$250,000 which included debt financing and minority interest of \$192,382 and \$25,817, respectively. The remaining proceeds were used to pay \$1,060 of structuring fees to Prospect (which was recognized by Prospect as structuring fee income), \$2,131 of third party expenses, \$4,911 of pre-funded capex, and \$5,310 of prepaid assets, with \$1,111 retained by the JV for working capital.

On October 21, 2016 Prospect made a \$514 investment in NPRC used to purchase additional common equity of NPRC through NPH. The proceeds were utilized by NPRC to purchase additional ownership interest in four multi-family properties for \$512 and pay \$2 of legal services provided by attorneys at Prospect Administration. The minority interest holder also invested an additional \$33 in the JVs. The proceeds were used by the JVs to fund \$545 of capital expenditures.

On November 17, 2016, NPRC used sale and supplemental loan proceeds to make a partial repayment on the Senior Term Loan of \$19,149 and a return of capital on Prospects’ equity investment in NPRC of \$9,204.

On November 23, 2016, Prospect made a \$2,860 investment in NPRC used to purchase additional common equity of NPRC through NPH. The proceeds were utilized by NPRC to purchase additional ownership interest in seven multi-family properties for \$2,859 and pay \$1 of legal services provided by attorneys at Prospect Administration. The minority interest holder also invested an additional \$231 in the JVs. The proceeds were used by the JVs to fund \$3,090 of capital expenditures.

On December 7, 2016 Prospect made a \$13,046 investment in NPRC, of which \$9,653 was a Senior Term Loan and \$3,393 was used to purchase additional common equity of NPRC through NPH. The proceeds were utilized by NPRC to purchase an 85% ownership interest in JSIP Union Place, LLC for \$13,026 and to pay \$20 of legal services provided by attorneys at Prospect Administration. The JV was purchased for \$64,750 which included debt financing and minority interest of \$51,800 and \$2,299, respectively. The remaining proceeds were used to pay \$261 of structuring fees to Prospect (which was recognized by Prospect as structuring fee income), \$1,078 of third party expenses, \$5 of pre-funded capital expenditures, and \$458 of prepaid assets, with \$573 retained by the JV for working capital.

On January 30, 2017 Prospect made a \$41,365 investment in NPRC, of which \$30,644 was a Senior Term Loan and \$10,721 was used to purchase additional common equity of NPRC through NPH. The proceeds were utilized by NPRC to purchase a 92.5% ownership interest in 9220 Old Lantern Way LLC for \$41,333 and to pay \$32 of legal services provided by attorneys at Prospect Administration. The JV was purchased for \$187,250 which included debt

financing and minority interest of \$153,580 and \$3,351, respectively. The remaining proceeds were used to pay \$827 of structuring fees to Prospect (which was recognized by Prospect as structuring fee income), \$4,415 of third party expenses, \$1,857 of pre-funded capital expenditures, and \$3,540 of prepaid assets, with \$375 retained by the JV for working capital.

On February 27, 2017 NPRC used sale and supplemental loan proceeds to make a partial repayment on the Senior Term Loan of \$18,000 and a return of capital on Prospects' equity investment in NPRC of \$11,648. In connection to the partial repayment of the Senior Term Loan, NPRC paid a prepayment premium of \$180 to Prospect (which was recognized by Prospect as interest income).

On March 7, 2017, Prospect made a \$289 investment in NPRC used to purchase additional common equity of NPRC through NPH. The proceeds were utilized by NPRC to purchase additional ownership interest in SSIL I, LLC for \$288. The minority interest holder also invested an additional \$72 in the JV. The proceeds were used by the JV to fund \$360 of capital expenditures.

PROSPECT CAPITAL CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(in thousands, except share and per share data)

On March 16, 2017, Prospect made a \$4,273 investment in NPRC used to purchase additional common equity of NPRC through NPH. The proceeds were utilized by NPRC to purchase additional ownership interest in eight multi-family properties for \$4,272 and pay \$1 of legal services provided by attorneys at Prospect Administration. The proceeds were used by the JV to fund \$4,272 of capital expenditures.

On April 3, 2017, Prospect made a \$418 investment in NPRC used to purchase additional common equity of NPRC through NPH. The proceeds were utilized by NPRC to purchase additional ownership interest in three multi-family properties for \$417 and pay \$1 of legal services provided by attorneys at Prospect Administration. The minority interest holder also invested an additional \$24 in the JV. The proceeds were used by the JV to fund \$441 of capital expenditures.

On April 21, 2017, Prospect made a \$2,106 investment in NPRC used to purchase additional common equity of NPRC through NPH. The proceeds were utilized by NPRC to purchase additional ownership interest in Vesper Portfolio JV, LLC for \$2,105 and pay \$1 of legal services provided by attorneys at Prospect Administration. The proceeds were used by the JV to fund \$2,105 of capital expenditures.

On June 30, 2017 NPRC used sale proceeds to make a partial repayment on the Senior Term Loan of \$5,750 and a return of capital on Prospects' equity investment in NPRC of \$11,261. In connection to the partial repayment of the Senior Term Loan, NPRC paid a prepayment premium of \$58 to Prospect (which was recognized by Prospect as interest income).

On July 10, 2017, Prospect made a \$653 investment in NPRC, of which \$450 was a Senior Term Loan and \$202 was used to purchase additional common equity of NPRC through NPH. The proceeds were utilized by NPRC to purchase additional ownership interest in a multi-family JV for \$639 and pay \$1 of legal services provided by attorneys at Prospect Administration. The remaining proceeds were used to pay \$13 of structuring fees to Prospect (which was recognized by Prospect as structuring fee income). The minority interest holder also purchased additional ownership interest in the JV for \$163. The proceeds were used by the JV to fund \$802 of capital expenditures.

On August 24, 2017, Prospect purchased additional common equity of NPRC through NPH for \$2,401. The proceeds were utilized by NPRC to purchase additional ownership interest in a JV that owns eight student housing properties for \$2,400 and pay \$1 of legal services provided by attorneys at Prospect Administration. The proceeds were used by the JV to fund \$2,400 of capital expenditures.

On September 13, 2017, Prospect made a \$826 investment in NPRC, of which \$662 was a Senior Term Loan and \$164 was used to purchase additional common equity of NPRC through NPH. The proceeds were utilized by NPRC to purchase additional ownership interest in a JV entity that owns five multi-family properties for \$825 and pay \$2 of legal services provided by attorneys at Prospect Administration. The minority interest holder also purchased additional ownership interest in the JV for \$92. The proceeds were used by the JV to fund \$917 of capital expenditures.

On October 10, 2017, Prospect purchased additional common equity of NPRC through NPH for \$4,094. NPRC utilized \$4,091 of the proceeds as a capital contribution in multiple JV entities that own ten multi-family properties and to pay \$3 for legal services provided by attorneys at Prospect Administration. The minority interest holder also contributed \$87 of additional capital in the JV entities. The proceeds were utilized by the JV entities to fund \$4,178 of capital expenditures.

On October 31, 2017, Prospect purchased additional common equity of NPRC through NPH for \$27,004. The proceeds were utilized by NPRC to purchase a 92.5% ownership interest in Baymeadows Holdings LLC for \$26,974 and to pay \$30 for tax and legal services provided by professionals at Prospect Administration. The minority interest holder purchased ownership interest in the JV for \$2,187. The JV utilized the total proceeds, which included debt financing of \$88,800, to acquire \$111,000 of multi-family real estate assets. The remaining proceeds were used by the JV to pay \$539 of structuring fees to Prospect (which was recognized by Prospect as structuring fee income), \$802 of third party expenses, \$546 of pre-funded capital expenditures, \$3,016 of prepaid assets, and \$2,058 was retained by the JV as working capital.

On November 8, 2017, Prospect purchased additional common equity of NPRC through NPH for \$15,911. The proceeds were utilized by NPRC to purchase a 92.5% ownership interest in Southfield Holdings LLC for \$15,849, pay \$10 for tax and legal services provided by professionals at Prospect Administration, and \$52 was retained as working capital. The minority interest holder purchased ownership interest in the JV for \$1,285. The JV utilized the total proceeds, which included debt financing of \$58,229, to acquire \$68,500 of multi-family real estate assets. The remaining proceeds were used by the JV to pay \$317 of structuring fees to Prospect (which was recognized by Prospect as structuring fee income), \$263 of third party expenses, \$3,138 of pre-funded capital expenditures, \$2,860 of prepaid assets, and \$285 was retained by the JV as working capital.

200

PROSPECT CAPITAL CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(in thousands, except share and per share data)

On November 17, 2017, Prospect purchased additional common equity of NPRC through NPH for \$1,019. NPRC utilized \$1,018 of the proceeds as a capital contribution in multiple JV entities that own seven multi-family properties and to pay \$1 for legal services provided by attorneys at Prospect Administration. The minority interest holder also contributed \$82 of additional capital in the JV entities. The proceeds were used by the JV entities to fund \$1,100 of capital expenditures.

On December 29, 2017, Prospect purchased additional company equity of NPRC through NPH for \$10,000. NPRC utilized \$200 of proceeds provided to pay a structuring fee to Prospect (which was recognized by Prospect as structuring fee income). On January 10, 2018, NPRC utilized \$9,790 of proceeds provided by Prospect on December 29, 2017 to purchase a 92.5% interest in Steeplechase Holdings LLC. The remaining \$10 was retained as working capital by NPRC. The minority interest holder purchased ownership interest in the JV for \$794. The JV utilized the total proceeds, which included debt financing of \$36,668, to acquire \$44,500 of multi-family real estate assets. The remaining proceeds were used by the JV to pay \$196 of structuring fees to NPRC, \$986 of third party expenses, \$370 of pre-funded capital expenditures, \$911 of prepaid assets, and \$289 was retained by the JV as working capital.

On January 26, 2018, Prospect purchased additional common equity of NPRC through NPH for \$1,586. NPRC utilized the proceeds to purchase additional ownership interest in a JV that owns eight student housing properties for \$1,585 and to pay \$1 for legal services provided by attorneys at Prospect Administration. The proceeds were utilized by the JV entity to fund \$1,585 of capital expenditures.

On March 1, 2018, Prospect exchanged \$47,000 of ACLL Senior Secured Term Loan C for \$47,000 of NPRC Senior Secured Term Loan E.

On March 19, 2018, Prospect exchanged \$50,000 of ACLL Senior Secured Term Loan C for \$50,000 of NPRC Senior Secured Term Loan E.

On March 29, 2018, Prospect purchased additional common equity of NPRC through NPH for \$3,134. NPRC utilized \$3,131 of the proceeds as a capital contribution in multiple JV entities that own nine multi-family properties and to pay \$3 for legal services provided by attorneys at Prospect Administration. The minority interest holder also contributed \$71 of additional capital in the JV entities. The proceeds were utilized by the JV entities to fund \$3,202 of capital expenditures.

On March 29, 2018 Prospect exchanged \$578 of ACLL Senior Secured Term Loan C and \$14,274 of ACLLH Senior Secured Term Loan C for \$14,852 of NPRC Senior Secured Term Loan E.

On March 30, 2018, Prospect purchased additional common equity of NPRC through NPH for \$7,997. NPRC utilized \$797 of the proceeds to fund the lender rate-lock deposit and initial deposits required under the purchase and sale agreement of a JV real estate transaction. NPRC utilized \$200 of proceeds provided to pay a structuring fee to Prospect (which was recognized by Prospect as structuring fee income). On May 9, 2018, NPRC utilized the remaining \$7,000 of proceeds and \$159 of working capital to purchase a 61.4% interest in Forest Park Holdings, LLC. The minority interest holder purchased ownership interest in the JV for \$5,000. The JV utilized the total proceeds, which included debt financing of \$36,400, to acquire \$45,505 of multi-family real estate assets. The remaining proceeds were used by the JV to pay \$192 of structuring fees to NPRC, \$1,184 of third party expenses, \$1,168 of pre-funded capital expenditures, \$1,011 of prepaid assets, and \$296 was retained by the JV as working capital.

On March 30, 2018 Prospect contributed \$48,832 to NPRC as an increase to the NPRC Senior Secured Term Loan E. On the same day, NPRC distributed \$48,832 as a return of capital to Prospect.

On April 13, 2018, Prospect purchased additional common equity of NPRC through NPH for \$8,256. NPRC utilized \$8,255 of the proceeds as a capital contribution in a JV entity that own eight multi-family properties and \$1 was retained by NPRC as working capital. The proceeds were utilized by the JV entities to fund \$8,255 of capital expenditures.

On May 11, 2018, Prospect purchased additional common equity of NPRC through NPH for \$3,343. NPRC utilized \$3,342 of the proceeds as a capital contribution in multiple JV entities that own eight multi-family properties and \$1 was retained by NPRC as working capital. The minority interest holder also contributed \$270 of additional capital in

the JV entities. The proceeds were utilized by the JV entities to fund \$3,612 of capital expenditures. On May 25, 2018, Prospect purchased additional common equity of NPRC through NPH for \$24,507. NPRC utilized \$490 of proceeds provided to pay a structuring fee to Prospect (which was recognized by Prospect as structuring fee income). On June 1, 2018, NPRC utilized \$23,271 of proceeds provided by Prospect on May 25, 2018 to purchase a 92.5% interest in Olentangy Commons Holdings, LLC. The remaining \$746 was retained as working capital by NPRC. The minority interest holder purchased ownership interest in the JV for \$1,887. The JV utilized the total proceeds, which included debt financing of \$92,876, to acquire

201

PROSPECT CAPITAL CORPORATION AND SUBSIDIARIES
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 (in thousands, except share and per share data)

\$113,000 of multi-family real estate assets. The remaining proceeds were used by the JV to pay \$465 of structuring fees to NPRC, \$861 of third party expenses, \$1,706 of pre-funded capital expenditures, \$798 of prepaid assets, and \$1,204 was retained by the JV as working capital.

On June 14, 2018, Prospect purchased additional common equity of NPRC through NPH for \$3,192. NPRC utilized \$3,190 of the proceeds as a capital contribution in multiple JV entities that own three multi-family properties and \$2 was retained by NPRC as working capital. The proceeds were utilized by the JV entities to fund \$3,190 of capital expenditures.

On June 29, 2018, Prospect purchased additional common equity of NPRC through NPH for \$10,780. NPRC utilized \$1,471 of the proceeds to fund the lender rate-lock deposit and initial deposits required under the purchase and sale agreement of a JV real estate transaction. NPRC utilized \$216 of proceeds provided to pay a structuring fee to Prospect (which was recognized by Prospect as structuring fee income). The remaining \$9,093 of proceeds were retained by NPRC to acquire a controlling interest in the JV real estate transaction.

During the year ended June 30, 2018, we provided \$21,858 and \$13,434 of debt and equity financing, respectively, to NPRC and its wholly-owned subsidiaries to support the online consumer loans and online consumer loan backed products. In addition, during the year ended June 30, 2018, we received partial repayments of \$113,675 of our loans previously outstanding with NPRC and its wholly-owned subsidiaries and \$10,403 as a return of capital on our equity investment in NPRC.

The following dividends were declared and paid from NPRC to Prospect and recognized as dividend income by Prospect:

| | |
|--------------------------|--------|
| Year Ended June 30, 2016 | N/A |
| Year Ended June 30, 2017 | — |
| Year Ended June 30, 2018 | 11,279 |

The following interest payments were accrued and paid by NPRC to Prospect and recognized by Prospect as interest income:

| | |
|--------------------------|----------|
| Year Ended June 30, 2016 | \$40,147 |
| Year Ended June 30, 2017 | 60,707 |
| Year Ended June 30, 2018 | 73,907 |

Included above, the following payment-in-kind interest from NPRC was capitalized and recognized by Prospect as interest income:

| | |
|--------------------------|-------|
| Year Ended June 30, 2016 | \$703 |
| Year Ended June 30, 2017 | — |
| Year Ended June 30, 2018 | 776 |

The following interest income recognized had not yet been paid by NPRC to Prospect and was included by Prospect within interest receivable:

| | |
|---------------|-------|
| June 30, 2017 | \$147 |
| June 30, 2018 | 426 |

The following interest payments were accrued and paid by ACLLH to Prospect and recognized by Prospect as interest income:

| | |
|--------------------------|----------|
| Year Ended June 30, 2016 | \$22,543 |
| Year Ended June 30, 2017 | 13,895 |
| Year Ended June 30, 2018 | 13,505 |

The following interest income recognized had not yet been paid by ACLLH to Prospect and was included by Prospect within interest receivable:

| | |
|---------------|------|
| June 30, 2017 | \$27 |
|---------------|------|

June 30, 2018 —

202

PROSPECT CAPITAL CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(in thousands, except share and per share data)

The following interest payments were accrued and paid by ACLL to Prospect and recognized by Prospect as interest income:

Year Ended June 30, 2016 \$ —

Year Ended June 30, 2017 7,940

Year Ended June 30, 2018 3,170

The following interest income recognized had not yet been paid by ACLL to Prospect and was included by Prospect within interest receivable:

June 30, 2017 \$39

June 30, 2018 —

The following prepayment penalty fees were paid from NPRC to Prospect and recognized by Prospect as interest income:

Year Ended June 30, 2016 \$ —

Year Ended June 30, 2017 2,235

Year Ended June 30, 2018 —

The following net revenue interest payments were paid from NPRC to Prospect and recognized by Prospect as other income:

Year Ended June 30, 2016 \$2,712

Year Ended June 30, 2017 5,532

Year Ended June 30, 2018 6,531

The following structuring fees were paid from NPRC to Prospect and recognized by Prospect as other income:

Year Ended June 30, 2016 \$180

Year Ended June 30, 2017 2,147

Year Ended June 30, 2018 2,303

The following structuring fees were paid from ACLLH to Prospect and recognized by Prospect as other income:

Year Ended June 30, 2016 \$2,483

Year Ended June 30, 2017 1,507

Year Ended June 30, 2018 —

The following managerial assistance payments were paid from NPRC to Prospect and subsequently remitted to Prospect Administration (no income was recognized by Prospect):

Year Ended June 30, 2016 \$593

Year Ended June 30, 2017 1,300

Year Ended June 30, 2018 1,700

The following managerial assistance payments received by Prospect had not yet been remitted to Prospect Administration and were included by Prospect within due to Prospect Administration:

June 30, 2017 \$325

June 30, 2018 525

PROSPECT CAPITAL CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(in thousands, except share and per share data)

The following payments were paid from NPRC to Prospect Administration as reimbursement for legal, tax and portfolio level accounting services provided directly to NPRC (no direct income was recognized by Prospect, but Prospect was given credit for these payments as a reduction of the administrative services costs payable by Prospect to Prospect Administration):

Year Ended June 30, 2016 \$2,363

Year Ended June 30, 2017 6,241

Year Ended June 30, 2018 1,823

The following amounts were due from NPRC to Prospect for reimbursement of expenses paid by Prospect on behalf of NPRC and included by Prospect within other receivables:

June 30, 2017 \$ 6

June 30, 2018 286

The following amounts were due from ACLLH to Prospect for reimbursement of expenses paid by Prospect on behalf of ACLLH and included by Prospect within other receivables:

June 30, 2017 \$ 1

June 30, 2018 19

Nationwide Loan Company LLC

Prospect owns 100% of the membership interests of Nationwide Acceptance Holdings LLC (“Nationwide Holdings”), a Consolidated Holding Company. Nationwide Holdings owns 93.79% of the equity of Nationwide Loan Company LLC (f/k/a Nationwide Acceptance LLC) (“Nationwide”), with members of Nationwide management owning the remaining 6.21% of the equity.

On August 31, 2016, Prospect made an additional \$123 investment in the senior subordinated term loan to Nationwide. Prospect also made an additional equity investment totaling \$92, increasing Prospect’s ownership in Nationwide to 94.48%.

On May 31, 2017, Prospect made an additional equity investment totaling \$1,889, and Prospect’s ownership in Nationwide did not change.

On October 31, 2017, Prospect made an additional equity investment totaling \$3,779, and Prospect’s ownership in Nationwide did not change.

The following dividends were declared and paid from Nationwide to Prospect and recognized as dividend income by Prospect:

Year Ended June 30, 2016 \$3,963

Year Ended June 30, 2017 4,310

Year Ended June 30, 2018 —

All dividends were paid from earnings and profits of Nationwide.

The following amounts were paid from Nationwide to Prospect and recognized by Prospect as repayment of loan receivable:

Year Ended June 30, 2016 \$300

Year Ended June 30, 2017 —

Year Ended June 30, 2018 —

The following interest payments were accrued and paid from Nationwide to Prospect and recognized by Prospect as interest income:

Year Ended June 30, 2016 \$3,212

Year Ended June 30, 2017 3,406

Year Ended June 30, 2018 3,485

PROSPECT CAPITAL CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(in thousands, except share and per share data)

Included above, the following payment-in-kind interest from Nationwide was capitalized and recognized by Prospect as interest income:

Year Ended June 30, 2016 \$300
Year Ended June 30, 2017 —
Year Ended June 30, 2018 591

The following interest income recognized had not yet been paid by Nationwide to Prospect and was included by Prospect within interest receivable:

June 30, 2017 \$9
June 30, 2018 —

The following managerial assistance payments were paid from Nationwide to Prospect and subsequently remitted to Prospect Administration (no income was recognized by Prospect):

Year Ended June 30, 2016 \$400
Year Ended June 30, 2017 400
Year Ended June 30, 2018 400

The following managerial assistance payments received by Prospect had not yet been remitted to Prospect Administration and were included by Prospect within due to Prospect Administration:

June 30, 2017 \$100
June 30, 2018 100

The following payments were paid from Nationwide to Prospect Administration as reimbursement for legal, tax and portfolio level accounting services provided directly to Nationwide (no direct income was recognized by Prospect, but Prospect was given credit for these payments as a reduction of the administrative services costs payable by Prospect to Prospect Administration):

Year Ended June 30, 2016 \$ —
Year Ended June 30, 2017 —
Year Ended June 30, 2018 46

The following amounts were due from Nationwide from Prospect for reimbursement of expenses paid by Nationwide on behalf of Prospect and were included by Prospect within other liabilities:

June 30, 2017 \$ —
June 30, 2018 15

NMMB, Inc.

Prospect owns 100% of the equity of NMMB Holdings, Inc. (“NMMB Holdings”), a Consolidated Holding Company. NMMB Holdings owns 91.52% of the fully-diluted equity of NMMB, Inc. (f/k/a NMMB Acquisition, Inc.) (“NMMB”), with NMMB management owning the remaining 8.67% of the equity. NMMB owns 100% of Refuel Agency, Inc. (“Refuel Agency”). Refuel Agency owns 100% of Armed Forces Communications, Inc. (“Armed Forces”). NMMB is an advertising media buying business.

The following amounts were paid from Armed Forces to Prospect and recorded by Prospect as repayment of loan receivable:

Year Ended June 30, 2016 \$ —
Year Ended June 30, 2017 100
Year Ended June 30, 2018 1,999

PROSPECT CAPITAL CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(in thousands, except share and per share data)

The following interest payments were accrued and paid from NMMB to Prospect and recognized by Prospect as interest income:

Year Ended June 30, 2016 \$529

Year Ended June 30, 2017 527

Year Ended June 30, 2018 526

The following interest income recognized had not yet been paid by NMMB to Prospect and was included by Prospect within interest receivable:

June 30, 2017 \$1

June 30, 2018 1

The following interest payments were accrued and paid from Armed Forces to Prospect and recognized by Prospect as interest income:

Year Ended June 30, 2016 \$996

Year Ended June 30, 2017 991

Year Ended June 30, 2018 929

The following interest income recognized had not yet been paid by Armed Forces to Prospect and was included by Prospect within interest receivable:

June 30, 2017 \$3

June 30, 2018 2

The following managerial assistance payments were paid from NMMB to Prospect and subsequently remitted to Prospect

Administration (no income was recognized by Prospect):

Year Ended June 30, 2016 \$ —

Year Ended June 30, 2017 213

Year Ended June 30, 2018 400

The following managerial assistance payments received by Prospect had not yet been remitted to Prospect Administration and were included by Prospect within due to Prospect Administration:

June 30, 2017 \$100

June 30, 2018 100

The following managerial assistance recognized had not yet been paid by NMMB to Prospect and was included by Prospect within other receivables and due to Prospect Administration:

June 30, 2017 \$1,288

June 30, 2018 1,288

The following amounts were due from NMMB to Prospect for reimbursement of expenses paid by Prospect on behalf of NMMB and were included by Prospect within other receivables:

June 30, 2017 \$—

June 30, 2018 4

Pacific World Corporation

On May 29, 2018, Prospect exercised its rights and remedies under its loan documents to exercise the shareholder voting rights in respect of the stock of Pacific World Corporation (“Pacific World”) and to appoint a new Board of Directors of Pacific World. As a result, as of June 30, 2018, Prospect’s investment in Pacific World is classified as a control investment.

PROSPECT CAPITAL CORPORATION AND SUBSIDIARIES
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 (in thousands, except share and per share data)

On June 15, 2018, we made a \$15,000 convertible preferred equity investment in Pacific World Corporation (“Pacific World”).

The following amounts were paid from Pacific World to Prospect and recorded by Prospect as repayment of loan receivable:

Year Ended June 30, 2016 \$ —
 Year Ended June 30, 2017 —
 Year Ended June 30, 2018 250

Since assuming control, the following interest payments were accrued and paid from Pacific World to Prospect and recognized by Prospect as interest income:

Year Ended June 30, 2016 \$ —
 Year Ended June 30, 2017 —
 Year Ended June 30, 2018 3,742

The following interest income recognized had not yet been paid by Pacific World to Prospect and was included by Prospect within interest receivable:

June 30, 2017 \$ —
 June 30, 2018 270

R-V Industries, Inc.

Prospect owns 88.27% of the fully-diluted equity of R-V Industries, Inc. (“R-V”), with R-V management owning the remaining 11.73% of the equity. As of June 30, 2011, Prospect’s equity investment cost basis was \$1,682 and \$5,087 for warrants and common stock, respectively.

On December 24, 2016, Prospect exercised its warrant to purchase 200,000 common shares of R-V. Prospect recorded a realized gain of \$172 from this redemption. Prospect’s ownership remains unchanged at 88.27%.

During the three months ended December 31, 2016, Prospect provided certain financial advisory services to R-V related to a possible transaction. Prospect recognized \$124 in advisory fee income resulting from these services.

The following amounts were paid from R-V to Prospect and recorded by Prospect as repayment of loan receivable:

Year Ended June 30, 2016 \$614
 Year Ended June 30, 2017 —
 Year Ended June 30, 2018 —

The following dividends were declared and paid from R-V to Prospect and recognized as dividend income by Prospect:

Year Ended June 30, 2016 \$299
 Year Ended June 30, 2017 149
 Year Ended June 30, 2018 —

All dividends were paid from earnings and profits of R-V.

During the year ended June 30, 2017, cash distributions of \$76 that were declared and paid from R-V to Prospect were recognized as a return of capital by Prospect.

The following interest payments were accrued and paid from R-V to Prospect and recognized by Prospect as interest income:

Year Ended June 30, 2016 \$2,908
 Year Ended June 30, 2017 2,877
 Year Ended June 30, 2018 3,064

PROSPECT CAPITAL CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(in thousands, except share and per share data)

The following interest income recognized had not yet been paid by R-V to Prospect and was included by Prospect within interest receivable:

June 30, 2017 \$ —
June 30, 2018 18

The following managerial assistance payments were paid from R-V to Prospect and subsequently remitted to Prospect Administration (no income was recognized by Prospect):

Year Ended June 30, 2016 \$180
Year Ended June 30, 2017 165
Year Ended June 30, 2018 180

The following managerial assistance payments received by Prospect had not yet been remitted to Prospect Administration and were included by Prospect within due to Prospect Administration:

June 30, 2017 \$45
June 30, 2018 45

The following payments were paid from R-V to Prospect Administration as reimbursement for legal, tax and portfolio level accounting services provided directly to R-V (no direct income was recognized by Prospect, but Prospect was given credit for these payments as a reduction of the administrative services costs payable by Prospect to Prospect Administration):

Year Ended June 30, 2016 \$2
Year Ended June 30, 2017 29
Year Ended June 30, 2018 2

The following amounts were due from R-V from Prospect for reimbursement of expenses paid by R-V on behalf of Prospect and were included by Prospect within other liabilities:

June 30, 2017 \$ —
June 30, 2018 11

SB Forging Company, Inc.

As of June 30, 2014, Prospect owned 79.53% of the fully-diluted common, 85.76% of the Series A Preferred and 100% of the Series B Preferred equity of ARRM Services, Inc. (f/k/a ARRM Holdings, Inc.) (“ARRM”). ARRM owned 100% of the equity of Ajax Rolled Ring & Machine, LLC (f/k/a Ajax Rolled Ring & Machine, Inc.) (“Ajax”). Ajax forges large seamless steel rings on two forging mills in the company’s York, South Carolina facility. The rings are used in a range of industrial applications, including in construction equipment and power turbines. Ajax also provides machining and other ancillary services.

On May 31, 2016, \$1,750 of the escrow proceeds were received. Prospect realized a gain of the same amount.

During the three months ended March 31, 2017, Prospect incurred \$53 of additional overhead expense related to SB Forging, which will be given to us as a credit for services payable to Prospect Administration in the June 2017 quarter.

The following payments were paid from SB Forging to Prospect Administration as reimbursement for legal, tax and portfolio level accounting services provided directly to SB Forging (no direct income was recognized by Prospect, but Prospect was given credit for these payments as a reduction of the administrative services costs payable by Prospect to Prospect Administration):

Year Ended June 30, 2016 \$ —
Year Ended June 30, 2017 598
Year Ended June 30, 2018 —

PROSPECT CAPITAL CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(in thousands, except share and per share data)

SB Forging Company II, Inc. (f/k/a Gulf Coast Machine & Supply Company)

Prospect owns 100% of the preferred equity of Gulf Coast Machine & Supply Company (“Gulf Coast”). Gulf Coast is a provider of value-added forging solutions to energy and industrial end markets.

During the year ended June 30, 2017, Prospect made additional investments of \$8,750 in the first lien term loan to Gulf Coast to fund capital improvements to key forging equipment and other liquidity needs.

On June 3, 2017, Gulf Coast sold all of its assets to a third party, for total consideration of \$10,250, including escrowed amounts. The proceeds from the sale were primarily used to repay a \$6,115 third party revolving credit facility, and the remainder was used to pay other legal and administrative costs incurred by Gulfco. As no proceeds were allocated to Prospect, our debt and equity investment in Gulfco was written-off for tax purposes and we recorded a realized loss of \$66,103. In June 2018, Gulfco received escrow proceeds of \$2,050 related to the sale. On June 28, 2017, Gulf Coast was renamed to SB Forging Company II, Inc.

The following amounts were paid from Gulf Coast to Prospect and recorded by Prospect as repayment of loan receivable:

Year Ended June 30, 2016 \$ 1,075

Year Ended June 30, 2017 3,022

Year Ended June 30, 2018 —

The following payments were paid from Gulf Coast to Prospect Administration as reimbursement for legal, tax and portfolio level accounting services provided directly to Gulf Coast (no direct income was recognized by Prospect, but Prospect was given credit for these payments as a reduction of the administrative services costs payable by Prospect to Prospect Administration):

Year Ended June 30, 2016 \$ —

Year Ended June 30, 2017 503

Year Ended June 30, 2018 —

USES Corp.

On June 15, 2016, we provided additional \$1,300 debt financing to USES Corp. (“USES”) and its subsidiaries in the form of additional Term Loan A debt and, in connection with such Term Loan A debt financing, USES issued to us 99,900 shares of its common stock. On June 29, 2016, we provided additional \$2,200 debt financing to USES and its subsidiaries in the form of additional Term Loan A debt and, in connection with such Term Loan A debt financing, USES issued to us 169,062 shares of its common stock. As a result of such debt financing and recapitalization, as of June 29, 2016, we held 268,962 shares of USES common stock representing a 99.96% common equity ownership interest in USES. As such, USES became a controlled company on June 30, 2016.

During the year ended June 30, 2017, Prospect provided additional \$2,599 debt financing to USES and its subsidiaries in the form of additional Term Loan A debt.

During the nine months ended March 31, 2018, Prospect provided additional \$3,000 debt financing to USES and its subsidiaries in the form of additional Term Loan A debt.

During the nine months ended March 31, 2018, we entered into a participation agreement with USES management, and sold \$3 of Prospect’s investment in the Term Loan A debt.

The following managerial assistance recognized had not yet been paid by USES to Prospect and was included by Prospect within other receivables and due to Prospect Administration:

June 30, 2017 \$325

June 30, 2018 625

PROSPECT CAPITAL CORPORATION AND SUBSIDIARIES
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 (in thousands, except share and per share data)

Valley Electric Company, Inc.

Prospect owns 100% of the common stock of Valley Electric Holdings I, Inc. ("Valley Holdings I"), a Consolidated Holding Company. Valley Holdings I owns 100% of Valley Electric Holdings II, Inc. ("Valley Holdings II"), a Consolidated Holding Company. Valley Holdings II owns 94.99% of Valley Electric Company, Inc. ("Valley Electric"), with Valley Electric management owning the remaining 5.01% of the equity. Valley Electric owns 100% of the equity of VE Company, Inc., which owns 100% of the equity of Valley Electric Co. of Mt. Vernon, Inc. ("Valley"), a leading provider of specialty electrical services in the state of Washington and among the top 50 electrical contractors in the United States.

The following interest payments were accrued and paid from Valley Electric to Prospect and recognized by Prospect as interest income:

Year Ended June 30, 2016 \$4,252
 Year Ended June 30, 2017 4,518
 Year Ended June 30, 2018 4,861

Included above, the following payment-in-kind interest from Valley Electric was capitalized and recognized by Prospect as interest income:

Year Ended June 30, 2016 \$1,509
 Year Ended June 30, 2017 1,822
 Year Ended June 30, 2018 2,157

The following interest income recognized had not yet been paid by Valley Electric to Prospect and was included by Prospect within interest receivable:

June 30, 2017 \$13
 June 30, 2018 14

The following interest payments were accrued and paid from Valley to Prospect and recognized by Prospect as interest income:

Year Ended June 30, 2016 \$1,111
 Year Ended June 30, 2017 1,111
 Year Ended June 30, 2018 1,110

Included above, the following payment-in-kind interest from Valley was capitalized and recognized by Prospect as interest income:

Year Ended June 30, 2016 \$90
 Year Ended June 30, 2017 —
 Year Ended June 30, 2018 —

The following interest income recognized had not yet been paid by Valley to Prospect and was included by Prospect within interest receivable:

June 30, 2017 \$3
 June 30, 2018 3

The following managerial assistance payments were paid from Valley to Prospect and subsequently remitted to Prospect Administration (no income was recognized by Prospect):

Year Ended June 30, 2016 \$300
 Year Ended June 30, 2017 300
 Year Ended June 30, 2018 5

PROSPECT CAPITAL CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(in thousands, except share and per share data)

The following managerial assistance payments received by Valley had not yet been remitted to Prospect Administration and were included by Prospect within due to Prospect Administration:

June 30, 2017 \$ —

June 30, 2018 75

The following managerial assistance recognized had not yet been paid by Valley to Prospect and was included by Prospect within other receivables and due to Prospect Administration:

June 30, 2017 \$75

June 30, 2018 —

The following payments were paid from Valley Electric to Prospect Administration as reimbursement for legal, tax and portfolio level accounting services provided directly to Valley Electric (no direct income was recognized by Prospect, but Prospect was given credit for these payments as a reduction of the administrative services costs payable by Prospect to Prospect Administration):

Year Ended June 30, 2016 \$9

Year Ended June 30, 2017 —

Year Ended June 30, 2018 —

The following amounts were due from Valley to Prospect for reimbursement of expenses paid by Prospect on behalf of Valley and were included by Prospect within other receivables:

June 30, 2017 \$3

June 30, 2018 3

Wolf Energy, LLC

Prospect owns 100% of the equity of Wolf Energy Holdings Inc. (“Wolf Energy Holdings”), a Consolidated Holding Company. Wolf Energy Holdings owns 100% of each of Appalachian Energy LLC (f/k/a Appalachian Energy Holdings, LLC) (“AEH”); Coalbed, LLC (“Coalbed”); and Wolf Energy, LLC (“Wolf Energy”). AEH owns 100% of C&S Operating, LLC.

Wolf Energy Holdings is a holding company formed to hold 100% of the outstanding membership interests of each of AEH and Coalbed. The membership interests and associated operating company debt of AEH and Coalbed, which were previously owned by Manx Energy, Inc. (“Manx”), were assigned to Wolf Energy Holdings effective June 30, 2012. The purpose of assignment was to remove those activities from Manx deemed non-core by the Manx convertible debt investors who were not interested in funding those operations. On June 30, 2012, AEH and Coalbed loans with a cost basis of \$7,991 were assigned by Prospect to Wolf Energy Holdings from Manx.

On March 14, 2017, \$22,145 of assets previously held by Ark-La-Tex Wireline Services, LLC (“Ark-La-Tex”) were assigned to Wolf Energy Services Company, LLC, (“Wolf Energy Services”) a wholly-owned subsidiary of Wolf Energy Holdings. During the three months ended March 31, 2017, Wolf Energy Services received \$2,768 from the partial sale of these transferred assets. During the three months ended June 30, 2017 Wolf Energy Services received \$12,576 from the sale of assets.

During the year ended June 30, 2018 Wolf Energy Services received \$3,009 from the sale of assets.

On December 29, 2017, we entered into a fee agreement with Wolf Energy Services Company, LLC (“Wolf”), for services required to locate, inventory, foreclose, and liquidate assets that were transferred from Ark-La-Tex to Wolf. Per the agreement, we will receive a fee equal to 8.0% of gross liquidation proceeds in the event aggregate liquidation gross proceeds exceed \$19,000 (currently \$18,500). During the three months ended March 31, 2018, we received \$1,220 in liquidation fees, net of third-party transaction costs, which is reflected as other income on our accompanying Consolidated Statement of Operations.

The following managerial assistance payments were paid from Wolf Energy to Prospect and subsequently remitted to Prospect Administration (no income was recognized by Prospect):

PROSPECT CAPITAL CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(in thousands, except share and per share data)

Year Ended June 30, 2016 \$124

Year Ended June 30, 2017 41

Year Ended June 30, 2018 14

The following managerial assistance recognized had not yet been paid by Wolf Energy to Prospect and was included by Prospect within other receivables and due to Prospect Administration:

June 30, 2017 \$14

June 30, 2018 —

The following managerial assistance recognized had not yet been paid by Wolf Energy to Prospect and was included by Prospect within other receivables and due to Prospect Administration:

June 30, 2017 \$ —

June 30, 2018 41

The following payments were paid from Wolf Energy to Prospect Administration as reimbursement for legal, tax and portfolio level accounting services provided directly to Wolf Energy (no direct income was recognized by Prospect, but Prospect was given credit for these payments as a reduction of the administrative services costs payable by Prospect to Prospect Administration):

Year Ended June 30, 2016 \$ —

Year Ended June 30, 2017 243

Year Ended June 30, 2018 —

Note 15. Litigation

From time to time, we may become involved in various investigations, claims and legal proceedings that arise in the ordinary course of our business. These matters may relate to intellectual property, employment, tax, regulation, contract or other matters. The resolution of such matters as may arise will be subject to various uncertainties and, even if such claims are without merit, could result in the expenditure of significant financial and managerial resources. We are not aware of any material legal proceedings as of June 30, 2018.

PROSPECT CAPITAL CORPORATION AND SUBSIDIARIES
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 (in thousands, except share and per share data)

Note 16. Financial Highlights

The following is a schedule of financial highlights for each of the five years ended in the period ended June 30, 2018:

| | Year Ended June 30, | | 2016 | 2015 | 2014 |
|---|---------------------|-------------|-------------|-------------|-------------|
| | 2018 | 2017 | | | |
| Per Share Data | | | | | |
| Net asset value at beginning of year | \$9.32 | \$9.62 | \$10.31 | \$10.56 | \$10.72 |
| Net investment income(1) | 0.79 | 0.85 | 1.04 | 1.03 | 1.19 |
| Net realized and change in unrealized (losses) gains(1) | 0.04 | (0.15) | (0.75) | (0.05) | (0.13) |
| Net increase from operations | 0.83 | 0.70 | 0.29 | 0.98 | 1.06 |
| Distributions of net investment income | (0.77) | (1.00) | (1.00) | (1.19) | (1.32) |
| Common stock transactions(2) | (0.03) | — | (4) 0.02 | (0.04) | 0.10 |
| Net asset value at end of year | \$9.35 | \$9.32 | \$9.62 | \$10.31 | \$10.56 |
| Per share market value at end of year | \$6.71 | \$8.12 | \$7.82 | \$7.37 | \$10.63 |
| Total return based on market value(3) | (7.42 %) | 16.80 % | 21.84 % | (20.84 %) | 10.88 % |
| Total return based on net asset value(3) | 12.39 % | 8.98 % | 7.15 % | 11.47 % | 10.97 % |
| Shares of common stock outstanding at end of year | 364,409,938 | 360,076,933 | 357,107,231 | 359,090,759 | 342,626,637 |
| Weighted average shares of common stock outstanding | 361,456,075 | 358,841,714 | 356,134,297 | 353,648,522 | 300,283,941 |
| Ratios/Supplemental Data | | | | | |
| Net assets at end of year | \$3,407,047 | \$3,354,952 | \$3,435,917 | \$3,703,049 | \$3,618,182 |
| Portfolio turnover rate | 30.70 % | 23.65 % | 15.98 % | 21.89 % | 15.21 % |
| Ratio of operating expenses to average net assets | 11.08 % | 11.57 % | 11.95 % | 11.66 % | 11.11 % |
| Ratio of net investment income to average net assets | 8.57 % | 8.96 % | 10.54 % | 9.87 % | 11.18 % |

(1) Per share data amount is based on the weighted average number of common shares outstanding for the year presented (except for dividends to shareholders which is based on actual rate per share).

(2) Common stock transactions include the effect of our issuance of common stock in public offerings (net of underwriting and offering costs), shares issued in connection with our dividend reinvestment plan, shares issued to acquire investments and shares repurchased below net asset value pursuant to our Repurchase Program.

(3) Total return based on market value is based on the change in market price per share between the opening and ending market prices per share in each period and assumes that dividends are reinvested in accordance with our dividend reinvestment plan. Total return based on net asset value is based upon the change in net asset value per share between the opening and ending net asset values per share in each period and assumes that dividends are reinvested in accordance with our dividend reinvestment plan.

(4) Amount is less than \$0.01.

PROSPECT CAPITAL CORPORATION AND SUBSIDIARIES
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 (in thousands, except share and per share data)

Note 17. Selected Quarterly Financial Data (Unaudited)

The following table sets forth selected financial data for each quarter within the three years ended June 30, 2018.

| Quarter Ended | Investment Income | | Net Investment Income | | Net Realized and Unrealized (Losses) Gains | | Net Increase (Decrease) in Net Assets from Operations | |
|--------------------|----------------------|--------------|--------------------------|--------------|--|--------------|--|--------------|
| | Total | Per Share(1) | Total | Per Share(1) | Total | Per Share(1) | Total | Per Share(1) |
| September 30, 2015 | \$200,251 | \$ 0.56 | \$91,242 | \$ 0.26 | \$(63,425) | \$(0.18) | \$27,817 | \$ 0.08 |
| December 31, 2015 | 209,191 | 0.59 | 100,893 | 0.28 | (196,013) | (0.55) | (95,120) | (0.27) |
| March 31, 2016 | 189,493 | 0.53 | 87,626 | 0.25 | (12,118) | (0.03) | 75,508 | 0.21 |
| June 30, 2016 | 193,038 | 0.54 | 91,367 | 0.26 | 3,790 | 0.01 | 95,157 | 0.27 |
| September 30, 2016 | \$179,832 | \$ 0.50 | \$78,919 | \$ 0.22 | \$2,447 | \$ 0.01 | \$81,366 | \$ 0.23 |
| December 31, 2016 | 183,480 | 0.51 | 84,405 | 0.24 | 16,475 | 0.04 | 100,880 | 0.28 |
| March 31, 2017 | 171,032 | 0.48 | 73,080 | 0.20 | (53,588) | (0.15) | 19,492 | 0.05 |
| June 30, 2017 | 166,702 | 0.46 | 69,678 | 0.19 | (18,510) | (0.05) | 51,168 | 0.14 |
| September 30, 2017 | \$158,579 | \$ 0.44 | \$63,732 | \$ 0.18 | \$(51,759) | \$(0.15) | \$11,973 | \$ 0.03 |
| December 31, 2017 | 162,400 | 0.45 | 73,192 | 0.20 | 48,535 | 0.14 | 121,727 | 0.34 |
| March 31, 2018 | 162,835 | 0.45 | 70,446 | 0.19 | (18,587) | (0.04) | 51,859 | 0.14 |
| June 30, 2018 | 174,031 | 0.48 | 79,480 | 0.22 | 34,823 | 0.09 | 114,304 | 0.31 |

Per share amounts are calculated using the weighted average number of common shares outstanding for the period (1) presented. As such, the sum of the quarterly per share amounts above will not necessarily equal the per share amounts for the fiscal year.

Note 18. Subsequent Events

On July 2, 2018, we entered into debt distribution agreements with each of B. Riley FBR, Inc. and BB&T Capital Markets, a division of BB&T Securities, LLC (together, the "Agents") pursuant to which we may sell, by means of at-the-market offerings, up to \$100,000 in aggregate principal amount of our 2024 Notes and up to \$100,000 in aggregate principal amount of the 2028 Notes. As of August 28, 2018, we have issued an additional \$10,131 in aggregate principal amount of our 2024 Notes for net proceeds of \$10,070 and have issued an additional \$6,917 in aggregate principal amount of our 2028 Notes for net proceeds of \$6,838.

During the period from July 13, 2018 to July 16, 2018, we made follow-on first lien term loan investments of \$105,000 in Town & Country Holdings, Inc., to support acquisitions.

On August 1, 2018, we completed an extension of the Revolving Credit Facility (the "New Facility") for PCF, extending the term 5.7 years from such date and reducing the interest rate on drawn amounts to one-month Libor plus 2.20%.

The New Facility, for which \$770 million of commitments have been closed to date, includes an accordion feature that allows the Facility, at Prospect's discretion, to accept up to a total of \$1.5 billion of commitments. The New Facility matures on March 27, 2024. It includes a revolving period that extends through March 27, 2022, followed by an additional two-year amortization period, with distributions allowed to Prospect after the completion of the revolving period. Pricing for amounts drawn under the Facility is one-month Libor plus 2.20%, which achieves a 5 basis point reduction in the interest rate from the previous facility rate of Libor plus 2.25%. Additionally, the lenders charge a fee on the unused portion of the credit facility equal to either 50 basis points if more than 60% of the credit facility is drawn, or 100 basis points if more than 35% and an amount less than or equal to 60% of the credit facility is drawn, or 150 basis points if an amount less than or equal to 35% of the credit facility is drawn.

On August 1, 2018, we purchased from a third party \$14,000 of First Lien Senior Secured Term Loan A and Term Loan B Notes issued by InterDent, Inc. at par.

On August 6, 2018, we made a \$17,500 senior secured investment in Halyard MD OPCO, LLC, a healthcare IT and advertising technology business that enables targeted advertising campaigns to healthcare providers and patients. Our investment is comprised of a \$12,000 first lien term loan, a \$2,000 unfunded revolving credit facility, and a \$3,500 unfunded delayed draw investment.

214

PROSPECT CAPITAL CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(in thousands, except share and per share data)

During the period from July 1, 2018 through August 28, 2018 we issued \$25,330 aggregate principal amount of Prospect Capital InterNotes® for net proceeds of \$24,919. In addition, we sold \$2,215 aggregate principal amount of Prospect Capital InterNotes® for net proceeds of \$2,176 with expected closing on August 30, 2018.

Pursuant to notice to call provided on July 5, 2018, we redeemed \$2,589 of our Prospect Capital InterNotes® at par maturing on February 15, 2020, with a weighted average rate of 4.0%. Settlement of the call occurred on August 15, 2018. We have provided notice to call on August 8, 2018 with settlement on September 15, 2018, \$26,771 of our Prospect Capital InterNotes® at par maturing between March 15, 2020 and September 15, 2020, with a weighted average rate of 4.77%.

On August 28, 2018, we announced the declaration of monthly dividends in the following amounts and with the following dates:

\$0.06 per share for September 2018 to holders of record on September 28, 2018 with a payment date of October 18, 2018.

\$0.06 per share for October 2018 to holders of record on October 31, 2018 with a payment date of November 21, 2018.

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure
Not applicable.

Item 9A. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

As of June 30, 2018, we evaluated the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rule 13a-15(e) of the 1934 Act). Based on that evaluation, our management, including the Chief Executive Officer and Chief Financial Officer, concluded that our disclosure controls and procedures were effective and provided reasonable assurance that information required to be disclosed in our periodic SEC filings is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure. However, in evaluating the disclosure controls and procedures, management recognized that any controls and procedures, no matter how well designed and operated can provide only reasonable assurance of achieving the desired control objectives, and management necessarily was required to apply its judgment in evaluating the cost-benefit relationship of such possible controls and procedures.

Report of Management on Internal Control Over Financial Reporting

Management is responsible for establishing and maintaining adequate internal control over financial reporting, and for performing an assessment of the effectiveness of internal control over financial reporting as of June 30, 2018. Internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. The Company's internal control over financial reporting includes those policies and procedures that (i) pertain to assets of the Company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the Company are being made only in accordance with authorizations of management and directors of the Company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the Company's assets that could have a material effect on the financial statements.

Management performed an assessment of the effectiveness of the Company's internal control over financial reporting as of June 30, 2018 based upon criteria in Internal Control—Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO"). Based on our assessment, management determined that the Company's internal control over financial reporting was effective as of June 30, 2018 based on the criteria on Internal Control—Integrated Framework (2013) issued by COSO. There were no changes in our internal control over financial reporting during the quarter ended June 30, 2018 that have materially affected, or are reasonably likely to affect, our internal control over financial reporting.

Our management's assessment of the effectiveness of our internal control over financial reporting as of June 30, 2018 has been audited by BDO USA, LLP, an independent registered public accounting firm, as stated in their report which appears herein.

See notes to consolidated financial statements.

216

Report of Independent Registered Public Accounting Firm
Shareholders and Board of Directors
Prospect Capital Corporation
New York, New York
Opinion on Internal Control over Financial Reporting

We have audited Prospect Capital Corporation's (the "Company's") internal control over financial reporting as of June 30, 2018, based on criteria established in Internal Control-Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (the "COSO criteria"). In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of June 30, 2018, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) ("PCAOB"), the consolidated statements of assets and liabilities of Prospect Capital Corporation, including the consolidated schedules of investments, as of June 30, 2018 and 2017, and the related consolidated statements of operations, changes in net assets, and cash flows for each of the three years in the period ended June 30, 2018, and the related notes, including the financial highlights for each of the five years in the period ended June 30, 2018, and our report dated August 28, 2018 expressed an unqualified opinion thereon.

Basis for Opinion

The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying "Item 9A, Report of Management on Internal Control Over Financial Reporting." Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

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

Definition and Limitations of Internal Control over Financial Reporting

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

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

/s/ BDO USA, LLP
BDO USA, LLP
New York, New York
August 28, 2018

217

Item 9B. Other Information

Not applicable.

PART III

Item 10. Directors, Executive Officers and Corporate Governance

Section 16(a) Beneficial Ownership Reporting Compliance

Section 16(a) of the Securities Exchange Act of 1934, as amended, requires the Company's directors and executive officers, and persons who own more than 10% of the Company's common stock to file reports of ownership and changes in ownership with the Securities and Exchange Commission. To the Company's knowledge, during the fiscal year ended June 30, 2018, the Company's officers, directors and greater than 10% stockholders had complied with all Section 16(a) filing requirements, except that one Form 4 was filed late on behalf of William J. Grep, Director, for the purchase of shares of common stock due to an administrative error.

The information required by Item 10 is hereby incorporated by reference from our 2018 Proxy Statement.

Code of Ethics

We, Prospect Capital Management and Prospect Administration have each adopted a code of ethics pursuant to Rule 17j-1 under the 1940 Act that establishes procedures for personal investments and restricts certain personal securities transactions. Personnel subject to each code may invest in securities for their personal investment accounts, including securities that may be purchased or held by us, so long as such investments are made in accordance with the code's requirements. For information on how to obtain a copy of each code of ethics, see "Available Information" in Part I of this Annual Report.

Item 11. Executive Compensation

The information required by Item 11 is hereby incorporated by reference from our 2018 Proxy Statement.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

The information required by Item 12 is hereby incorporated by reference from our 2018 Proxy Statement.

Item 13. Certain Relationships and Related Transactions, and Director Independence

The information required by Item 13 is hereby incorporated by reference from our 2018 Proxy Statement.

Item 14. Principal Accountant Fees and Services

The information required by Item 14 is hereby incorporated by reference from our 2018 Proxy Statement.

PART IV

Item 15. Exhibits, Financial Statement Schedules

The following documents are filed as part of this Annual Report:

1. Financial Statements – See the Index to Consolidated Financial Statements in Item 8 of this report.
Financial Statement Schedules – The financial statements of National Property REIT Corp. required by Rule 3-09 of Regulation S-X will be provided as Exhibit 99.1 and Exhibit 99.2 to this report. The financial statements of First Tower Finance Company LLC required by Rule 3-09 of Regulation S-X will be provided as Exhibit 99.3 and Exhibit 99.4 to this report.
2. Exhibits – The following exhibits are filed as part of this report or hereby incorporated by reference to exhibits previously filed with the SEC (according to the number assigned to them in Item 601 of Regulation S-K):
Exhibit No.
 - 3.1 Articles of Amendment and Restatement(1)
 - 3.2 Amended and Restated Bylaws(3)
 - 4.1 Form of Share Certificate(2)
 - 4.2 Form of Indenture(9)
Indenture dated as of December 21, 2010 relating to the 6.25% Senior Convertible Notes, by and between the Registrant and American Stock Transfer & Trust Company, LLC, as Trustee and Form of 6.25% Senior Convertible Note due 2015(7)
 - 4.3 Indenture dated as of February 18, 2011 relating to the 5.50% Senior Convertible Notes, by and between the Registrant and American Stock Transfer & Trust Company, LLC, as Trustee(8)
 - 4.4 Form of 5.50% Senior Convertible Note due 2016(6)
Indenture dated as of February 16, 2012, by and between the Registrant and American Stock Transfer & Trust Company, LLC, as Trustee(10)
First Supplemental Indenture dated as of March 1, 2012, to the Indenture dated as of February 16, 2012, by and between the Registrant and American Stock Transfer & Trust Company, LLC, as Trustee and Form of 7.00% Prospect Capital InterNote® due 2022(10)
 - 4.5 Second Supplemental Indenture dated as of March 8, 2012, to the Indenture dated as of February 16, 2012, by and between the Registrant and American Stock Transfer & Trust Company, LLC, as Trustee(11)
Joinder Supplemental Indenture dated as of March 8, 2012, to the Indenture dated as of February 16, 2012, by and among the Registrant, American Stock Transfer & Trust Company, LLC, as Original Trustee, and U.S. Bank National Association, as Series Trustee and Form of 6.900% Prospect Capital InterNote® due 2022(11)
 - 4.6 Agreement of Resignation, Appointment and Acceptance dated as of March 12, 2012, by and among the Registrant, American Stock Transfer & Trust Company, LLC, as Retiring Trustee, and U.S. Bank National Association, as Successor Trustee (the “U.S. Bank Indenture”)(12)
 - 4.7 Third Supplemental Indenture dated as of April 5, 2012, to the U.S. Bank Indenture and Form of 6.850% Prospect Capital InterNote® due 2022(14)
 - 4.8 Fourth Supplemental Indenture dated as of April 12, 2012, to the U.S. Bank Indenture and Form of 6.700% Prospect Capital InterNote® due 2022(15)
 - 4.9 Indenture dated as of April 16, 2012 relating to the 5.375% Senior Convertible Notes, by and between the Registrant and American Stock Transfer & Trust Company, as Trustee(16)
 - 4.10 Form of 5.375% Senior Convertible Note due 2017(17)
Fifth Supplemental Indenture dated as of April 26, 2012, to the U.S. Bank Indenture and Form of 6.500% Prospect Capital InterNote® due 2022(18)
 - 4.11 Indenture dated as of August 14, 2012 relating to the 5.75% Senior Convertible Notes, by and between the Registrant and American Stock Transfer & Trust Company, as Trustee(19)
 - 4.12 Form of 5.75% Senior Convertible Note due 2018(20)
Nineteenth Supplemental Indenture dated as of September 27, 2012, to the U.S. Bank Indenture and Form of 5.850% Prospect Capital InterNote® due 2019(21)
 - 4.13 Twentieth Supplemental Indenture dated as of October 4, 2012, to the U.S. Bank Indenture and Form of 5.700% Prospect Capital InterNote® due 2019(22)

Exhibit No.

- 4.20 Twenty-First Supplemental Indenture dated as of November 23, 2012, to the U.S. Bank Indenture and Form of 5.125% Prospect Capital InterNote® due 2019(23)
- 4.21 Twenty-Second Supplemental Indenture dated as of November 23, 2012, to the U.S. Bank Indenture and Form of 6.625% Prospect Capital InterNote® due 2042(23)
- 4.22 Twenty-Third Supplemental Indenture dated as of November 29, 2012, to the U.S. Bank Indenture and Form of 5.000% Prospect Capital InterNote® due 2019(24)
- 4.23 Twenty-Fourth Supplemental Indenture dated as of November 29, 2012, to the U.S. Bank Indenture and Form of 5.750% Prospect Capital InterNote® due 2032(24)
- 4.24 Twenty-Fifth Supplemental Indenture dated as of November 29, 2012, to the U.S. Bank Indenture and Form of 6.500% Prospect Capital InterNote® due 2042(24)
- 4.25 Twenty-Sixth Supplemental Indenture dated as of December 6, 2012, to the U.S. Bank Indenture and Form of 4.875% Prospect Capital InterNote® due 2019(25)
- 4.26 Twenty-Eighth Supplemental Indenture dated as of December 6, 2012, to the U.S. Bank Indenture and Form of 6.375% Prospect Capital InterNote® due 2042(25)
- 4.27 Twenty-Ninth Supplemental Indenture dated as of December 13, 2012, to the U.S. Bank Indenture and Form of 4.750% Prospect Capital InterNote® due 2019(26)
- 4.28 Thirty-First Supplemental Indenture dated as of December 13, 2012, to the U.S. Bank Indenture and Form of 6.250% Prospect Capital InterNote® due 2042(26)
- 4.29 Thirty-Second Supplemental Indenture dated as of December 20, 2012, to the U.S. Bank Indenture and Form of 4.625% Prospect Capital InterNote® due 2019(27)
- 4.30 Thirty-Fourth Supplemental Indenture dated as of December 20, 2012, to the U.S. Bank Indenture and Form of 6.125% Prospect Capital InterNote® due 2042(27)
- 4.31 Indenture dated as of December 21, 2012, by and between the Registrant and American Stock Transfer & Trust Company, as Trustee and Form of Global Note 5.875% Convertible Senior Note Due 2019(28)
- 4.32 Thirty-Fifth Supplemental Indenture dated as of December 28, 2012, to the U.S. Bank Indenture and Form of 4.500% Prospect Capital InterNote® due 2019(29)
- 4.33 Thirty-Sixth Supplemental Indenture dated as of December 28, 2012, to the U.S. Bank Indenture and Form of 5.000% Prospect Capital InterNote® due 2030(29)
- 4.34 Thirty-Seventh Supplemental Indenture dated as of December 28, 2012, to the U.S. Bank Indenture and Form of 6.000% Prospect Capital InterNote® due 2042(29)
- 4.35 Thirty-Eighth Supplemental Indenture dated as of January 4, 2013, to the U.S. Bank Indenture and Form of 4.375% Prospect Capital InterNote® due 2020(30)
- 4.36 Thirty-Ninth Supplemental Indenture dated as of January 4, 2013, to the U.S. Bank Indenture and Form of 4.875% Prospect Capital InterNote® due 2031(30)
- 4.37 Fortieth Supplemental Indenture dated as of January 4, 2013, to the U.S. Bank Indenture and Form of 5.875% Prospect Capital InterNote® due 2043(30)
- 4.38 Forty-First Supplemental Indenture dated as of January 10, 2013, to the U.S. Bank Indenture and Form of 4.250% Prospect Capital InterNote® due 2020(31)
- 4.39 Forty-Second Supplemental Indenture dated as of January 10, 2013, to the U.S. Bank Indenture and Form of 4.750% Prospect Capital InterNote® due 2031(31)
- 4.40 Forty-Third Supplemental Indenture dated as of January 10, 2013, to the U.S. Bank Indenture and Form of 5.750% Prospect Capital InterNote® due 2043(31)
- 4.41 Forty-Fourth Supplemental Indenture dated as of January 17, 2013, to the U.S. Bank Indenture and Form of 4.125% Prospect Capital InterNote® due 2020(32)
- 4.42 Forty-Fifth Supplemental Indenture dated as of January 17, 2013, to the U.S. Bank Indenture and Form of 4.625% Prospect Capital InterNote® due 2031(32)
- 4.43 Forty-Sixth Supplemental Indenture dated as of January 17, 2013, to the U.S. Bank Indenture and Form of 5.625% Prospect Capital InterNote® due 2043(32)
- 4.44

Forty-Seventh Supplemental Indenture dated as of January 25, 2013, to the U.S. Bank Indenture and Form of 4.000% Prospect Capital InterNote® due 2020(33)

4.45 Forty-Eighth Supplemental Indenture dated as of January 25, 2013, to the U.S. Bank Indenture and Form of 4.500% Prospect Capital InterNote® due 2031(33)

220

Exhibit No.

- 4.46 Forty-Ninth Supplemental Indenture dated as of January 25, 2013, to the U.S. Bank Indenture and Form of 5.500% Prospect Capital InterNote® due 2043(33)
- 4.47 Fiftieth Supplemental Indenture dated as of January 31, 2013, to the U.S. Bank Indenture and Form of 4.000% Prospect Capital InterNote® due 2020(34)
- 4.48 Fifty-First Supplemental Indenture dated as of January 31, 2013, to the U.S. Bank Indenture and Form of 4.500% Prospect Capital InterNote® due 2031(34)
- 4.49 Fifty-Second Supplemental Indenture dated as of January 31, 2013, to the U.S. Bank Indenture and Form of 5.500% Prospect Capital InterNote® due 2043(34)
- 4.50 Fifty-Third Supplemental Indenture dated as of February 7, 2013, to the U.S. Bank Indenture and Form of 4.000% Prospect Capital InterNote® due 2020(35)
- 4.51 Fifty-Fourth Supplemental Indenture dated as of February 7, 2013, to the U.S. Bank Indenture and Form of 4.500% Prospect Capital InterNote® due 2031(35)
- 4.52 Fifty-Fifth Supplemental Indenture dated as of February 7, 2013, to the U.S. Bank Indenture and Form of 5.500% Prospect Capital InterNote® due 2043(35)
- 4.53 Fifty-Sixth Supplemental Indenture dated as of February 22, 2013, to the U.S. Bank Indenture and Form of 4.000% Prospect Capital InterNote® due 2020(36)
- 4.54 Fifty-Seventh Supplemental Indenture dated as of February 22, 2013, to the U.S. Bank Indenture and Form of 4.500% Prospect Capital InterNote® due 2031(36)
- 4.55 Fifty-Eighth Supplemental Indenture dated as of February 22, 2013, to the U.S. Bank Indenture and Form of 5.500% Prospect Capital InterNote® due 2043(36)
- 4.56 Fifty-Ninth Supplemental Indenture dated as of February 28, 2013, to the U.S. Bank Indenture and Form of 4.000% Prospect Capital InterNote® due 2020(37)
- 4.57 Sixtieth Supplemental Indenture dated as of February 28, 2013, to the U.S. Bank Indenture and Form of 4.500% Prospect Capital InterNote® due 2031(37)
- 4.58 Sixty-First Supplemental Indenture dated as of February 28, 2013, to the U.S. Bank Indenture and Form of 5.500% Prospect Capital InterNote® due 2043(37)
- 4.59 Sixty-Second Supplemental Indenture dated as of March 7, 2013, to the U.S. Bank Indenture and Form of 4.000% Prospect Capital InterNote® due 2020(38)
- 4.60 Sixty-Third Supplemental Indenture dated as of March 7, 2013, to the U.S. Bank Indenture and Form of 4.500% Prospect Capital InterNote® due 2031(38)
- 4.61 Sixty-Fourth Supplemental Indenture dated as of March 7, 2013, to the U.S. Bank Indenture and Form of 5.500% Prospect Capital InterNote® due 2043(38)
- 4.62 Sixty-Fifth Supplemental Indenture dated as of March 14, 2013, to the U.S. Bank Indenture and Form of 4.000% Prospect Capital InterNote® due 2020(39)
- 4.63 Sixty-Sixth Supplemental Indenture dated as of March 14, 2013, to the U.S. Bank Indenture and Form of 4.125% to 6.000% Prospect Capital InterNote® due 2031(39)
- 4.64 Sixty-Seventh Supplemental Indenture dated as of March 14, 2013, to the U.S. Bank Indenture and Form of 5.500% Prospect Capital InterNote® due 2043(39)
- 4.65 Sixty-Eighth Supplemental Indenture dated as of March 14, 2013, to the U.S. Bank Indenture and Form of Floating Prospect Capital InterNote® due 2023(39)
- 4.66 Supplemental Indenture dated as of March 15, 2013, to the U.S. Bank Indenture(40)
- 4.67 Form of Global Note 5.875% Senior Note due 2023(41)
- 4.68 Sixty-Ninth Supplemental Indenture dated as of March 21, 2013, to the U.S. Bank Indenture and Form of 4.000% Prospect Capital InterNote® due 2020(42)
- 4.69 Seventieth Supplemental Indenture dated as of March 21, 2013, to the U.S. Bank Indenture and Form of 4.125% to 6.000% Prospect Capital InterNote® due 2031(42)
- 4.70 Seventy-First Supplemental Indenture dated as of March 21, 2013, to the U.S. Bank Indenture and Form of 5.500% Prospect Capital InterNote® due 2043(42)
- 4.71

Seventy-Second Supplemental Indenture dated as of March 21, 2013, to the U.S. Bank Indenture and Form of Floating Prospect Capital InterNote® due 2023(42)

4.72 Seventy-Third Supplemental Indenture dated as of March 28, 2013, to the U.S. Bank Indenture and Form of 4.000% Prospect Capital InterNote® due 2020(43)

221

Exhibit No.

- 4.73 Seventy-Fourth Supplemental Indenture dated as of March 28, 2013, to the U.S. Bank Indenture and Form of 4.125% to 6.000% Prospect Capital InterNote® due 2031(43)
- 4.74 Seventy-Fifth Supplemental Indenture dated as of March 28, 2013, to the U.S. Bank Indenture and Form of 5.500% Prospect Capital InterNote® due 2043(43)
- 4.75 Seventy-Sixth Supplemental Indenture dated as of March 28, 2013, to the U.S. Bank Indenture and Form of Floating Prospect Capital InterNote® due 2023(43)
- 4.76 Seventy-Seventh Supplemental Indenture dated as of April 4, 2013, to the U.S. Bank Indenture and Form of 4.500% Prospect Capital InterNote® due 2020(44)
- 4.77 Seventy-Eighth Supplemental Indenture dated as of April 4, 2013, to the U.S. Bank Indenture and Form of 4.625% to 6.500% Prospect Capital InterNote® due 2031(44)
- 4.78 Seventy-Ninth Supplemental Indenture dated as of April 4, 2013, to the U.S. Bank Indenture and Form of 6.000% Prospect Capital InterNote® due 2043(44)
- 4.79 Eightieth Supplemental Indenture dated as of April 4, 2013, to the U.S. Bank Indenture and Form of Floating Prospect Capital InterNote® due 2023(44)
- 4.80 Eighty-First Supplemental Indenture dated as of April 11, 2013, to the U.S. Bank Indenture and Form of 4.500% Prospect Capital InterNote® due 2020(45)
- 4.81 Eighty-Second Supplemental Indenture dated as of April 11, 2013, to the U.S. Bank Indenture and Form of 5.500% Prospect Capital InterNote® due 2031(45)
- 4.82 Eighty-Third Supplemental Indenture dated as of April 11, 2013, to the U.S. Bank Indenture and Form of 6.000% Prospect Capital InterNote® due 2043(45)
- 4.83 Eighty-Fourth Supplemental Indenture dated as of April 11, 2013, to the U.S. Bank Indenture and Form of Floating Prospect Capital InterNote® due 2023(45)
- 4.84 Eighty-Fifth Supplemental Indenture dated as of April 18, 2013, to the U.S. Bank Indenture and Form of 5.000% Prospect Capital InterNote® due 2020(46)
- 4.85 Eighty-Sixth Supplemental Indenture dated as of April 18, 2013, to the U.S. Bank Indenture and Form of 5.500% Prospect Capital InterNote® due 2031(46)
- 4.86 Eighty-Seventh Supplemental Indenture dated as of April 18, 2013, to the U.S. Bank Indenture and Form of 6.000% Prospect Capital InterNote® due 2043(46)
- 4.87 Eighty-Eighth Supplemental Indenture dated as of April 25, 2013, to the U.S. Bank Indenture and Form of 5.000% Prospect Capital InterNote® due 2020(47)
- 4.88 Eighty-Ninth Supplemental Indenture dated as of April 25, 2013, to the U.S. Bank Indenture and Form of 5.500% Prospect Capital InterNote® due 2031(47)
- 4.89 Ninetieth Supplemental Indenture dated as of April 25, 2013, to the U.S. Bank Indenture and Form of 6.000% Prospect Capital InterNote® due 2043(47)
- 4.90 Ninety-First Supplemental Indenture dated as of May 2, 2013, to the U.S. Bank Indenture and Form of 5.000% Prospect Capital InterNote® due 2020(48)
- 4.91 Ninety-Second Supplemental Indenture dated as of May 2, 2013, to the U.S. Bank Indenture and Form of 5.750% Prospect Capital InterNote® due 2031(48)
- 4.92 Ninety-Third Supplemental Indenture dated as of May 2, 2013, to the U.S. Bank Indenture and Form of 6.250% Prospect Capital InterNote® due 2043(48)
- 4.93 Ninety-Fourth Supplemental Indenture dated as of May 9, 2013, to the U.S. Bank Indenture and Form of 5.000% Prospect Capital InterNote® due 2020(49)
- 4.94 Ninety-Fifth Supplemental Indenture dated as of May 9, 2013, to the U.S. Bank Indenture and Form of 5.750% Prospect Capital InterNote® due 2031(49)
- 4.95 Ninety-Sixth Supplemental Indenture dated as of May 9, 2013, to the U.S. Bank Indenture and Form of 6.250% Prospect Capital InterNote® due 2043(49)
- 4.96 Ninety-Seventh Supplemental Indenture dated as of May 23, 2013, to the U.S. Bank Indenture and Form of 5.000% Prospect Capital InterNote® due 2020(50)
- 4.97

Ninety-Eighth Supplemental Indenture dated as of May 23, 2013, to the U.S. Bank Indenture and Form of 5.750% Prospect Capital InterNote® due 2031(50)

4.98 Ninety-Ninth Supplemental Indenture dated as of May 23, 2013, to the U.S. Bank Indenture and Form of 6.250% Prospect Capital InterNote® due 2043(50)

222

Exhibit No.

- 4.99 One Hundredth Supplemental Indenture dated as of May 23, 2013, to the U.S. Bank Indenture and Form of 5.000% to 7.000% Prospect Capital InterNote® due 2028(50)
- 4.100 One Hundred-First Supplemental Indenture dated as of May 31, 2013, to the U.S. Bank Indenture and Form of 5.000% Prospect Capital InterNote® due 2020(51)
- 4.101 One Hundred-Second Supplemental Indenture dated as of May 31, 2013, to the U.S. Bank Indenture and Form of 5.750% Prospect Capital InterNote® due 2031(51)
- 4.102 One Hundred-Third Supplemental Indenture dated as of May 31, 2013, to the U.S. Bank Indenture and Form of 6.250% Prospect Capital InterNote® due 2043(51)
- 4.103 One Hundred-Fourth Supplemental Indenture dated as of June 6, 2013, to the U.S. Bank Indenture and Form of 5.000% Prospect Capital InterNote® due 2020(52)
- 4.104 One Hundred-Fifth Supplemental Indenture dated as of June 6, 2013, to the U.S. Bank Indenture and Form of 5.750% Prospect Capital InterNote® due 2031(52)
- 4.105 One Hundred-Sixth Supplemental Indenture dated as of June 6, 2013, to the U.S. Bank Indenture and Form of 6.250% Prospect Capital InterNote® due 2043(52)
- 4.106 One Hundred-Seventh Supplemental Indenture dated as of June 6, 2013, to the U.S. Bank Indenture and Form of 5.000% to 7.000% Prospect Capital InterNote® due 2028(52)
- 4.107 One Hundred-Eighth Supplemental Indenture dated as of June 13, 2013, to the U.S. Bank Indenture and Form of 5.000% Prospect Capital InterNote® due 2020(53)
- 4.108 One Hundred-Ninth Supplemental Indenture dated as of June 13, 2013, to the U.S. Bank Indenture and Form of 5.750% Prospect Capital InterNote® due 2031(53)
- 4.109 One Hundred-Tenth Supplemental Indenture dated as of June 13, 2013, to the U.S. Bank Indenture and Form of 6.250% Prospect Capital InterNote® due 2043(53)
- 4.110 One Hundred-Eleventh Supplemental Indenture dated as of June 20, 2013, to the U.S. Bank Indenture and Form of 5.000% Prospect Capital InterNote® due 2020(54)
- 4.111 One Hundred-Twelfth Supplemental Indenture dated as of June 20, 2013, to the U.S. Bank Indenture and Form of 5.750% Prospect Capital InterNote® due 2031(54)
- 4.112 One Hundred-Thirteenth Supplemental Indenture dated as of June 20, 2013, to the U.S. Bank Indenture and Form of 6.250% Prospect Capital InterNote® due 2043(54)
- 4.113 One Hundred-Fifteenth Supplemental Indenture dated as of June 27, 2013, to the U.S. Bank Indenture and Form of 6.000% Prospect Capital InterNote® due 2031(55)
- 4.114 One Hundred-Sixteenth Supplemental Indenture dated as of June 27, 2013, to the U.S. Bank Indenture and Form of 6.500% Prospect Capital InterNote® due 2043(55)
- 4.115 One Hundred-Seventeenth Supplemental Indenture dated as of July 5, 2013, to the U.S. Bank Indenture and Form of 4.750% Prospect Capital InterNote® due 2020(56)
- 4.116 One Hundred-Eighteenth Supplemental Indenture dated as of July 5, 2013, to the U.S. Bank Indenture and Form of 5.500% Prospect Capital InterNote® due 2031(56)
- 4.117 One Hundred-Nineteenth Supplemental Indenture dated as of July 5, 2013, to the U.S. Bank Indenture and Form of 6.250% Prospect Capital InterNote® due 2043(56)
- 4.118 One Hundred-Twentieth Supplemental Indenture dated as of July 5, 2013, to the U.S. Bank Indenture and Form of 6.750% Prospect Capital InterNote® due 2043(56)
- 4.119 One Hundred Twenty-First Supplemental Indenture dated as of July 11, 2013, to the U.S. Bank Indenture and Form of 4.750% Prospect Capital InterNote® due 2020(57)
- 4.120 One Hundred Twenty-Second Supplemental Indenture dated as of July 11, 2013, to the U.S. Bank Indenture and Form of 5.500% Prospect Capital InterNote® due 2031(57)
- 4.121 One Hundred Twenty-Third Supplemental Indenture dated as of July 11, 2013, to the U.S. Bank Indenture and Form of 6.250% Prospect Capital InterNote® due 2043(57)
- 4.122 One Hundred Twenty-Fourth Supplemental Indenture dated as of July 11, 2013, to the U.S. Bank Indenture and Form of 6.750% Prospect Capital InterNote® due 2043(57)
- 4.123

One Hundred Twenty-Fifth Supplemental Indenture dated as of July 18, 2013, to the U.S. Bank Indenture and Form of 5.000% Prospect Capital InterNote® due 2020(58)

4.124 One Hundred Twenty-Sixth Supplemental Indenture dated as of July 18, 2013, to the U.S. Bank Indenture and Form of 5.750% Prospect Capital InterNote® due 2031(58)

223

Exhibit No.

- 4.125 One Hundred Twenty-Seventh Supplemental Indenture dated as of July 18, 2013, to the U.S. Bank Indenture and Form of 6.250% Prospect Capital InterNote® due 2043(58)
- 4.126 One Hundred Twenty-Eighth Supplemental Indenture dated as of July 18, 2013, to the U.S. Bank Indenture and Form of 6.750% Prospect Capital InterNote® due 2043(58)
- 4.127 One Hundred Twenty-Ninth Supplemental Indenture dated as of July 25, 2013, to the U.S. Bank Indenture and Form of 5.000% Prospect Capital InterNote® due 2020(59)
- 4.128 One Hundred Thirtieth Supplemental Indenture dated as of July 25, 2013, to the U.S. Bank Indenture and Form of 5.750% Prospect Capital InterNote® due 2031(59)
- 4.129 One Hundred Thirty-First Supplemental Indenture dated as of July 25, 2013, to the U.S. Bank Indenture and Form of 6.250% Prospect Capital InterNote® due 2043(59)
- 4.130 One Hundred Thirty-Second Supplemental Indenture dated as of July 25, 2013, to the U.S. Bank Indenture and Form of 6.750% Prospect Capital InterNote® due 2043(59)
- 4.131 One Hundred Thirty-Third Supplemental Indenture dated as of August 1, 2013, to the U.S. Bank Indenture and Form of 5.000% Prospect Capital InterNote® due 2019(60)
- 4.132 One Hundred Thirty-Fourth Supplemental Indenture dated as of August 1, 2013, to the U.S. Bank Indenture and Form of 5.750% Prospect Capital InterNote® due 2021(60)
- 4.133 One Hundred Thirty-Fifth Supplemental Indenture dated as of August 1, 2013, to the U.S. Bank Indenture and Form of 6.125% Prospect Capital InterNote® due 2031(60)
- 4.134 One Hundred Thirty-Sixth Supplemental Indenture dated as of August 1, 2013, to the U.S. Bank Indenture and Form of 6.625% Prospect Capital InterNote® due 2043(60)
- 4.135 One Hundred Thirty-Seventh Supplemental Indenture dated as of August 8, 2013, to the U.S. Bank Indenture and Form of 5.000% Prospect Capital InterNote® due 2018(61)
- 4.136 One Hundred Thirty-Eighth Supplemental Indenture dated as of August 8, 2013, to the U.S. Bank Indenture and Form of 5.500% Prospect Capital InterNote® due 2020(61)
- 4.137 One Hundred Thirty-Ninth Supplemental Indenture dated as of August 8, 2013, to the U.S. Bank Indenture and Form of 6.000% Prospect Capital InterNote® due 2031(61)
- 4.138 One Hundred Fortieth Supplemental Indenture dated as of August 8, 2013, to the U.S. Bank Indenture and Form of 6.500% Prospect Capital InterNote® due 2043(61)
- 4.139 One Hundred Forty-First Supplemental Indenture dated as of August 15, 2013, to the U.S. Bank Indenture and Form of 5.000% Prospect Capital InterNote® due 2018(62)
- 4.140 One Hundred Forty-Second Supplemental Indenture dated as of August 15, 2013, to the U.S. Bank Indenture and Form of 5.500% Prospect Capital InterNote® due 2020(62)
- 4.141 One Hundred Forty-Third Supplemental Indenture dated as of August 15, 2013, to the U.S. Bank Indenture and Form of 6.000% Prospect Capital InterNote® due 2028(62)
- 4.142 One Hundred Forty-Fourth Supplemental Indenture dated as of August 15, 2013, to the U.S. Bank Indenture and Form of 6.500% Prospect Capital InterNote® due 2038(62)
- 4.143 One Hundred Forty-Fifth Supplemental Indenture dated as of August 22, 2013, to the U.S. Bank Indenture and Form of 5.000% Prospect Capital InterNote® due 2018(63)
- 4.144 One Hundred Forty-Sixth Supplemental Indenture dated as of August 22, 2013, to the U.S. Bank Indenture and Form of 5.500% Prospect Capital InterNote® due 2020(63)
- 4.145 One Hundred Forty-Seventh Supplemental Indenture dated as of August 22, 2013, to the U.S. Bank Indenture and Form of 6.000% Prospect Capital InterNote® due 2028(63)
- 4.146 One Hundred Forty-Eighth Supplemental Indenture dated as of August 22, 2013, to the U.S. Bank Indenture and Form of 6.500% Prospect Capital InterNote® due 2038(63)
- 4.147 One Hundred Forty-Ninth Supplemental Indenture dated as of September 6, 2013, to the U.S. Bank Indenture and Form of 5.000% Prospect Capital InterNote® due 2018(64)
- 4.148 One Hundred Fiftieth Supplemental Indenture dated as of September 6, 2013, to the U.S. Bank Indenture and Form of 5.500% Prospect Capital InterNote® due 2020(64)
- 4.149

One Hundred Fifty-First Supplemental Indenture dated as of September 6, 2013, to the U.S. Bank Indenture and Form of 6.000% Prospect Capital InterNote® due 2028(64)

4.150 One Hundred Fifty-Second Supplemental Indenture dated as of September 6, 2013, to the U.S. Bank Indenture and Form of 6.500% Prospect Capital InterNote® due 2038(64)

224

Exhibit No.

- 4.151 One Hundred Fifty-Third Supplemental Indenture dated as of September 12, 2013, to the U.S. Bank Indenture and Form of 5.000% Prospect Capital InterNote® due 2018(65)
- 4.152 One Hundred Fifty-Fourth Supplemental Indenture dated as of September 12, 2013, to the U.S. Bank Indenture and Form of 5.500% Prospect Capital InterNote® due 2020(65)
- 4.153 One Hundred Fifty-Fifth Supplemental Indenture dated as of September 12, 2013, to the U.S. Bank Indenture and Form of 6.000% Prospect Capital InterNote® due 2033(65)
- 4.154 One Hundred Fifty-Sixth Supplemental Indenture dated as of September 12, 2013, to the U.S. Bank Indenture and Form of 6.500% Prospect Capital InterNote® due 2043(65)
- 4.155 One Hundred Fifty-Seventh Supplemental Indenture dated as of September 19, 2013, to the U.S. Bank Indenture and Form of 5.000% Prospect Capital InterNote® due 2018(66)
- 4.156 One Hundred Fifty-Eighth Supplemental Indenture dated as of September 19, 2013, to the U.S. Bank Indenture and Form of 5.500% Prospect Capital InterNote® due 2020(66)
- 4.157 One Hundred Fifty-Ninth Supplemental Indenture dated as of September 19, 2013, to the U.S. Bank Indenture and Form of 6.000% Prospect Capital InterNote® due 2033(66)
- 4.158 One Hundred Sixtieth Supplemental Indenture dated as of September 19, 2013, to the U.S. Bank Indenture and Form of 6.500% Prospect Capital InterNote® due 2043(66)
- 4.159 One Hundred Sixty-First Supplemental Indenture dated as of September 26, 2013, to the U.S. Bank Indenture and Form of 5.000% Prospect Capital InterNote® due 2018(67)
- 4.160 One Hundred Sixty-Second Supplemental Indenture dated as of September 26, 2013, to the U.S. Bank Indenture and Form of 5.500% Prospect Capital InterNote® due 2020(67)
- 4.161 One Hundred Sixty-Third Supplemental Indenture dated as of September 26, 2013, to the U.S. Bank Indenture and Form of 6.000% Prospect Capital InterNote® due 2033(67)
- 4.162 One Hundred Sixty-Fourth Supplemental Indenture dated as of September 26, 2013, to the U.S. Bank Indenture and Form of 6.500% Prospect Capital InterNote® due 2043(67)
- 4.163 One Hundred Sixty-Fifth Supplemental Indenture dated as of October 3, 2013, to the U.S. Bank Indenture and Form of 5.000% Prospect Capital InterNote® due 2018(68)
- 4.164 One Hundred Sixty-Sixth Supplemental Indenture dated as of October 3, 2013, to the U.S. Bank Indenture and Form of 5.500% Prospect Capital InterNote® due 2020(68)
- 4.165 One Hundred Sixty-Seventh Supplemental Indenture dated as of October 3, 2013, to the U.S. Bank Indenture and Form of 6.000% Prospect Capital InterNote® due 2033(68)
- 4.166 One Hundred Sixty-Eighth Supplemental Indenture dated as of October 3, 2013, to the U.S. Bank Indenture and Form of 6.500% Prospect Capital InterNote® due 2043(68)
- 4.167 One Hundred Sixty-Ninth Supplemental Indenture dated as of October 10, 2013, to the U.S. Bank Indenture and Form of 5.000% Prospect Capital InterNote® due 2018(69)
- 4.168 One Hundred Seventieth Supplemental Indenture dated as of October 10, 2013, to the U.S. Bank Indenture and Form of 5.500% Prospect Capital InterNote® due 2020(69)
- 4.169 One Hundred Seventy-First Supplemental Indenture dated as of October 10, 2013, to the U.S. Bank Indenture and Form of 6.000% Prospect Capital InterNote® due 2033(69)
- 4.170 One Hundred Seventy-Second Supplemental Indenture dated as of October 10, 2013, to the U.S. Bank Indenture and Form of 6.500% Prospect Capital InterNote® due 2043(69)
- 4.171 One Hundred Seventy-Third Supplemental Indenture dated as of October 18, 2013, to the U.S. Bank Indenture and Form of 5.000% Prospect Capital InterNote® due 2018(70)
- 4.172 One Hundred Seventy-Fourth Supplemental Indenture dated as of October 18, 2013, to the U.S. Bank Indenture and Form of 5.500% Prospect Capital InterNote® due 2020(70)
- 4.173 One Hundred Seventy-Fifth Supplemental Indenture dated as of October 18, 2013, to the U.S. Bank Indenture and Form of 6.000% Prospect Capital InterNote® due 2033(70)
- 4.174 One Hundred Seventy-Sixth Supplemental Indenture dated as of October 18, 2013, to the U.S. Bank Indenture and Form of 6.500% Prospect Capital InterNote® due 2043(70)
- 4.175

One Hundred Seventy-Seventh Supplemental Indenture dated as of October 24, 2013, to the U.S. Bank Indenture and Form of 4.000% Prospect Capital InterNote® due 2016(71)

4.176 One Hundred Seventy-Eighth Supplemental Indenture dated as of October 24, 2013, to the U.S. Bank Indenture and Form of 5.000% Prospect Capital InterNote® due 2018(71)

225

Exhibit No.

- 4.177 One Hundred Seventy-Ninth Supplemental Indenture dated as of October 24, 2013, to the U.S. Bank Indenture and Form of 5.500% Prospect Capital InterNote® due 2020(71)
- 4.178 One Hundred Eightieth Supplemental Indenture dated as of October 24, 2013, to the U.S. Bank Indenture and Form of 6.000% Prospect Capital InterNote® due 2033(71)
- 4.179 One Hundred Eighty-First Supplemental Indenture dated as of October 24, 2013, to the U.S. Bank Indenture and Form of 6.500% Prospect Capital InterNote® due 2043(71)
- 4.180 One Hundred Eighty-Second Supplemental Indenture dated as of October 31, 2013, to the U.S. Bank Indenture and Form of 4.000% Prospect Capital InterNote® due 2017(72)
- 4.181 One Hundred Eighty-Third Supplemental Indenture dated as of October 31, 2013, to the U.S. Bank Indenture and Form of 5.000% Prospect Capital InterNote® due 2018(72)
- 4.182 One Hundred Eighty-Fourth Supplemental Indenture dated as of October 31, 2013, to the U.S. Bank Indenture and Form of 5.500% Prospect Capital InterNote® due 2020(72)
- 4.183 One Hundred Eighty-Fifth Supplemental Indenture dated as of October 31, 2013, to the U.S. Bank Indenture and Form of 6.000% Prospect Capital InterNote® due 2028(72)
- 4.184 One Hundred Eighty-Sixth Supplemental Indenture dated as of October 31, 2013, to the U.S. Bank Indenture and Form of 6.500% Prospect Capital InterNote® due 2038(72)
- 4.185 One Hundred Eighty-Seventh Supplemental Indenture dated as of November 7, 2013, to the U.S. Bank Indenture and Form of 4.000% Prospect Capital InterNote® due 2017(73)
- 4.186 One Hundred Eighty-Eighth Supplemental Indenture dated as of November 7, 2013, to the U.S. Bank Indenture and Form of 5.000% Prospect Capital InterNote® due 2018(73)
- 4.187 One Hundred Eighty-Ninth Supplemental Indenture dated as of November 7, 2013, to the U.S. Bank Indenture and Form of 5.500% Prospect Capital InterNote® due 2020(73)
- 4.188 One Hundred Ninetieth Supplemental Indenture dated as of November 7, 2013, to the U.S. Bank Indenture and Form of 6.000% Prospect Capital InterNote® due 2028(73)
- 4.189 One Hundred Ninety-First Supplemental Indenture dated as of November 7, 2013, to the U.S. Bank Indenture and Form of 6.500% Prospect Capital InterNote® due 2038(73)
- 4.190 One Hundred Ninety-Second Supplemental Indenture dated as of November 15, 2013, to the U.S. Bank Indenture and Form of 4.000% Prospect Capital InterNote® due 2017(74)
- 4.191 One Hundred Ninety-Third Supplemental Indenture dated as of November 15, 2013, to the U.S. Bank Indenture and Form of 5.000% Prospect Capital InterNote® due 2018(74)
- 4.192 One Hundred Ninety-Fourth Supplemental Indenture dated as of November 15, 2013, to the U.S. Bank Indenture and Form of 5.500% Prospect Capital InterNote® due 2020(74)
- 4.193 One Hundred Ninety-Fifth Supplemental Indenture dated as of November 15, 2013, to the U.S. Bank Indenture and Form of 6.000% Prospect Capital InterNote® due 2028(74)
- 4.194 One Hundred Ninety-Sixth Supplemental Indenture dated as of November 15, 2013, to the U.S. Bank Indenture and Form of 6.500% Prospect Capital InterNote® due 2038(74)
- 4.195 One Hundred Ninety-Seventh Supplemental Indenture dated as of November 21, 2013, to the U.S. Bank Indenture and Form of 4.000% Prospect Capital InterNote® due 2017(75)
- 4.196 One Hundred Ninety-Eighth Supplemental Indenture dated as of November 21, 2013, to the U.S. Bank Indenture and Form of 5.000% Prospect Capital InterNote® due 2018(75)
- 4.197 One Hundred Ninety-Ninth Supplemental Indenture dated as of November 21, 2013, to the U.S. Bank Indenture and Form of 5.500% Prospect Capital InterNote® due 2020(75)
- 4.198 Two Hundredth Supplemental Indenture dated as of November 21, 2013, to the U.S. Bank Indenture and Form of 6.000% Prospect Capital InterNote® due 2028(75)
- 4.199 Two Hundred First Supplemental Indenture dated as of November 21, 2013, to the U.S. Bank Indenture and Form of 6.500% Prospect Capital InterNote® due 2038(75)
- 4.200 Two Hundred Second Supplemental Indenture dated as of November 29, 2013, to the U.S. Bank Indenture and Form of 4.000% Prospect Capital InterNote® due 2017(76)
- 4.201

Two Hundred Third Supplemental Indenture dated as of November 29, 2013, to the U.S. Bank Indenture and Form of 5.000% Prospect Capital InterNote® due 2018(76)

4.202

Two Hundred Fourth Supplemental Indenture dated as of November 29, 2013, to the U.S. Bank Indenture and Form of 5.500% Prospect Capital InterNote® due 2020(76)

226

Exhibit No.

- 4.203 Two Hundred Fifth Supplemental Indenture dated as of November 29, 2013, to the U.S. Bank Indenture and Form of 6.000% Prospect Capital InterNote® due 2025(76)
- 4.204 Two Hundred Sixth Supplemental Indenture dated as of November 29, 2013, to the U.S. Bank Indenture and Form of 6.500% Prospect Capital InterNote® due 2038(76)
- 4.205 Two Hundred Seventh Supplemental Indenture dated as of December 5, 2013, to the U.S. Bank Indenture and Form of 4.000% Prospect Capital InterNote® due 2017(77)
- 4.206 Two Hundred Eighth Supplemental Indenture dated as of December 5, 2013, to the U.S. Bank Indenture and Form of 5.000% Prospect Capital InterNote® due 2018(77)
- 4.207 Two Hundred Tenth Supplemental Indenture dated as of December 5, 2013, to the U.S. Bank Indenture and Form of 6.000% Prospect Capital InterNote® due 2025(77)
- 4.208 Two Hundred Eleventh Supplemental Indenture dated as of December 5, 2013, to the U.S. Bank Indenture and Form of 6.500% Prospect Capital InterNote® due 2038(77)
- 4.209 Two Hundred Twelfth Supplemental Indenture dated as of December 12, 2013, to the U.S. Bank Indenture and Form of 4.000% Prospect Capital InterNote® due 2017(78)
- 4.210 Two Hundred Thirteenth Supplemental Indenture dated as of December 12, 2013, to the U.S. Bank Indenture and Form of 5.000% Prospect Capital InterNote® due 2018(78)
- 4.211 Two Hundred Fifteenth Supplemental Indenture dated as of December 12, 2013, to the U.S. Bank Indenture and Form of 6.000% Prospect Capital InterNote® due 2025(78)
- 4.212 Two Hundred Sixteenth Supplemental Indenture dated as of December 12, 2013, to the U.S. Bank Indenture and Form of 6.500% Prospect Capital InterNote® due 2038(78)
- 4.213 Two Hundred Seventeenth Supplemental Indenture dated as of December 19, 2013, to the U.S. Bank Indenture and Form of 4.000% Prospect Capital InterNote® due 2017(79)
- 4.214 Two Hundred Eighteenth Supplemental Indenture dated as of December 19, 2013, to the U.S. Bank Indenture and Form of 5.000% Prospect Capital InterNote® due 2018(79)
- 4.215 Two Hundred Twentieth Supplemental Indenture dated as of December 19, 2013, to the U.S. Bank Indenture and Form of 6.000% Prospect Capital InterNote® due 2025(79)
- 4.216 Two Hundred Twenty-First Supplemental Indenture dated as of December 19, 2013, to the U.S. Bank Indenture and Form of 6.500% Prospect Capital InterNote® due 2038(79)
- 4.217 Two Hundred Twenty-Second Supplemental Indenture dated as of December 27, 2013, to the U.S. Bank Indenture and Form of 4.000% Prospect Capital InterNote® due 2017(80)
- 4.218 Two Hundred Twenty-Third Supplemental Indenture dated as of December 27, 2013, to the U.S. Bank Indenture and Form of 5.000% Prospect Capital InterNote® due 2018(80)
- 4.219 Two Hundred Twenty-Fifth Supplemental Indenture dated as of December 27, 2013, to the U.S. Bank Indenture and Form of 6.000% Prospect Capital InterNote® due 2025(80)
- 4.220 Two Hundred Twenty-Sixth Supplemental Indenture dated as of December 27, 2013, to the U.S. Bank Indenture and Form of 6.500% Prospect Capital InterNote® due 2038(80)
- 4.221 Two Hundred Twenty-Seventh Supplemental Indenture dated as of January 3, 2014, to the U.S. Bank Indenture and Form of 4.000% Prospect Capital InterNote® due 2018(81)
- 4.222 Two Hundred Twenty-Eighth Supplemental Indenture dated as of January 3, 2014, to the U.S. Bank Indenture and Form of 5.000% Prospect Capital InterNote® due 2019(81)
- 4.223 Two Hundred Twenty-Ninth Supplemental Indenture dated as of January 3, 2014, to the U.S. Bank Indenture and Form of 5.500% Prospect Capital InterNote® due 2021(81)
- 4.224 Two Hundred Thirtieth Supplemental Indenture dated as of January 3, 2014, to the U.S. Bank Indenture and Form of 6.000% Prospect Capital InterNote® due 2026(81)
- 4.225 Two Hundred Thirty-First Supplemental Indenture dated as of January 3, 2014, to the U.S. Bank Indenture and Form of 6.500% Prospect Capital InterNote® due 2039(81)
- 4.226 Two Hundred Thirty-Second Supplemental Indenture dated as of January 9, 2014, to the U.S. Bank Indenture and Form of 4.000% Prospect Capital InterNote® due 2018(82)
- 4.227

Two Hundred Thirty-Third Supplemental Indenture dated as of January 9, 2014, to the U.S. Bank Indenture and Form of 5.000% Prospect Capital InterNote® due 2019(82)

4.228 Two Hundred Thirty-Fourth Supplemental Indenture dated as of January 9, 2014, to the U.S. Bank Indenture and Form of 5.500% Prospect Capital InterNote® due 2021(82)

227

Exhibit No.

- 4.229 Two Hundred Thirty-Fifth Supplemental Indenture dated as of January 9, 2014, to the U.S. Bank Indenture and Form of 6.000% Prospect Capital InterNote® due 2026(82)
- 4.230 Two Hundred Thirty-Sixth Supplemental Indenture dated as of January 9, 2014, to the U.S. Bank Indenture and Form of 6.500% Prospect Capital InterNote® due 2039(82)
- 4.231 Two Hundred Thirty-Seventh Supplemental Indenture dated as of January 16, 2014, to the U.S. Bank Indenture and Form of 4.000% Prospect Capital InterNote® due 2018(83)
- 4.232 Two Hundred Thirty-Eighth Supplemental Indenture dated as of January 16, 2014, to the U.S. Bank Indenture and Form of 5.000% Prospect Capital InterNote® due 2019(83)
- 4.233 Two Hundred Thirty-Ninth Supplemental Indenture dated as of January 16, 2014, to the U.S. Bank Indenture and Form of 5.500% Prospect Capital InterNote® due 2021(83)
- 4.234 Two Hundred Fortieth Supplemental Indenture dated as of January 16, 2014, to the U.S. Bank Indenture and Form of 6.000% Prospect Capital InterNote® due 2026(83)
- 4.235 Two Hundred Forty-First Supplemental Indenture dated as of January 16, 2014, to the U.S. Bank Indenture and Form of 6.500% Prospect Capital InterNote® due 2039(83)
- 4.236 Two Hundred Forty-Second Supplemental Indenture dated as of January 24, 2014, to the U.S. Bank Indenture and Form of 4.000% Prospect Capital InterNote® due 2018(84)
- 4.237 Two Hundred Forty-Third Supplemental Indenture dated as of January 24, 2014, to the U.S. Bank Indenture and Form of 5.000% Prospect Capital InterNote® due 2019(84)
- 4.238 Two Hundred Forty-Fourth Supplemental Indenture dated as of January 24, 2014, to the U.S. Bank Indenture and Form of 5.500% Prospect Capital InterNote® due 2021(84)
- 4.239 Two Hundred Forty-Fifth Supplemental Indenture dated as of January 24, 2014, to the U.S. Bank Indenture and Form of 6.000% Prospect Capital InterNote® due 2026(84)
- 4.240 Two Hundred Forty-Sixth Supplemental Indenture dated as of January 24, 2014, to the U.S. Bank Indenture and Form of 6.500% Prospect Capital InterNote® due 2039(84)
- 4.241 Two Hundred Forty-Seventh Supplemental Indenture dated as of January 30, 2014, to the U.S. Bank Indenture and Form of 4.000% Prospect Capital InterNote® due 2018(85)
- 4.242 Two Hundred Forty-Eighth Supplemental Indenture dated as of January 30, 2014, to the U.S. Bank Indenture and Form of 5.000% Prospect Capital InterNote® due 2019(85)
- 4.243 Two Hundred Forty-Ninth Supplemental Indenture dated as of January 30, 2014, to the U.S. Bank Indenture and Form of 5.500% Prospect Capital InterNote® due 2021(85)
- 4.244 Two Hundred Fiftieth Supplemental Indenture dated as of January 30, 2014, to the U.S. Bank Indenture and Form of 6.000% Prospect Capital InterNote® due 2026(85)
- 4.245 Two Hundred Fifty-First Supplemental Indenture dated as of January 30, 2014, to the U.S. Bank Indenture and Form of 6.500% Prospect Capital InterNote® due 2039(85)
- 4.246 Two Hundred Fifty-Second Supplemental Indenture dated as of February 6, 2014, to the U.S. Bank Indenture and Form of 4.000% Prospect Capital InterNote® due 2018(86)
- 4.247 Two Hundred Fifty-Third Supplemental Indenture dated as of February 6, 2014, to the U.S. Bank Indenture and Form of 5.000% Prospect Capital InterNote® due 2019(86)
- 4.248 Two Hundred Fifty-Fourth Supplemental Indenture dated as of February 6, 2014, to the U.S. Bank Indenture and Form of 5.500% Prospect Capital InterNote® due 2021(86)
- 4.249 Two Hundred Fifty-Fifth Supplemental Indenture dated as of February 6, 2014, to the U.S. Bank Indenture and Form of 6.000% Prospect Capital InterNote® due 2026(86)
- 4.250 Two Hundred Fifty-Sixth Supplemental Indenture dated as of February 6, 2014, to the U.S. Bank Indenture and Form of 6.500% Prospect Capital InterNote® due 2039(86)
- 4.251 Two Hundred Fifty-Seventh Supplemental Indenture dated as of February 13, 2014, to the U.S. Bank Indenture and Form of 4.000% Prospect Capital InterNote® due 2018(87)
- 4.252 Two Hundred Fifty-Eighth Supplemental Indenture dated as of February 13, 2014, to the U.S. Bank Indenture and Form of 5.000% Prospect Capital InterNote® due 2019(87)
- 4.253

Two Hundred Fifty-Ninth Supplemental Indenture dated as of February 13, 2014, to the U.S. Bank Indenture and Form of 5.500% Prospect Capital InterNote® due 2021(87)

4.254 Two Hundred Sixtieth Supplemental Indenture dated as of February 13, 2014, to the U.S. Bank Indenture and Form of 6.000% Prospect Capital InterNote® due 2026(87)

228

Exhibit No.

- 4.255 Two Hundred Sixty-First Supplemental Indenture dated as of February 13, 2014, to the U.S. Bank Indenture and Form of 6.500% Prospect Capital InterNote® due 2039(87)
- 4.256 Two Hundred Sixty-Seventh Supplemental Indenture dated as of February 19, 2014, to the U.S. Bank Indenture and Form of 4.75% Prospect Capital InterNote® due 2019(88)
- 4.257 Two Hundred Sixty-Second Supplemental Indenture dated as of February 21, 2014, to the U.S. Bank Indenture and Form of 4.000% Prospect Capital InterNote® due 2018(89)
- 4.258 Two Hundred Sixty-Third Supplemental Indenture dated as of February 21, 2014, to the U.S. Bank Indenture and Form of 5.000% Prospect Capital InterNote® due 2019(89)
- 4.259 Two Hundred Sixty-Fourth Supplemental Indenture dated as of February 21, 2014, to the U.S. Bank Indenture and Form of 5.500% Prospect Capital InterNote® due 2021(89)
- 4.260 Two Hundred Sixty-Fifth Supplemental Indenture dated as of February 21, 2014, to the U.S. Bank Indenture and Form of 6.000% Prospect Capital InterNote® due 2026(89)
- 4.261 Two Hundred Sixty-Sixth Supplemental Indenture dated as of February 21, 2014, to the U.S. Bank Indenture and Form of 6.500% Prospect Capital InterNote® due 2039(89)
- 4.262 Two Hundred Sixty-Eighth Supplemental Indenture dated as of February 27, 2014, to the U.S. Bank Indenture and Form of 3.750% Prospect Capital InterNote® due 2018(90)
- 4.263 Two Hundred Sixty-Ninth Supplemental Indenture dated as of February 27, 2014, to the U.S. Bank Indenture and Form of 4.750% Prospect Capital InterNote® due 2019(90)
- 4.264 Two Hundred Seventieth Supplemental Indenture dated as of February 27, 2014, to the U.S. Bank Indenture and Form of 5.250% Prospect Capital InterNote® due 2021(90)
- 4.265 Two Hundred Seventy-First Supplemental Indenture dated as of February 27, 2014, to the U.S. Bank Indenture and Form of 5.750% Prospect Capital InterNote® due 2026(90)
- 4.266 Two Hundred Seventy-Second Supplemental Indenture dated as of February 27, 2014, to the U.S. Bank Indenture and Form of 6.250% Prospect Capital InterNote® due 2039(90)
- 4.267 Two Hundred Seventy-Third Supplemental Indenture dated as March 6, 2014, to the U.S. Bank Indenture and Form of 3.750% Prospect Capital InterNote® due 2018(91)
- 4.268 Two Hundred Seventy-Fourth Supplemental Indenture dated as of March 6, 2014, to the U.S. Bank Indenture and Form of 4.750% Prospect Capital InterNote® due 2019(91)
- 4.269 Two Hundred Seventy-Fifth Supplemental Indenture dated as of March 6, 2014, to the U.S. Bank Indenture and Form of 5.250% Prospect Capital InterNote® due 2021(91)
- 4.270 Two Hundred Seventy-Sixth Supplemental Indenture dated as of March 6, 2014, to the U.S. Bank Indenture and Form of 5.750% Prospect Capital InterNote® due 2026(91)
- 4.271 Two Hundred Seventy-Seventh Supplemental Indenture dated as of March 6, 2014, to the U.S. Bank Indenture and Form of 6.250% Prospect Capital InterNote® due 2039(91)
- 4.272 Supplement No. 1 to the Two Hundred Sixty-Seventh Supplemental Indenture dated as of March 11, 2014, to the U.S. Bank Indenture and Form of 4.75% Prospect Capital InterNote® due 2019(92)
- 4.273 Two Hundred Seventy-Eighth Supplemental Indenture dated as March 13, 2014, to the U.S. Bank Indenture and Form of 3.750% Prospect Capital InterNote® due 2018(93)
- 4.274 Two Hundred Seventy-Ninth Supplemental Indenture dated as of March 13, 2014, to the U.S. Bank Indenture and Form of 4.750% Prospect Capital InterNote® due 2019(93)
- 4.275 Two Hundred Eightieth Supplemental Indenture dated as of March 13, 2014, to the U.S. Bank Indenture and Form of 5.250% Prospect Capital InterNote® due 2021(93)
- 4.276 Two Hundred Eighty-First Supplemental Indenture dated as of March 13, 2014, to the U.S. Bank Indenture and Form of 5.750% Prospect Capital InterNote® due 2026(93)
- 4.277 Two Hundred Eighty-Second Supplemental Indenture dated as of March 13, 2014, to the U.S. Bank Indenture and Form of 6.250% Prospect Capital InterNote® due 2039(93)
- 4.278 Two Hundred Eighty-Fourth Supplemental Indenture dated as March 20, 2014, to the U.S. Bank Indenture and Form of 3.750% Prospect Capital InterNote® due 2018(94)
- 4.279

Two Hundred Eighty-Fifth Supplemental Indenture dated as of March 20, 2014, to the U.S. Bank Indenture and Form of 4.750% Prospect Capital InterNote® due 2019(94)

4.280 Two Hundred Eighty-Sixth Supplemental Indenture dated as of March 20, 2014, to the U.S. Bank Indenture and Form of 5.250% Prospect Capital InterNote® due 2021(94)

229

Exhibit No.

- 4.281 Two Hundred Eighty-Seventh Supplemental Indenture dated as of March 20, 2014, to the U.S. Bank Indenture and Form of 5.750% Prospect Capital InterNote® due 2026(94)
- 4.282 Two Hundred Eighty-Eighth Supplemental Indenture dated as of March 20, 2014, to the U.S. Bank Indenture and Form of 6.250% Prospect Capital InterNote® due 2039(94)
- 4.283 Two Hundred Eighty-Ninth Supplemental Indenture dated as March 27, 2014, to the U.S. Bank Indenture and Form of 3.750% Prospect Capital InterNote® due 2018(95)
- 4.284 Two Hundred Ninetieth Supplemental Indenture dated as of March 20, 2014, to the U.S. Bank Indenture and Form of 4.750% Prospect Capital InterNote® due 2019(95)
- 4.285 Two Hundred Ninety-First Supplemental Indenture dated as of March 27, 2014, to the U.S. Bank Indenture and Form of 5.250% Prospect Capital InterNote® due 2021(95)
- 4.286 Two Hundred Ninety-Second Supplemental Indenture dated as of March 27, 2014, to the U.S. Bank Indenture and Form of 5.750% Prospect Capital InterNote® due 2026(95)
- 4.287 Two Hundred Ninety-Third Supplemental Indenture dated as of March 27, 2014, to the U.S. Bank Indenture and Form of 6.250% Prospect Capital InterNote® due 2039(95)
- 4.288 Two Hundred Ninety-Fourth Supplemental Indenture dated as of April 3, 2014, to the U.S. Bank Indenture and Form of 3.750% Prospect Capital InterNote® due 2018(96)
- 4.289 Two Hundred Ninety-Fifth Supplemental Indenture dated as of April 3, 2014, to the U.S. Bank Indenture and Form of 4.500% Prospect Capital InterNote® due 2019(96)
- 4.290 Two Hundred Ninety-Sixth Supplemental Indenture dated as of April 3, 2014, to the U.S. Bank Indenture and Form of 5.250% Prospect Capital InterNote® due 2021(96)
- 4.291 Two Hundred Ninety-Seventh Supplemental Indenture dated as of April 3, 2014, to the U.S. Bank Indenture and Form of 5.750% Prospect Capital InterNote® due 2024(96)
- 4.292 Two Hundred Ninety-Eighth Supplemental Indenture dated as of April 3, 2014, to the U.S. Bank Indenture and Form of 6.250% Prospect Capital InterNote® due 2039(96)
- 4.293 Supplemental Indenture dated as of April 7, 2014, to the U.S. Bank Indenture and Form of 5.000% Senior Notes due 2019(97)
- 4.294 Two Hundred Ninety-Ninth Supplemental Indenture dated as of April 10, 2014, to the U.S. Bank Indenture and Form of 3.750% Prospect Capital InterNote® due 2018(98)
- 4.295 Three Hundredth Supplemental Indenture dated as of April 10, 2014, to the U.S. Bank Indenture and Form of 4.250% Prospect Capital InterNote® due 2019(98)
- 4.296 Three Hundred First Supplemental Indenture dated as of April 10, 2014, to the U.S. Bank Indenture and Form of 5.250% Prospect Capital InterNote® due 2021(98)
- 4.297 Three Hundred Second Supplemental Indenture dated as of April 10, 2014, to the U.S. Bank Indenture and Form of 5.750% Prospect Capital InterNote® due 2024(98)
- 4.298 Three Hundred Third Supplemental Indenture dated as of April 10, 2014, to the U.S. Bank Indenture and Form of 6.250% Prospect Capital InterNote® due 2039(98)
- 4.299 Indenture dated as of April 11, 2014, by and between Prospect Capital Corporation and American Stock Transfer & Trust Company, as Trustee and Form of Global Note of 4.75% Senior Convertible Notes Due 2020(99)
- 4.300 Three Hundred Fourth Supplemental Indenture dated as of April 17, 2014, to the U.S. Bank Indenture and Form of 3.750% Prospect Capital InterNote® due 2018(100)
- 4.301 Three Hundred Fifth Supplemental Indenture dated as of April 17, 2014, to the U.S. Bank Indenture and Form of 4.250% Prospect Capital InterNote® due 2019(100)
- 4.302 Three Hundred Sixth Supplemental Indenture dated as of April 17, 2014, to the U.S. Bank Indenture and Form of 5.250% Prospect Capital InterNote® due 2021(100)
- 4.303 Three Hundred Seventh Supplemental Indenture dated as of April 17, 2014, to the U.S. Bank Indenture and Form of 5.750% Prospect Capital InterNote® due 2024(100)
- 4.304 Three Hundred Eighth Supplemental Indenture dated as of April 17, 2014, to the U.S. Bank Indenture and Form of 6.250% Prospect Capital InterNote® due 2039(100)

- 4.305 Three Hundred Ninth Supplemental Indenture dated as of April 24, 2014, to the U.S. Bank Indenture and Form of 3.750% Prospect Capital InterNote® due 2018(101)
- 4.306 Three Hundred Tenth Supplemental Indenture dated as of April 24, 2014, to the U.S. Bank Indenture and Form of 4.500% Prospect Capital InterNote® due 2019(101)

230

Exhibit No.

- 4.307 Three Hundred Eleventh Supplemental Indenture dated as of April 24, 2014, to the U.S. Bank Indenture and Form of 5.250% Prospect Capital InterNote® due 2021(101)
- 4.308 Three Hundred Twelfth Supplemental Indenture dated as of April 24, 2014, to the U.S. Bank Indenture and Form of 5.750% Prospect Capital InterNote® due 2024(101)
- 4.309 Three Hundred Thirteenth Supplemental Indenture dated as of April 24, 2014, to the U.S. Bank Indenture and Form of 6.250% Prospect Capital InterNote® due 2039(101)
- 4.310 Three Hundred Fourteenth Supplemental Indenture dated as of May 1, 2014, to the U.S. Bank Indenture and Form of 3.750% Prospect Capital InterNote® due 2018(102)
- 4.311 Three Hundred Fifteenth Supplemental Indenture dated as of May 1, 2014, to the U.S. Bank Indenture and Form of 4.500% Prospect Capital InterNote® due 2019(102)
- 4.312 Three Hundred Sixteenth Supplemental Indenture dated as of May 1, 2014, to the U.S. Bank Indenture and Form of 5.250% Prospect Capital InterNote® due 2021(102)
- 4.313 Three Hundred Seventeenth Supplemental Indenture dated as of May 1, 2014, to the U.S. Bank Indenture and Form of 5.750% Prospect Capital InterNote® due 2024(102)
- 4.314 Three Hundred Eighteenth Supplemental Indenture dated as of May 1, 2014, to the U.S. Bank Indenture and Form of 6.250% Prospect Capital InterNote® due 2039(102)
- 4.315 Three Hundred Nineteenth Supplemental Indenture dated as of May 8, 2014, to the U.S. Bank Indenture and Form of 3.750% Prospect Capital InterNote® due 2018(103)
- 4.316 Three Hundred Twentieth Supplemental Indenture dated as of May 8, 2014, to the U.S. Bank Indenture and Form of 4.500% Prospect Capital InterNote® due 2019(103)
- 4.317 Three Hundred Twenty-First Supplemental Indenture dated as of May 8, 2014, to the U.S. Bank Indenture and Form of 5.250% Prospect Capital InterNote® due 2021(103)
- 4.318 Three Hundred Twenty-Second Supplemental Indenture dated as of May 8, 2014, to the U.S. Bank Indenture and Form of 5.750% Prospect Capital InterNote® due 2024(103)
- 4.319 Three Hundred Twenty-Third Supplemental Indenture dated as of May 8, 2014, to the U.S. Bank Indenture and Form of 6.250% Prospect Capital InterNote® due 2039(103)
- 4.320 Three Hundred Twenty-Fourth Supplemental Indenture dated as of November 17, 2014, to the U.S. Bank Indenture and Form of 4.250% Prospect Capital InterNote® due 2020(110)
- 4.321 Three Hundred Twenty-Fifth Supplemental Indenture dated as of November 28, 2014, to the U.S. Bank Indenture and Form of 4.250% Prospect Capital InterNote® due 2020(111)
- 4.322 Three Hundred Twenty-Sixth Supplemental Indenture dated as of December 4, 2014, to the U.S. Bank Indenture and Form of 4.250% Prospect Capital InterNote® due 2020(112)
- 4.323 Three Hundred Twenty-Seventh Supplemental Indenture dated as of December 11, 2014, to the U.S. Bank Indenture and Form of 4.250% Prospect Capital InterNote® due 2020(113)
- 4.324 Three Hundred Twenty-Eighth Supplemental Indenture dated as of December 18, 2014, to the U.S. Bank Indenture and Form of 4.250% Prospect Capital InterNote® due 2020(114)
- 4.325 Three Hundred Twenty-Ninth Supplemental Indenture dated as of December 29, 2014, to the U.S. Bank Indenture and Form of 4.250% Prospect Capital InterNote® due 2020(115)
- 4.326 Three Hundred Thirtieth Supplemental Indenture dated as of January 2, 2015, to the U.S. Bank Indenture and Form of 4.250% Prospect Capital InterNote® due 2020(116)
- 4.327 Three Hundred Thirty-First Supplemental Indenture dated as of January 8, 2015, to the U.S. Bank Indenture and Form of 4.250% Prospect Capital InterNote® due 2020(117)
- 4.328 Three Hundred Thirty-Second Supplemental Indenture dated as of January 15, 2015, to the U.S. Bank Indenture and Form of 4.500% Prospect Capital InterNote® due 2020(118)
- 4.329 Three Hundred Thirty-Third Supplemental Indenture dated as of January 23, 2015, to the U.S. Bank Indenture and Form of 4.750% Prospect Capital InterNote® due 2020(119)
- 4.330 Three Hundred Thirty-Fourth Supplemental Indenture dated as of January 29, 2015, to the U.S. Bank Indenture and Form of 4.750% Prospect Capital InterNote® due 2020(120)
- 4.331

Three Hundred Thirty-Fifth Supplemental Indenture dated as of February 5, 2015, to the U.S. Bank Indenture and Form of 4.750% Prospect Capital InterNote® due 2020(121)

4.332 Three Hundred Thirty-Sixth Supplemental Indenture dated as of February 20, 2015, to the U.S. Bank Indenture and Form of 4.750% Prospect Capital InterNote® due 2020(122)

231

Exhibit No.

- 4.333 Three Hundred Thirty-Seventh Supplemental Indenture dated as of February 26, 2015, to the U.S. Bank Indenture and Form of 4.750% Prospect Capital InterNote® due 2020(123)
- 4.334 Three Hundred Thirty-Eighth Supplemental Indenture dated as of March 5, 2015, to the U.S. Bank Indenture and Form of 4.750% Prospect Capital InterNote® due 2020(124)
- 4.335 Three Hundred Thirty-Ninth Supplemental Indenture dated as of March 12, 2015, to the U.S. Bank Indenture and Form of 4.750% Prospect Capital InterNote® due 2020(125)
- 4.336 Three Hundred Fortieth Supplemental Indenture dated as of March 19, 2015, to the U.S. Bank Indenture and Form of 4.750% Prospect Capital InterNote® due 2020(126)
- 4.337 Three Hundred Forty-First Supplemental Indenture dated as of March 26, 2015, to the U.S. Bank Indenture and Form of 4.750% Prospect Capital InterNote® due 2020(127)
- 4.338 Three Hundred Forty-Second Supplemental Indenture dated as of April 2, 2015, to the U.S. Bank Indenture and Form of 4.750% Prospect Capital InterNote® due 2020(128)
- 4.339 Three Hundred Forty-Third Supplemental Indenture dated as of April 9, 2015, to the U.S. Bank Indenture and Form of 4.750% Prospect Capital InterNote® due 2020(129)
- 4.340 Three Hundred Forty-Fourth Supplemental Indenture dated as of April 16, 2015, to the U.S. Bank Indenture and Form of 4.750% Prospect Capital InterNote® due 2020(130)
- 4.341 Three Hundred Forty-Fifth Supplemental Indenture dated as of April 16, 2015, to the U.S. Bank Indenture and Form of 3.375% to 6.375% Prospect Capital InterNote® due 2021(130)
- 4.342 Three Hundred Forty-Sixth Supplemental Indenture dated as of April 23, 2015, to the U.S. Bank Indenture and Form of 4.750% Prospect Capital InterNote® due 2020(131)
- 4.343 Three Hundred Forty-Seventh Supplemental Indenture dated as of April 23, 2015, to the U.S. Bank Indenture and Form of 3.375% to 6.375% Prospect Capital InterNote® due 2021(131)
- 4.344 Three Hundred Forty-Eighth Supplemental Indenture dated as of April 30, 2015, to the U.S. Bank Indenture and Form of 4.750% Prospect Capital InterNote® due 2020(132)
- 4.345 Three Hundred Forty-Ninth Supplemental Indenture dated as of April 30, 2015, to the U.S. Bank Indenture and Form of 3.375% to 6.375% Prospect Capital InterNote® due 2021(132)
- 4.346 Three Hundred Fiftieth Supplemental Indenture dated as of May 7, 2015, to the U.S. Bank Indenture and Form of 4.750% Prospect Capital InterNote® due 2020(133)
- 4.347 Three Hundred Fifty-First Supplemental Indenture dated as of May 7, 2015, to the U.S. Bank Indenture and Form of 3.375% to 6.375% Prospect Capital InterNote® due 2021(133)
- 4.348 Three Hundred Fifty-Second Supplemental Indenture dated as of May 21, 2015, to the U.S. Bank Indenture and Form of 4.750% Prospect Capital InterNote® due 2020(134)
- 4.349 Three Hundred Fifty-Third Supplemental Indenture dated as of May 29, 2015, to the U.S. Bank Indenture and Form of 4.625% Prospect Capital InterNote® due 2020(135)
- 4.350 Three Hundred Fifty-Fourth Supplemental Indenture dated as of May 29, 2015, to the U.S. Bank Indenture and Form of 5.100% Prospect Capital InterNote® due 2022(135)
- 4.351 Three Hundred Fifty-Fifth Supplemental Indenture dated as of June 4, 2015, to the U.S. Bank Indenture and Form of 4.625% Prospect Capital InterNote® due 2020(136)
- 4.352 Three Hundred Fifty-Sixth Supplemental Indenture dated as of June 4, 2015, to the U.S. Bank Indenture and Form of 5.100% Prospect Capital InterNote® due 2022(136)
- 4.353 Three Hundred Fifty-Seventh Supplemental Indenture dated as of June 11, 2015, to the U.S. Bank Indenture and Form of 4.625% Prospect Capital InterNote® due 2020(137)
- 4.354 Three Hundred Fifty-Eighth Supplemental Indenture dated as of June 11, 2015, to the U.S. Bank Indenture and Form of 5.100% Prospect Capital InterNote® due 2022(137)
- 4.355 Three Hundred Fifty-Ninth Supplemental Indenture dated as of June 18, 2015, to the U.S. Bank Indenture and Form of 4.625% Prospect Capital InterNote® due 2020(138)
- 4.356 Three Hundred Sixtieth Supplemental Indenture dated as of June 18, 2015, to the U.S. Bank Indenture and Form of 5.100% Prospect Capital InterNote® due 2021(138)
- 4.357

Three Hundred Sixty-First Supplemental Indenture dated as of June 25, 2015, to the U.S. Bank Indenture and Form of 4.625% Prospect Capital InterNote® due 2020(139)

4.358 Three Hundred Sixty-Second Supplemental Indenture dated as of June 25, 2015, to the U.S. Bank Indenture and Form of 5.100% Prospect Capital InterNote® due 2021(139)

232

Exhibit No.

- 4.359 Three Hundred Sixty-Third Supplemental Indenture dated as of July 2, 2015, to the U.S. Bank Indenture and Form of 4.625% Prospect Capital InterNote® due 2020(140)
- 4.360 Three Hundred Sixty-Fourth Supplemental Indenture dated as of July 2, 2015, to the U.S. Bank Indenture and Form of 5.100% Prospect Capital InterNote® due 2021(140)
- 4.361 Three Hundred Sixty-Fifth Supplemental Indenture dated as of July 9, 2015, to the U.S. Bank Indenture and Form of 4.750% Prospect Capital InterNote® due 2020(141)
- 4.362 Three Hundred Sixty-Sixth Supplemental Indenture dated as of July 9, 2015, to the U.S. Bank Indenture and Form of 5.250% Prospect Capital InterNote® due 2022(141)
- 4.363 Three Hundred Sixty-Seventh Supplemental Indenture dated as of July 16, 2015, to the U.S. Bank Indenture and Form of 4.750% Prospect Capital InterNote® due 2020(142)
- 4.364 Three Hundred Sixty-Eighth Supplemental Indenture dated as of July 16, 2015, to the U.S. Bank Indenture and Form of 5.250% Prospect Capital InterNote® due 2022(142)
- 4.365 Three Hundred Sixty-Ninth Supplemental Indenture dated as of July 23, 2015, to the U.S. Bank Indenture and Form of 4.750% Prospect Capital InterNote® due 2020(143)
- 4.366 Three Hundred Seventieth Supplemental Indenture dated as of July 23, 2015, to the U.S. Bank Indenture and Form of 5.250% Prospect Capital InterNote® due 2022(143)
- 4.367 Three Hundred Seventy-First Supplemental Indenture dated as of July 30, 2015, to the U.S. Bank Indenture and Form of 4.750% Prospect Capital InterNote® due 2020(144)
- 4.368 Three Hundred Seventy-Second Supplemental Indenture dated as of July 30, 2015, to the U.S. Bank Indenture and Form of 5.250% Prospect Capital InterNote® due 2022(144)
- 4.369 Three Hundred Seventy-Third Supplemental Indenture dated as of August 6, 2015, to the U.S. Bank Indenture and Form of 4.750% Prospect Capital InterNote® due 2020(145)
- 4.370 Three Hundred Seventy-Fourth Supplemental Indenture dated as of August 6, 2015, to the U.S. Bank Indenture and Form of 5.250% Prospect Capital InterNote® due 2022(145)
- 4.371 Three Hundred Seventy-Fifth Supplemental Indenture dated as of August 13, 2015, to the U.S. Bank Indenture and Form of 4.750% Prospect Capital InterNote® due 2020(146)
- 4.372 Three Hundred Seventy-Sixth Supplemental Indenture dated as of August 13, 2015, to the U.S. Bank Indenture and Form of 5.250% Prospect Capital InterNote® due 2022(146)
- 4.373 Three Hundred Seventy-Fifth Supplemental Indenture dated as of August 20, 2015, to the U.S. Bank Indenture and Form of 4.750% Prospect Capital InterNote® due 2020(147)
- 4.374 Three Hundred Seventy-Sixth Supplemental Indenture dated as of August 20, 2015, to the U.S. Bank Indenture and Form of 5.250% Prospect Capital InterNote® due 2022(147)
- 4.375 Three Hundred Seventy-Ninth Supplemental Indenture dated as of August 27, 2015, to the U.S. Bank Indenture and Form of 4.750% Prospect Capital InterNote® due 2020(148)
- 4.376 Three Hundred Eightieth Supplemental Indenture dated as of August 27, 2015, to the U.S. Bank Indenture and Form of 5.250% Prospect Capital InterNote® due 2022(148)
- 4.377 Three Hundred Eighty-One Supplemental Indenture dated as of September 11, 2015, to the U.S. Bank Indenture and Form of 4.750% Prospect Capital InterNote® due 2020(153)
- 4.378 Three Hundred Eighty-Second Supplemental Indenture dated as of September 11, 2015, to the U.S. Bank Indenture and Form of 5.250% Prospect Capital InterNote® due 2022(153)
- 4.379 Three Hundred Eighty-Third Supplemental Indenture dated as of September 17, 2015, to the U.S. Bank Indenture and Form of 4.750% Prospect Capital InterNote® due 2020(154)
- 4.380 Three Hundred Eighty-Fourth Supplemental Indenture dated as of September 17, 2015, to the U.S. Bank Indenture and Form of 5.250% Prospect Capital InterNote® due 2022(154)
- 4.381 Three Hundred Eighty-Fifth Supplemental Indenture dated as of September 24, 2015, to the U.S. Bank Indenture and Form of 4.750% Prospect Capital InterNote® due 2020(155)
- 4.382 Three Hundred Eighty-Sixth Supplemental Indenture dated as of September 24, 2015, to the U.S. Bank Indenture and Form of 5.250% Prospect Capital InterNote® due 2022(155)
- 4.383

Three Hundred Eighty-Seventh Supplemental Indenture dated as of October 1, 2015, to the U.S. Bank Indenture and Form of 4.750% Prospect Capital InterNote® due 2020(156)

4.384 Three Hundred Eighty-Eighth Supplemental Indenture dated as of October 1, 2015, to the U.S. Bank Indenture and Form of 5.250% Prospect Capital InterNote® due 2022(156)

233

Exhibit No.

- 4.385 Three Hundred Eighty-Ninth Supplemental Indenture dated as of October 8, 2015, to the U.S. Bank Indenture and Form of 4.750% Prospect Capital InterNote® due 2020(157)
- 4.386 Three Hundred Ninetieth Supplemental Indenture dated as of October 8, 2015, to the U.S. Bank Indenture and Form of 5.250% Prospect Capital InterNote® due 2022(157)
- 4.387 Three Hundred Ninety-First Supplemental Indenture dated as of October 16, 2015, to the U.S. Bank Indenture and Form of 4.750% Prospect Capital InterNote® due 2020(159)
- 4.388 Three Hundred Ninety-Second Supplemental Indenture dated as of October 16, 2015, to the U.S. Bank Indenture and Form of 5.250% Prospect Capital InterNote® due 2022(159)
- 4.389 Three Hundred Ninety-Third Supplemental Indenture dated as of October 22, 2015, to the U.S. Bank Indenture and Form of 4.750% Prospect Capital InterNote® due 2020(160)
- 4.390 Three Hundred Ninety-Fourth Supplemental Indenture dated as of October 22, 2015, to the U.S. Bank Indenture and Form of 5.250% Prospect Capital InterNote® due 2022(160)
- 4.391 Three Hundred Ninety-Fifth Supplemental Indenture dated as of October 29, 2015, to the U.S. Bank Indenture and Form of 4.750% Prospect Capital InterNote® due 2020(161)
- 4.392 Three Hundred Ninety-Sixth Supplemental Indenture dated as of October 29, 2015, to the U.S. Bank Indenture and Form of 5.250% Prospect Capital InterNote® due 2022(161)
- 4.393 Three Hundred Ninety-Seventh Supplemental Indenture dated as of November 4, 2015, to the U.S. Bank Indenture and Form of 4.750% Prospect Capital InterNote® due 2020(163)
- 4.394 Three Hundred Ninety-Eighth Supplemental Indenture dated as of November 4, 2015, to the U.S. Bank Indenture and Form of 5.250% Prospect Capital InterNote® due 2022(163)
- 4.395 Three Hundred Ninety-Ninth Supplemental Indenture dated as of November 19, 2015, to the U.S. Bank Indenture and Form of 5.000% Prospect Capital InterNote® due 2020(164)
- 4.396 Four Hundredth Supplemental Indenture dated as of November 19, 2015, to the U.S. Bank Indenture and Form of 5.625% Prospect Capital InterNote® due 2022(164)
- 4.397 Four Hundred First Supplemental Indenture dated as of November 19, 2015, to the U.S. Bank Indenture and Form of 5.875% Prospect Capital InterNote® due 2025(164)
- 4.398 Four Hundred Second Supplemental Indenture dated as of November 27, 2015, to the U.S. Bank Indenture and Form of 5.125% Prospect Capital InterNote® due 2020(165)
- 4.399 Four Hundred Third Supplemental Indenture dated as of November 27, 2015, to the U.S. Bank Indenture and Form of 5.750% Prospect Capital InterNote® due 2022(165)
- 4.400 Four Hundred Fourth Supplemental Indenture dated as of November 27, 2015, to the U.S. Bank Indenture and Form of 6.000% Prospect Capital InterNote® due 2025(165)
- 4.401 Four Hundred Fifth Supplemental Indenture dated as of December 3, 2015, to the U.S. Bank Indenture and Form of 5.250% Prospect Capital InterNote® due 2020(166)
- 4.402 Four Hundred Sixth Supplemental Indenture dated as of December 3, 2015, to the U.S. Bank Indenture and Form of 5.750% Prospect Capital InterNote® due 2022(166)
- 4.403 Four Hundred Seventh Supplemental Indenture dated as of December 3, 2015, to the U.S. Bank Indenture and Form of 6.000% Prospect Capital InterNote® due 2025(166)
- 4.404 Supplemental Indenture dated as of December 10, 2015, to the U.S. Bank Indenture and Form of 6.250% Note due 2024(167)
- 4.405 Four Hundred Eighth Supplemental Indenture dated as of December 17, 2015, to the U.S. Bank Indenture and Form of 5.375% Prospect Capital InterNote® due 2020(168)
- 4.406 Four Hundred Ninth Supplemental Indenture dated as of December 24, 2015, to the U.S. Bank Indenture and Form of 5.375% Prospect Capital InterNote® due 2020(169)
- 4.407 Four Hundred Tenth Supplemental Indenture dated as of December 31, 2015, to the U.S. Bank Indenture and Form of 5.375% Prospect Capital InterNote® due 2020(170)
- 4.408 Four Hundred Eleventh Supplemental Indenture dated as of January 7, 2016, to the U.S. Bank Indenture and Form of 5.375% Prospect Capital InterNote® due 2021(171)
- 4.409

Four Hundred Twelfth Supplemental Indenture dated as of January 14, 2016, to the U.S. Bank Indenture and Form of 5.375% Prospect Capital InterNote® due 2021(172)

4.410

Four Hundred Thirteenth Supplemental Indenture dated as of January 22, 2016, to the U.S. Bank Indenture and Form of 5.375% Prospect Capital InterNote® due 2021(173)

234

Exhibit No.

- 4.411 Four Hundred Fourteenth Supplemental Indenture dated as of March 3, 2016, to the U.S. Bank Indenture and Form of 5.375% Prospect Capital InterNote® due 2021(175)
- 4.412 Four Hundred Fifteenth Supplemental Indenture dated as of March 10, 2016, to the U.S. Bank Indenture and Form of 5.375% Prospect Capital InterNote® due 2021(176)
- 4.413 Four Hundred Sixteenth Supplemental Indenture dated as of March 17, 2016, to the U.S. Bank Indenture and Form of 5.375% Prospect Capital InterNote® due 2021(177)
- 4.414 Four Hundred Seventeenth Supplemental Indenture dated as of March 24, 2016, to the U.S. Bank Indenture and Form of 5.500% Prospect Capital InterNote® due 2021(178)
- 4.415 Four Hundred Eighteenth Supplemental Indenture dated as of March 31, 2016, to the U.S. Bank Indenture and Form of 5.500% Prospect Capital InterNote® due 2021(179)
- 4.416 Four Hundred Nineteenth Supplemental Indenture dated as of April 7, 2016, to the U.S. Bank Indenture and Form of 5.500% Prospect Capital InterNote® due 2021(180)
- 4.417 Four Hundred Twentieth Supplemental Indenture dated as of April 14, 2016, to the U.S. Bank Indenture and Form of 5.500% Prospect Capital InterNote® due 2021(181)
- 4.418 Four Hundred Twenty-First Supplemental Indenture dated as of April 21, 2016, to the U.S. Bank Indenture and Form of 5.500% Prospect Capital InterNote® due 2021(182)
- 4.419 Four Hundred Twenty-Second Supplemental Indenture dated as of April 28, 2016, to the U.S. Bank Indenture and Form of 5.500% Prospect Capital InterNote® due 2021(183)
- 4.420 Four Hundred Twenty-Third Supplemental Indenture dated as of May 5, 2016, to the U.S. Bank Indenture and Form of 5.500% Prospect Capital InterNote® due 2021(184)
- 4.421 Four Hundred Twenty-Fourth Supplemental Indenture dated as of May 12, 2016, to the U.S. Bank Indenture and Form of 5.500% Prospect Capital InterNote® due 2021(185)
- 4.422 Four Hundred Twenty-Fifth Supplemental Indenture dated as of May 26, 2016, to the U.S. Bank Indenture and Form of 5.500% Prospect Capital InterNote® due 2021(186)
- 4.423 Four Hundred Twenty-Sixth Supplemental Indenture dated as of June 3, 2016, to the U.S. Bank Indenture and Form of 5.500% Prospect Capital InterNote® due 2021(187)
- 4.424 Four Hundred Twenty-Seventh Supplemental Indenture dated as of June 9, 2016, to the U.S. Bank Indenture and Form of 5.500% Prospect Capital InterNote® due 2021(188)
- 4.425 Four Hundred Twenty-Eighth Supplemental Indenture dated as of June 16, 2016, to the U.S. Bank Indenture and Form of 5.500% Prospect Capital InterNote® due 2021(189)
- 4.426 Supplemental Indenture dated as of June 22, 2016, to the U.S. Bank Indenture, and Form of 6.250% Note due 2024(190)
- 4.427 Four Hundred Twenty-Ninth Supplemental Indenture dated as of June 23, 2016, to the U.S. Bank Indenture and Form of 5.500% Prospect Capital InterNote® due 2021(190)
- 4.428 Form of 6.250% Notes due 2024, Note 1, of an aggregate principal amount of \$650,775.00, pursuant to the Supplemental Indenture dated as of June 22, 2016, to the U.S. Bank Indenture(191)
- 4.429 Form of 6.250% Notes due 2024, Note 2, of an aggregate principal amount of \$538,575.00, pursuant to the Supplemental Indenture dated as of June 22, 2016, to the U.S. Bank Indenture(191)
- 4.430 Form of 6.250% Notes due 2024, Note 3, of an aggregate principal amount of \$191,075.00, pursuant to the Supplemental Indenture dated as of June 22, 2016, to the U.S. Bank Indenture(191)
- 4.431 Four Hundred Thirtieth Supplemental Indenture dated as of June 30, 2016, to the U.S. Bank Indenture and Form of 5.500% Prospect Capital InterNote® due 2021(191)
- 4.432 Form of 6.250% Notes due 2024, Note 4, of an aggregate principal amount of \$563,000.00, pursuant to the Supplemental Indenture dated as of June 22, 2016, to the U.S. Bank Indenture(192)
- 4.433 Form of 6.250% Notes due 2024, Note 5, of an aggregate principal amount of \$323,825.00, pursuant to the Supplemental Indenture dated as of June 22, 2016, to the U.S. Bank Indenture(192)
- 4.434 Form of 6.250% Notes due 2024, Note 6, of an aggregate principal amount of \$730,600.00, pursuant to the Supplemental Indenture dated as of June 22, 2016, to the U.S. Bank Indenture(192)
- 4.435

4.436 Form of 6.250% Notes due 2024, Note 7, of an aggregate principal amount of \$265,125.00, pursuant to the Supplemental Indenture dated as of June 22, 2016, to the U.S. Bank Indenture(192)
Form of 6.250% Notes due 2024, Note 8, of an aggregate principal amount of \$722,100.00, pursuant to the Supplemental Indenture dated as of June 22, 2016, to the U.S. Bank Indenture(192)

235

Exhibit No.

- 4.437 Four Hundred Thirty-First Supplemental Indenture dated as of July 8, 2016, to the U.S. Bank Indenture and Form of 5.500% Prospect Capital InterNote® due 2021(192)
- 4.438 Form of 6.250% Notes due 2024, Note 9, of an aggregate principal amount of \$599,050.00, pursuant to the Supplemental Indenture dated as of June 22, 2016, to the U.S. Bank Indenture(193)
- 4.439 Form of 6.250% Notes due 2024, Note 10, of an aggregate principal amount of \$807,500.00, pursuant to the Supplemental Indenture dated as of June 22, 2016, to the U.S. Bank Indenture(193)
- 4.440 Form of 6.250% Notes due 2024, Note 11, of an aggregate principal amount of \$799,475.00, pursuant to the Supplemental Indenture dated as of June 22, 2016, to the U.S. Bank Indenture(193)
- 4.441 Form of 6.250% Notes due 2024, Note 12, of an aggregate principal amount of \$501,625.00, pursuant to the Supplemental Indenture dated as of June 22, 2016, to the U.S. Bank Indenture(193)
- 4.442 Four Hundred Thirty-Second Supplemental Indenture dated as of July 14, 2016, to the U.S. Bank Indenture and Form of 5.500% Prospect Capital InterNote® due 2021(193)
- 4.443 Form of 6.250% Notes due 2024, Note 13, of an aggregate principal amount of \$592,500.00, pursuant to the Supplemental Indenture dated as of June 22, 2016, to the U.S. Bank Indenture(194)
- 4.444 Form of 6.250% Notes due 2024, Note 14, of an aggregate principal amount of \$581,250.00, pursuant to the Supplemental Indenture dated as of June 22, 2016, to the U.S. Bank Indenture(194)
- 4.445 Form of 6.250% Notes due 2024, Note 15, of an aggregate principal amount of \$463,750.00, pursuant to the Supplemental Indenture dated as of June 22, 2016, to the U.S. Bank Indenture(194)
- 4.446 Form of 6.250% Notes due 2024, Note 16, of an aggregate principal amount of \$836,475.00, pursuant to the Supplemental Indenture dated as of June 22, 2016, to the U.S. Bank Indenture(194)
- 4.447 Form of 6.250% Notes due 2024, Note 17, of an aggregate principal amount of \$536,725.00, pursuant to the Supplemental Indenture dated as of June 22, 2016, to the U.S. Bank Indenture(194)
- 4.448 Four Hundred Thirty-Third Supplemental Indenture dated as of July 21, 2016, to the U.S. Bank Indenture and Form of 5.500% Prospect Capital InterNote® due 2021(194)
- 4.449 Form of 6.250% Notes due 2024, Note 18, of an aggregate principal amount of \$1,746,400.00, pursuant to the Supplemental Indenture dated as of June 22, 2016, to the U.S. Bank Indenture(195)
- 4.450 Form of 6.250% Notes due 2024, Note 19, of an aggregate principal amount of \$826,325.00, pursuant to the Supplemental Indenture dated as of June 22, 2016, to the U.S. Bank Indenture(195)
- 4.451 Form of 6.250% Notes due 2024, Note 20, of an aggregate principal amount of \$838,525.00, pursuant to the Supplemental Indenture dated as of June 22, 2016, to the U.S. Bank Indenture(195)
- 4.452 Form of 6.250% Notes due 2024, Note 21, of an aggregate principal amount of \$1,027,325.00, pursuant to the Supplemental Indenture dated as of June 22, 2016, to the U.S. Bank Indenture(195)
- 4.453 Form of 6.250% Notes due 2024, Note 22, of an aggregate principal amount of \$1,329,050.00, pursuant to the Supplemental Indenture dated as of June 22, 2016, to the U.S. Bank Indenture(195)
- 4.454 Four Hundred Thirty-Fourth Supplemental Indenture dated as of July 28, 2016, to the U.S. Bank Indenture and Form of 5.500% Prospect Capital InterNote® due 2021(195)
- 4.455 Form of 6.250% Notes due 2024, Note 23, of an aggregate principal amount of \$1,232,075.00, pursuant to the Supplemental Indenture dated as of June 22, 2016, to the U.S. Bank Indenture(196)
- 4.456 Form of 6.250% Notes due 2024, Note 24, of an aggregate principal amount of \$1,273,150.00, pursuant to the Supplemental Indenture dated as of June 22, 2016, to the U.S. Bank Indenture(196)
- 4.457 Form of 6.250% Notes due 2024, Note 25, of an aggregate principal amount of \$1,825,850.00, pursuant to the Supplemental Indenture dated as of June 22, 2016, to the U.S. Bank Indenture(196)
- 4.458 Form of 6.250% Notes due 2024, Note 26, of an aggregate principal amount of \$902,650.00, pursuant to the Supplemental Indenture dated as of June 22, 2016, to the U.S. Bank Indenture(196)
- 4.459 Form of 6.250% Notes due 2024, Note 27, of an aggregate principal amount of \$866,500.00, pursuant to the Supplemental Indenture dated as of June 22, 2016, to the U.S. Bank Indenture(196)
- 4.460 Four Hundred Thirty-Fifth Supplemental Indenture dated as of August 4, 2016, to the U.S. Bank Indenture and Form of 5.500% Prospect Capital InterNote® due 2021(196)
- 4.461

Form of 6.250% Notes due 2024, Note 28, of an aggregate principal amount of \$1,284,800.00, pursuant to the Supplemental Indenture dated as of June 22, 2016, to the U.S. Bank Indenture(197)

4.462 Form of 6.250% Notes due 2024, Note 29, of an aggregate principal amount of \$1,423,275.00, pursuant to the Supplemental Indenture dated as of June 22, 2016, to the U.S. Bank Indenture(197)

236

Exhibit No.

- 4.463 Form of 6.250% Notes due 2024, Note 30, of an aggregate principal amount of \$1,424,750.00, pursuant to the Supplemental Indenture dated as of June 22, 2016, to the U.S. Bank Indenture(197)
- 4.464 Form of 6.250% Notes due 2024, Note 31, of an aggregate principal amount of \$1,525,475.00, pursuant to the Supplemental Indenture dated as of June 22, 2016, to the U.S. Bank Indenture(197)
- 4.465 Form of 6.250% Notes due 2024, Note 32, of an aggregate principal amount of \$1,335,200.00, pursuant to the Supplemental Indenture dated as of June 22, 2016, to the U.S. Bank Indenture(197)
- 4.466 Four Hundred Thirty-Sixth Supplemental Indenture dated as of August 11, 2016, to the U.S. Bank Indenture and Form of 5.500% Prospect Capital InterNote® due 2021(197)
- 4.467 Form of 6.250% Notes due 2024, Note 33, of an aggregate principal amount of \$746,950.00, pursuant to the Supplemental Indenture dated as of June 22, 2016, to the U.S. Bank Indenture(198)
- 4.468 Form of 6.250% Notes due 2024, Note 34, of an aggregate principal amount of \$1,254,725.00, pursuant to the Supplemental Indenture dated as of June 22, 2016, to the U.S. Bank Indenture(198)
- 4.469 Form of 6.250% Notes due 2024, Note 35, of an aggregate principal amount of \$790,900.00, pursuant to the Supplemental Indenture dated as of June 22, 2016, to the U.S. Bank Indenture(198)
- 4.470 Form of 6.250% Notes due 2024, Note 36, of an aggregate principal amount of \$1,477,725.00, pursuant to the Supplemental Indenture dated as of June 22, 2016, to the U.S. Bank Indenture(198)
- 4.471 Form of 6.250% Notes due 2024, Note 37, of an aggregate principal amount of \$2,147,375.00, pursuant to the Supplemental Indenture dated as of June 22, 2016, to the U.S. Bank Indenture(198)
- 4.472 Four Hundred Thirty-Seventh Supplemental Indenture dated as of August 18, 2016, to the U.S. Bank Indenture and Form of 5.500% Prospect Capital InterNote® due 2021(198)
- 4.473 Form of 6.250% Notes due 2024, Note 38, of an aggregate principal amount of \$1,502,000.00, pursuant to the Supplemental Indenture dated as of June 22, 2016, to the U.S. Bank Indenture(199)
- 4.474 Form of 6.250% Notes due 2024, Note 39, of an aggregate principal amount of \$1,098,150.00, pursuant to the Supplemental Indenture dated as of June 22, 2016, to the U.S. Bank Indenture(199)
- 4.475 Form of 6.250% Notes due 2024, Note 40, of an aggregate principal amount of \$719,375.00, pursuant to the Supplemental Indenture dated as of June 22, 2016, to the U.S. Bank Indenture(199)
- 4.476 Form of 6.250% Notes due 2024, Note 41, of an aggregate principal amount of \$979,025.00, pursuant to the Supplemental Indenture dated as of June 22, 2016, to the U.S. Bank Indenture(199)
- 4.477 Four Hundred Thirty-Eighth Supplemental Indenture dated as of August 25, 2016, to the U.S. Bank Indenture and Form of 5.500% Prospect Capital InterNote® due 2021(199)
- 4.478 Four Hundred Thirty-Ninth Supplemental Indenture dated as of September 15, 2016, to the U.S. Bank Indenture and Form of 5.250% Prospect Capital InterNote® due 2021(201)
- 4.479 Four Hundred Fortieth Supplemental Indenture dated as of September 22, 2016, to the U.S. Bank Indenture and Form of 5.250% Prospect Capital InterNote® due 2021(202)
- 4.480 Four Hundred Forty-First Supplemental Indenture dated as of September 29, 2016, to the U.S. Bank Indenture and Form of 5.000% Prospect Capital InterNote® due 2021(203)
- 4.481 Four Hundred Forty-Second Supplemental Indenture dated as of October 6, 2016, to the U.S. Bank Indenture and Form of 5.000% Prospect Capital InterNote® due 2021(204)
- 4.482 Four Hundred Forty-Third Supplemental Indenture dated as of October 14, 2016, to the U.S. Bank Indenture and Form of 5.000% Prospect Capital InterNote® due 2021(205)
- 4.483 Four Hundred Forty-Fourth Supplemental Indenture dated as of October 20, 2016, to the U.S. Bank Indenture and Form of 4.750% Prospect Capital InterNote® due 2021(206)
- 4.484 Four Hundred Forty-Fifth Supplemental Indenture dated as of October 27, 2016, to the U.S. Bank Indenture and Form of 5.000% Prospect Capital InterNote® due 2021(207)
- 4.485 Four Hundred Forty-Sixth Supplemental Indenture dated as of November 3, 2016, to the U.S. Bank Indenture and Form of 5.000% Prospect Capital InterNote® due 2021(208)
- 4.486 Four Hundred Forty-Seventh Supplemental Indenture dated as of November 25, 2016, to the U.S. Bank Indenture and Form of 5.000% Prospect Capital InterNote® due 2021(209)
- 4.487

Four Hundred Forty-Eighth Supplemental Indenture dated as of December 1, 2016, to the U.S. Bank Indenture and Form of 5.000% Prospect Capital InterNote® due 2021(210)

4.488 Four Hundred Forty-Ninth Supplemental Indenture dated as of December 8, 2016, to the U.S. Bank Indenture and Form of 5.000% Prospect Capital InterNote® due 2021(211)

237

Exhibit No.

- 4.489 Four Hundred Fiftieth Supplemental Indenture dated as of December 15, 2016, to the U.S. Bank Indenture and Form of 5.000% Prospect Capital InterNote® due 2021(212)
- 4.490 Four Hundred Fifty-First Supplemental Indenture dated as of December 22, 2016, to the U.S. Bank Indenture and Form of 5.000% Prospect Capital InterNote® due 2021(213)
- 4.491 Four Hundred Fifty-Second Supplemental Indenture dated as of December 30, 2016, to the U.S. Bank Indenture and Form of 5.000% Prospect Capital InterNote® due 2021(214)
- 4.492 Four Hundred Fifty-Third Supplemental Indenture dated as of January 6, 2017, to the U.S. Bank Indenture and Form of 5.000% Prospect Capital InterNote® due 2022(215)
- 4.493 Four Hundred Fifty-Fourth Supplemental Indenture dated as of January 12, 2017, to the U.S. Bank Indenture and Form of 5.000% Prospect Capital InterNote® due 2022(216)
- 4.494 Four Hundred Fifty-Fifth Supplemental Indenture dated as of January 20, 2017, to the U.S. Bank Indenture and Form of 5.000% Prospect Capital InterNote® due 2022(217)
- 4.495 Four Hundred Fifty-Sixth Supplemental Indenture dated as of January 26, 2017, to the U.S. Bank Indenture and Form of 5.000% Prospect Capital InterNote® due 2022(218)
- 4.496 Four Hundred Fifty-Seventh Supplemental Indenture dated as of February 2, 2017, to the U.S. Bank Indenture and Form of 5.000% Prospect Capital InterNote® due 2022(219)
- 4.497 Four Hundred Fifty-Eighth Supplemental Indenture dated as of February 9, 2017, to the U.S. Bank Indenture and Form of 5.000% Prospect Capital InterNote® due 2022(220)
- 4.498 Four Hundred Fifty-Ninth Supplemental Indenture dated as of February 24, 2017, to the U.S. Bank Indenture and Form of 5.000% Prospect Capital InterNote® due 2022(221)
- 4.499 Four Hundred Sixtieth Supplemental Indenture dated as of March 2, 2017, to the U.S. Bank Indenture and Form of 5.000% Prospect Capital InterNote® due 2022(222)
- 4.500 Four Hundred Sixty-First Supplemental Indenture dated as of March 9, 2017, to the U.S. Bank Indenture and Form of 5.000% Prospect Capital InterNote® due 2022(223)
- 4.501 Four Hundred Sixty-Second Supplemental Indenture dated as of March 16, 2017, to the U.S. Bank Indenture and Form of 5.000% Prospect Capital InterNote® due 2022(224)
- 4.502 Four Hundred Sixty-Third Supplemental Indenture dated as of March 23, 2017, to the U.S. Bank Indenture and Form of 5.000% Prospect Capital InterNote® due 2022(225)
- 4.503 Four Hundred Sixty-Fourth Supplemental Indenture dated as of March 30, 2017, to the U.S. Bank Indenture and Form of 5.000% Prospect Capital InterNote® due 2022(226)
- 4.504 Four Hundred Sixty-Fifth Supplemental Indenture dated as of April 6, 2017, to the U.S. Bank Indenture and Form of 5.000% Prospect Capital InterNote® due 2022(227)
- 4.505 Supplemental Indenture dated as of April 11, 2017, to the U.S. Bank Indenture, and Form of 4.950% Convertible Note due 2022(228)
- 4.506 Four Hundred Sixty-Sixth Supplemental Indenture dated as of April 20, 2017, to the U.S. Bank Indenture, and Form of 4.750% Convertible Note due 2022(230)
- 4.507 Four Hundred Sixty-Seventh Supplemental Indenture dated as of April 27, 2017, to the U.S. Bank Indenture, and Form of 4.750% Convertible Note due 2022(231)
- 4.508 Four Hundred Sixty-Eighth Supplemental Indenture dated as of May 4, 2017, to the U.S. Bank Indenture, and Form of 4.750% Convertible Note due 2022(232)
- 4.509 Four Hundred Sixty-Ninth Supplemental Indenture dated as of May 11, 2017, to the U.S. Bank Indenture, and Form of 4.750% Convertible Note due 2022(233)
- 4.510 Four Hundred Seventieth Supplemental Indenture dated as of May 25, 2017, to the U.S. Bank Indenture, and Form of 4.750% Convertible Note due 2022(234)
- 4.511 Four Hundred Seventy-First Supplemental Indenture dated as of June 2, 2017, to the U.S. Bank Indenture, and Form of 4.750% Convertible Note due 2022(235)
- 4.512 Four Hundred Seventy-Second Supplemental Indenture dated as of June 8, 2017, to the U.S. Bank Indenture, and Form of 4.750% Convertible Note due 2022(236)
- 4.513

Four Hundred Seventy-Third Supplemental Indenture dated as of June 15, 2017, to the U.S. Bank Indenture, and Form of 4.750% Convertible Note due 2022(237)

4.514 Four Hundred Seventy-Fourth Supplemental Indenture dated as of June 22, 2017, to the U.S. Bank Indenture, and Form of 4.750% Convertible Note due 2022(238)

238

Exhibit No.

- 4.515 Four Hundred Seventy-Fifth Supplemental Indenture dated as of June 29, 2017, to the U.S. Bank Indenture, and Form of 4.750% Convertible Note due 2022(239)
- 4.516 Four Hundred Seventy-Sixth Supplemental Indenture dated as of July 7, 2017, to the U.S. Bank Indenture, and Form of 4.750% Convertible Note due 2022(240)
- 4.517 Four Hundred Seventy-Seventh Supplemental Indenture dated as of July 7, 2017, to the U.S. Bank Indenture, and Form of 5.000% Convertible Note due 2024(240)
- 4.518 Four Hundred Seventy-Eighth Supplemental Indenture dated as of July 13, 2017, to the U.S. Bank Indenture, and Form of 4.500% Convertible Note due 2022(241)
- 4.519 Four Hundred Seventy-Ninth Supplemental Indenture dated as of July 13, 2017, to the U.S. Bank Indenture, and Form of 5.000% Convertible Note due 2024(241)
- 4.520 Four Hundred Eightieth Supplemental Indenture dated as of July 20, 2017, to the U.S. Bank Indenture, and Form of 4.500% Convertible Note due 2022(242)
- 4.521 Four Hundred Eighty-First Supplemental Indenture dated as of July 20, 2017, to the U.S. Bank Indenture, and Form of 4.750% Convertible Note due 2024(242)
- 4.522 Four Hundred Eighty-Second Supplemental Indenture dated as of July 27, 2017, to the U.S. Bank Indenture, and Form of 4.500% Convertible Note due 2022(243)
- 4.523 Four Hundred Eighty-Third Supplemental Indenture dated as of July 27, 2017, to the U.S. Bank Indenture, and Form of 4.750% Convertible Note due 2024(243)
- 4.524 Four Hundred Eighty-Fourth Supplemental Indenture dated as of August 3, 2017, to the U.S. Bank Indenture, and Form of 4.500% Convertible Note due 2022(244)
- 4.525 Four Hundred Eighty-Fifth Supplemental Indenture dated as of August 3, 2017, to the U.S. Bank Indenture, and Form of 5.000% Convertible Note due 2025(244)
- 4.526 Four Hundred Eighty-Sixth Supplemental Indenture dated as of August 10, 2017, to the U.S. Bank Indenture, and Form of 4.500% Convertible Note due 2022(245)
- 4.527 Four Hundred Eighty-Seventh Supplemental Indenture dated as of August 10, 2017, to the U.S. Bank Indenture, and Form of 5.000% Convertible Note due 2025(245)
- 4.528 Four Hundred Eighty-Eighth Supplemental Indenture dated as of August 17, 2017, to the U.S. Bank Indenture, and Form of 4.500% Convertible Note due 2022(246)
- 4.529 Four Hundred Eighty-Ninth Supplemental Indenture dated as of August 17, 2017, to the U.S. Bank Indenture, and Form of 5.000% Convertible Note due 2025(246)
- 4.530 Four Hundred Ninetieth Supplemental Indenture dated as of August 24, 2017, to the U.S. Bank Indenture, and Form of 4.500% Prospect Capital InterNote® due 2022(247)
- 4.531 Four Hundred Ninety-First Supplemental Indenture dated as of August 24, 2017, to the U.S. Bank Indenture, and Form of 5.000% Prospect Capital InterNote® due 2025(247)
- 4.532 Four Hundred Ninety-Second Supplemental Indenture dated as of August 31, 2017, to the U.S. Bank Indenture, and Form of 4.500% Prospect Capital InterNote® due 2022(249)
- 4.533 Four Hundred Ninety-Third Supplemental Indenture dated as of August 31, 2017, to the U.S. Bank Indenture, and Form of 5.000% Prospect Capital InterNote® due 2025(249)
- 4.534 Four Hundred Ninety-Fourth Supplemental Indenture dated as of September 14, 2017, to the U.S. Bank Indenture, and Form of 4.000% Prospect Capital InterNote® due 2022(250)
- 4.535 Four Hundred Ninety-Fifth Supplemental Indenture dated as of September 14, 2017, to the U.S. Bank Indenture, and Form of 4.500% Prospect Capital InterNote® due 2025(250)
- 4.536 Four Hundred Ninety-Sixth Supplemental Indenture dated as of September 21, 2017, to the U.S. Bank Indenture, and Form of 4.000% Prospect Capital InterNote® due 2022(251)
- 4.537 Four Hundred Ninety-Seventh Supplemental Indenture dated as of September 21, 2017, to the U.S. Bank Indenture, and Form of 4.500% Prospect Capital InterNote® due 2025(251)
- 4.538 Four Hundred Ninety-Eighth Supplemental Indenture dated as of September 28, 2017, to the U.S. Bank Indenture, and Form of 4.000% Prospect Capital InterNote® due 2022(252)
- 4.539

Four Hundred Ninety-Ninth Supplemental Indenture dated as of September 28, 2017, to the U.S. Bank Indenture, and Form of 4.500% Prospect Capital InterNote® due 2025(252)

4.540 Five Hundredth Supplemental Indenture dated as of October 5, 2017, to the U.S. Bank Indenture, and Form of 4.000% Prospect Capital InterNote® due 2022(253)

239

Exhibit No.

- 4.541 Five Hundred First Supplemental Indenture dated as of October 5, 2017, to the U.S. Bank Indenture, and Form of 4.500% Prospect Capital InterNote® due 2025(253)
- 4.542 Five Hundred Second Supplemental Indenture dated as of October 13, 2017, to the U.S. Bank Indenture, and Form of 4.000% Prospect Capital InterNote® due 2022(254)
- 4.543 Five Hundred Third Supplemental Indenture dated as of October 13, 2017, to the U.S. Bank Indenture, and Form of 4.500% Prospect Capital InterNote® due 2025(254)
- 4.544 Five Hundred Fourth Supplemental Indenture dated as of October 19, 2017, to the U.S. Bank Indenture, and Form of 4.000% Prospect Capital InterNote® due 2022(255)
- 4.545 Five Hundred Fifth Supplemental Indenture dated as of October 19, 2017, to the U.S. Bank Indenture, and Form of 4.500% Prospect Capital InterNote® due 2025(255)
- 4.546 Five Hundred Sixth Supplemental Indenture dated as of October 26, 2017, to the U.S. Bank Indenture, and Form of 4.000% Prospect Capital InterNote® due 2022(256)
- 4.547 Five Hundred Seventh Supplemental Indenture dated as of October 26, 2017, to the U.S. Bank Indenture, and Form of 4.500% Prospect Capital InterNote® due 2025(256)
- 4.548 Five Hundred Eighth Supplemental Indenture dated as of November 2, 2017, to the U.S. Bank Indenture, and Form of 4.000% Prospect Capital InterNote® due 2022(257)
- 4.549 Five Hundred Ninth Supplemental Indenture dated as of November 2, 2017, to the U.S. Bank Indenture, and Form of 4.500% Prospect Capital InterNote® due 2025(257)
- 4.550 Five Hundred Tenth Supplemental Indenture dated as of November 24, 2017, to the U.S. Bank Indenture, and Form of 4.000% Prospect Capital InterNote® due 2022(258)
- 4.551 Five Hundred Eleventh Supplemental Indenture dated as of November 24, 2017, to the U.S. Bank Indenture, and Form of 4.500% Prospect Capital InterNote® due 2025(258)
- 4.552 Five Hundred Twelfth Supplemental Indenture dated as of November 30, 2017, to the U.S. Bank Indenture, and Form of 4.000% Prospect Capital InterNote® due 2022(259)
- 4.553 Five Hundred Thirteenth Supplemental Indenture dated as of November 30, 2017, to the U.S. Bank Indenture, and Form of 4.500% Prospect Capital InterNote® due 2025(259)
- 4.554 Five Hundred Fourteenth Supplemental Indenture dated as of December 7, 2017, to the U.S. Bank Indenture, and Form of 4.000% Prospect Capital InterNote® due 2022(260)
- 4.555 Five Hundred Fifteenth Supplemental Indenture dated as of December 7, 2017, to the U.S. Bank Indenture, and Form of 4.500% Prospect Capital InterNote® due 2025(260)
- 4.556 Five Hundred Sixteenth Supplemental Indenture dated as of December 14, 2017, to the U.S. Bank Indenture, and Form of 4.000% Prospect Capital InterNote® due 2022(261)
- 4.557 Five Hundred Seventeenth Supplemental Indenture dated as of December 14, 2017, to the U.S. Bank Indenture, and Form of 4.500% Prospect Capital InterNote® due 2025(261)
- 4.558 Five Hundred Eighteenth Supplemental Indenture dated as of December 21, 2017, to the U.S. Bank Indenture, and Form of 4.000% Prospect Capital InterNote® due 2022(262)
- 4.559 Five Hundred Nineteenth Supplemental Indenture dated as of December 21, 2017, to the U.S. Bank Indenture, and Form of 4.500% Prospect Capital InterNote® due 2025(262)
- 4.560 Five Hundred Twentieth Supplemental Indenture dated as of December 29, 2017, to the U.S. Bank Indenture, and Form of 4.000% Prospect Capital InterNote® due 2022(263)
- 4.561 Five Hundred Twenty-First Supplemental Indenture dated as of December 29, 2017, to the U.S. Bank Indenture, and Form of 4.500% Prospect Capital InterNote® due 2025(263)
- 4.562 Five Hundred Twenty-Second Supplemental Indenture dated as of January 5, 2018, to the U.S. Bank Indenture, and Form of 4.000% Prospect Capital InterNote® due 2023(264)
- 4.563 Five Hundred Twenty-Third Supplemental Indenture dated as of January 5, 2018, to the U.S. Bank Indenture, and Form of 4.500% Prospect Capital InterNote® due 2026(264)
- 4.564 Five Hundred Twenty-Fourth Supplemental Indenture dated as of January 11, 2018, to the U.S. Bank Indenture, and Form of 4.000% Prospect Capital InterNote® due 2023(265)
- 4.565

Five Hundred Twenty-Fifth Supplemental Indenture dated as of January 11, 2018, to the U.S. Bank Indenture, and Form of 4.500% Prospect Capital InterNote® due 2026(265)

4.566 Five Hundred Twenty-Sixth Supplemental Indenture dated as of January 19, 2018, to the U.S. Bank Indenture, and Form of 4.000% Prospect Capital InterNote® due 2023(266)

240

Exhibit No.

- 4.567 Five Hundred Twenty-Seventh Supplemental Indenture dated as of January 19, 2018, to the U.S. Bank Indenture, and Form of 4.500% Prospect Capital InterNote® due 2026(266)
- 4.568 Five Hundred Twenty-Eighth Supplemental Indenture dated as of January 25, 2018, to the U.S. Bank Indenture, and Form of 4.000% Prospect Capital InterNote® due 2023(267)
- 4.569 Five Hundred Twenty-Ninth Supplemental Indenture dated as of January 25, 2018, to the U.S. Bank Indenture, and Form of 4.500% Prospect Capital InterNote® due 2026(267)
- 4.570 Five Hundred Thirtieth Supplemental Indenture dated as of February 1, 2018, to the U.S. Bank Indenture, and Form of 4.000% Prospect Capital InterNote® due 2023(268)
- 4.571 Five Hundred Thirty-First Supplemental Indenture dated as of February 1, 2018, to the U.S. Bank Indenture, and Form of 4.500% Prospect Capital InterNote® due 2026(268)
- 4.572 Five Hundred Thirty-Second Supplemental Indenture dated as of February 8, 2018, to the U.S. Bank Indenture, and Form of 4.000% Prospect Capital InterNote® due 2023(269)
- 4.573 Five Hundred Thirty-Third Supplemental Indenture dated as of February 8, 2018, to the U.S. Bank Indenture, and Form of 4.500% Prospect Capital InterNote® due 2026(269)
- 4.574 Five Hundred Thirty-Fourth Supplemental Indenture dated as of February 23, 2018, to the U.S. Bank Indenture, and Form of 4.000% Prospect Capital InterNote® due 2023(270)
- 4.575 Five Hundred Thirty-Fifth Supplemental Indenture dated as of February 23, 2018, to the U.S. Bank Indenture, and Form of 4.500% Prospect Capital InterNote® due 2026(270)
- 4.576 Five Hundred Thirty-Sixth Supplemental Indenture dated as of March 1, 2018, to the U.S. Bank Indenture, and Form of 4.000% Prospect Capital InterNote® due 2023(271)
- 4.577 Five Hundred Thirty-Seventh Supplemental Indenture dated as of March 1, 2018, to the U.S. Bank Indenture, and Form of 4.500% Prospect Capital InterNote® due 2026(271)
- 4.578 Five Hundred Thirty-Eighth Supplemental Indenture dated as of March 8, 2018, to the U.S. Bank Indenture, and Form of 4.250% Prospect Capital InterNote® due 2023(272)
- 4.579 Five Hundred Thirty-Ninth Supplemental Indenture dated as of March 8, 2018, to the U.S. Bank Indenture, and Form of 4.750% Prospect Capital InterNote® due 2026(272)
- 4.580 Five Hundred Fortieth Supplemental Indenture dated as of March 15, 2018, to the U.S. Bank Indenture, and Form of 4.250% Prospect Capital InterNote® due 2023(273)
- 4.581 Five Hundred Forty-First Supplemental Indenture dated as of March 15, 2018, to the U.S. Bank Indenture, and Form of 4.750% Prospect Capital InterNote® due 2026(273)
- 4.582 Five Hundred Forty-Second Supplemental Indenture dated as of March 22, 2018, to the U.S. Bank Indenture, and Form of 4.500% Prospect Capital InterNote® due 2023(274)
- 4.583 Five Hundred Forty-Third Supplemental Indenture dated as of March 22, 2018, to the U.S. Bank Indenture, and Form of 5.000% Prospect Capital InterNote® due 2026(274)
- 4.584 Five Hundred Forty-Fourth Supplemental Indenture dated as of March 29, 2018, to the U.S. Bank Indenture, and Form of 4.500% Prospect Capital InterNote® due 2023(275)
- 4.585 Five Hundred Forty-Fifth Supplemental Indenture dated as of March 29, 2018, to the U.S. Bank Indenture, and Form of 5.000% Prospect Capital InterNote® due 2026(275)
- 4.586 Five Hundred Forty-Sixth Supplemental Indenture dated as of April 5, 2018, to the U.S. Bank Indenture, and Form of 4.500% Prospect Capital InterNote® due 2023(276)
- 4.587 Five Hundred Forty-Seventh Supplemental Indenture dated as of April 5, 2018, to the U.S. Bank Indenture, and Form of 5.000% Prospect Capital InterNote® due 2026(276)
- 4.588 Five Hundred Forty-Eighth Supplemental Indenture dated as of April 12, 2018, to the U.S. Bank Indenture, and Form of 4.500% Prospect Capital InterNote® due 2023(277)
- 4.589 Five Hundred Forty-Ninth Supplemental Indenture dated as of April 12, 2018, to the U.S. Bank Indenture, and Form of 5.000% Prospect Capital InterNote® due 2026(277)
- 4.590 Five Hundred Fiftieth Supplemental Indenture dated as of April 19, 2018, to the U.S. Bank Indenture, and Form of 4.500% Prospect Capital InterNote® due 2023(278)
- 4.591

Five Hundred Fifty-First Supplemental Indenture dated as of April 19, 2018, to the U.S. Bank Indenture, and Form of 5.000% Prospect Capital InterNote® due 2026(278)

4.592 Five Hundred Fifty-Second Supplemental Indenture dated as of April 26, 2018, to the U.S. Bank Indenture, and Form of 4.500% Prospect Capital InterNote® due 2023(279)

241

Exhibit No.

- 4.593 Five Hundred Fifty-Third Supplemental Indenture dated as of April 26, 2018, to the U.S. Bank Indenture, and Form of 5.000% Prospect Capital InterNote® due 2026(279)
- 4.594 Five Hundred Fifty-Fourth Supplemental Indenture dated as of May 3, 2018, to the U.S. Bank Indenture, and Form of 4.750% Prospect Capital InterNote® due 2023(280)
- 4.595 Five Hundred Fifty-Fifth Supplemental Indenture dated as of May 3, 2018, to the U.S. Bank Indenture, and Form of 5.250% Prospect Capital InterNote® due 2026(280)
- 4.596 Five Hundred Fifty-Sixth Supplemental Indenture dated as of May 10, 2018, to the U.S. Bank Indenture, and Form of 4.750% Prospect Capital InterNote® due 2023(281)
- 4.597 Five Hundred Fifty-Seventh Supplemental Indenture dated as of May 10, 2018, to the U.S. Bank Indenture, and Form of 5.250% Prospect Capital InterNote® due 2025(281)
- 4.598 Form of Global Note of 4.95% Convertible Notes due 2022(282)
- 4.599 Five Hundred Fifty-Eighth Supplemental Indenture dated as of May 24, 2018, to the U.S. Bank Indenture, and Form of 4.750% Prospect Capital InterNote® due 2023(284)
- 4.600 Five Hundred Fifty-Ninth Supplemental Indenture dated as of May 24, 2018, to the U.S. Bank Indenture, and Form of 5.250% Prospect Capital InterNote® due 2025(284)
- 4.601 Five Hundred Sixtieth Supplemental Indenture dated as of June 1, 2018, to the U.S. Bank Indenture, and Form of 4.750% Prospect Capital InterNote® due 2023(285)
- 4.602 Five Hundred Sixty-First Supplemental Indenture dated as of June 1, 2018, to the U.S. Bank Indenture, and Form of 5.250% Prospect Capital InterNote® due 2025(285)
- 4.603 Supplemental Indenture dated as of June 7, 2018, to the U.S. Bank Indenture, and Form of 6.250% Note due 2028(286)
- 4.604 Form of Global Note of 5.875% Senior Notes due 2023(287)
- 4.605 Five Hundred Sixty-Second Supplemental Indenture dated as of June 21, 2018, to the U.S. Bank Indenture, and Form of 5.000% Prospect Capital InterNote® due 2023(288)
- 4.606 Five Hundred Sixty-Third Supplemental Indenture dated as of June 21, 2018, to the U.S. Bank Indenture, and Form of 5.250% Prospect Capital InterNote® due 2025(288)
- 4.607 Five Hundred Sixty-Fourth Supplemental Indenture dated as of June 28, 2018, to the U.S. Bank Indenture, and Form of 5.000% Prospect Capital InterNote® due 2023(289)
- 4.608 Five Hundred Sixty-Fifth Supplemental Indenture dated as of June 28, 2018, to the U.S. Bank Indenture, and Form of 5.250% Prospect Capital InterNote® due 2025(289)
- 4.609 Supplemental Indenture dated as of July 2, 2018, to the U.S. Bank Indenture, and Form of 6.250% Note due 2024(290)
- 4.610 Supplemental Indenture dated as of July 2, 2018, to the U.S. Bank Indenture, and Form of 6.250% Note due 2028(290)
- 4.611 Five Hundred Sixty-Sixth Supplemental Indenture dated as of July 6, 2018, to the U.S. Bank Indenture, and Form of 5.000% Prospect Capital InterNote® due 2023(291)
- 4.612 Five Hundred Sixty-Seventh Supplemental Indenture dated as of July 6, 2018, to the U.S. Bank Indenture, and Form of 5.500% Prospect Capital InterNote® due 2025(291)
- 4.613 Five Hundred Sixty-Eighth Supplemental Indenture dated as of July 12, 2018, to the U.S. Bank Indenture, and Form of 5.000% Prospect Capital InterNote® due 2023(292)
- 4.614 Five Hundred Sixty-Ninth Supplemental Indenture dated as of July 12, 2018, to the U.S. Bank Indenture, and Form of 5.750% Prospect Capital InterNote® due 2026(292)
- 4.615 Five Hundred Seventieth Supplemental Indenture dated as of July 12, 2018, to the U.S. Bank Indenture, and Form of 6.000% Prospect Capital InterNote® due 2028(292)
- 4.616 Five Hundred Seventy-First Supplemental Indenture dated as of July 19, 2018, to the U.S. Bank Indenture, and Form of 5.000% Prospect Capital InterNote® due 2023(293)
- 4.617 Five Hundred Seventy-Second Supplemental Indenture dated as of July 19, 2018, to the U.S. Bank Indenture, and Form of 5.750% Prospect Capital InterNote® due 2026(293)
- 4.618

Five Hundred Seventy-Third Supplemental Indenture dated as of July 19, 2018, to the U.S. Bank Indenture, and Form of 6.000% Prospect Capital InterNote® due 2028(293)

4.619 Five Hundred Seventy-Fourth Supplemental Indenture dated as of July 26, 2018, to the U.S. Bank Indenture, and Form of 5.000% Prospect Capital InterNote® due 2023(294)

4.620 Five Hundred Seventy-Fifth Supplemental Indenture dated as of July 26, 2018, to the U.S. Bank Indenture, and Form of 5.750% Prospect Capital InterNote® due 2025(294)

242

Exhibit No.

- 4.621 Five Hundred Seventy-Sixth Supplemental Indenture dated as of July 26, 2018, to the U.S. Bank Indenture, and Form of 6.000% Prospect Capital InterNote® due 2028(294)
- 4.622 Five Hundred Seventy-Seventh Supplemental Indenture dated as of August 2, 2018, to the U.S. Bank Indenture, and Form of 5.000% Prospect Capital InterNote® due 2023(295)
- 4.623 Five Hundred Seventy-Eighth Supplemental Indenture dated as of August 2, 2018, to the U.S. Bank Indenture, and Form of 5.750% Prospect Capital InterNote® due 2025(295)
- 4.624 Five Hundred Seventy-Ninth Supplemental Indenture dated as of August 2, 2018, to the U.S. Bank Indenture, and Form of 6.000% Prospect Capital InterNote® due 2028(295)
- 4.625 Five Hundred Eightieth Supplemental Indenture dated as of August 9, 2018, to the U.S. Bank Indenture, and Form of 5.000% Prospect Capital InterNote® due 2023(297)
- 4.626 Five Hundred Eighty-First Supplemental Indenture dated as of August 9, 2018, to the U.S. Bank Indenture, and Form of 5.750% Prospect Capital InterNote® due 2025(297)
- 4.627 Five Hundred Eighty-Second Supplemental Indenture dated as of August 9, 2018, to the U.S. Bank Indenture, and Form of 6.000% Prospect Capital InterNote® due 2028(297)
- 4.628 Five Hundred Eighty-Third Supplemental Indenture dated as of August 16, 2018, to the U.S. Bank Indenture, and Form of 5.000% Prospect Capital InterNote® due 2023(298)
- 4.629 Five Hundred Eighty-Fourth Supplemental Indenture dated as of August 16, 2018, to the U.S. Bank Indenture, and Form of 5.750% Prospect Capital InterNote® due 2025(298)
- 4.630 Five Hundred Eighty-Fifth Supplemental Indenture dated as of August 16, 2018, to the U.S. Bank Indenture, and Form of 6.000% Prospect Capital InterNote® due 2028(298)
- 4.631 Five Hundred Eighty-Sixth Supplemental Indenture dated as of August 23, 2018, to the U.S. Bank Indenture, and Form of 5.000% Prospect Capital InterNote® due 2023(299)
- 4.632 Five Hundred Eighty-Seventh Supplemental Indenture dated as of August 23, 2018, to the U.S. Bank Indenture, and Form of 5.750% Prospect Capital InterNote® due 2025(299)
- 4.633 Five Hundred Eighty-Eighth Supplemental Indenture dated as of August 23, 2018, to the U.S. Bank Indenture, and Form of 6.000% Prospect Capital InterNote® due 2028(299)
- 10.1 Investment Advisory Agreement between Registrant and Prospect Capital Management L.P.(2)
- 10.2 Administration Agreement between Registrant and Prospect Administration LLC(2)
- 10.3 Dividend Reinvestment and Direct Stock Purchase Plan(174)
- 10.4 Trademark License Agreement between the Registrant and Prospect Capital Investment Management, LLC(2)
- 10.5 Transfer Agency and Registrar Services Agreement(4)
Sixth Amended and Restated Loan and Servicing Agreement, dated August 1, 2018, among Prospect Capital Funding LLC, Prospect Capital Corporation, the lenders from time to time party thereto, the managing agents from time to time party thereto, U.S. Bank National Association as Calculation Agent, Paying Agent and Documentation Agent, and KeyBank National Association as Facility Agent, Syndication Agent, Structuring Agent, Sole Lead Arranger and Sole Bookrunner(296)
- 10.6 Sixth Amended and Restated Selling Agent Agreement, dated November 10, 2016, by and among, the Registrant, Prospect Capital Management L.P., Prospect Administration LLC, Incapital LLC and the Agents named therein and added from time to time(209)
- 10.7 Amended and Restated Custody Agreement, dated as of September 23, 2014, by and between the Registrant and U.S. Bank National Association(106)
- 10.8 Custody Agreement, dated as of April 24, 2013, by and between the Registrant and Israeli Discount Bank of New York Ltd.(5)
- 10.9 Custody Agreement, dated as of October 28, 2013, by and between the Registrant and Fifth Third Bank(82)
- 10.10 Custody Agreement, dated as of May 9, 2014, by and between the Registrant and Customers Bank(104)
- 10.11 Custody Agreement, dated as of May 9, 2014, by and between the Registrant and Peapack-Gladstone Bank(105)
- 10.12 Custody Agreement, dated as of October 10, 2014, by and between Prospect Yield Corporation, LLC and U.S. Bank National Association(106)
- 10.13
- 10.14

Third Amended and Restated Custody Agreement, dated as of November 6, 2015, by and between Prospect Small Business Lending, LLC and Deutsche Bank Trust Company Americas(248)

10.15 Debt Distribution Agreement, dated June 22, 2016(190)

10.16 Form of Debt Distribution Agreement(200)

243

Exhibit No.

- 10.17 Underwriting Agreement, dated April 6, 2017, by and among Prospect Capital Corporation, Prospect Capital Management L.P., Prospect Administration LLC and Goldman, Sachs & Co.(229)
- 10.18 Underwriting Agreement, dated May 15, 2018, by and among Prospect Capital Corporation, Prospect Capital Management L.P., Prospect Administration LLC and Goldman Sachs & Co. LLC(283)
- 11 Computation of Per Share Earnings (included in the notes to the financial statements contained in this report)
- 12 Computation of Ratios (included in the notes to the financial statements contained in this report)
- 14 Code of Ethics(300)
- 21 Subsidiaries of the Registrant (included in the notes to the consolidated financial statements contained in this annual report)
- 22.1 Proxy Statement(301)
- 22.2 Published report regarding matters submitted to vote of security holders(302)
- 23.1 Consent of BDO USA, LLP, Certified Public Accountants of National Property REIT Corp.*
- 23.2 Consent of RSM US LLP, Certified Public Accountants of First Tower Finance Company LLC*
- 31.1 Certification of Chief Executive Officer pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934, as amended*
- 31.2 Certification of Chief Financial Officer pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934, as amended*
- 32.1 Certification of Chief Executive Officer pursuant to Section 906 of The Sarbanes-Oxley Act of 2002 (18 U.S.C. 1350)*
- 32.2 Certification of Chief Financial Officer pursuant to Section 906 of The Sarbanes-Oxley Act of 2002 (18 U.S.C. 1350)*
- 99.1 Audited Combined Consolidated Financial Statements of National Property REIT Corp. for the years ended December 31, 2017 and 2016*
- 99.2 Audited Combined Consolidated Financial Statements of National Property REIT Corp. for the years ended December 31, 2016 and 2015*
- 99.3 Audited Consolidated Financial Statements of First Tower Finance Company LLC for the years ended December 31, 2017 and December 31, 2016*
- 99.4 Audited Consolidated Financial Statements of First Tower Finance Company LLC for the years ended December 31, 2016 and December 31, 2015*

* Filed herewith.

- (1) Incorporated by reference to Exhibit 3.1 of the Registrant's Form 8-K, filed on May 9, 2014.
- (2) Incorporated by reference from the Registrant's Pre-effective Amendment No. 2 to the Registration Statement on Form N-2, filed on July 6, 2004.
- (3) Incorporated by reference to Exhibit 3.1 of the Registrant's Form 8-K, filed on December 11, 2015.
- (4) Incorporated by reference from the Registrant's Pre-effective Amendment No. 3 to the Registration Statement on Form N-2, filed on July 23, 2004.
- (5) Incorporated by reference to Exhibit 10.258 of the Registrant's Form 10-K filed on August 21, 2013.
- (6) Incorporated by reference to Exhibit 4.2 of the Registrant's Form 8-K, filed on February 18, 2011.
- (7) Incorporated by reference to Exhibit 4.1 of the Registrant's Form 8-K, filed on December 21, 2010.
- (8) Incorporated by reference to Exhibit 4.1 of the Registrant's Form 8-K, filed on February 18, 2011.
- (9) Incorporated by reference from the Registrant's Registration Statement on Form N-2, filed on September 1, 2011.
- (10) Incorporated by reference from the Registrant's Post-Effective Amendment No. 1 to the Registration Statement on Form N-2, filed on March 1, 2012.
- (11) Incorporated by reference from the Registrant's Post-Effective Amendment No. 2 to the Registration Statement on Form N-2, filed on March 8, 2012.
- (12) Incorporated by reference from the Registrant's Post-Effective Amendment No. 3 to the Registration Statement on Form N-2, filed on March 14, 2012.
- (13) Incorporated by reference to Exhibit 10.1 of the Registrant's Form 8-K, filed on September 2, 2014.

- (14) Incorporated by reference from the Registrant's Post-Effective Amendment No. 5 to the Registration Statement on Form N-2, filed on April 5, 2012.
- (15) Incorporated by reference from the Registrant's Post-Effective Amendment No. 6 to the Registration Statement on Form N-2, filed on April 12, 2012.
- (16) Incorporated by reference to Exhibit 4.1 of the Registrant's Form 8-K, filed on April 16, 2012.

- (17) Incorporated by reference to Exhibit 4.2 of the Registrant's Form 8-K, filed on April 16, 2012.
- (18) Incorporated by reference from the Registrant's Post-Effective Amendment No. 8 to the Registration Statement on Form N-2, filed on April 26, 2012.
- (19) Incorporated by reference to Exhibit 4.1 of the Registrant's Form 8-K, filed on August 14, 2012.
- (20) Incorporated by reference to Exhibit 4.2 of the Registrant's Form 8-K, filed on August 14, 2012.
- (21) Incorporated by reference from the Registrant's Post-Effective Amendment No. 26 to the Registration Statement on Form N-2, filed on September 27, 2012.
- (22) Incorporated by reference from the Registrant's Post-Effective Amendment No. 27 to the Registration Statement on Form N-2, filed on October 4, 2012.
- (23) Incorporated by reference from the Registrant's Post-Effective Amendment No. 2 to the Registration Statement on Form N-2, filed on November 23, 2012.
- (24) Incorporated by reference from the Registrant's Post-Effective Amendment No. 3 to the Registration Statement on Form N-2, filed on November 29, 2012.
- (25) Incorporated by reference from the Registrant's Post-Effective Amendment No. 4 to the Registration Statement on Form N-2, filed on December 6, 2012.
- (26) Incorporated by reference from the Registrant's Post-Effective Amendment No. 5 to the Registration Statement on Form N-2, filed on December 13, 2012.
- (27) Incorporated by reference from the Registrant's Post-Effective Amendment No. 6 to the Registration Statement on Form N-2, filed on December 20, 2012.
- (28) Incorporated by reference to Exhibit 4.1 of the Registrant's Form 8-K, filed on December 21, 2012.
- (29) Incorporated by reference from the Registrant's Post-Effective Amendment No. 8 to the Registration Statement on Form N-2, filed on December 28, 2012.
- (30) Incorporated by reference from the Registrant's Post-Effective Amendment No. 9 to the Registration Statement on Form N-2, filed on January 4, 2013.
- (31) Incorporated by reference from the Registrant's Post-Effective Amendment No. 10 to the Registration Statement on Form N-2, filed on January 10, 2013.
- (32) Incorporated by reference from the Registrant's Post-Effective Amendment No. 11 to the Registration Statement on Form N-2, filed on January 17, 2013.
- (33) Incorporated by reference from the Registrant's Post-Effective Amendment No. 12 to the Registration Statement on Form N-2, filed on January 25, 2013.
- (34) Incorporated by reference from the Registrant's Post-Effective Amendment No. 13 to the Registration Statement on Form N-2, filed on January 31, 2013.
- (35) Incorporated by reference from the Registrant's Post-Effective Amendment No. 14 to the Registration Statement on Form N-2, filed on February 7, 2013.
- (36) Incorporated by reference from the Registrant's Post-Effective Amendment No. 16 to the Registration Statement on Form N-2, filed on February 22, 2013.
- (37) Incorporated by reference from the Registrant's Post-Effective Amendment No. 17 to the Registration Statement on Form N-2, filed on February 28, 2013.
- (38) Incorporated by reference from the Registrant's Post-Effective Amendment No. 18 to the Registration Statement on Form N-2, filed on March 7, 2013.
- (39) Incorporated by reference from the Registrant's Post-Effective Amendment No. 19 to the Registration Statement on Form N-2, filed on March 14, 2013.
- (40) Incorporated by reference to Exhibit 4.1 of the Registrant's Form 8-K, filed on March 15, 2013.
- (41) Incorporated by reference to Exhibit 4.2 of the Registrant's Form 8-K, filed on March 15, 2013.
- (42) Incorporated by reference from the Registrant's Post-Effective Amendment No. 21 to the Registration Statement on Form N-2, filed on March 21, 2013.
- (43) Incorporated by reference from the Registrant's Post-Effective Amendment No. 22 to the Registration Statement on Form N-2, filed on March 28, 2013.
- (44) Incorporated by reference from the Registrant's Post-Effective Amendment No. 23 to the Registration Statement on Form N-2, filed on April 4, 2013.

- (45) Incorporated by reference from the Registrant's Post-Effective Amendment No. 24 to the Registration Statement on Form N-2, filed on April 11, 2013.
- (46) Incorporated by reference from the Registrant's Post-Effective Amendment No. 25 to the Registration Statement on Form N-2, filed on April 18, 2013.

245

- (47) Incorporated by reference from the Registrant's Post-Effective Amendment No. 26 to the Registration Statement on Form N-2, filed on April 25, 2013.
- (48) Incorporated by reference from the Registrant's Post-Effective Amendment No. 27 to the Registration Statement on Form N-2, filed on May 2, 2013.
- (49) Incorporated by reference from the Registrant's Post-Effective Amendment No. 29 to the Registration Statement on Form N-2, filed on May 9, 2013.
- (50) Incorporated by reference from the Registrant's Post-Effective Amendment No. 30 to the Registration Statement on Form N-2, filed on May 23, 2013.
- (51) Incorporated by reference from the Registrant's Post-Effective Amendment No. 31 to the Registration Statement on Form N-2, filed on May 31, 2013.
- (52) Incorporated by reference from the Registrant's Post-Effective Amendment No. 32 to the Registration Statement on Form N-2, filed on June 6, 2013.
- (53) Incorporated by reference from the Registrant's Post-Effective Amendment No. 33 to the Registration Statement on Form N-2, filed on June 13, 2013.
- (54) Incorporated by reference from the Registrant's Post-Effective Amendment No. 34 to the Registration Statement on Form N-2, filed on June 20, 2013.
- (55) Incorporated by reference from the Registrant's Post-Effective Amendment No. 35 to the Registration Statement on Form N-2, filed on June 27, 2013.
- (56) Incorporated by reference from the Registrant's Post-Effective Amendment No. 36 to the Registration Statement on Form N-2, filed on July 5, 2013.
- (57) Incorporated by reference from the Registrant's Post-Effective Amendment No. 37 to the Registration Statement on Form N-2, filed on July 11, 2013.
- (58) Incorporated by reference from the Registrant's Post-Effective Amendment No. 38 to the Registration Statement on Form N-2, filed on July 18, 2013.
- (59) Incorporated by reference from the Registrant's Post-Effective Amendment No. 39 to the Registration Statement on Form N-2, filed on July 25, 2013.
- (60) Incorporated by reference from the Registrant's Post-Effective Amendment No. 40 to the Registration Statement on Form N-2, filed on August 1, 2013.
- (61) Incorporated by reference from the Registrant's Post-Effective Amendment No. 41 to the Registration Statement on Form N-2, filed on August 8, 2013.
- (62) Incorporated by reference from the Registrant's Post-Effective Amendment No. 42 to the Registration Statement on Form N-2, filed on August 15, 2013.
- (63) Incorporated by reference from the Registrant's Post-Effective Amendment No. 43 to the Registration Statement on Form N-2, filed on August 22, 2013.
- (64) Incorporated by reference from the Registrant's Post-Effective Amendment No. 45 to the Registration Statement on Form N-2, filed on September 6, 2013.
- (65) Incorporated by reference from the Registrant's Post-Effective Amendment No. 46 to the Registration Statement on Form N-2, filed on September 12, 2013.
- (66) Incorporated by reference from the Registrant's Post-Effective Amendment No. 47 to the Registration Statement on Form N-2, filed on September 19, 2013.
- (67) Incorporated by reference from the Registrant's Post-Effective Amendment No. 48 to the Registration Statement on Form N-2, filed on September 26, 2013.
- (68) Incorporated by reference from the Registrant's Post-Effective Amendment No. 49 to the Registration Statement on Form N-2, filed on October 3, 2013.
- (69) Incorporated by reference from the Registrant's Post-Effective Amendment No. 50 to the Registration Statement on Form N-2, filed on October 10, 2013.
- (70) Incorporated by reference from the Registrant's Post-Effective Amendment No. 51 to the Registration Statement on Form N-2, filed on October 18, 2013.
- (71) Incorporated by reference from the Registrant's Post-Effective Amendment No. 3 to the Registration Statement on Form N-2, filed on October 24, 2013.

- (72) Incorporated by reference from the Registrant's Post-Effective Amendment No. 4 to the Registration Statement on Form N-2, filed on October 31, 2013.
- (73) Incorporated by reference from the Registrant's Post-Effective Amendment No. 6 to the Registration Statement on Form N-2, filed on November 7, 2013.
- (74) Incorporated by reference from the Registrant's Post-Effective Amendment No. 7 to the Registration Statement on Form N-2, filed on November 15, 2013.

- (75) Incorporated by reference from the Registrant's Post-Effective Amendment No. 8 to the Registration Statement on Form N-2, filed on November 21, 2013.
- (76) Incorporated by reference from the Registrant's Post-Effective Amendment No. 9 to the Registration Statement on Form N-2, filed on November 29, 2013.
- (77) Incorporated by reference from the Registrant's Post-Effective Amendment No. 10 to the Registration Statement on Form N-2, filed on December 5, 2013.
- (78) Incorporated by reference from the Registrant's Post-Effective Amendment No. 11 to the Registration Statement on Form N-2, filed on December 12, 2013.
- (79) Incorporated by reference from the Registrant's Post-Effective Amendment No. 12 to the Registration Statement on Form N-2, filed on December 19, 2013.
- (80) Incorporated by reference from the Registrant's Post-Effective Amendment No. 13 to the Registration Statement on Form N-2, filed on December 27, 2013.
- (81) Incorporated by reference from the Registrant's Post-Effective Amendment No. 14 to the Registration Statement on Form N-2, filed on January 3, 2014.
- (82) Incorporated by reference from the Registrant's Post-Effective Amendment No. 15 to the Registration Statement on Form N-2, filed on January 9, 2014.
- (83) Incorporated by reference from the Registrant's Post-Effective Amendment No. 16 to the Registration Statement on Form N-2, filed on January 16, 2014.
- (84) Incorporated by reference from the Registrant's Post-Effective Amendment No. 17 to the Registration Statement on Form N-2, filed on January 24, 2014.
- (85) Incorporated by reference from the Registrant's Post-Effective Amendment No. 18 to the Registration Statement on Form N-2, filed on January 30, 2014.
- (86) Incorporated by reference from the Registrant's Post-Effective Amendment No. 19 to the Registration Statement on Form N-2, filed on February 6, 2014.
- (87) Incorporated by reference from the Registrant's Post-Effective Amendment No. 20 to the Registration Statement on Form N-2, filed on February 13, 2014.
- (88) Incorporated by reference from the Registrant's Post-Effective Amendment No. 21 to the Registration Statement on Form N-2, filed on February 19, 2014.
- (89) Incorporated by reference from the Registrant's Post-Effective Amendment No. 22 to the Registration Statement on Form N-2, filed on February 21, 2014.
- (90) Incorporated by reference from the Registrant's Post-Effective Amendment No. 23 to the Registration Statement on Form N-2, filed on February 27, 2014.
- (91) Incorporated by reference from the Registrant's Post-Effective Amendment No. 24 to the Registration Statement on Form N-2, filed on March 6, 2014.
- (92) Incorporated by reference from the Registrant's Post-Effective Amendment No. 25 to the Registration Statement on Form N-2, filed on March 11, 2014.
- (93) Incorporated by reference from the Registrant's Post-Effective Amendment No. 26 to the Registration Statement on Form N-2, filed on March 13, 2014.
- (94) Incorporated by reference from the Registrant's Post-Effective Amendment No. 27 to the Registration Statement on Form N-2, filed on March 20, 2014.
- (95) Incorporated by reference from the Registrant's Post-Effective Amendment No. 28 to the Registration Statement on Form N-2, filed on March 27, 2014.
- (96) Incorporated by reference from the Registrant's Post-Effective Amendment No. 29 to the Registration Statement on Form N-2, filed on April 3, 2014.
- (97) Incorporated by reference from the Registrant's Post-Effective Amendment No. 30 to the Registration Statement on Form N-2, filed on April 7, 2014.
- (98) Incorporated by reference from the Registrant's Post-Effective Amendment No. 31 to the Registration Statement on Form N-2, filed on April 10, 2014.
- (99) Incorporated by reference to Exhibit 4.1 of the Registrant's Form 8-K, filed on April 16, 2014.
- (100)

Edgar Filing: PROSPECT CAPITAL CORP - Form 10-K

Incorporated by reference from the Registrant's Post-Effective Amendment No. 32 to the Registration Statement on Form N-2, filed on April 17, 2014.

(101) Incorporated by reference from the Registrant's Post-Effective Amendment No. 33 to the Registration Statement on Form N-2, filed on April 24, 2014.

(102) Incorporated by reference from the Registrant's Post-Effective Amendment No. 34 to the Registration Statement on Form N-2, filed on May 1, 2014.

247

- (103) Incorporated by reference from the Registrant's Post-Effective Amendment No. 35 to the Registration Statement on Form N-2, filed on May 8, 2014.
- (104) Incorporated by reference to Exhibit 10.12 of the Registrant's Form 10-K, filed on August 25, 2014.
- (105) Incorporated by reference to Exhibit 10.13 of the Registrant's Form 10-K, filed on August 25, 2014.
- (106) Incorporated by reference from the Registrant's Pre-Effective Amendment No. 1 to the Registration Statement on Form N-2, filed on October 14, 2014.
- (107) Incorporated by reference to Exhibit 99.1 of the Registrant's Form 10-K/A, filed on November 3, 2014.
- (108) Incorporated by reference from the Registrant's Pre-Effective Amendment No. 2 to the Registration Statement on Form N-2, filed on November 3, 2014.
- (109) Incorporated by reference from the Registrant's Post-Effective Amendment No. 1 to the Registration Statement on Form N-2, filed on November 3, 2014.
- (110) Incorporated by reference from the Registrant's Post-Effective Amendment No. 2 to the Registration Statement on Form N-2, filed on November 20, 2014.
- (111) Incorporated by reference from the Registrant's Post-Effective Amendment No. 3 to the Registration Statement on Form N-2, filed on November 28, 2014.
- (112) Incorporated by reference from the Registrant's Post-Effective Amendment No. 4 to the Registration Statement on Form N-2, filed on December 4, 2014.
- (113) Incorporated by reference from the Registrant's Post-Effective Amendment No. 5 to the Registration Statement on Form N-2, filed on December 11, 2014.
- (114) Incorporated by reference from the Registrant's Post-Effective Amendment No. 6 to the Registration Statement on Form N-2, filed on December 18, 2014.
- (115) Incorporated by reference from the Registrant's Post-Effective Amendment No. 7 to the Registration Statement on Form N-2, filed on December 29, 2014.
- (116) Incorporated by reference from the Registrant's Post-Effective Amendment No. 8 to the Registration Statement on Form N-2, filed on January 5, 2015.
- (117) Incorporated by reference from the Registrant's Post-Effective Amendment No. 9 to the Registration Statement on Form N-2, filed on January 8, 2015.
- (118) Incorporated by reference from the Registrant's Post-Effective Amendment No. 10 to the Registration Statement on Form N-2, filed on January 15, 2015.
- (119) Incorporated by reference from the Registrant's Post-Effective Amendment No. 11 to the Registration Statement on Form N-2, filed on January 23, 2015.
- (120) Incorporated by reference from the Registrant's Post-Effective Amendment No. 12 to the Registration Statement on Form N-2, filed on January 29, 2015.
- (121) Incorporated by reference from the Registrant's Post-Effective Amendment No. 13 to the Registration Statement on Form N-2, filed on February 5, 2015.
- (122) Incorporated by reference from the Registrant's Post-Effective Amendment No. 14 to the Registration Statement on Form N-2, filed on February 20, 2015.
- (123) Incorporated by reference from the Registrant's Post-Effective Amendment No. 15 to the Registration Statement on Form N-2, filed on February 26, 2015.
- (124) Incorporated by reference from the Registrant's Post-Effective Amendment No. 16 to the Registration Statement on Form N-2, filed on March 5, 2015.
- (125) Incorporated by reference from the Registrant's Post-Effective Amendment No. 17 to the Registration Statement on Form N-2, filed on March 12, 2015.
- (126) Incorporated by reference from the Registrant's Post-Effective Amendment No. 18 to the Registration Statement on Form N-2, filed on March 19, 2015.
- (127) Incorporated by reference from the Registrant's Post-Effective Amendment No. 19 to the Registration Statement on Form N-2, filed on March 26, 2015.
- (128) Incorporated by reference from the Registrant's Post-Effective Amendment No. 20 to the Registration Statement on Form N-2, filed on April 2, 2015.
- (129)

Incorporated by reference from the Registrant's Post-Effective Amendment No. 21 to the Registration Statement on Form N-2, filed on April 9, 2015.

(130) Incorporated by reference from the Registrant's Post-Effective Amendment No. 22 to the Registration Statement on Form N-2, filed on April 16, 2015.

(131) Incorporated by reference from the Registrant's Post-Effective Amendment No. 23 to the Registration Statement on Form N-2, filed on April 23, 2015.

248

- (132) Incorporated by reference from the Registrant's Post-Effective Amendment No. 24 to the Registration Statement on Form N-2, filed on April 29, 2015.
- (133) Incorporated by reference from the Registrant's Post-Effective Amendment No. 25 to the Registration Statement on Form N-2, filed on May 7, 2015.
- (134) Incorporated by reference from the Registrant's Post-Effective Amendment No. 26 to the Registration Statement on Form N-2, filed on May 21, 2015.
- (135) Incorporated by reference from the Registrant's Post-Effective Amendment No. 27 to the Registration Statement on Form N-2, filed on May 29, 2015.
- (136) Incorporated by reference from the Registrant's Post-Effective Amendment No. 28 to the Registration Statement on Form N-2, filed on June 4, 2015.
- (137) Incorporated by reference from the Registrant's Post-Effective Amendment No. 29 to the Registration Statement on Form N-2, filed on June 11, 2015.
- (138) Incorporated by reference from the Registrant's Post-Effective Amendment No. 30 to the Registration Statement on Form N-2, filed on June 18, 2015.
- (139) Incorporated by reference from the Registrant's Post-Effective Amendment No. 31 to the Registration Statement on Form N-2, filed on June 25, 2015.
- (140) Incorporated by reference from the Registrant's Post-Effective Amendment No. 32 to the Registration Statement on Form N-2, filed on July 2, 2015.
- (141) Incorporated by reference from the Registrant's Post-Effective Amendment No. 33 to the Registration Statement on Form N-2, filed on July 9, 2015.
- (142) Incorporated by reference from the Registrant's Post-Effective Amendment No. 34 to the Registration Statement on Form N-2, filed on July 16, 2015.
- (143) Incorporated by reference from the Registrant's Post-Effective Amendment No. 35 to the Registration Statement on Form N-2, filed on July 23, 2015.
- (144) Incorporated by reference from the Registrant's Post-Effective Amendment No. 36 to the Registration Statement on Form N-2, filed on July 30, 2015.
- (145) Incorporated by reference from the Registrant's Post-Effective Amendment No. 37 to the Registration Statement on Form N-2, filed on August 6, 2015.
- (146) Incorporated by reference from the Registrant's Post-Effective Amendment No. 38 to the Registration Statement on Form N-2, filed on August 13, 2015.
- (147) Incorporated by reference from the Registrant's Post-Effective Amendment No. 39 to the Registration Statement on Form N-2, filed on August 20, 2015.
- (148) Incorporated by reference from the Registrant's Post-Effective Amendment No. 40 to the Registration Statement on Form N-2, filed on August 27, 2015.
- (149) Incorporated by reference to Exhibit 14 of the Registrant's Form 10-K, filed on August 26, 2015.
- (150) Incorporated by reference from the Registrant's Pre-Effective Registration Statement on Form N-2, filed on August 31, 2015.
- (151) Incorporated by reference to Exhibit 99.1 of the Registrant's Form 10-K/A, filed on September 11, 2015.
- (152) Incorporated by reference to Exhibit 99.2 of the Registrant's Form 10-K/A, filed on September 11, 2015.
- (153) Incorporated by reference from the Registrant's Post-Effective Amendment No. 42 to the Registration Statement on Form N-2, filed on September 16, 2015.
- (154) Incorporated by reference from the Registrant's Post-Effective Amendment No. 43 to the Registration Statement on Form N-2, filed on September 17, 2015.
- (155) Incorporated by reference from the Registrant's Post-Effective Amendment No. 44 to the Registration Statement on Form N-2, filed on September 24, 2015.
- (156) Incorporated by reference from the Registrant's Post-Effective Amendment No. 45 to the Registration Statement on Form N-2, filed on October 1, 2015.
- (157) Incorporated by reference from the Registrant's Post-Effective Amendment No. 46 to the Registration Statement on Form N-2, filed on October 8, 2015.
- (158)

Edgar Filing: PROSPECT CAPITAL CORP - Form 10-K

Incorporated by reference from the Registrant's Pre-Effective Amendment No. 1 to the Registration Statement on Form N-2, filed on October 9, 2015.

(159) Incorporated by reference from the Registrant's Post-Effective Amendment No. 47 to the Registration Statement on Form N-2, filed on October 16, 2015.

(160) Incorporated by reference from the Registrant's Post-Effective Amendment No. 48 to the Registration Statement on Form N-2, filed on October 22, 2015.

249

- (161) Incorporated by reference from the Registrant's Post-Effective Amendment No. 49 to the Registration Statement on Form N-2, filed on October 29, 2015.
- (162) Incorporated by reference from the Registrant's Pre-Effective Amendment No. 2 to the Registration Statement on Form N-2, filed on November 2, 2015.
- (163) Incorporated by reference from the Registrant's Post-Effective Amendment No. 50 to the Registration Statement on Form N-2, filed on November 4, 2015.
- (164) Incorporated by reference from the Registrant's Post-Effective Amendment No. 1 to the Registration Statement on Form N-2, filed on November 19, 2015.
- (165) Incorporated by reference from the Registrant's Post-Effective Amendment No. 2 to the Registration Statement on Form N-2, filed on November 27, 2015.
- (166) Incorporated by reference from the Registrant's Post-Effective Amendment No. 3 to the Registration Statement on Form N-2, filed on December 3, 2015.
- (167) Incorporated by reference from the Registrant's Post-Effective Amendment No. 4 to the Registration Statement on Form N-2, filed on December 10, 2015.
- (168) Incorporated by reference from the Registrant's Post-Effective Amendment No. 5 to the Registration Statement on Form N-2, filed on December 17, 2015.
- (169) Incorporated by reference from the Registrant's Post-Effective Amendment No. 6 to the Registration Statement on Form N-2, filed on December 24, 2015.
- (170) Incorporated by reference from the Registrant's Post-Effective Amendment No. 7 to the Registration Statement on Form N-2, filed on December 31, 2015.
- (171) Incorporated by reference from the Registrant's Post-Effective Amendment No. 8 to the Registration Statement on Form N-2, filed on January 7, 2016.
- (172) Incorporated by reference from the Registrant's Post-Effective Amendment No. 9 to the Registration Statement on Form N-2, filed on January 14, 2016.
- (173) Incorporated by reference from the Registrant's Post-Effective Amendment No. 10 to the Registration Statement on Form N-2, filed on January 22, 2016.
- (174) Incorporated by reference from the Registrant's Post-Effective Amendment No. 11 to the Registration Statement on Form N-2, filed on February 12, 2016.
- (175) Incorporated by reference from the Registrant's Post-Effective Amendment No. 12 to the Registration Statement on Form N-2, filed on March 3, 2016.
- (176) Incorporated by reference from the Registrant's Post-Effective Amendment No. 13 to the Registration Statement on Form N-2, filed on March 10, 2016.
- (177) Incorporated by reference from the Registrant's Post-Effective Amendment No. 14 to the Registration Statement on Form N-2, filed on March 17, 2016.
- (178) Incorporated by reference from the Registrant's Post-Effective Amendment No. 15 to the Registration Statement on Form N-2, filed on March 24, 2016.
- (179) Incorporated by reference from the Registrant's Post-Effective Amendment No. 16 to the Registration Statement on Form N-2, filed on March 31, 2016.
- (180) Incorporated by reference from the Registrant's Post-Effective Amendment No. 17 to the Registration Statement on Form N-2, filed on April 7, 2016.
- (181) Incorporated by reference from the Registrant's Post-Effective Amendment No. 18 to the Registration Statement on Form N-2, filed on April 14, 2016.
- (182) Incorporated by reference from the Registrant's Post-Effective Amendment No. 19 to the Registration Statement on Form N-2, filed on April 21, 2016.
- (183) Incorporated by reference from the Registrant's Post-Effective Amendment No. 20 to the Registration Statement on Form N-2, filed on April 28, 2016.
- (184) Incorporated by reference from the Registrant's Post-Effective Amendment No. 21 to the Registration Statement on Form N-2, filed on May 5, 2016.
- (185) Incorporated by reference from the Registrant's Post-Effective Amendment No. 22 to the Registration Statement on Form N-2, filed on May 12, 2016.

- (186) Incorporated by reference from the Registrant's Post-Effective Amendment No. 23 to the Registration Statement on Form N-2, filed on May 26, 2016.
- (187) Incorporated by reference from the Registrant's Post-Effective Amendment No. 24 to the Registration Statement on Form N-2, filed on June 3, 2016.
- (188) Incorporated by reference from the Registrant's Post-Effective Amendment No. 25 to the Registration Statement on Form N-2, filed on June 9, 2016.

250

- (189) Incorporated by reference from the Registrant's Post-Effective Amendment No. 26 to the Registration Statement on Form N-2, filed on June 16, 2016.
- (190) Incorporated by reference from the Registrant's Post-Effective Amendment No. 27 to the Registration Statement on Form N-2, filed on June 23, 2016.
- (191) Incorporated by reference from the Registrant's Post-Effective Amendment No. 28 to the Registration Statement on Form N-2, filed on June 30, 2016.
- (192) Incorporated by reference from the Registrant's Post-Effective Amendment No. 29 to the Registration Statement on Form N-2, filed on July 8, 2016.
- (193) Incorporated by reference from the Registrant's Post-Effective Amendment No. 30 to the Registration Statement on Form N-2, filed on July 14, 2016.
- (194) Incorporated by reference from the Registrant's Post-Effective Amendment No. 31 to the Registration Statement on Form N-2, filed on July 21, 2016.
- (195) Incorporated by reference from the Registrant's Post-Effective Amendment No. 32 to the Registration Statement on Form N-2, filed on July 28, 2016.
- (196) Incorporated by reference from the Registrant's Post-Effective Amendment No. 33 to the Registration Statement on Form N-2, filed on August 4, 2016.
- (197) Incorporated by reference from the Registrant's Post-Effective Amendment No. 34 to the Registration Statement on Form N-2, filed on August 11, 2016.
- (198) Incorporated by reference from the Registrant's Post-Effective Amendment No. 35 to the Registration Statement on Form N-2, filed on August 18, 2016.
- (199) Incorporated by reference from the Registrant's Post-Effective Amendment No. 36 to the Registration Statement on Form N-2, filed on August 25, 2016.
- (200) Incorporated by reference from the Registrant's Post-Effective Amendment No. 37 to the Registration Statement on Form N-2, filed on September 1, 2016.
- (201) Incorporated by reference from the Registrant's Post-Effective Amendment No. 38 to the Registration Statement on Form N-2, filed on September 15, 2016.
- (202) Incorporated by reference from the Registrant's Post-Effective Amendment No. 39 to the Registration Statement on Form N-2, filed on September 22, 2016.
- (203) Incorporated by reference from the Registrant's Post-Effective Amendment No. 40 to the Registration Statement on Form N-2, filed on September 29, 2016.
- (204) Incorporated by reference from the Registrant's Post-Effective Amendment No. 41 to the Registration Statement on Form N-2, filed on October 6, 2016.
- (205) Incorporated by reference from the Registrant's Post-Effective Amendment No. 42 to the Registration Statement on Form N-2, filed on October 14, 2016.
- (206) Incorporated by reference from the Registrant's Post-Effective Amendment No. 43 to the Registration Statement on Form N-2, filed on October 20, 2016.
- (207) Incorporated by reference from the Registrant's Post-Effective Amendment No. 44 to the Registration Statement on Form N-2, filed on October 27, 2016.
- (208) Incorporated by reference from the Registrant's Post-Effective Amendment No. 45 to the Registration Statement on Form N-2, filed on November 3, 2016.
- (209) Incorporated by reference from the Registrant's Post-Effective Amendment No. 1 to the Registration Statement on Form N-2, filed on November 25, 2016.
- (210) Incorporated by reference from the Registrant's Post-Effective Amendment No. 2 to the Registration Statement on Form N-2, filed on December 1, 2016.
- (211) Incorporated by reference from the Registrant's Post-Effective Amendment No. 3 to the Registration Statement on Form N-2, filed on December 8, 2016.
- (212) Incorporated by reference from the Registrant's Post-Effective Amendment No. 4 to the Registration Statement on Form N-2, filed on December 15, 2016.
- (213) Incorporated by reference from the Registrant's Post-Effective Amendment No. 5 to the Registration Statement on Form N-2, filed on December 22, 2016.

- (214) Incorporated by reference from the Registrant's Post-Effective Amendment No. 6 to the Registration Statement on Form N-2, filed on December 30, 2016.
- (215) Incorporated by reference from the Registrant's Post-Effective Amendment No. 7 to the Registration Statement on Form N-2, filed on January 6, 2017.
- (216) Incorporated by reference from the Registrant's Post-Effective Amendment No. 8 to the Registration Statement on Form N-2, filed on January 12, 2017.

- (217) Incorporated by reference from the Registrant's Post-Effective Amendment No. 9 to the Registration Statement on Form N-2, filed on January 20, 2017.
- (218) Incorporated by reference from the Registrant's Post-Effective Amendment No. 10 to the Registration Statement on Form N-2, filed on January 26, 2017.
- (219) Incorporated by reference from the Registrant's Post-Effective Amendment No. 11 to the Registration Statement on Form N-2, filed on February 2, 2017.
- (220) Incorporated by reference from the Registrant's Post-Effective Amendment No. 12 to the Registration Statement on Form N-2, filed on February 9, 2017.
- (221) Incorporated by reference from the Registrant's Post-Effective Amendment No. 13 to the Registration Statement on Form N-2, filed on February 24, 2017.
- (222) Incorporated by reference from the Registrant's Post-Effective Amendment No. 14 to the Registration Statement on Form N-2, filed on March 2, 2017.
- (223) Incorporated by reference from the Registrant's Post-Effective Amendment No. 15 to the Registration Statement on Form N-2, filed on March 9, 2017.
- (224) Incorporated by reference from the Registrant's Post-Effective Amendment No. 16 to the Registration Statement on Form N-2, filed on March 16, 2017.
- (225) Incorporated by reference from the Registrant's Post-Effective Amendment No. 17 to the Registration Statement on Form N-2, filed on March 23, 2017.
- (226) Incorporated by reference from the Registrant's Post-Effective Amendment No. 18 to the Registration Statement on Form N-2, filed on March 30, 2017.
- (227) Incorporated by reference from the Registrant's Post-Effective Amendment No. 19 to the Registration Statement on Form N-2, filed on April 6, 2017.
- (228) Incorporated by reference to Exhibit 4.1 of the Registrant's Form 8-K, filed on April 11, 2017.
- (229) Incorporated by reference to Exhibit 1.1 of the Registrant's Form 8-K, filed on April 11, 2017.
- (230) Incorporated by reference from the Registrant's Post-Effective Amendment No. 21 to the Registration Statement on Form N-2, filed on April 20, 2017.
- (231) Incorporated by reference from the Registrant's Post-Effective Amendment No. 22 to the Registration Statement on Form N-2, filed on April 27, 2017.
- (232) Incorporated by reference from the Registrant's Post-Effective Amendment No. 23 to the Registration Statement on Form N-2, filed on May 4, 2017.
- (233) Incorporated by reference from the Registrant's Post-Effective Amendment No. 24 to the Registration Statement on Form N-2, filed on May 11, 2017.
- (234) Incorporated by reference from the Registrant's Post-Effective Amendment No. 25 to the Registration Statement on Form N-2, filed on May 25, 2017.
- (235) Incorporated by reference from the Registrant's Post-Effective Amendment No. 26 to the Registration Statement on Form N-2, filed on June 2, 2017.
- (236) Incorporated by reference from the Registrant's Post-Effective Amendment No. 27 to the Registration Statement on Form N-2, filed on June 8, 2017.
- (237) Incorporated by reference from the Registrant's Post-Effective Amendment No. 28 to the Registration Statement on Form N-2, filed on June 15, 2017.
- (238) Incorporated by reference from the Registrant's Post-Effective Amendment No. 29 to the Registration Statement on Form N-2, filed on June 22, 2017.
- (239) Incorporated by reference from the Registrant's Post-Effective Amendment No. 30 to the Registration Statement on Form N-2, filed on June 29, 2017.
- (240) Incorporated by reference from the Registrant's Post-Effective Amendment No. 31 to the Registration Statement on Form N-2, filed on July 7, 2017.
- (241) Incorporated by reference from the Registrant's Post-Effective Amendment No. 32 to the Registration Statement on Form N-2, filed on July 13, 2017.
- (242) Incorporated by reference from the Registrant's Post-Effective Amendment No. 33 to the Registration Statement on Form N-2, filed on July 20, 2017.

- (243) Incorporated by reference from the Registrant's Post-Effective Amendment No. 34 to the Registration Statement on Form N-2, filed on July 27, 2017.
- (244) Incorporated by reference from the Registrant's Post-Effective Amendment No. 35 to the Registration Statement on Form N-2, filed on August 3, 2017.

- (245) Incorporated by reference from the Registrant's Post-Effective Amendment No. 36 to the Registration Statement on Form N-2, filed on August 10, 2017.
- (246) Incorporated by reference from the Registrant's Post-Effective Amendment No. 37 to the Registration Statement on Form N-2, filed on August 17, 2017.
- (247) Incorporated by reference from the Registrant's Post-Effective Amendment No. 38 to the Registration Statement on Form N-2, filed on August 24, 2017.
- (248) Incorporated by reference from the Registrant's Post-Effective Amendment No. 39 to the Registration Statement on Form N-2, filed on August 30, 2017.
- (249) Incorporated by reference from the Registrant's Post-Effective Amendment No. 40 to the Registration Statement on Form N-2, filed on August 31, 2017.
- (250) Incorporated by reference from the Registrant's Post-Effective Amendment No. 42 to the Registration Statement on Form N-2, filed on September 14, 2017.
- (251) Incorporated by reference from the Registrant's Post-Effective Amendment No. 43 to the Registration Statement on Form N-2, filed on September 21, 2017.
- (252) Incorporated by reference from the Registrant's Post-Effective Amendment No. 44 to the Registration Statement on Form N-2, filed on September 28, 2017.
- (253) Incorporated by reference from the Registrant's Post-Effective Amendment No. 45 to the Registration Statement on Form N-2, filed on October 5, 2017.
- (254) Incorporated by reference from the Registrant's Post-Effective Amendment No. 46 to the Registration Statement on Form N-2, filed on October 13, 2017.
- (255) Incorporated by reference from the Registrant's Post-Effective Amendment No. 47 to the Registration Statement on Form N-2, filed on October 19, 2017.
- (256) Incorporated by reference from the Registrant's Post-Effective Amendment No. 49 to the Registration Statement on Form N-2, filed on October 26, 2017.
- (257) Incorporated by reference from the Registrant's Post-Effective Amendment No. 51 to the Registration Statement on Form N-2, filed on November 2, 2017.
- (258) Incorporated by reference from the Registrant's Post-Effective Amendment No. 52 to the Registration Statement on Form N-2, filed on November 24, 2017.
- (259) Incorporated by reference from the Registrant's Post-Effective Amendment No. 53 to the Registration Statement on Form N-2, filed on November 30, 2017.
- (260) Incorporated by reference from the Registrant's Post-Effective Amendment No. 54 to the Registration Statement on Form N-2, filed on December 7, 2017.
- (261) Incorporated by reference from the Registrant's Post-Effective Amendment No. 55 to the Registration Statement on Form N-2, filed on December 14, 2017.
- (262) Incorporated by reference from the Registrant's Post-Effective Amendment No. 56 to the Registration Statement on Form N-2, filed on December 21, 2017.
- (263) Incorporated by reference from the Registrant's Post-Effective Amendment No. 57 to the Registration Statement on Form N-2, filed on December 29, 2017.
- (264) Incorporated by reference from the Registrant's Post-Effective Amendment No. 58 to the Registration Statement on Form N-2, filed on January 5, 2018.
- (265) Incorporated by reference from the Registrant's Post-Effective Amendment No. 59 to the Registration Statement on Form N-2, filed on January 11, 2018.
- (266) Incorporated by reference from the Registrant's Post-Effective Amendment No. 60 to the Registration Statement on Form N-2, filed on January 19, 2018.
- (267) Incorporated by reference from the Registrant's Post-Effective Amendment No. 61 to the Registration Statement on Form N-2, filed on January 25, 2018.
- (268) Incorporated by reference from the Registrant's Post-Effective Amendment No. 62 to the Registration Statement on Form N-2, filed on February 1, 2018.
- (269) Incorporated by reference from the Registrant's Post-Effective Amendment No. 63 to the Registration Statement on Form N-2, filed on February 8, 2018.

- (270) Incorporated by reference from the Registrant's Post-Effective Amendment No. 64 to the Registration Statement on Form N-2, filed on February 23, 2018.
- (271) Incorporated by reference from the Registrant's Post-Effective Amendment No. 65 to the Registration Statement on Form N-2, filed on March 1, 2018.
- (272) Incorporated by reference from the Registrant's Post-Effective Amendment No. 66 to the Registration Statement on Form N-2, filed on March 8, 2018.

- (273) Incorporated by reference from the Registrant's Post-Effective Amendment No. 67 to the Registration Statement on Form N-2, filed on March 15, 2018.
- (274) Incorporated by reference from the Registrant's Post-Effective Amendment No. 68 to the Registration Statement on Form N-2, filed on March 22, 2018.
- (275) Incorporated by reference from the Registrant's Post-Effective Amendment No. 69 to the Registration Statement on Form N-2, filed on March 29, 2018.
- (276) Incorporated by reference from the Registrant's Post-Effective Amendment No. 70 to the Registration Statement on Form N-2, filed on April 5, 2018.
- (277) Incorporated by reference from the Registrant's Post-Effective Amendment No. 71 to the Registration Statement on Form N-2, filed on April 12, 2018.
- (278) Incorporated by reference from the Registrant's Post-Effective Amendment No. 72 to the Registration Statement on Form N-2, filed on April 19, 2018.
- (279) Incorporated by reference from the Registrant's Post-Effective Amendment No. 73 to the Registration Statement on Form N-2, filed on April 26, 2018.
- (280) Incorporated by reference from the Registrant's Post-Effective Amendment No. 74 to the Registration Statement on Form N-2, filed on May 3, 2018.
- (281) Incorporated by reference from the Registrant's Post-Effective Amendment No. 75 to the Registration Statement on Form N-2, filed on May 10, 2018.
- (282) Incorporated by reference to Exhibit 4.1 of the Registrant's Form 8-K, filed on May 18, 2018.
- (283) Incorporated by reference to Exhibit 1.1 of the Registrant's Form 8-K, filed on May 18, 2018.
- (284) Incorporated by reference from the Registrant's Post-Effective Amendment No. 78 to the Registration Statement on Form N-2, filed on May 24, 2018.
- (285) Incorporated by reference from the Registrant's Post-Effective Amendment No. 79 to the Registration Statement on Form N-2, filed on June 1, 2018.
- (286) Incorporated by reference from the Registrant's Post-Effective Amendment No. 80 to the Registration Statement on Form N-2, filed on June 7, 2018.
- (287) Incorporated by reference from the Registrant's Post-Effective Amendment No. 81 to the Registration Statement on Form N-2, filed on June 20, 2018.
- (288) Incorporated by reference from the Registrant's Post-Effective Amendment No. 82 to the Registration Statement on Form N-2, filed on June 21, 2018.
- (289) Incorporated by reference from the Registrant's Post-Effective Amendment No. 83 to the Registration Statement on Form N-2, filed on June 28, 2018.
- (290) Incorporated by reference from the Registrant's Post-Effective Amendment No. 84 to the Registration Statement on Form N-2, filed on July 2, 2018.
- (291) Incorporated by reference from the Registrant's Post-Effective Amendment No. 85 to the Registration Statement on Form N-2, filed on July 6, 2018.
- (292) Incorporated by reference from the Registrant's Post-Effective Amendment No. 86 to the Registration Statement on Form N-2, filed on July 12, 2018.
- (293) Incorporated by reference from the Registrant's Post-Effective Amendment No. 87 to the Registration Statement on Form N-2, filed on July 19, 2018.
- (294) Incorporated by reference from the Registrant's Post-Effective Amendment No. 88 to the Registration Statement on Form N-2, filed on July 26, 2018.
- (295) Incorporated by reference from the Registrant's Post-Effective Amendment No. 89 to the Registration Statement on Form N-2, filed on August 2, 2018.
- (296) Incorporated by reference to Exhibit 10.1 of the Registrant's Form 8-K, filed on August 6, 2018.
- (297) Incorporated by reference from the Registrant's Post-Effective Amendment No. 90 to the Registration Statement on Form N-2, filed on August 9, 2018.
- (298) Incorporated by reference from the Registrant's Post-Effective Amendment No. 91 to the Registration Statement on Form N-2, filed on August 16, 2018.
- (299)

Edgar Filing: PROSPECT CAPITAL CORP - Form 10-K

Incorporated by reference from the Registrant's Post-Effective Amendment No. 92 to the Registration Statement on Form N-2, filed on August 23, 2018.

(300) Incorporated by reference to Exhibit 14 of the Registrant's Form 10-K/A, filed on October 20, 2016.

(301) Incorporated by reference from the Registrant's Proxy Statement, filed on September 14, 2017.

(302) Incorporated by reference from the Registrant's Form 8-K, filed on December 14, 2017.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized on August 28, 2018.

PROSPECT CAPITAL CORPORATION

By: /s/ JOHN F. BARRY III

John F. Barry III

Chairman of the Board and Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

/s/ JOHN F. BARRY III

John F. Barry III

Chairman of the Board, Chief Executive Officer and Director

August 28, 2018

/s/ ANDREW C. COOPER

Andrew C. Cooper

Director

August 28, 2018

/s/ KRISTIN L. VAN DASK

Kristin L. Van Dask

Chief Financial Officer

August 28, 2018

/s/ WILLIAM J. GREMP

William J. Grempe

Director

August 28, 2018

/s/ M. GRIER ELIASEK

M. Grier Eliasek

President, Chief Operating Officer and Director

August 28, 2018

/s/ EUGENE S. STARK

Eugene S. Stark

Director

August 28, 2018