

PROSPECT CAPITAL CORP  
 Form 497  
 June 01, 2018  
 Filed Pursuant to Rule 497  
 File No. 333-213391

PROSPECTUS SUPPLEMENT  
 (To Prospectus dated October 30, 2017)  
 \$50,000,000

Prospect Capital Corporation  
 6.25% Notes due 2028

This is an offering by Prospect Capital Corporation of \$50,000,000 in aggregate principal amount of its 6.25% Notes due 2028, which we refer to in this prospectus supplement as the Notes. The Notes will mature on June 15, 2028. We will pay interest on the Notes on March 15, June 15, September 15 and December 15 of each year, beginning September 15, 2018. We may redeem the Notes in whole or in part at any time or from time to time on or after June 15, 2021, at the redemption price discussed under the caption “Specific Terms of the Notes and the Offering-Optional redemption” in this prospectus supplement. The Notes will be issued in minimum denominations of \$25 and integral multiples of \$25 in excess thereof. We may offer other debt securities from time to time other than the Notes under our Registration Statement or in private placements.

The Notes will be our direct unsecured obligations and rank pari passu with all outstanding and future unsecured unsubordinated indebtedness issued by Prospect Capital Corporation.

We intend to list the Notes on The New York Stock Exchange and we expect trading in the Notes on The New York Stock Exchange to begin within 30 days of the original issue date. The Notes are expected to trade “flat.” This means that purchasers will not pay, and sellers will not receive, any accrued and unpaid interest on the Notes that is not reflected in the trading price. Currently, there is no public market for the Notes and it is not expected that a market for the Notes will develop unless and until the Notes are listed on The New York Stock Exchange.

Prospect Capital Corporation is a financial services company that lends to and invests in middle market, privately-held companies. We are organized as an externally-managed, non-diversified closed-end management investment company that has elected to be treated as a business development company under the Investment Company Act of 1940.

Prospect Capital Management L.P. manages our investments and Prospect Administration LLC provides the administrative services necessary for us to operate.

Investing in the Notes involves certain risks, including those described in the “Risk Factors” section beginning on page S-10 of this prospectus supplement and page 12 of the accompanying prospectus.

	Per Note	Total <sup>(2)</sup>
Public offering price <sup>(1)</sup>	100.00 %	\$ 50,000,000
Underwriting discounts and commissions (sales load)	3.15 %	\$ 1,575,000
Proceeds to Prospect Capital Corporation (before expenses) <sup>(3)</sup>	96.85 %	\$ 48,425,000

- (1) The public offering price set forth above does not include accrued interest, if any.
- (2) Assumes no exercise of the underwriters’ option to purchase additional Notes as described below.
- (3) Expenses payable by us related to this offering are estimated to be \$500,000.

The underwriters may also purchase up to an additional \$7,500,000 total aggregate principal amount of Notes solely to cover over-allotments, if any, within 30 days of the date of this prospectus supplement. If the underwriters exercise this option

in full, the total public offering price will be \$57,500,000, the total underwriting discounts and commissions (sales load) paid by us will be \$1,811,250 and total proceeds before expenses will be \$55,688,750.

THE NOTES ARE NOT DEPOSITS OR OTHER OBLIGATIONS OF A BANK AND ARE NOT INSURED BY THE FEDERAL DEPOSIT INSURANCE CORPORATION OR ANY OTHER GOVERNMENT AGENCY.

Delivery of the Notes in book-entry form only through The Depository Trust Company will be made on or about June 7, 2018.

This prospectus supplement and the accompanying prospectus contain important information you should know before investing in our securities. Please read it before you invest and keep it for future reference. We file annual, quarterly and current reports, proxy statements and other information about us with the Securities and Exchange Commission, or the "SEC." This information is available free of charge by contacting us at 10 East 40<sup>th</sup> Street, 42<sup>nd</sup> Floor, New York, NY 10016 or by telephone at (212) 448-0702. The SEC maintains a website at [www.sec.gov](http://www.sec.gov) where such information is available without charge upon written or oral request. Our internet website address is [www.prospectstreet.com](http://www.prospectstreet.com). Information contained on our website is not incorporated by reference into this prospectus supplement or the accompanying prospectus and you should not consider information contained on our website to be part of this prospectus supplement or the accompanying prospectus.

Neither the SEC nor any state securities commission has approved or disapproved of these securities or passed on the adequacy or accuracy of this prospectus supplement or the accompanying prospectus. Any representation to the contrary is a criminal offense.

Obligations of Prospect Capital Corporation and any subsidiary of Prospect Capital Corporation are not guaranteed by the full faith and credit of the United States of America. Neither Prospect Capital Corporation nor any subsidiary of Prospect Capital Corporation is a government-sponsored enterprise or an instrumentality of the United States of America.

Joint Book-Running Managers

UBS Investment Bank Morgan Stanley RBC Capital Markets

Joint Lead Managers

Citigroup Ladenburg Thalmann

Co-Managers

BB&T Capital Markets B. Riley FBR Incapital Maxim Group LLC

Prospectus Supplement dated May 31, 2018.

---

## FORWARD-LOOKING STATEMENTS

This prospectus supplement and the accompanying prospectus may contain forward-looking statements within the meaning of Section 21E of the Securities Exchange Act of 1934, as amended, or the “Exchange Act,” which involve substantial risks and uncertainties. Forward-looking statements predict or describe our future operations, business plans, business and investment strategies and portfolio management and the performance of our investments and our investment management business. These forward-looking statements are not historical facts, but rather are based on current expectations, estimates and projections about our industry, our beliefs, and our assumptions. Words such as “intends,” “intend,” “intended,” “goal,” “estimate,” “estimates,” “expects,” “expect,” “expected,” “project,” “projected,” “projects,” “seeks,” “anticipates,” “anticipated,” “should,” “could,” “may,” “will,” “designed to,” “foreseeable future,” “believe,” “believe in,” “scheduled” and variations of these words and similar expressions are intended to identify forward-looking statements. Our actual results or outcomes may differ materially from those anticipated. Readers are cautioned not to place undue reliance on these forward looking statements, which speak only as of the date the statement was 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. These statements are not guarantees of future performance and are subject to risks, uncertainties, and other factors, some of which are beyond our control and difficult to predict and could cause actual results to differ materially from those expressed or forecasted in the forward-looking statements, including without limitation:

- 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 our investment adviser to locate suitable investments for us and to monitor and administer our investments,
- authoritative generally accepted accounting principles or policy changes from such standard-setting bodies as the Financial Accounting Standards Board, the SEC, Internal Revenue Service, the NASDAQ Global Select Market, the New York Stock Exchange and other authorities that we are subject to, as well as their counterparts in any foreign jurisdictions where we might do business, and
- the risks, uncertainties and other factors we identify in “Risk Factors” and elsewhere in this prospectus supplement and the accompanying prospectus and in our filings with the SEC.

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

place undue reliance on these forward-looking statements, which apply

i

---

only as of the date of this prospectus supplement or the accompanying prospectus, as applicable. These forward-looking statements do not meet the safe harbor for forward-looking statements pursuant to Section 27A of the Securities Act of 1933, as amended, or the “Securities Act.”

You should rely only on the information contained in this prospectus supplement and the accompanying prospectus. We have not, and the underwriters have not, authorized any other person to provide you with information that is different from that contained in this prospectus supplement or the accompanying prospectus. If anyone provides you with different or inconsistent information, you should not rely on it. We are not, and the underwriters are not, making an offer of these securities in any jurisdiction where the offer is not permitted. You should assume that the information appearing in this prospectus supplement and the accompanying prospectus is accurate only as of their respective dates and we assume no obligation to update any such information. Our business, financial condition and results of operations may have changed since those dates. Although we undertake no obligation to revise or update any forward-looking statements, whether as a result of new information, future events or otherwise, you are advised to consult any additional disclosures that we may make directly to you or through reports that we have filed with the SEC, including annual reports on Form 10-K, quarterly reports on Form 10-Q and current reports on Form 8-K. This prospectus supplement supersedes the accompanying prospectus to the extent it contains information that is different from or in addition to the information in that prospectus.

## TABLE OF CONTENTS

## PROSPECTUS SUPPLEMENT

<u>Prospectus Summary</u>	<u>S-1</u>
<u>Selected Condensed Financial Data</u>	<u>S-8</u>
<u>Risk Factors</u>	<u>S-10</u>
<u>Description of the Notes</u>	<u>S-15</u>
<u>Registration and Settlement</u>	<u>S-25</u>
<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>S-28</u>
<u>Quantitative and Qualitative Disclosures About Market Risk</u>	<u>S-63</u>
<u>Supplement to Material U.S. Federal Income Tax Considerations</u>	<u>S-64</u>
<u>Certain Considerations Applicable To ERISA, Governmental And Other Plan Investors</u>	<u>S-67</u>
<u>Use of Proceeds</u>	<u>S-69</u>
<u>Capitalization</u>	<u>S-70</u>
<u>Senior Securities</u>	<u>S-71</u>
<u>Ratio of Earnings to Fixed Charges</u>	<u>S-74</u>
<u>Underwriting</u>	<u>S-75</u>
<u>Legal Matters</u>	<u>S-79</u>
<u>Independent Accounting Firms</u>	<u>S-79</u>
<u>Available Information</u>	<u>S-79</u>
<u>Index to Financial Statements</u>	<u>F-1</u>

## PROSPECTUS

<u>About This Prospectus</u>	<u>1</u>
<u>Prospectus Summary</u>	<u>2</u>
<u>Selected Condensed Financial Data</u>	<u>10</u>
<u>Risk Factors</u>	<u>12</u>
<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>44</u>
<u>Quantitative and Qualitative Disclosures about Market Risk</u>	<u>80</u>
<u>Report of Management on Internal Control Over Financial Reporting</u>	<u>81</u>
<u>Use of Proceeds</u>	<u>81</u>
<u>Forward-Looking Statements</u>	<u>83</u>
<u>Distributions</u>	<u>84</u>
<u>Senior Securities</u>	<u>86</u>
<u>Price Range of Common Stock</u>	<u>89</u>
<u>Business</u>	<u>90</u>
<u>Certain Relationships and Transactions</u>	<u>111</u>
<u>Control Persons and Principal Stockholders</u>	<u>111</u>
<u>Portfolio Companies</u>	<u>113</u>
<u>Determination of Net Asset Value</u>	<u>122</u>
<u>Sales of Common Stock Below Net Asset Value</u>	<u>123</u>
<u>Dividend Reinvestment and Direct Stock Purchase Plan</u>	<u>127</u>
<u>Material U.S. Federal Income Tax Considerations</u>	<u>130</u>

<u>Description of Our Capital Stock</u>	<u>136</u>
<u>Description of Our Preferred Stock</u>	<u>142</u>
<u>Description of Our Debt Securities</u>	<u>143</u>
<u>Description of Our Subscription Rights</u>	<u>153</u>

<u>Description of Our Warrants</u>	<u>154</u>
<u>Description of Our Units</u>	<u>155</u>
<u>Regulation</u>	<u>156</u>
<u>Custodian, Transfer and Dividend Paying Agent and Registrar</u>	<u>161</u>
<u>Brokerage Allocation and Other Practices</u>	<u>162</u>
<u>Plan of Distribution</u>	<u>163</u>
<u>Legal Matters</u>	<u>165</u>
<u>Independent Accounting Firms</u>	<u>165</u>
<u>Available Information</u>	<u>165</u>
<u>Index to Financial Statements</u>	<u>F-1</u>



## PROSPECTUS SUMMARY

This section summarizes some of the information contained elsewhere in this prospectus supplement and the accompanying prospectus, including the legal and financial terms of the Notes that are described in more detail in “Description of the Notes” beginning on page S-15. It does not contain all of the information that may be important to an investor. For a more complete understanding of this offering, we encourage you to read the more detailed information appearing elsewhere in this prospectus supplement and the accompanying prospectus. You should read carefully the information set forth under “Risk Factors” in this prospectus supplement and the accompanying prospectus and the other information included in this prospectus supplement and the accompanying prospectus.

The terms “we,” “us,” “our” and “Company” refer to Prospect Capital Corporation; “Prospect Capital Management,” “Investment Adviser” and “PCM” refer to Prospect Capital Management L.P.; and “Prospect Administration” and the “Administrator” refer to Prospect Administration LLC.

Our \$101.6 million aggregate principal amount of 5.875% Senior Convertible Notes due 2019 are referred to as the “2019 Notes.” Our \$392.0 million aggregate principal amount of 4.75% Senior Convertible Notes due 2020 are referred to as the “2020 Notes.” Our \$328.5 million aggregate principal amount of 4.95% Convertible Notes due 2022 are referred to as the “2022 Notes” and, collectively with the 2019 Notes and the 2020 Notes, the “Senior Convertible Notes.” Our \$300.0 million aggregate principal amount of 5.00% Senior Notes due 2019 are referred to as the “5.00% 2019 Notes.” Our \$250.0 million aggregate principal amount of 5.875% Senior Notes due 2023 are referred to as the “2023 Notes.” Our \$199.3 million aggregate principal amount of 6.25% Notes due 2024 are referred to as the “2024 Notes” and, collectively with the 5.00% 2019 Notes and the 2023 Notes, the “Public Notes.” Any Prospect Capital InterNotes® issued pursuant to our medium term notes program are referred to as the “Prospect Capital InterNotes.” The Senior Convertible Notes, the Public Notes and the Prospect Capital InterNotes are referred to as the “Unsecured Notes.”

### The Company

Prospect Capital Corporation 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 \$5.85 billion of total assets as of March 31, 2018.

We are externally managed by our investment adviser, Prospect Capital Management. Prospect Administration provides administrative services and facilities necessary for us to operate.

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 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 non-agented debt and (9) investing in online loans. 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

S-1

---

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 controlling equity positions 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”). National Property REIT Corp.’s (“NPRC”), an operating company and the surviving entity of the May 23, 2016 merger with American Property REIT Corp. (“APRC”) and United Property REIT Corp. (“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) 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 Non-Agented 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 Online Loans** - We purchase loans originated by certain small-and-medium-sized business (“SME”) loan facilitators. We generally purchase each loan in its entirety (i.e., a “whole loan”). The borrowers are 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

S-2

---

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.

As of March 31, 2018, we had investments in 134 portfolio companies and CLOs. The aggregate fair value as of March 31, 2018 of investments in these portfolio companies held on that date is approximately \$5.7 billion. Our portfolio across all our performing interest-bearing investments had an annualized current yield of 12.9% as of March 31, 2018. Our annualized current yield was 10.8% as of March 31, 2018 across all investments.

#### Recent Developments

##### Recent Investment Activity

On April 2, 2018, Ability Network Inc. repaid the \$15.0 million second lien term loan receivable to us.

On April 3, 2018, we made a \$28.0 million first lien senior secured investment in Mobile Posse Inc., which offers home screen content and messaging services to mobile phone carriers.

On April 4, 2018, Wheel Pros, LLC repaid the \$20.8 million senior secured subordinated notes receivable to us.

On April 4, 2018, we filed an 8-K announcing that our Board of Directors appointed Kristin Van Dask as our Chief Financial Officer, Treasurer, Secretary, and Chief Compliance Officer, effective immediately, in place of Brian H. Oswald who previously served in such positions.

On April 6, 2018, Arctic Oilfield Equipment USA, Inc. merged with and into CP Energy Services, Inc. ("CP Energy"), with CP Energy as the surviving entity.

On April 10, 2018, we made a \$25.5 million Senior Secured Term Loan A and \$17.0 million Senior Secured Term Loan B investment in SEO TownCenter, Inc., a provider of search engine optimization services.

During the period from April 16, 2018 to May 14, 2018, we sold 13.18% of the outstanding principal balance of the senior secured note investment in Broder Bros., Co. for a total of \$60.0 million at 100% of par. There was no gain or loss realized on the sale.

On April 17, 2018, we made a \$43.0 million Senior Secured Term Loan A and \$43.0 million Senior Secured Term Loan B investment in Motion Recruitment Partners LLC, a provider of IT-focused contractor and permanent staffing recruitment solutions.

On April 17, 2018, we made a \$10.0 million Second Lien Term Loan investment in HelpSystems Holdings, a provider of software products.

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 \$15.0 million at 93.5% of par. We realized a \$0.3 million loss on the sale.

On May 1, 2018, Pelican Products, Inc. repaid the \$17.5 million second lien term loan receivable to us.

On May 15, 2018, National Home Healthcare Corp. repaid the \$15.4 million second lien term loan receivable to us.

During the period from April 13, 2018 to May 30, 2018, we provided \$36.1 million of equity financing to National Property REIT Corp. ("NPRC"), which was used to fund capital expenditures for existing properties and acquire an additional real estate property. On May 11, 2018, we received partial repayments of \$18.7 million of our loans previously outstanding with NPRC and its wholly-owned subsidiaries.

Debt and Equity

On May 18, 2018, we issued \$103.5 million in aggregate principal amount of our 2022 Notes (including \$13.5 million in aggregate principal amount of 4.95% Convertible Notes due 2022 pursuant to the exercise in full by the underwriter of its over-allotment option) (the “Additional Notes”). The Additional Notes were a further issuance of, and are fully fungible and rank

S-3

---

equally in right of payment with, the 2022 Notes that we issued on April 11, 2017 in the aggregate principal amount of \$225 million. The outstanding aggregate principal amount of our 2022 Notes is now \$328.5 million.

During the period from April 1, 2018 through May 30, 2018, we issued \$4.1 million aggregate principal amount of Prospect Capital InterNotes® for net proceeds of \$4.0 million.

On May 24, 2018, we repurchased \$98.4 million aggregate principal amount of our 2019 Notes.

#### Dividends

On May 9, 2018, we announced the declaration of monthly dividends in the following amounts and with the following dates:

- \$0.06 per share for May 2018 to holders of record on May 31, 2018 with a payment date of June 21, 2018.
- \$0.06 per share for June 2018 to holders of record on June 29, 2018 with a payment date of July 19, 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.

S-4

---

### Specific Terms of the Notes and the Offering

This prospectus supplement sets forth certain terms of the Notes that Prospect Capital Corporation is offering pursuant to this prospectus supplement and supplements the accompanying prospectus that is attached to the back of this prospectus supplement. This section outlines the specific legal and financial terms of the Notes. You should read this section together with the more general description of the Notes under the heading “Description of the Notes” in this prospectus supplement and in the accompanying prospectus under the heading “Description of Our Debt Securities” before investing in the Notes. Capitalized terms used in this prospectus supplement and not otherwise defined shall have the meanings ascribed to them in the accompanying prospectus or in the indenture governing, or the supplemental indenture establishing, the terms of the Notes (collectively, the indenture and the supplemental indenture is referred to as the “Indenture”).

Issuer Prospect Capital Corporation

Title of securities 6.25% Notes due 2028

Initial aggregate principal amount being offered \$50,000,000

Option to purchase additional Notes The underwriters may also purchase from us up to an additional \$7,500,000 aggregate principal amount of Notes within 30 days of the date of this prospectus supplement.

Initial public offering price 100% of the aggregate principal amount of Notes.

Principal payable at maturity 100% of the aggregate principal amount; the principal amount of each Note will be payable on its stated maturity date at the office of the Paying Agent, Registrar and Transfer Agent for the Notes or at such other office in The City of New York as we may designate.

Type of Note Fixed rate note

Listing We intend to list the Notes on The New York Stock Exchange within 30 days of the original issue date. The Notes will not be listed or quoted for trading on any national securities exchange or trading market on the original issue date.

Interest rate 6.25% per year

Day count basis 360-day year of twelve 30-day months

Original issue date June 7, 2018

Stated maturity date June 15, 2028

Date interest starts accruing June 7, 2018

Interest payment dates Every March 15, June 15, September 15 and December 15, commencing September 15, 2018. If an interest payment date falls on a non-business day, the applicable interest payment will be made on the next business day and no additional interest will accrue as a result of such delayed payment.



Edgar Filing: PROSPECT CAPITAL CORP - Form 497

Interest periods      The initial interest period will be the period from and including June 7, 2018, to, but excluding, the initial interest payment date, and the subsequent interest periods will be the periods from and including an interest payment date to, but excluding, the next interest payment date or the stated maturity date, as the case may be.

Regular record dates for interest      Every March 1, June 1, September 1 and December 1, commencing September 1, 2018.

Specified currency      U.S. Dollars

S-5

---

Place of payment New York City

Ranking of Notes The Notes will be our general, unsecured obligations and will rank equal in right of payment with all of our existing and future senior, unsecured indebtedness (including the Unsecured Notes) and senior in right of payment to any of our subordinated indebtedness. As a result, the Notes will be effectively subordinated to our existing 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 our subsidiaries.

As of May 30, 2018, we and our subsidiaries had approximately \$2.5 billion of senior indebtedness outstanding, \$2.3 billion of which was unsecured indebtedness.

Denominations We will issue the Notes in denominations of \$25 and integral multiples of \$25 in excess thereof.

Business day Each Monday, Tuesday, Wednesday, Thursday and Friday that is not a day on which banking institutions in New York City are authorized or required by law or executive order to close.

The Notes may be redeemed in whole or in part at any time or from time to time at our option on or after June 15, 2021 upon not less than 30 days nor more than 90 days written notice by mail prior to the date fixed for redemption thereof, at a redemption price of \$25 per Note plus accrued and unpaid interest payments otherwise payable for the then-current quarterly interest period accrued to, but excluding, the date fixed for redemption.

Optional redemption You may be prevented from exchanging or transferring the Notes when they are subject to redemption. In case any Notes are to be redeemed in part only, the redemption notice will provide that, upon surrender of such Note, you will receive, without a charge, a new Note or Notes of authorized denominations representing the principal amount of your remaining unredeemed Notes.

Any exercise of our option to redeem the Notes will be done in compliance with the 1940 Act, to the extent applicable.

If we redeem only some of the Notes, the Trustee will determine the method for selection of the particular Notes to be redeemed, in accordance with the 1940 Act to the extent applicable. Unless we default in payment of the redemption price, on and after the date of redemption, interest will cease to accrue on the Notes called for redemption.

Sinking fund The Notes will not be subject to any sinking fund.

Repayment at option of Holders Holders will not have the option to have the Notes repaid prior to the stated maturity date unless we undergo a fundamental change (as defined in this prospectus supplement). See “-Fundamental change repurchase right of Holders”.

Defeasance The Notes are subject to defeasance by us.

Covenant defeasance The Notes are subject to covenant defeasance by us.

Form of Notes

The Notes will be represented by global securities that will be deposited and registered in the name of The Depository Trust Company (“DTC”) or its nominee. This means that, except in limited circumstances, you will not receive certificates for the Notes. Beneficial interests in the Notes will be represented through book-entry accounts of financial institutions acting on behalf of beneficial owners as direct and indirect participants in DTC. Investors may elect to hold interests in the Notes through either DTC, if they are a participant, or indirectly through organizations which are participants in DTC.

Trustee, Paying Agent, Registrar and Transfer Agent	U.S. Bank National Association
Fundamental change repurchase right of Holders	If we undergo a fundamental change (as defined in this prospectus supplement) prior to maturity, you will have the right, at your option, to require us to repurchase for cash some or all of your Notes at a repurchase price equal to 100% of the principal amount of the Notes being repurchased, plus accrued and unpaid interest to, but not including, the repurchase date. See “Description of the Notes-Purchase of Notes by Us for Cash at the Option of Holders upon a Fundamental Change.”
Events of default	If an event of default on the Notes occurs, the principal amount of the Notes, plus accrued and unpaid interest (including additional interest, if any) may be declared immediately due and payable, subject to certain conditions set forth in the Indenture. These amounts automatically become due and payable in the case of certain types of bankruptcy or insolvency events of default involving the Company as defined in the Indenture.
Other covenants	In addition to the covenants described in the prospectus attached to this prospectus supplement, the following covenants shall apply to the Notes: <ul style="list-style-type: none"> <li>• We agree that for the period of time during which the Notes are outstanding, we will not violate Section 18(a)(1)(A) as modified by Section 61(a)(1) of the 1940 Act or any successor provisions.</li> <li>• If, at any time, we are not subject to the reporting requirements of Sections 13 or 15(d) of the Exchange Act to file any periodic reports with the SEC, we agree to furnish to holders of the Notes and the Trustee, for the period of time during which the Notes are outstanding, our audited annual consolidated financial statements, within 90 days of our fiscal year end, and unaudited interim consolidated financial statements, within 45 days of our fiscal quarter end. All such financial statements will be prepared, in all material respects, in accordance with applicable United States generally accepted accounting principles.</li> </ul>
Use of proceeds	We estimate that the net proceeds from this offering will be approximately \$47,925,000 (or approximately \$55,188,750 if the option to purchase up to an additional \$7,500,000 aggregate principal amount of Notes solely to cover over-allotments, if any, is exercised in full) after deducting fees and estimated offering expenses of approximately \$500,000 payable by us. We expect to use a portion of the net proceeds from the sale of the Notes offered hereby to repay debt under our credit facility. We intend to use the remainder of the net proceeds of the offering to invest in high quality short term debt investments, and/or to make long term investments in accordance with our investment objective and/or to repurchase Unsecured Notes.
Global clearance and settlement procedures	Interests in the Notes will trade in DTC's Same Day Funds Settlement System, and any permitted secondary market trading activity in such Notes will, therefore, be required by DTC to be settled in immediately available funds. None of the Company, the Trustee or the paying agent will have any responsibility for the performance by DTC or its participants or indirect participants of their respective obligations under the rules and procedures governing their operations.
Governing law	The Notes and the Indenture shall be governed by, and construed in accordance with, the laws of the State of New York.

## SELECTED CONDENSED FINANCIAL DATA

You should read the condensed consolidated financial information below with the Consolidated Financial Statements and notes thereto included in this prospectus supplement and the accompanying prospectus. Financial information below for the years ended June 30, 2017, 2016, 2015, 2014, and 2013 has been derived from the financial statements that were audited by our independent registered public accounting firm. The selected consolidated financial data at and for the three and nine months ended March 31, 2018 and 2017 has been derived from unaudited financial data. Interim results for the three and nine months ended March 31, 2018 are not necessarily indicative of the results that may be expected for the year ending June 30, 2018. Certain reclassifications have been made to the prior period financial information to conform to the current period presentation. See “Management’s Discussion and Analysis of Financial Condition and Results of Operations” starting on page S-28 for more information.

	For the Three Months Ended March 31, 2018		For the Nine Months Ended March 31, 2018		For the Year Ended June 30,			201
	2017	2017	2018	2017	2017	2016	2015	201
	(in thousands except data relating to shares, per share and number of portfolio companies)							
Performance Data:								
Total interest income	\$ 145,862	\$ 161,711	\$ 447,329	\$ 508,152	\$ 668,717	\$ 731,618	\$ 748,974	\$ 61
Total dividend income	6,287	817	7,157	4,580	5,679	26,501	7,663	26,
Total other income	10,686	8,504	29,328	21,612	26,650	33,854	34,447	71,
Total Investment Income	162,835	171,032	483,814	534,344	701,046	791,973	791,084	712
Interest and credit facility expenses	(37,479 )	(41,464 )	(117,861 )	(123,981 )	(164,848 )	(167,719 )	(170,660 )	(13
Investment advisory expense	(46,880 )	(48,819 )	(140,833 )	(151,328 )	(199,394 )	(219,305 )	(225,277 )	(19
Other expenses	(8,030 )	(7,669 )	(17,750 )	(22,631 )	(30,722 )	(33,821 )	(32,400 )	(26
Total Operating Expenses	(92,389 )	(97,952 )	(276,444 )	(297,940 )	(394,964 )	(420,845 )	(428,337 )	(35
Net Investment Income	70,446	73,080	207,370	236,404	306,082	371,128	362,747	357
Net realized and change in unrealized gains (losses)	(18,587 )	(53,588 )	(21,811 )	(34,666 )	(53,176 )	(267,766 )	(16,408 )	(38
Net increase in Net Assets from Operations	\$ 51,859	\$ 19,492	\$ 185,559	\$ 201,738	\$ 252,906	\$ 103,362	\$ 346,339	\$ 31
Per Share Data:								
Net Increase in Net Assets from Operations(1)	\$ 0.14	\$ 0.05	\$ 0.51	\$ 0.56	\$ 0.70	\$ 0.29	\$ 0.98	\$ 1.

Edgar Filing: PROSPECT CAPITAL CORP - Form 497

Dividends declared per share	\$(0.18 )	\$(0.25 )	\$(0.59 )	\$(0.75 )	\$(1.00 )	\$(1.00 )	\$(1.19 )	\$(1.19 )
Weighted average shares of common stock outstanding	361,759,954	359,402,527	360,794,837	358,468,092	358,841,714	356,134,297	353,648,522	300,000,000
Assets and Liabilities Data:								
Investments at Fair Value	\$5,719,804	\$6,024,766	\$5,719,804	\$6,024,766	\$5,838,305	\$5,897,708	\$6,609,558	\$6,609,558
Other Assets(4)	131,341	128,338	131,341	128,338	334,484	338,473	144,356	166,000
Total Assets(4)	5,851,145	6,153,104	5,851,145	6,153,104	6,172,789	6,236,181	6,753,914	6,775,558
Revolving Credit Facility	86,000	—	86,000	—	—	—	368,700	92,000
Convertible notes(4)	805,092	910,782	805,092	910,782	937,641	1,074,361	1,218,226	1,218,226
Public notes (4)	739,836	737,802	739,836	737,802	738,300	699,368	541,490	637,000
Prospect Capital	743,729	991,345	743,729	991,345	966,254	893,210	811,180	766,000
InterNotes®(4)								
Due to Prospect Administration and Prospect Capital Management	49,157	50,945	49,157	50,945	50,159	55,914	6,788	2,200
Other liabilities	80,935	70,062	80,935	70,062	125,483	77,411	104,481	83,000
Total Liabilities(4)	2,504,749	2,760,936	2,504,749	2,760,936	2,817,837	2,800,264	3,050,865	2,800,264
Net Assets	\$3,346,396	\$3,392,168	\$3,346,396	\$3,392,168	\$3,354,952	\$3,435,917	\$3,703,049	\$3,975,294
Activity Data:								
No. of portfolio companies at period end	134	125	134	125	121	125	131	142
Acquisitions	\$429,928	\$449,607	\$1,390,816	\$1,266,294	\$1,489,470	\$979,102	\$1,867,477	\$2,000,000
Sales, repayments, and other disposals	\$118,083	\$302,335	\$1,471,246	\$1,061,661	\$1,413,882	\$1,338,875	\$1,411,562	\$700,000
Total return based on market value(2)	(0.20 )%	11.30 %	(12.00 )%	26.27 %	16.80 %	21.84 %	(20.84 )%	10.90 %
Total return based on net asset value(2)	2.14 %	0.77 %	8.04 %	7.07 %	8.98 %	7.15 %	11.47 %	10.90 %
Weighted average yield on debt portfolio at	12.9 %	12.3 %	12.9 %	12.3 %	12.2 %	13.2 %	12.7 %	12.9 %

period end(3)  
Weighted  
average yield  
on total  
portfolio at  
period end

10.8

% 10.7

% 10.8

% 10.7

% 10.4

% 12.0

% 11.9

% 11.9

---

S-8

---

- (1) Per share data is based on the weighted average number of common shares outstanding for the year/period 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/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 year/period and assumes that dividends are reinvested in accordance with our dividend reinvestment plan. For a period less than a year, the return is not annualized.
- (2)
- (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, \$44,140, (4) \$57,010, and \$37,607 previously reported as an asset on the Consolidated Statements of Assets and Liabilities as of June 30, 2016, 2015, 2014, and 2013, respectively, have been reclassified as a direct deduction to the respective Unsecured Notes. See Critical Accounting Policies and Estimates for further discussion.



## RISK FACTORS

Investing in our Notes involves a high degree of risk. You should carefully consider the risks described below, together with all of the other information included in this prospectus supplement and the accompanying prospectus, before you decide whether to make an investment in the Notes. If any of the adverse events or conditions described below or in the accompanying prospectus occur, our business, financial condition and results of operations could be materially adversely affected. In such case, our net asset value, or NAV, and the value of the Notes and the trading price of our common stock could decline, and you may lose all or part of your investment.

### Risks Relating to the Notes

Our amount of debt outstanding will increase as a result of this offering. Our current indebtedness could adversely affect our business, financial condition and results of operations and our ability to meet our payment obligations under the Notes and our other debt.

As of May 30, 2018, we and our subsidiaries had approximately \$2.3 billion of unsecured senior indebtedness outstanding and \$139.0 million of secured indebtedness outstanding.

The use of debt could have significant consequences on our future operations, including:

- making it more difficult for us to meet our payment and other obligations under the Notes and our other outstanding debt;
- resulting in an event of default if we fail to comply with the financial and other restrictive covenants contained in our debt agreements, which event of default could result in substantially all of our debt becoming immediately due and payable;
- reducing the 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;
- subjecting us to the risk of increased sensitivity to interest rate increases on our indebtedness with variable interest rates, including borrowings under our credit facility; and
- limiting our 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.

Any of the above listed factors could have an adverse effect on our business, financial condition and results of operations and our ability to meet our payment obligations under the Notes and our other debt.

Our ability to meet our payment and other obligations under our debt instruments 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 assure you that our business will generate cash flow from operations, or that future borrowings will be available to us under our credit facility or otherwise, in an amount sufficient to enable us to meet our payment obligations under the 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 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 Notes and our other debt.

An increase in market interest rates could result in a decrease in the market value of the Notes.

The condition of the financial markets and prevailing interest rates have fluctuated in the past and are likely to fluctuate in the future, which could have an adverse effect on the market prices of the Notes. In general, as market interest rates rise, debt securities bearing interest at fixed rates of interest decline in value. Consequently, if you purchase notes bearing interest at fixed rates of interest and market interest rates increase, the market values of those notes may decline. We cannot predict the future level of market interest rates.

The Notes will be effectively subordinated to any existing and future secured indebtedness and structurally subordinated to existing and future liabilities and other indebtedness of our subsidiaries.

The Notes will be our general, unsecured obligations and will rank equally in right of payment with all of our existing and future unsubordinated, unsecured indebtedness, including without limitation, our Unsecured Notes. As a result, the Notes will be effectively subordinated to our existing and future secured indebtedness (including indebtedness that is initially unsecured to which we subsequently grant security) 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 our subsidiaries. Effective subordination means that in any liquidation, dissolution, bankruptcy or other similar proceeding, the holders of any of our existing or future secured indebtedness and the secured indebtedness of our subsidiaries may assert rights against the assets pledged to secure that indebtedness in order to receive full payment of their indebtedness before the assets may be used to pay other creditors. Structural subordination means that creditors of a parent entity are subordinate to creditors of a subsidiary entity with respect to the subsidiary's assets. These liabilities may include indebtedness, trade payables, guarantees, lease obligations and letter of credit obligations. The Notes do not restrict us or our subsidiaries from incurring indebtedness, including senior secured indebtedness in the future, nor do they limit the amount of indebtedness we can issue that is equal in right of payment to the Notes. As of May 30, 2018, we had \$139.0 million borrowings under our credit facility. Our credit facility is secured by certain of our assets and the indebtedness thereunder is therefore effectively senior to the Notes to the extent of the value of such assets.

The Senior Convertible Notes and Public Notes and certain Prospect Capital InterNotes® will be due prior to the Notes. We do not currently know whether we will be able to replace any such notes upon their respective maturities, or if we do, whether we will be able to do so on terms that are as favorable as such notes. In the event that we are not able to replace such notes at the time of their respective maturities, this could have a material adverse effect on our liquidity and ability to fund new investments, our ability to make distributions to our stockholders, our ability to repay the Notes and our ability to qualify as a regulated investment company, or "RIC."

The Indenture governing the Notes will not contain restrictive covenants and will provide only limited protection, in the event of a change of control.

The Indenture under which the Notes will be issued will not contain financial or operating covenants or any other restrictive covenants that would limit our ability to engage in certain transactions that may adversely affect you. In particular, the Indenture will not contain covenants that limit our ability to pay dividends or make distributions on or redeem our capital stock or that limit our ability to incur additional indebtedness, including in a highly leveraged transaction or other similar transaction. We will only be required to offer to repurchase the Notes upon a change of control in the case of the transactions specified in the definition of a "fundamental change" under "Description of the Notes - Purchase of Notes by Us for Cash at the Option of Holders upon a Fundamental Change."

Accordingly, subject to restrictions contained in our other debt agreements, we will be permitted to engage in certain transactions, such as acquisitions, refinancings or recapitalizations, that could affect our capital structure and the value of the Notes and our common stock but would not constitute a fundamental change or a non stock change of control under the Notes.

We may be unable to repurchase the Notes following a fundamental change.

Holder of the Notes have the right to require us to repurchase their Notes prior to their maturity upon the occurrence of a fundamental change as described under "Description of the Notes - Purchase of Notes by Us for Cash at the Option of Holders upon a Fundamental Change." Any of our future debt agreements may contain similar provisions. We may not have sufficient funds or the ability to arrange necessary financing on acceptable terms at the time we are required to make repurchases of tendered Notes. In addition, our ability to repurchase the Notes may be limited by law or the terms of other agreements relating to our debt outstanding at the time, including our credit facility. If we fail to repurchase the Notes as required by the Indenture, it would constitute an event of default under the Indenture governing the Notes, which, in turn, would constitute an event of default under our credit facility.

Some significant restructuring transactions may not constitute a fundamental change, in which case we would not be obligated to offer to repurchase the Notes.

Upon the occurrence of a fundamental change, you have the right to require us to offer to repurchase the Notes. However, the fundamental change provisions will not afford protection to holders of the Notes in the event of certain transactions. For example, transactions such as leveraged recapitalizations, refinancings, restructurings or acquisitions initiated

S-11

---

by us would not constitute a fundamental change event which may require us to repurchase the Notes. In the event of any such transaction, the holders would not have the right to require us to repurchase the Notes, even though each of these transactions could increase the amount of our indebtedness, or otherwise adversely affect our capital structure or any credit ratings, thereby adversely affecting the holders of the Notes.

Provisions of the Notes could discourage an acquisition of us by a third party.

Certain provisions of the 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 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 \$25. These provisions could discourage an acquisition of us by a third party.

The Notes may not be approved by The New York Stock Exchange and an active trading market for the Notes may not develop, which could limit the market price of the Notes or your ability to sell them.

The Notes are a new issue of debt securities for which there currently is no trading market. Although we expect the Notes to be listed on The New York Stock Exchange, we cannot provide any assurances that The New York Stock Exchange will approve the listing of the Notes or that an active trading market will develop for the Notes or that you will be able to sell your Notes. If the Notes are traded after their initial issuance, they may trade at a discount from their initial offering price depending on prevailing interest rates, the market for similar securities, our credit ratings, general economic conditions, our financial condition, performance and prospects and other factors. The underwriters have advised us that they intend to make a market in the Notes, but they are not obligated to do so. The underwriters may discontinue any market-making in the Notes at any time at their sole discretion. Accordingly, we cannot assure you that a liquid trading market will develop for the Notes, that you will be able to sell your Notes at a particular time or that the price you receive when you sell will be favorable. To the extent an active trading market does not develop, the liquidity and trading price for the Notes may be harmed. Accordingly, you may be required to bear the financial risk of an investment in the Notes for an indefinite period of time.

We may choose to redeem the Notes when prevailing interest rates are relatively low.

Beginning June 15, 2021, we may choose to redeem the Notes from time to time, especially when prevailing interest rates are lower than the rate borne by the Notes. If prevailing rates are lower at the time of redemption, you would not be able to reinvest the redemption proceeds in a comparable security at an effective interest rate as high as the interest rate on the Notes. Our redemption right also may adversely impact your ability to sell the Notes.

A downgrade, suspension or withdrawal of the rating assigned by a rating agency to us or the Notes, if any, could cause the liquidity or market value of the Notes to decline significantly.

Our credit ratings are an assessment by rating agencies of our ability to pay our debts when due. Consequently, real or anticipated changes in our credit ratings will generally affect the market value of the Notes. These credit ratings may not reflect the potential impact of risks relating to the structure or marketing of the Notes. Credit ratings are not a recommendation to buy, sell or hold any security, and may be revised or withdrawn at any time by the issuing organization in its sole discretion. We do not undertake any obligation to maintain our rating, if any, or to advise holders of Notes of any changes in ratings.

The Notes are rated by Standard & Poor's Ratings Services, or "S&P", and Kroll Bond Rating Agency, Inc., or "Kroll." There can be no assurance that their rating will remain for any given period of time or that such rating will not be lowered or withdrawn entirely by S&P or Kroll if in their respective judgment future circumstances relating to the basis of the rating, such as adverse changes in our company, so warrant.

We may be subject to certain corporate level taxes, which could adversely affect our cash flow and consequently adversely affect our ability to make payments on the Notes.

We may be subject to certain corporate level taxes regardless of whether we continue to qualify as a regulated investment company, or RIC. Additionally, should we fail to qualify as a RIC, we would be subject to corporate level taxes on all of our taxable income. The imposition of corporate level taxes could adversely affect our cash flow and consequently adversely affect our ability to make payments on the Notes.

The Indenture governing the Notes will contain limited protection for holders of the Notes.

The Indenture under which the Notes will be issued will contain limited protection to holders of the Notes. The terms of the Indenture and the Notes will not restrict our or our consolidated subsidiary's ability to engage in, or otherwise be a party to, a variety of corporate transactions, circumstances or events that could have an adverse impact on your investment in the Notes. In particular, the terms of the Indenture and the Notes will not place any restrictions on our or our consolidated subsidiary's ability to:

issue securities or otherwise incur additional indebtedness or other obligations, including (1) any indebtedness or other obligations that would be equal in right of payment to the Notes, (2) any indebtedness or other obligations that would be secured and therefore rank effectively senior in right of payment to the Notes to the extent of the values of the assets securing such debt, (3) indebtedness of ours that is guaranteed by one or more of our subsidiaries and which therefore is structurally senior to the Notes and (4) securities, indebtedness or obligations issued or incurred by our subsidiaries that would be senior to our equity interests in our subsidiaries and therefore rank structurally senior to the Notes with respect to the assets of our subsidiaries, in each case other than an incurrence of indebtedness or other obligation that would cause a violation of Section 18(a)(1)(A) as modified by Section 61(a)(1) of the 1940 Act or any successor provisions;

pay dividends on, or purchase or redeem or make any payments in respect of, capital stock or other securities ranking junior in right of payment to the Notes;

sell assets (other than certain limited restrictions on our ability to consolidate, merge or sell all or substantially all of our assets);

enter into transactions with affiliates;

create liens (including liens on the shares of our subsidiaries) or enter into sale and leaseback transactions;

make investments; or

create restrictions on the payment of dividends or other amounts to us from our consolidated subsidiaries.

Furthermore, the terms of the Indenture and the Notes do not protect holders of the Notes in the event that we experience changes (including significant adverse changes) in our financial condition, results of operations or credit ratings, as they do not require that we or our subsidiary adhere to any financial tests or ratios or specified levels of net worth, revenues, income, cash flow, or liquidity other than certain limited restrictions on dividends and certain board structures or default provisions mandated by the 1940 Act.

Our ability to recapitalize, incur additional debt and take a number of other actions that are not limited by the terms of the Notes may have important consequences for you as a holder of the Notes, including making it more difficult for us to satisfy our obligations with respect to the Notes or negatively affecting the trading value of the Notes.

Certain of our current debt instruments include more protections for their holders than the Indenture and the Notes. In addition, other debt we issue or incur in the future could contain more protections for its holders than the indenture and the Notes, including additional covenants and events of default. The issuance or incurrence of any such debt with incremental protections could affect the market for and trading levels and prices of the Notes.

Changes relating to the LIBOR calculation process may adversely affect the value of the LIBOR-indexed, floating-rate debt securities in our portfolio.

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 on any such event on our cost of capital and net investment income cannot yet be determined.

Actions by the British Bankers' Association ("BBA"), 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. Regulations governing our operation as a business development company affect our ability to raise, and the way in which we raise, additional capital.

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. On March 23, 2018, President Trump signed into law the Small Business Credit Availability Act (the “SBCAA”), 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. We currently have not determined whether to take advantage of the additional leverage. If we choose to take advantage of such additional leverage, it will mean that for every \$100 of net assets, we may raise \$200 from senior securities, such as borrowings or issuing secured stock. If this ratio declines below 150%, we may not be able to incur additional debt and may need to sell a portion of our investments to repay some debt when it is disadvantageous to do so, and we may not be able to make distributions.

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” in the accompanying prospectus.

## DESCRIPTION OF THE NOTES

The Notes will be issued under the Indenture referred to in the accompanying prospectus between us and U.S. Bank National Association, as trustee, and a supplemental indenture establishing the terms of the Notes (collectively, the indenture and supplemental indenture is referred to as the “Indenture”). The following description of particular terms of the Notes supplements the more general description of the debt securities contained in the accompanying prospectus. If there are any inconsistencies between the information in this section and the information in the accompanying prospectus, the information in this section controls. You should read this section together with the section entitled “Description of Our Debt Securities” in the accompanying prospectus.

Together with the “Description of Our Debt Securities” in the accompanying prospectus, the following description provides a summary of the material provisions of the Notes and the Indenture and does not purport to be complete. We urge you to read the Indenture (including the form of global note contained therein), because it, and not this description, defines your rights as a holder of the Notes.

When we refer to “Prospect Capital Corporation,” the “Company,” “we,” “our” or “us” in this section, we refer only to Prospect Capital Corporation and not its consolidated subsidiaries. In addition, all references to interest in this prospectus supplement include additional interest, if any, payable as the sole remedy relating to the failure to comply with our reporting obligations pursuant to the provisions set forth below under the heading “- Events of Default; Notice and Waiver.”

### Brief Description of the Notes

The Notes will:

- initially be limited to \$50,000,000 aggregate principal amount (\$57,500,000 if the option is exercised in full);
- bear interest at a rate of 6.25% per year, payable every March 15, June 15, September 15 and December 15, commencing on September 15, 2018, in each case having a record date of March 1, June 1, September 1, and December 1;

- be issued in minimum denominations of \$25 and integral multiples of \$25 in excess thereof;

- be redeemed in whole or in part at any time or from time to time at our option on or after June 15, 2021, upon not less than 30 days nor more than 90 days’ written notice by mail prior to the date fixed for redemption thereof, at a redemption price of 100% of the principal amount of the Notes to be redeemed plus accrued and unpaid interest to the date of redemption. See the description under “-Optional Redemption” below;

- be our general unsecured obligations, ranking equally with all of our other unsecured indebtedness (including, but not limited to, our Unsecured Notes) and senior in right of payment to any of our subordinated indebtedness, effectively subordinated in right of payment to our existing and future secured indebtedness and structurally subordinated to all existing and future debt of our subsidiaries;

- be subject to repurchase by us at your option if a fundamental change occurs, at a cash repurchase price equal to 100% of the principal amount of the Notes, plus accrued and unpaid interest (including additional interest, if any) to, but not including, the repurchase date;

- are expected to be listed on The New York Stock Exchange; and

- be due June 15, 2028.

Neither we nor our subsidiaries will be subject to any financial covenants under the Indenture. In addition, neither we nor our subsidiaries will be restricted under the Indenture from paying dividends, incurring debt or issuing or repurchasing our securities. You are not afforded protection under the Indenture in the event of a highly leveraged transaction or a change in control of us, except to the extent described below under “-Purchase of Notes by Us for Cash at the Option of Holders upon a Fundamental Change.”

No sinking fund is provided for the Notes and the Notes will be subject to defeasance.

The Notes will be represented by global securities that will be deposited and registered in the name of DTC or its nominee. This means that, except in limited circumstances, you will not receive certificates for the Notes. Beneficial interests in the Notes will be represented through book-entry accounts of financial institutions acting on behalf of beneficial owners as direct and indirect participants in DTC. Investors may elect to hold interests in the Notes through either DTC, if they are a participant, or indirectly through organizations which are participants in DTC. For information regarding registration of transfer and exchange of the global note held in DTC, see "Registration and Settlement" on page S-25.

#### Additional Notes

We may, without the consent of the holders of the Notes, increase the principal amount of the Notes by issuing additional Notes in the future on the same terms and conditions, except for any differences in the issue price and interest accrued prior to the issue date of the additional Notes and the original issue date; provided that such differences do not cause the additional Notes to constitute a different class of securities than the Notes for U.S. federal income tax purposes. The Notes offered by this prospectus supplement and any additional Notes would rank equally and ratably and would be treated as a single class for all purposes under the Indenture. No additional Notes may be issued if any event of default has occurred with respect to the Notes.

#### Ranking

The Notes will be our general, unsecured obligations and will rank equal in right of payment with all of our existing and future unsecured indebtedness (including, but not limited to, our Unsecured Notes) and senior in right of payment to any of our subordinated indebtedness. As a result, the Notes will be effectively subordinated to our existing 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 our subsidiaries. As of May 30, 2018, we and our subsidiaries had approximately \$2.5 billion of indebtedness outstanding, \$139.0 million of which was secured indebtedness and \$2.3 billion of which was unsecured indebtedness.

#### Payment at Maturity

On the maturity date, each holder will be entitled to receive on such date \$25 in cash for each \$25 in principal amount of Notes, together with accrued and unpaid interest (including additional interest, if any) to, but not including, the maturity date. With respect to the global note, principal and interest (including additional interest, if any) will be paid to DTC in immediately available funds. With respect to any certificated Notes, principal and interest (including additional interest, if any) will be payable at our office or agency in New York City, which initially will be the office or agency of the trustee in New York City.

#### Optional Redemption

The Notes may be redeemed in whole or in part at any time or from time to time at our option on or after June 15, 2021, upon not less than 30 days nor more than 90 days written notice by mail prior to the date fixed for redemption thereof, at a redemption price of 100% of the principal amount of the Notes to be redeemed plus accrued and unpaid interest to the date of redemption.

A holder of the Notes may be prevented from exchanging or transferring the Notes when they are subject to redemption. In case any Notes are to be redeemed in part only, the redemption notice will provide that, upon surrender of such Note, the holder will receive, without a charge, a new Note or Notes of authorized denominations representing the principal amount of the holder's remaining unredeemed Notes.

Any exercise of our option to redeem the Notes will be done in compliance with 1940 Act, to the extent applicable. If the Company redeems only some of the Notes, the trustee will determine the method for selection of the particular Notes to be redeemed, in accordance with the 1940 Act and the rules and regulations promulgated thereunder, to the extent applicable. Unless the Company defaults in payment of the redemption price, on and after the date of redemption, interest will cease to accrue on the Notes called for redemption.

#### Purchase of Notes by Us for Cash at the Option of Holders upon a Fundamental Change

If a fundamental change (as defined below) occurs at any time prior to the maturity of the Notes, you will have the right to require us to repurchase, at the repurchase price described below, all or part of your Notes for which you have properly





delivered and not withdrawn a written repurchase notice. The Notes submitted for repurchase must be \$25 in principal amount or \$25 integral multiples in excess thereof.

The repurchase price will be payable in cash and will equal 100% of the principal amount of the Notes being repurchased, plus accrued and unpaid interest (including additional interest, if any) to, but excluding, the repurchase date. However, if the repurchase date is after a record date and on or prior to the corresponding interest payment date, the interest (including additional interest, if any) will be paid on the repurchase date to the holder of record on the record date.

We may be unable to repurchase your Notes in cash upon a fundamental change. Our ability to repurchase the Notes in cash in the future may be limited by the terms of our then-existing borrowing agreements. In addition, the occurrence of a fundamental change could cause an event of default under the terms of our then-existing borrowing agreements. We cannot assure you that we would have the financial resources, or would be able to arrange financing, to pay the repurchase price in cash. See “Risk Factors-We may be unable to repurchase the Notes following a fundamental change” on page S-11 of this prospectus supplement.

A “fundamental change” will be deemed to have occurred upon the occurrence of both (a) a below investment grade ratings event (as defined below) and (b) any of the following events (each such events listed below shall be deemed a “fundamental change event”):

1. the consummation of any transaction (including, without limitation, any merger or consolidation other than those excluded under clause (3) below) the result of which is that any “person” becomes the “beneficial owner” (as these terms are defined in Rule 13d-3 and Rule 13d-5 under the Exchange Act), directly or indirectly, of more than 50% of our capital stock that is at the time entitled to vote by the holder thereof in the election of our board of directors (or comparable body);
2. the adoption of a plan relating to our liquidation or dissolution; or
3. the consolidation or merger of us with or into any other person, or the sale, lease, transfer, conveyance or other disposition, in one or a series of related transactions, of all or substantially all of our assets and those of our subsidiaries taken as a whole to any “person” (as this term is used in Section 13(d)(3) of the Exchange Act), other than:
  - any transaction that does not result in any reclassification, conversion, exchange or cancellation of all or substantially all of the outstanding shares of our capital stock;
  - any changes resulting from a subdivision or combination or a change solely in par value;
  - any transaction pursuant to which the holders of 50% or more of the total voting power of all shares of our capital stock entitled to vote generally in elections of directors immediately prior to such transaction have the right to exercise, directly or indirectly, 50% or more of the total voting power of all shares of capital stock of the continuing or surviving person immediately after giving effect to such transaction entitled to vote generally in elections of directors; or
  - any merger primarily for the purpose of changing our jurisdiction of incorporation and resulting in a reclassification, conversion or exchange of outstanding shares of common stock solely into shares of common stock of the surviving entity.

For purposes of determining the occurrence of a fundamental change, the term “below investment grade ratings event” means the Notes are downgraded below investment grade (as defined below) by each of the rating agencies (as defined below) on any date from the date of the public notice of an arrangement that results in the occurrence of a fundamental change event until the end of the 60-day period following public notice of the occurrence of a fundamental change event (which period shall be extended so long as any rating of the Notes is under publicly announced consideration for possible downgrade by a rating agency); provided that a downgrade contemplated by this paragraph otherwise arising by virtue of a particular reduction in a rating shall not be deemed to have occurred in respect of a particular fundamental change event (and thus shall not be deemed a downgrade as contemplated by this paragraph for purposes of the definition of fundamental change hereunder) if one of the rating agencies making a reduction in a rating to which this paragraph would otherwise apply does not announce or publicly confirm or inform the trustee in writing at its request that the reduction was the result, in whole or in part, of any event or circumstance comprised of or arising as a result of, or in respect of, the applicable fundamental change event (whether or not the applicable fundamental change event shall have occurred at the time of any downgrade contemplated by this paragraph). “Rating agencies” means Standard & Poor’s Rating Service, a division of McGraw-Hill, Inc., and Kroll Bond

Rating Agency,

S-17

---

Inc. or any successors thereto and “investment grade” means a rating of BBB- or better by the rating agencies (or if any such rating agency ceases to rate the Notes for reasons outside of the Company’s control, the equivalent investment grade rating from any “nationally recognized statistical rating organization” as defined in Section (3)(a)(62) of the Exchange Act selected by the Company as a replacement for such rating agency).

The definition of “fundamental change” includes a phrase relating to the sale, lease, transfer, conveyance or other disposition, in one or a series of related transactions, of all or substantially all of our assets and those of our subsidiaries taken as a whole. Although there is a developing body of case law interpreting the phrase “substantially all,” there is no precise established definition of the phrase under applicable law. Accordingly, the ability of a holder of Notes to require us to repurchase the Notes as a result of a sale, lease, transfer, conveyance or other disposition of less than all of our assets and those of our subsidiaries taken as a whole to another person or group may be uncertain. On or before the 30th calendar day after the occurrence of a fundamental change, we will provide to all record holders of the Notes on the date of the fundamental change at their addresses shown in the register of the registrar and to beneficial owners to the extent required by applicable law, the trustee and the paying agent, a written notice of the occurrence of the fundamental change and the resulting repurchase right. Such notice shall state, among other things, the event causing the fundamental change and the procedures you must follow to require us to repurchase your Notes. The repurchase date will be a date specified by us in the notice of a fundamental change that is not less than 20 nor more than 35 calendar days after the date of the notice of a fundamental change.

To exercise your repurchase right, you must deliver, prior to 5:00 p.m., New York City time, on the repurchase date, a written notice to the paying agent of your exercise of your repurchase right (together with the Notes to be repurchased, if certificated Notes have been issued). The repurchase notice must state:

- if you hold a beneficial interest in a global Note, your repurchase notice must comply with appropriate DTC procedures; if you hold certificated Notes, the Notes certificate numbers;
- the portion of the principal amount of the Notes to be repurchased, which must be \$25 or \$25 integral multiples in excess thereof; and
- that the Notes are to be repurchased by us pursuant to the applicable provisions of the Notes and the Indenture.

You may withdraw your repurchase notice at any time prior to 5:00 p.m., New York City time, on the repurchase date by delivering a written notice of withdrawal to the paying agent. If a repurchase notice is given and withdrawn during that period, we will not be obligated to repurchase the Notes listed in the repurchase notice. The withdrawal notice must state:

- if you hold a beneficial interest in a global Note, your withdrawal notice must comply with appropriate DTC procedures; if you hold certificated Notes, the certificate numbers of the withdrawn Notes;
- the principal amount of the withdrawn Notes; and
- the principal amount, if any, which remains subject to the repurchase notice.

Payment of the repurchase price for Notes for which a repurchase notice has been delivered and not withdrawn is conditioned upon book-entry transfer or delivery of the Notes, together with necessary endorsements, to the paying agent, as the case may be. Payment of the repurchase price for the Notes will be made promptly following the later of the repurchase date and the time of book-entry transfer or delivery of the Notes, as the case may be.

If the paying agent holds on the business day immediately following the repurchase date cash sufficient to pay the repurchase price of the Notes that holders have elected to require us to repurchase, then, as of the repurchase date: the Notes will cease to be outstanding and interest (including additional interest, if any) will cease to accrue, whether or not book-entry transfer of the Notes has been made or the Notes have been delivered to the paying agent, as the case may be; and

- all other rights of the holders of Notes will terminate, other than the right to receive the repurchase price upon delivery or transfer of the Notes.

In connection with any repurchase, we will, to the extent applicable:

- comply with the provisions of Rule 13e-4 and any other tender offer rules under the Exchange Act that may be applicable at the time of the offer to repurchase the Notes;
- file a Schedule TO or any other schedule required in connection with any offer by us to repurchase the Notes; and comply with all other federal and state securities laws in connection with any offer by us to repurchase the Notes. This fundamental change repurchase right could discourage a potential acquirer of the Company. However, this fundamental change repurchase feature is not the result of management's knowledge of any specific effort to obtain control of us by means of a merger, tender offer, solicitation or otherwise, or part of a plan by management to adopt a series of anti-takeover provisions. See "Risk Factors-Provisions of the Notes could discourage an acquisition of us by a third party" on page S-12 of this prospectus supplement.

Our obligation to repurchase the Notes upon a fundamental change would not necessarily afford you protection in the event of a highly leveraged or other transaction involving us that may adversely affect holders. We also could, in the future, enter into certain transactions, including certain recapitalizations, that would not constitute a fundamental change but would increase the amount of our (or our subsidiaries') outstanding debt. The incurrence of significant amounts of additional debt could adversely affect our ability to service our then existing debt, including the Notes. See "Risk Factors-Some significant restructuring transactions may not constitute a fundamental change, in which case we would not be obligated to repurchase the Notes" on page S-11 of this prospectus supplement.

#### Consolidation, Merger and Sale of Assets by the Company

The Indenture will provide that we may not, in a single transaction or a series of related transactions, consolidate with or merge with or into any other person or sell, convey, transfer or lease our property and assets substantially as an entirety to another person, unless:

either (a) we are the continuing corporation or (b) the resulting, surviving or transferee person (if other than us) is a corporation or limited liability company organized and existing under the laws of the United States, any state thereof or the District of Columbia and such person assumes, by a supplemental indenture in a form reasonably satisfactory to the trustee, all of our obligations under the Notes and the Indenture;

immediately after giving effect to such transaction, no default or event of default has occurred and is continuing; and we have delivered to the trustee certain certificates and opinions of counsel if so requested by the trustee.

In the event of any transaction described in and complying with the conditions listed in the immediately preceding paragraph in which the Company is not the continuing corporation, the successor person formed or remaining shall succeed, and be substituted for, and may exercise every right and power of, the Company, and the Company shall be discharged from its obligations, under the Notes and the Indenture.

This covenant includes a phrase relating to the sale, conveyance, transfer and lease of the property and assets of the Company "substantially as an entirety." There is no precise, established definition of the phrase "substantially as an entirety" under New York law, which governs the Indenture and the Notes, or under the laws of Maryland, the Company's state of incorporation. Accordingly, the ability of a holder of the Notes to require us to repurchase the Notes as a result of a sale, conveyance, transfer or lease of less than all of the property and assets of the Company may be uncertain.

An assumption by any person of the Company's obligations under the Notes and the Indenture might be deemed for U.S. federal income tax purposes to be an exchange of the Notes for new Notes by the holders thereof, resulting in recognition of gain or loss for such purposes and possibly other adverse tax consequences to the holders. Holders should consult their own tax advisors regarding the tax consequences of such an assumption.

#### Events of Default; Notice and Waiver

In addition to the events of default and the other information with respect to events of default, see “Description of Our Debt Securities-Events of Default” beginning on page 148 of the accompanying prospectus, the following will be events of default under the Indenture:

- we fail to pay the repurchase price payable in respect of any Notes when due;
- we fail to provide notice of the effective date or actual effective date of a fundamental change on a timely basis as required in the Indenture;
- we fail to perform or observe any other term, covenant or agreement in the Notes or the Indenture for a period of 60 calendar days after written notice of such failure is given to us by the trustee or to us and the trustee by the holders of at least 25% in aggregate principal amount of the Notes then outstanding;
- we fail to pay any additional interest (as discussed below) when such interest becomes due and payable, which failure continues for a period of 30 days;
- a failure to pay principal when due (whether at stated maturity or otherwise) or an uncured default that results in the acceleration of maturity, of any indebtedness for borrowed money of the Company or any of our “significant subsidiaries,” (which term shall have the meaning specified in Rule 1-02(w) of Regulation S-X), other than subsidiaries that are non-recourse or limited recourse subsidiaries, bankruptcy remote special purpose vehicles and any subsidiaries that are not consolidated with us for GAAP purposes, in an aggregate amount in excess of \$50,000,000 (or its foreign currency equivalent), unless such indebtedness is discharged, or such acceleration is rescinded, stayed or annulled, within a period of 30 calendar days after written notice of such failure is given to us by the trustee or to us and the trustee by the holders of at least 25% in aggregate principal amount of the Notes then outstanding; or
- certain events involving our bankruptcy, insolvency or reorganization of the Company.

We are required to notify the trustee promptly upon becoming aware of the occurrence of any default under the Indenture known to us. The trustee is then required within 90 calendar days of being notified by us of the occurrence of any default to give to the registered holders of the Notes notice of all uncured defaults known to it. However, the trustee may withhold notice to the holders of the Notes of any default, except defaults in payment of principal or interest (including additional interest, if any) on the Notes, if the trustee, in good faith, determines that the withholding of such notice is in the interests of the holders. We are also required to deliver to the trustee, on or before a date not more than 120 calendar days after the end of each fiscal year, a written statement as to compliance with the Indenture, including whether or not any default has occurred.

If an event of default specified in the last bullet point listed above occurs and continues, the principal amount of the Notes and accrued and unpaid interest (including additional interest, if any) on the outstanding Notes will automatically become due and payable. If any other event of default occurs and is continuing, the trustee or the holders of at least 25% in aggregate principal amount of the outstanding Notes may declare the principal amount of the Notes and accrued and unpaid interest (including additional interest, if any) on the outstanding Notes to be due and payable. Thereupon, the trustee may, in its discretion, proceed to protect and enforce the rights of the holders of the Notes by appropriate judicial proceedings.

After a declaration of acceleration, but before a judgment or decree for payment of the money due has been obtained by the trustee, the holders of a majority in aggregate principal amount of the Notes outstanding, by written notice to us and the trustee, may rescind and annul such declaration if:

- we have paid (or deposited with the trustee a sum sufficient to pay) (1) all overdue interest (including additional interest, if any) on all Notes; (2) the principal amount of any Notes that have become due otherwise than by such declaration of acceleration; (3) to the extent that payment of such interest is lawful, interest upon overdue interest (including additional interest, if any); and (4) all sums paid or advanced by the trustee under the Indenture and the reasonable compensation, expenses, disbursements and advances of the trustee, its agents and counsel; and
- all events of default, other than the non-payment of the principal amount and any accrued and unpaid interest (including additional interest, if any) that have become due solely by such declaration of acceleration, have been cured or waived.

For more information on remedies if an event of default occurs, see “Description of Our Debt Securities-Events of Default” beginning on page 148 of the accompanying prospectus.

Notwithstanding the foregoing and the description in the accompanying prospectus, the Indenture will provide, if we so elect, that the sole remedy for an event of default relating to the failure to comply with the reporting obligations in the Indenture, which are described below under the caption “-Reports,” and for any failure to comply with the requirements of Section 314(a)(1) of the Trust Indenture Act (which also relates to the provision of reports), will, at our option, for the 365 days after the occurrence of such an event of default consist exclusively of the right to receive additional interest on the Notes at an annual rate equal to 0.50% of the principal amount of the Notes. In the event we do not elect to pay the additional interest upon an event of default in accordance with this paragraph, the Notes will be subject to acceleration as provided above. The additional interest will accrue on all outstanding Notes from and including the date on which an event of default relating to a failure to comply with the reporting obligations in the Indenture first occurs to but not including the 365th day thereafter (or such earlier date on which the event of default relating to the reporting obligations shall have been cured or waived). On such 365th day (or earlier, if the event of default relating to the reporting obligations is cured or waived prior to such 365th day), such additional interest will cease to accrue and the Notes will be subject to acceleration as provided above if the event of default is continuing. The provisions of the Indenture described in this paragraph will not affect the rights of holders of Notes in the event of the occurrence of any other event of default.

#### Waiver

The holders of a majority in aggregate principal amount of the Notes outstanding may, on behalf of the holders of all the Notes, waive any past default or event of default under the Indenture and its consequences, except that a holder cannot waive our failure to pay the repurchase price on the repurchase date in connection with a holder exercising its repurchase rights. For other exceptions to a holder’s waiver of past default or event of default under the Indenture, see “Description of Our Debt Securities-Events of Default” beginning on page 148 of the accompanying prospectus.

#### Modification

##### Changes Requiring Approval of Each Affected Holder

The Indenture (including the terms and conditions of the Notes) may not be modified or amended without the written consent or the affirmative vote of the holder of each Note affected by such change to:

- reduce any amount payable upon repurchase of any Notes;
- to add to, delete from or revise the conditions, limitations, and restrictions on the authorized amount, terms, or purposes of issue, authentication and delivery of debt securities, as set forth in the Indenture;
- change our obligation to repurchase any Notes upon a fundamental change in a manner adverse to the rights of the holders; and
- change our obligation to maintain an office or agency in New York City.

For other changes requiring approval of each affected holder, see “Description of our Debt Securities-Modification or Waiver” on page 149 of the accompanying prospectus.

##### Changes Requiring Majority Approval

The Indenture (including the terms and conditions of the Notes) may be modified or amended, except as described above, with the written consent or affirmative vote of the holders of a majority in aggregate principal amount of the Notes then outstanding. For such changes requiring majority approval, see “Description of Our Debt Securities-Modification or Waiver” on page 149 of the accompanying prospectus.

##### Changes Requiring No Approval

The Indenture (including the terms and conditions of the Notes) may be modified or amended by us and the trustee, without the consent of the holder of any Notes, to, among other things:

provide for our repurchase obligations in connection with a fundamental change in the event of any reclassification of our common stock, merger or consolidation, or sale, conveyance, transfer or lease of our property and assets substantially as an entity;

secure the Notes;

- provide for the assumption of our obligations to the holders of the Notes in the event of a merger or consolidation, or sale, conveyance, transfer or lease of our property and assets substantially as an entirety;

surrender any right or power conferred upon us;

add to our covenants for the benefit of the holders of the Notes;

remove any ambiguity or correct or supplement any inconsistent or otherwise defective provision contained in the Indenture;

conform the provisions of the Indenture to the description of the Notes contained in this prospectus supplement;

make any provision with respect to matters or questions arising under the Indenture that we may deem necessary or

desirable and that shall not be inconsistent with provisions of the Indenture; provided that such change or

modification does not, in the good faith opinion of our board of directors, adversely affect the interests of the holders of the Notes in any material respect;

add guarantees of obligations under the Notes; and

provide for a successor trustee.

#### Other

The consent of the holders of Notes is not necessary under the Indenture to approve the particular form of any proposed modification or amendment. It is sufficient if such consent approves the substance of the proposed modification or amendment. After a modification or amendment under the Indenture becomes effective, we are required to mail to the holders a notice briefly describing such modification or amendment. However, the failure to give such notice to all the holders, or any defect in the notice, will not impair or affect the validity of the modification or amendment.

#### Notes Not Entitled to Consent

Any Notes held by us or by any person directly or indirectly controlling or controlled by or under direct or indirect common control with us shall be disregarded (from both the numerator and the denominator) for purposes of determining whether the holders of the requisite aggregate principal amount of the outstanding Notes have consented to a modification, amendment or waiver of the terms of the Indenture.

#### Reports

We shall deliver to the trustee, within 30 days after filing with the SEC, copies of the annual reports and of the information, documents and other reports (or copies of such portions of any of the foregoing as the SEC may by rules and regulations prescribe) that we are required to file with the SEC pursuant to Section 13 or 15(d) of the Exchange Act; provided, that any such information, documents or reports filed electronically with the SEC pursuant to Section 13 or 15(d) of the Exchange Act shall be deemed filed with and delivered to the trustee and the holders at the same time as filed with the SEC.

If, at any time, we are not subject to the reporting requirements of Sections 13 or 15(d) of the Exchange Act to file any periodic reports with the SEC, we agree to furnish to holders of the Notes and the Trustee, for the period of time during which the Notes are outstanding, our audited annual consolidated financial statements, within 90 days of our fiscal year end, and unaudited interim consolidated financial statements, within 45 days of our fiscal quarter end. All such financial statements will be prepared, in all material respects, in accordance with applicable United States generally accepted accounting principles.



#### Other Covenants

We agree that for the period of time during which the Notes are outstanding, we will not violate Section 18(a)(1)(A) as modified by Section 61(a)(1) of the 1940 Act or any successor provisions. These provisions generally prohibit us from incurring additional borrowings, including through the issuance of additional securities, unless our asset coverage, as defined in the 1940 Act, equals at least 200% after such borrowings.

#### Satisfaction and Discharge

The Indenture shall upon the written request or order signed in the name of the Company, or the "Company Request," cease to be of further effect with respect to any series of Notes specified in such Company Request (except as to any surviving rights of registration of transfer or exchange of Notes of such series expressly provided in the Indenture, any surviving rights of tender for repayment at the option of the holders and any right to receive additional amounts, as provided in the Indenture), and the trustee, upon receipt of a company order, and at the expense of the Company, shall execute proper instruments acknowledging satisfaction and discharge of the Indenture as to such series when:

(1) either:

(A) all Notes of such series theretofore authenticated and delivered and all coupons, if any, appertaining thereto (other than (i) coupons appertaining to bearer securities surrendered for exchange for registered securities and maturing after such exchange, whose surrender is not required or has been waived as provided in the Indenture, (ii) Notes and coupons of such series which have been destroyed, lost or stolen and which have been replaced or paid as provided in the Indenture, (iii) coupons appertaining to the Notes called for redemption and maturing after the relevant redemption date, whose surrender has been waived as provided in the Indenture, and (iv) Notes and coupons of such series for whose payment money has theretofore been deposited in trust with the trustee or any paying agent or segregated and held in trust by the Company and thereafter repaid to the Company or discharged from such trust), as provided in the Indenture have been delivered to the trustee for cancellation; or

(B) all Notes of such series and, in the case of (i) or (ii) below, any coupons appertaining thereto not theretofore delivered to the Trustee for cancellation

(i) have become due and payable, or

(ii) will become due and payable at their stated maturity within one year, or

(iii) if redeemable at the option of the Company, are to be called for redemption within one year under arrangements satisfactory to the trustee for the giving of notice of redemption by the trustee in the name, and at the expense, of the Company, and the Company, in the case of (i), (ii) or (iii) above, has irrevocably deposited or caused to be deposited with the trustee as trust funds in trust for such purpose, solely for the benefit of the holders, an amount in the currency in which the Notes of such series are payable, sufficient to pay and discharge the entire indebtedness on such Notes and such coupons not theretofore delivered to the trustee for cancellation, for principal (and premium, if any) and interest, if any, to the date of such deposit (in the case of Notes which have become due and payable) or to the stated maturity or redemption date, as the case may be;

(2) the Company has irrevocably paid or caused to be irrevocably paid all other sums payable under the Indenture by the Company; and

(3) the Company has delivered to the trustee an officers' certificate and an opinion of counsel, each stating that all conditions precedent in the Indenture provided for relating to the satisfaction and discharge of the Indenture as to such series have been complied with.

Notwithstanding the satisfaction and discharge of the Indenture, the obligations of the Company to the trustee and any predecessor trustee under the Indenture, the obligations of the Company to any authenticating agent under the Indenture and, if money shall have been deposited with the Trustee pursuant to subclause (B) of clause (1), the obligations of the trustee for application of the funds and the Notes deposited with the trustee and held in trust for payment shall survive any termination of the Indenture.

**Governing Law**

The Notes and the Indenture shall be governed by, and construed in accordance with, the laws of the State of New York.

**Form, Denomination and Registration**

The Notes will be issued:

- in fully registered form;
- without interest coupons; and
- in denominations of \$25 principal amount and integral multiples of \$25.

S-24

---

## REGISTRATION AND SETTLEMENT

### The Depository Trust Company

The Notes will be issued in book-entry only form. This means that we will not issue certificates for the Notes, except in the limited case described below. Instead, we will issue the global note in registered form. The global note will be held through DTC and will be registered in the name of Cede & Co., as nominee of DTC.

Accordingly, Cede & Co. will be the holder of record of the Notes. The Notes represented by the global note evidences a beneficial interest in the global note.

Beneficial interest in the global note will be shown on, and transfers are effected through, records maintained by DTC or its participants. In order to own a beneficial interest in the Notes, you must be an institution that has an account with DTC or have a direct or indirect account with such an institution. Transfers of ownership interests in the Notes will be accomplished by making entries in DTC participants' books acting on behalf of beneficial owners.

So long as DTC or its nominee is the registered holder of the global note, DTC or its nominee, as the case may be, will be the sole holder and owner of the Notes represented thereby for all purposes, including payment of principal and interest, under the Indenture. Except as otherwise provided below, you will not be entitled to receive physical delivery of certificated Notes and will not be considered the holder of the Notes for any purpose under the Indenture.

Accordingly, you must rely on the procedures of DTC and the procedures of the DTC participant through which you own your Note in order to exercise any rights of a holder of a Note under the Indenture. The laws of some jurisdictions require that certain purchasers of Notes take physical delivery of such Notes in certificated form. Those limits and laws may impair the ability to transfer beneficial interests in the Notes.

The global note representing the Notes will be exchangeable for certificated notes of like tenor and terms and of differing authorized denominations in a like aggregate principal amount, only if (1) DTC notifies us that it is unwilling or unable to continue as depository for the global note or we become aware that DTC has ceased to be a clearing agency registered under the Exchange Act and, in any such case we fail to appoint a successor to DTC within 60 calendar days, (2) we, in our sole discretion, determine that the global note shall be exchangeable for certificated notes or (3) an event of default has occurred and is continuing with respect to the Notes under the Indenture. Upon any such exchange, the certificated notes shall be registered in the names of the beneficial owners of the global note representing the Notes.

The following is based on information furnished by DTC:

DTC will act as securities depository for the Notes. The Notes will be issued as fully-registered Notes registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully registered global note will be issued for all of the principal amount of the Notes.

The global note representing the Notes will be exchangeable for certificated notes of like tenor and terms and of differing authorized denominations in a like aggregate principal amount, only if (1) DTC notifies us that it is unwilling or unable to continue as depository for the global note or we become aware that DTC has ceased to be a clearing agency registered under the Exchange Act and, in any such case we fail to appoint a successor to DTC within 60 calendar days, (2) we, in our sole discretion, determine that the global note shall be exchangeable for certificated notes or (3) an event of default has occurred and is continuing with respect to the Notes under the Indenture. Upon any such exchange, the certificated notes shall be registered in the names of the beneficial owners of the global note representing the Notes.

DTC is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Exchange Act. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues and money market instruments from over 100 countries that DTC's direct participants deposit with DTC.

DTC also facilitates the post-trade settlement among direct participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between direct participants' accounts. This eliminates the need for physical movement of securities certificates. Direct participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC,

in turn, is owned by a number of direct participants of DTC and members of the National Securities Clearing Corporation, Government Securities Clearing Corporation, MBS Clearing Corporation, and Emerging Markets Clearing Corporation, as well as by The New York Stock Exchange, Inc., the American Stock Exchange LLC, and the Financial Industry Regulatory Authority, Inc. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies and clearing corporations that clear through or maintain a custodial relationship with a direct participant, either directly or

S-25

---

indirectly. The DTC rules applicable to its participants are on file with the SEC. More information about DTC can be found at [www.dtcc.com](http://www.dtcc.com).

Purchases of the Notes under the DTC system must be made by or through direct participants, which will receive a credit for the Notes on DTC's records. The beneficial interest of each actual purchaser of the Notes is in turn to be recorded on the direct and indirect participants' records. Beneficial owners will not receive written confirmation from DTC of their purchase. Beneficial owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the direct or indirect participant through which the beneficial owner entered into the transaction. Transfers of beneficial interests in the Notes are to be accomplished by entries made on the books of direct and indirect participants acting on behalf of beneficial owners. Beneficial owners will not receive certificates representing their beneficial interests in the Notes, except in the event that use of the book-entry system for the Notes is discontinued.

To facilitate subsequent transfers, all Notes deposited by direct participants with DTC will be registered in the name of DTC's partnership nominee, Cede & Co. or such other name as may be requested by an authorized representative of DTC. The deposit of the Notes with DTC and their registration in the name of Cede & Co. or such other nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual beneficial owners of the Notes; DTC's records reflect only the identity of the direct participants to whose accounts such Notes will be credited, which may or may not be the beneficial owners. The direct and indirect participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to direct participants, by direct participants to indirect participants, and by direct participants and indirect participants to beneficial owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial owners of the Notes may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Notes, such as redemption, tenders, defaults, and proposed amendments to the security documents. For example, beneficial owners of the Notes may wish to ascertain that the nominee holding the Notes for their benefit has agreed to obtain and transmit notices to beneficial owners. In the alternative, beneficial owners may wish to provide their names and addresses to the registrar of the Notes and request that copies of the notices be provided to them directly. Any such request may or may not be successful.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to the Notes unless authorized by a direct participant in accordance with DTC's procedures. Under its usual procedures, DTC mails an Omnibus Proxy to us as soon as possible after the regular record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those direct participants to whose accounts the Notes are credited on the record date (identified in a listing attached to the Omnibus Proxy).

We will pay principal and or interest payments on the Notes in same-day funds directly to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit direct participants' accounts on the applicable payment date in accordance with their respective holdings shown on DTC's records upon DTC's receipt of funds and corresponding detail information. Payments by participants to beneficial owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of these participants and not of DTC or any other party, subject to any statutory or regulatory requirements that may be in effect from time to time. Payment of principal and interest to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC, is our responsibility, disbursement of such payments to direct participants is the responsibility of DTC, and disbursement of such payments to the beneficial owners is the responsibility of the direct or indirect participant.

We will send any redemption notices to DTC. If less than all of the Notes are being redeemed, DTC's practice is to determine by lot the amount of the interest of each direct participant in such issue to be redeemed.

A beneficial owner, or its authorized representative, shall give notice to elect to have its Notes repaid by us, through its direct or indirect participant, to the trustee, and shall effect delivery of such Notes by causing the direct participant to transfer that participant's interest in the global note representing the Notes, on DTC's records, to the trustee. The requirement for physical delivery of the Notes in connection with a demand for repayment will be deemed satisfied when the ownership rights in the global note representing the Notes are transferred by the direct participants on DTC's

records.

DTC may discontinue providing its services as securities depository for the Notes at any time by giving us reasonable notice. Under such circumstances, if a successor securities depository is not obtained, we will print and deliver certificated Notes. We may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). In that event, we will print and deliver certificated Notes.

The information in this section concerning DTC and DTC's system has been obtained from sources that we believe to be reliable, but neither we, the underwriters nor any agent takes any responsibility for its accuracy.

S-26

---

#### Registration, Transfer and Payment of Certificated Notes

If we ever issue Notes in certificated form, those Notes may be presented for registration, transfer and payment at the office of the registrar or at the office of any transfer agent designated and maintained by us. We have originally designated U.S. Bank National Association to act in those capacities for the Notes. The registrar or transfer agent will make the transfer or registration only if it is satisfied with the documents of title and identity of the person making the request. There will not be a service charge for any exchange or registration of transfer of the Notes, but we may require payment of a sum sufficient to cover any tax or other governmental charge that may be imposed in connection with the exchange. At any time, we may change transfer agents or approve a change in the location through which any transfer agent acts. We also may designate additional transfer agents for any Notes at any time.

We will not be required to: (1) issue, exchange or register the transfer of any Note to be redeemed for a period of 15 days after the selection of the Notes to be redeemed; (2) exchange or register the transfer of any Note that was selected, called or is being called for redemption, except the unredeemed portion of any Note being redeemed in part; or (3) exchange or register the transfer of any Note as to which an election for repayment by the holder has been made, except the unrepaid portion of any Note being repaid in part.

We will pay principal of and interest on any certificated Notes at the offices of the paying agents we may designate from time to time. Generally, we will pay interest on a note by check on any interest payment date other than at stated maturity or upon earlier redemption or repayment to the person in whose name the note is registered at the close of business on the regular record date for that payment. We will pay principal and interest at stated maturity or upon earlier redemption or repayment in same-day funds against presentation and surrender of the applicable Notes.

S-27

---

## 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 the consolidated financial statements and notes thereto appearing elsewhere in this prospectus supplement and accompanying prospectus. Historical results set forth are not necessarily indicative of our future financial position and results of operations.

### 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: APH Property Holdings, LLC ("APH"); Arctic Oilfield Equipment USA, Inc.; 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"); 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., 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. We collectively refer to these entities as the "Consolidated Holding Companies."

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 non-agented debt and (9) investing in online loans. 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.

S-28

---

**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) 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 Non-Agented 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 Online Business Loans** - We purchase loans originated by certain small-and-medium-sized business (“SME”) loan facilitators. We generally purchase each loan in its entirety (i.e., a “whole loan”). The borrowers are 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 March 31, 2018, as shown in our Consolidated Schedule of Investments, the cost basis and fair value of our investments in controlled companies was \$1,857,698 and \$1,986,984, respectively. This structure gives rise to several of the risks described in our public documents and highlighted elsewhere in this prospectus supplement and the accompanying prospectus. 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.

#### Third Quarter Highlights

##### Investment Transactions

We seek to be a long-term investor with our portfolio companies. During the three months ended March 31, 2018, we acquired \$342,732 of new investments, completed follow-on investments in existing portfolio companies totaling approximately \$80,706, funded \$4,342 of revolver advances, and recorded paid in kind ("PIK") interest of \$2,148, resulting in gross investment originations of \$429,928. During the three months ended March 31, 2018, we received full repayments on 2 investments and received several partial prepayments and amortization payments totaling \$118,083.

##### Debt Issuances and Redemptions

During the three months ended March 31, 2018, we redeemed \$87,837 aggregate principal amount of our Prospect Capital InterNotes® at par with a weighted average interest rate of 4.97%, and repaid \$1,090 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 March 31, 2018 was \$513.

During the three months ended March 31, 2018 we issued \$17,251 aggregate principal amount of Prospect Capital InterNotes® with a stated and weighted average interest rate of 4.29%, to extend our borrowing base. The newly issued notes mature between January 15, 2023 and March 15, 2026 and generated net proceeds of \$16,999.

##### Equity Issuances

On January 18, 2018, February 15, 2018, and March 22, 2018, we issued 546,596, 540,758, and 589,256 shares of our common stock in connection with the dividend reinvestment plan, respectively.

##### Investment Holdings

As of March 31, 2018, we continue to pursue our investment strategy. At March 31, 2018, approximately \$5,719,804, or 170.9%, of our net assets are invested in 134 long-term portfolio investments and CLOs.

During the nine months ended March 31, 2018, we originated \$1,390,816 of new investments, primarily composed of \$1,240,983 of debt and equity financing to non-controlled portfolio investments and \$149,833 of debt and equity financing to controlled investments. 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 12.9% and 12.2% as of March 31, 2018 and June 30, 2017, respectively, across all performing interest bearing investments, excluding equity investments and non-accrual loans. Our annualized current yield was 10.8% and 10.4% as of March 31, 2018 and June 30, 2017, respectively, across all investments. Monetization of equity positions that we hold and loans

S-30

---

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 March 31, 2018, we own controlling interests in the following portfolio companies: Arctic Energy Services, LLC ("Arctic Energy"); CCPI Inc. ("CCPI"); CP Energy Services Inc. ("CP Energy"); Credit Central Loan Company, LLC ("Credit Central"); Echelon Transportation, LLC ("Echelon"); First Tower Finance Company LLC ("First Tower Finance"); Freedom Marine Solutions, LLC ("Freedom Marine"); MITY, Inc. ("MITY"); NPRC; Nationwide Loan Company LLC (f/k/a Nationwide Acceptance LLC) ("Nationwide"); NMMB, Inc. ("NMMB"); R-V Industries, Inc.; 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"). As of March 31, 2018, we also own affiliated interests in Nixon, Inc. ("Nixon"), Targus Cayman HoldCo Limited ("Targus") and Edmentum Ultimate Holdings, LLC ("Edmentum").

The following shows the composition of our investment portfolio by level of control as of March 31, 2018 and June 30, 2017:

Level of Control	March 31, 2018				June 30, 2017			
	Cost	% of Portfolio	Fair Value	% of Portfolio	Cost	% of Portfolio	Fair Value	% of Portfolio
Control Investments	\$ 1,857,698	31.7 %	\$ 1,986,984	34.7 %	\$ 1,840,731	30.8 %	\$ 1,911,775	32.7 %
Affiliate Investments	55,482	0.9 %	52,288	0.9 %	22,957	0.4 %	11,429	0.2 %
Non-Control/Non-Affiliate Investments	3,951,787	67.4 %	3,680,532	64.4 %	4,117,868	68.8 %	3,915,101	67.1 %
Total Investments	\$ 5,864,967	100.0 %	\$ 5,719,804	100.0 %	\$ 5,981,556	100.0 %	\$ 5,838,305	100.0 %

The following shows the composition of our investment portfolio by type of investment as of March 31, 2018 and June 30, 2017:

Type of Investment	March 31, 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 %	\$ 38,593	0.7 %	\$ 27,409	0.5 %	\$ 27,409	0.5 %
Senior Secured Debt	2,634,484	44.9 %	2,537,625	44.4 %	2,940,163	49.2 %	2,798,796	47.9 %
Subordinated Secured Debt	1,391,914	23.7 %	1,317,084	23.0 %	1,160,019	19.4 %	1,107,040	19.0 %
Subordinated Unsecured Debt	38,393	0.7 %	30,809	0.5 %	37,934	0.6 %	44,434	0.8 %
Small Business Loans	288	— %	199	— %	8,434	0.1 %	7,964	0.1 %
CLO Residual Interest	1,096,809	18.7 %	944,815	16.5 %	1,150,006	19.2 %	1,079,712	18.5 %
Preferred Stock	77,346	1.3 %	65,477	1.1 %	112,394	1.9 %	83,209	1.4 %
Common Stock	329,311	5.6 %	417,910	7.3 %	295,200	4.9 %	391,374	6.7 %
Membership Interest	257,763	4.4 %	271,857	4.8 %	249,997	4.2 %	206,012	3.5 %
Participating Interest(1)	—	— %	94,535	1.7 %	—	— %	91,491	1.6 %
Escrow Receivable	—	— %	900	— %	—	— %	864	— %
Total Investments	\$ 5,864,967	100.0 %	\$ 5,719,804	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.

S-31

---

The following shows our investments in interest bearing securities by type of investment as of March 31, 2018 and June 30, 2017:

Type of Investment	March 31, 2018				June 30, 2017			
	Cost	% of Portfolio	Fair Value	% of Portfolio	Cost	% of Portfolio	Fair Value	% of Portfolio
First Lien	\$2,665,309	51.3	% \$2,568,384	52.8	% \$2,959,738	55.6	% \$2,818,371	55.6
Second Lien	1,399,748	26.9	% 1,324,918	27.2	% 1,167,853	21.9	% 1,114,874	22.0
Unsecured	38,393	0.7	% 30,809	0.6	% 37,934	0.7	% 44,434	0.9
Small Business Loans	288	—	% 199	—	% 8,434	0.2	% 7,964	0.2
CLO Residual Interest	1,096,809	21.1	% 944,815	19.4	% 1,150,006	21.6	% 1,079,712	21.3
Total Debt Investments	\$5,200,547	100.0	% \$4,869,125	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 March 31, 2018 and June 30, 2017:

Geographic Location	March 31, 2018				June 30, 2017			
	Cost	% of Portfolio	Fair Value	% of Portfolio	Cost	% of Portfolio	Fair Value	% of Portfolio
Canada	\$16,804	0.3	% \$16,867	0.3	% \$9,831	0.2	% \$10,000	0.2
Cayman Islands	1,096,809	18.7	% 944,815	16.5	% 1,150,006	19.2	% 1,079,712	18.5
France	12,407	0.2	% 11,518	0.2	% 9,755	0.2	% 8,794	0.2
MidAtlantic US	564,872	9.6	% 564,872	9.9	% —	—	% —	—
Midwest US	399,595	6.8	% 411,640	7.2	% 605,417	10.1	% 678,766	11.6
Northeast US	520,161	8.9	% 536,626	9.4	% 786,552	13.1	% 823,616	14.0
Northwest US	177,168	3.0	% 118,211	2.1	% 281,336	4.7	% 207,962	3.6
Puerto Rico	85,949	1.5	% 85,134	1.5	% 83,410	1.4	% 83,410	1.4
Southeast US	1,234,905	21.1	% 1,468,917	25.7	% 1,367,606	22.9	% 1,412,351	24.2
Southwest US	642,239	11.0	% 551,514	9.6	% 616,008	10.3	% 558,368	9.6
Western US	1,114,058	18.9	% 1,009,690	17.6	% 1,071,635	17.9	% 975,326	16.7
Total Investments	\$5,864,967	100.0	% \$5,719,804	100.0	% \$5,981,556	100.0	% \$5,838,305	100.0



The following shows the composition of our investment portfolio by industry as of March 31, 2018 and June 30, 2017:

Industry	March 31, 2018				June 30, 2017			
	Cost	% of Portfolio	Fair Value	% of Portfolio	Cost	% of Portfolio	Fair Value	% of Portfolio
Aerospace & Defense	\$69,837	1.2 %	\$79,301	1.4 %	\$69,837	1.2 %	\$71,318	1.2 %
Air Freight & Logistics	—	— %	—	— %	51,952	0.9 %	51,952	0.9 %
Auto Components	33,546	0.6 %	33,708	0.6 %	30,222	0.5 %	30,460	0.5 %
Building Products	9,902	0.2 %	10,000	0.2 %	—	— %	—	— %
Capital Markets	19,792	0.3 %	20,000	0.3 %	14,796	0.2 %	15,000	0.3 %
Chemicals	17,491	0.3 %	17,500	0.3 %	17,489	0.3 %	16,699	0.3 %
Commercial Services & Supplies	403,829	6.9 %	341,803	6.0 %	354,185	5.9 %	312,634	5.3 %
Communications Equipment	39,855	0.7 %	40,000	0.7 %	—	— %	—	— %
Construction & Engineering	63,926	1.1 %	42,462	0.7 %	62,258	1.0 %	32,509	0.6 %
Consumer Finance	483,756	8.2 %	575,894	10.1 %	469,869	7.9 %	502,941	8.6 %
Distributors	657,099	11.2 %	573,180	10.0 %	140,847	2.4 %	83,225	1.4 %
Diversified Consumer Services	173,893	3.0 %	161,216	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	54,717	0.9 %	62,641	1.1 %	37,696	0.6 %	51,846	0.9 %
Energy Equipment & Services	254,101	4.3 %	162,972	2.8 %	251,019	4.2 %	131,660	2.3 %
Equity Real Estate Investment Trusts (REITs)	449,781	7.7 %	733,626	12.8 %	374,380	6.3 %	624,337	10.7 %
Food Products	9,880	0.2 %	9,880	0.2 %	—	— %	—	— %
Health Care Equipment & Supplies	38,713	0.7 %	38,750	0.7 %	—	— %	—	— %
Health Care Providers & Services	438,363	7.5 %	433,445	7.6 %	422,919	7.1 %	421,389	7.1 %
Health Care Technology	14,928	0.3 %	15,300	0.3 %	—	— %	—	— %
Hotels, Restaurants & Leisure	37,482	0.6 %	37,482	0.7 %	127,638	2.1 %	103,897	1.8 %
Household & Personal Products	25,000	0.4 %	25,000	0.4 %	—	— %	—	— %
Household Durables	45,404	0.8 %	44,755	0.8 %	146,031	2.4 %	146,183	2.5 %
Insurance	2,986	0.1 %	2,986	0.1 %	—	— %	—	— %
Internet & Direct Marketing Retail	39,875	0.7 %	39,875	0.7 %	—	— %	—	— %
Internet Software & Services	188,414	3.2 %	188,493	3.3 %	219,348	3.7 %	219,348	3.8 %
IT Services	21,576	0.4 %	21,990	0.4 %	19,531	0.3 %	20,000	0.3 %
Leisure Products	49,006	0.8 %	49,107	0.9 %	44,085	0.7 %	44,204	0.8 %
Machinery	35,488	0.6 %	31,025	0.5 %	35,488	0.6 %	32,678	0.6 %
Marine(1)	8,943	0.2 %	8,879	0.2 %	8,919	0.1 %	8,800	0.2 %
Media	127,868	2.2 %	124,884	2.2 %	469,108	7.8 %	466,500	8.0 %
Metals & Mining	—	— %	—	— %	9,953	0.2 %	10,000	0.2 %
Online Lending	377,786	6.4 %	297,723	5.2 %	424,350	7.1 %	370,931	6.3 %
Paper & Forest Products	11,320	0.2 %	11,500	0.2 %	11,295	0.2 %	11,500	0.2 %
Personal Products	213,825	3.6 %	183,151	3.2 %	222,698	3.7 %	192,748	3.3 %
Pharmaceuticals	11,881	0.2 %	12,000	0.2 %	117,989	2.0 %	117,989	2.0 %
Professional Services	73,249	1.2 %	75,163	1.3 %	64,242	1.1 %	64,473	1.1 %
Real Estate Management & Development	42,000	0.7 %	42,000	0.7 %	—	— %	—	— %
Software	55,160	0.9 %	55,971	1.0 %	56,041	0.9 %	55,150	0.9 %
Technology Hardware, Storage & Peripherals	12,380	0.2 %	12,500	0.2 %	—	— %	—	— %
Textiles, Apparel & Luxury Goods	46,403	0.8 %	56,361	1.0 %	285,180	4.8 %	274,206	4.7 %
Tobacco	14,387	0.2 %	13,933	0.2 %	14,365	0.2 %	14,431	0.2 %

Trading Companies & Distributors	64,025	1.1	% 57,610	1.0	% 64,513	1.1	% 64,513	1.1	%
Transportation Infrastructure	30,291	0.5	% 30,923	0.5	% \$—	—	% \$—	—	%
Subtotal	\$4,768,158	81.3	% \$4,774,989	83.5	% \$4,831,550	80.8	% \$4,758,593	81.5	%
Structured Finance(2)	\$1,096,809	18.7	% \$944,815	16.5	% \$1,150,006	19.2	% \$1,079,712	18.5	%
Total Investments	\$5,864,967	100.0	% \$5,719,804	100.0	% \$5,981,556	100.0	% \$5,838,305	100.0	%

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 March 31, 2018 and June 30, 2017 is \$171,851 and \$140,460, respectively.

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

#### Portfolio Investment Activity

During the nine months ended March 31, 2018, we acquired \$578,987 of new investments, completed follow-on investments in existing portfolio companies totaling approximately \$786,392, funded \$19,309 of revolver advances, and recorded PIK interest of \$6,128, resulting in gross investment originations of \$1,390,816. 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 great 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 10.00% or LIBOR plus 8.75% 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 8.25% or LIBOR plus 7.25% 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

S-34

---

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 the greater of 8.25% or 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, 2024.

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 23, 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 7.00% 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 the greater of 7.75% or LIBOR plus 7.75% and has a final maturity of February 27, 2026.

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.

During the nine months ended March 31, 2018, we made five follow-on investments in NPRC totaling \$35,291 to support the online consumer lending initiative. We invested \$13,433 of equity through NPH and \$21,858 of debt directly to NPRC and its wholly-owned subsidiaries. In addition, we provided \$60,912 of equity financing to NPRC for the acquisition of real estate properties and \$1,112 of debt and \$12,601 of equity financing to NPRC to fund capital expenditures for existing real estate properties

During the nine months ended March 31, 2018, we received full repayments on fourteen investments and received several partial prepayments and amortization payments totaling \$1,471,246, which resulted in net realized gains totaling \$18,454. The more significant of these transactions are briefly described below.

During the nine months ended March 31, 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.

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.

During the nine months ended March 31, 2018, we received partial repayments of \$63,307 of our loans due from 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	302,335
June 30, 2017	223,176	352,043
September 30, 2017	222,151	310,894
December 31, 2017	738,737	1,042,269
March 31, 2018	429,928	118,083

(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. 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 both a discounted single-path cash flow model and 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.

S-37

---



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 \$5,719,804.

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 nine months ended March 31, 2018.

#### Arctic Energy Services, LLC

Prospect owns 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, with Ailport Holdings, LLC (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.

The fair value of our investment in Arctic Energy increased to \$27,017 as of March 31, 2018, reflecting a discount of \$37,429 to its amortized cost, compared to a discount of \$43,506 to its amortized cost as of June 30, 2017. The increase in fair value was driven by the company’s operating performance, slightly offset by a decline in comparable company trading multiples.

#### CP Energy Services Inc.

Prospect owns 100% of the equity of CP Holdings, a Consolidated Holding Company. CP Holdings owns 94.2% of the equity of CP Energy, and the remaining 5.8% of the equity is owned by CP Energy management. CP Energy provides oilfield flowback services and fluid hauling and disposal services through its subsidiaries.

As a result of improved operating performance, the fair value of our investment in CP Energy increased to \$90,183 as of March 31, 2018, reflecting a discount of \$23,317 to its amortized cost, compared to a discount of \$41,284 to its amortized cost as of June 30, 2017.

#### 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 Credit Central Loan Company, LLC (f/k/a Credit Central Holdings, LLC (“Credit Central”)) as of March 31, 2018 and June 30, 2017, with entities owned by Credit Central management owning the remaining 1.74% of the equity. Credit Central is a branch-based provider of installment loans.

The fair value of our investment in Credit Central increased to \$76,457, representing a premium of 26% to its amortized cost basis, as of March 31, 2018, from \$64,435, representing a premium of 9% to its amortized cost basis, as of June 30, 2017. The increase in fair value was driven by stronger operating performance and an increase in comparable company trading multiples.

#### 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 \$435,151, representing a premium of 23% to its amortized cost basis, as of March 31, 2018, from \$365,588, representing a premium of 8% to its amortized cost basis,

as of June 30, 2017.

S-38

---

The increase in fair value was driven by First Tower's acquisition of Harrison Finance, a consumer finance company, as well as increases in trading multiples of comparable companies.

#### 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. On October 30, 2015, we restructured our investment in Freedom Marine. Concurrent with the restructuring, we exchanged our \$32,500 senior secured loans for additional membership interest in Freedom Marine.

The fair value of our investment in Freedom Marine decreased to \$13,188 as of March 31, 2018, a discount of \$30,104 to its amortized cost, compared to a discount of \$18,616 to its amortized cost as of June 30, 2017. The decrease in fair value is attributable to asset impairment and continued market softness.

#### 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. 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 March 31, 2018, we own 100% of the fully-diluted common equity of NPRC.

During the three months ended March 31, 2018, we restructured our investment in NPRC and exchanged \$14,274 of ACLLH Senior Secured Term Loan C, \$97,578 of ACLL Senior Secured Term Loan C, and \$48,832 of common stock for \$160,684 of Senior Secured Term Loan E.

During the nine months ended March 31, 2018, we provided \$60,912 of equity financing to NPRC for the acquisition of real estate properties and \$1,112 of debt and \$12,601 of equity financing to NPRC to fund capital expenditures for existing real estate properties.

During the nine months ended March 31, 2018, we provided \$21,858 and \$13,433 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 nine months ended March 31, 2018, we received partial repayments of \$63,307 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 March 31, 2018, the outstanding investment in online consumer loans by certain of NPRC's wholly-owned subsidiaries was comprised of 73,663 individual loans and residual interests in two securitizations, and had an aggregate fair value of \$441,123. The average outstanding individual loan balance was approximately \$6 and the loans mature on dates ranging from April 1, 2018 to March 12, 2025 with a weighted-average outstanding term of 27 months as of March 31, 2018. Fixed interest rates range from 4.0% to 36.0% with a weighted-average current interest rate of 24.0%. As of March 31, 2018, our investment in NPRC and its wholly-owned subsidiaries relating to online consumer lending had a fair value of \$297,524.

As of March 31, 2018, based on outstanding principal balance, 6.2% of the portfolio was invested in super prime loans (borrowers with a Fair Isaac Corporation ("FICO") score, of 720 or greater), 19.0% of the portfolio in prime loans (borrowers with a FICO score of 660 to 719) and 74.8% of the portfolio in near prime loans (borrowers with a FICO score of 580 to 659, a portion of which are considered sub-prime).



Loan Type	Outstanding Principal Balance	Fair Value	Weighted Average Interest Rate*
Super Prime	\$ 24,957	\$24,319	13.2%
Prime	77,169	73,535	16.5%
Near Prime**	303,354	275,383	26.8%

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

\*\*A portion of these loans are sub-prime borrowers.

As of March 31, 2018, our investment in NPRC and its wholly-owned subsidiaries had an amortized cost of \$827,279 and a fair value of \$1,031,150, including our investment in online consumer lending as discussed above. The fair value of \$733,626 related to NPRC's real estate portfolio was comprised of thirty-nine 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 March 31, 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	46,622
3	Lofton Place, LLC	Tampa, FL	4/30/2013	26,000	20,309
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	176,653
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	19,840
13	City West Apartments II, LLC	Orlando, FL	11/19/2013	23,562	23,170
14	Vinings Corner II, LLC	Smyrna, GA	11/19/2013	35,691	32,772
15	Atlanta Eastwood Village LLC	Stockbridge, GA	12/12/2013	25,957	22,635
16	Atlanta Monterey Village LLC	Jonesboro, GA	12/12/2013	11,501	11,013
17	Atlanta Hidden Creek LLC	Morrow, GA	12/12/2013	5,098	4,714
18	Atlanta Meadow Springs LLC	College Park, GA	12/12/2013	13,116	12,965
19	Atlanta Meadow View LLC	College Park, GA	12/12/2013	14,354	13,020
20	Atlanta Peachtree Landing LLC	Fairburn, GA	12/12/2013	17,224	15,422
21	NPH Carroll Bartram Park, LLC	Jacksonville, FL	12/31/2013	38,000	26,601
22	Crestview at Cordova, LLC	Pensacola, FL	1/17/2014	8,500	7,828
23	NPH Carroll Atlantic Beach, LLC	Atlantic Beach, FL	1/31/2014	13,025	8,234
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



No.	Property Name	City	Acquisition Date	Purchase Price	Mortgage Outstanding
33	Canterbury Green Apartments Holdings LLC	Fort Wayne, IN	9/29/2014	85,500	74,077
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	43,123
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	32,058
53	Vesper Kennesaw, LLC	Kennesaw, GA	9/28/2016	57,900	48,676
54	Vesper Statesboro, LLC	Statesboro, GA	9/28/2016	7,500	5,912
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
				\$1,708,122	\$1,399,579

The fair value of our investment increased in NPRC to \$1,031,150 as of March 31, 2018, a premium of \$203,871 from its amortized cost, compared to the \$197,008 premium recorded at June 30, 2017. This increase is primarily attributable to increases in property values.

#### 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. Nationwide was founded in 1954 and provides installment loans to sub-prime consumers who use the funds to purchase used automobiles. The company is based in Chicago, Illinois and has over one hundred employees. Nationwide originates its loans indirectly via a network of franchised and independent auto dealers in 22 states.

The fair value of our investment decreased in Nationwide to \$30,990 as of March 31, 2018, a discount of \$8,382 to its amortized cost, compared to a premium of \$1,943 to its amortized cost as of June 30, 2017. The decrease in fair value is driven by margin compression.

#### 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 \$62,123 as of March 31, 2018, a discount of \$2,618 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 strong revenue growth.

Our controlled investments, other than those discussed above, are valued at \$70,508 below cost and did not experience significant changes in operating performance or value. Overall, combined with those portfolio companies discussed above, our controlled investments at March 31, 2018 are valued at \$129,286 above their amortized cost.

We hold three affiliate investments at March 31, 2018. One of our affiliate portfolio companies, Edmentum Ultimate Holdings, LLC (“Edmentum”), experienced a decline in value during the nine months ended March 31, 2018. The fair value of our investment in Edmentum decreased to \$32,927 as of March 31, 2018, reflecting a discount of \$12,677 to its amortized cost, compared to a premium of \$1,750 to its amortized cost as of June 30, 2017. The decrease in fair value was driven by lower sales coupled with compressed margins, and was partially offset by an increase in our valuation of Targus. Overall, at March 31, 2018, affiliate investments are valued at \$3,194 below 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. As of March 31, 2018, two of our non-control/non-affiliate investments - Pacific World Corporation and United Sporting Companies, Inc. (“USC”) - are valued at discounts to amortized cost of \$30,674, and \$83,919, respectively. As of March 31, 2018, our CLO investment portfolio is valued at a \$151,994 discount to amortized cost. Excluding these investments, non-control/non-affiliate investments at March 31, 2018 are valued \$4,668 below their amortized cost and did not experience significant changes in operating performance or value.

#### 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 March 31, 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; Public Notes which we issued in March 2013, April 2014, December 2015, 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 March 31, 2018.

	Principal Outstanding	Unamortized Debt Issuance Costs	Net Carrying Value	Fair Value (1)	Effective Interest Rate	
Revolving Credit Facility(2)	\$ 86,000	\$ 2,717	\$ 86,000	(3)\$ 86,000	1ML+2.25%	(6)
2019 Notes	200,000	969	199,031	204,336	(4) 6.51	% (7)
2020 Notes	392,000	4,828	387,172	393,642	(4) 5.38	% (7)
2022 Notes	225,000	6,111	218,889	224,728	(4) 5.66	% (7)
Convertible Notes	817,000	11,908	805,092	822,706		
5.00% 2019 Notes	300,000	1,099	298,901	305,460	(4) 5.29	% (7)
2023 Notes	250,000	3,627	246,373	259,718	(4) 6.09	% (7)
2024 Notes	199,281	4,719	194,562	204,829	(4) 6.74	% (7)
Public Notes	749,281	9,445	739,836	770,007		
Prospect Capital InterNotes®	756,071	12,342	743,729	774,859	(5) 5.78	% (8)
Total	\$ 2,408,352	\$ 36,412	\$ 2,374,657	\$ 2,453,572		

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 March 31, 2018.

(2) The maximum draw amount of the Revolving Credit facility as of March 31, 2018 is \$885,000.

(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.

(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.

(7) The effective interest rate is equal to the effect of the stated interest, the accretion of original issue discount and 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 expense and deferred debt issuance costs, which are amortized on a straight-line method over the stated life of the obligation which approximates level yield, 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 March 31, 2018.

	Payments Due by Period				
	Total	Less than 1 Year	1 – 3 Years	3 – 5 Years	After 5 Years
Revolving Credit Facility	\$ 86,000	\$ —	\$ 86,000	\$ —	\$ —
Convertible Notes	817,000	200,000	392,000	225,000	—
Public Notes	749,281	—	300,000	250,000	199,281
Prospect Capital InterNotes®	756,071	—	245,778	273,942	236,351
Total Contractual Obligations	\$ 2,408,352	\$ 200,000	\$ 1,023,778	\$ 748,942	\$ 435,632

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 March 31, 2018, we can issue up to \$4,621,784 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 March 31, 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 March 31, 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 March 31, 2018 and June 30, 2017, we had \$382,262 and \$665,409, respectively, available to us for borrowing under the Revolving Credit Facility, of which \$86,000 was outstanding as of March 31, 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 March 31, 2018, the investments, including cash, used as collateral for the Revolving Credit Facility had an aggregate fair value of \$1,225,288, which represents 21.1% of our

total investments, including cash. 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.

S-44

---

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 March 31, 2018, \$2,717 remains to be amortized and is reflected as deferred financing costs on the Consolidated Statements of Assets and Liabilities.

During the three months ended March 31, 2018 and March 31, 2017, we recorded \$3,016 and \$3,218, respectively, of interest costs, unused fees and amortization of financing costs on the Revolving Credit Facility as interest expense.

During the nine months ended March 31, 2018 and March 31, 2017, we recorded \$9,356 and \$9,247, respectively, of interest costs, unused fees and amortization of financing costs on the Revolving Credit Facility as interest expense.

#### Convertible Notes

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 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"), unless previously converted or repurchased in accordance with their terms. 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, on the 2018 Notes. 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 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.

On April 11, 2017, we issued \$225,000 aggregate principal amount of convertible notes that mature on July 15, 2022 (the "2022 Notes"), unless previously converted or repurchased in accordance with their terms. The 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.

S-45

---

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 March 31, 2018(1)(2)	79.8360	80.6670	100.2305
Conversion price at March 31, 2018(2)(3)	\$ 12.53	\$ 12.40	\$ 9.98
Last conversion price calculation date	12/21/2017	4/11/2017	4/11/2017
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 \$24,795 of fees which are being amortized over the terms of the notes, of which \$11,908 remains to be amortized and is included as a reduction within Convertible Notes on the Consolidated Statement of Assets and Liabilities as of March 31, 2018.

During the three months ended March 31, 2018 and March 31, 2017, we recorded \$12,664 and \$13,484, respectively, of interest costs and amortization of financing costs on the Convertible Notes as interest expense. During the nine months ended March 31, 2018 and March 31, 2017, we recorded \$39,323 and \$41,674, 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 “2023 Notes”). The 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 2023 Notes, net of underwriting discounts and offering costs, were \$243,641.



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 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 March 31, 2018, we have issued a total of \$199,281 in aggregate principal amount of our 2024 Notes for net proceeds of \$193,253 after commissions and offering costs.

The 2023 Notes, the 5.00% 2019 Notes, and the 2024 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, and the 2024 Notes, we recorded a discount of \$2,777 and debt issuance costs of \$13,613, which are being amortized over the terms of the notes. As of March 31, 2018, \$1,678 of the original issue discount and \$7,767 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 three months ended March 31, 2018 and March 31, 2017, we recorded \$11,054 and \$11,026, respectively, of interest costs and amortization of financing costs on the Public Notes as interest expense. During the nine months ended March 31, 2018 and March 31, 2017, we recorded \$33,143 and \$32,864, 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 nine months ended March 31, 2018, we issued \$69,428 aggregate principal amount of Prospect Capital InterNotes® for net proceeds of \$68,396. These notes were issued with stated interest rates ranging from 4.00% to 5.00% with a weighted average interest rate of 4.37%. These notes mature between July 15, 2022 and March 15, 2026. The following table summarizes the Prospect Capital InterNotes® issued during the nine months ended March 31, 2018.

Tenor at Origination (in years)	Principal Amount	Interest Rate Range	Weighted Average Interest Rate	Maturity Date Range
5	\$43,587	4.00%–4.75%	4.20 %	July 15, 2022 – March 15, 2023
7	2,825	4.75%–5.00%	4.93 %	July 15, 2024
8	23,016	4.50%–5.00%	4.62 %	August 15, 2025 – March 15, 2026
	\$69,428			

During the nine months ended March 31, 2017, we issued \$109,221 aggregate principal amount of our Prospect Capital InterNotes® for net proceeds of \$107,860. The following table summarizes the Prospect Capital InterNotes® issued during the nine months ended March 31, 2017.

Tenor at Origination	Principal Amount	Interest Rate Range	Weighted Average	Maturity Date Range
----------------------	------------------	---------------------	------------------	---------------------



(in years)

Interest  
Rate

5      \$109,221   4.75%–5.50%<sup>5.15</sup> %   July 15, 2021 – March 15, 2022

S-47

---

During the nine months ended March 31, 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 nine months ended March 31, 2018, we repaid \$4,883 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 nine months ended March 31, 2018 was \$1,445. The following table summarizes the Prospect Capital InterNotes® outstanding as of March 31, 2018.

Tenor at Origination (in years)	Principal Amount	Interest Rate Range	Weighted Average Interest Rate	Maturity Date Range
5.0	\$225,639	4.00%–5.50%	4.92 %	July 15, 2018 - March 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	86,218	4.25%–5.00%	4.61 %	February 15, 2019 - November 15, 2020
6.0	2,182	4.88	% 4.88 %	April 15, 2021 - May 15, 2021
6.5	38,852	5.10%–5.50%	5.23 %	February 15, 2020 – May 15, 2022
7.0	145,500	4.00%–6.55%	5.05 %	June 15, 2019 – July 15, 2024
7.5	1,996	5.75	% 5.75 %	February 15, 2021
8.0	23,016	4.50%–5.00%	4.62 %	August 15, 2025 – March 15, 2026
10.0	37,424	5.12%–7.00%	6.18 %	March 15, 2022 - December 15, 2025
12.0	2,978	6.00	% 6.00 %	November 15, 2025 - December 15, 2025
15.0	17,177	5.25%–6.00%	5.35 %	May 15, 2028 – November 15, 2028
18.0	20,903	4.13%–6.25%	5.55 %	December 15, 2030 – August 15, 2031
20.0	4,170	5.63%–6.00%	5.89 %	November 15, 2032 – October 15, 2033
25.0	33,349	6.25%–6.50%	6.39 %	August 15, 2038 – May 15, 2039
30.0	109,591	5.50%–6.75%	6.24 %	November 15, 2042 – October 15, 2043
	\$756,071			

S-48

During the nine months ended March 31, 2017, we repaid \$6,460 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 loss on the extinguishment of Prospect Capital InterNotes® in the nine months ended March 31, 2017 was \$205.

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
4.0	\$39,038	3.75%-4.00%	3.92 %	November 15, 2017 - May 15, 2018
5.0	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
6.0	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
7.0	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
10.0	37,509	4.27%-7.00%	6.20 %	March 15, 2022 - December 15, 2025
12.0	2,978	6.00	% 6.00 %	November 15, 2025 - December 15, 2025
15.0	17,245	5.25%-6.00%	5.36 %	May 15, 2028 - November 15, 2028
18.0	21,532	4.13%-6.25%	5.47 %	December 15, 2030 - August 15, 2031
20.0	4,248	5.63%-6.00%	5.84 %	November 15, 2032 - October 15, 2033
25.0	34,218	6.25%-6.50%	6.39 %	August 15, 2038 - May 15, 2039
30.0	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 \$24,259 of fees which are being amortized over the term of the notes, of which \$12,342 remains to be amortized and is included as a reduction within Prospect Capital InterNotes® on the Consolidated Statement of Assets and Liabilities as of March 31, 2018.

During the three months ended March 31, 2018 and March 31, 2017, we recorded \$10,745 and \$13,736, respectively, of interest costs and amortization of financing costs on the Prospect Capital InterNotes® as interest expense. During the nine months ended March 31, 2018 and March 31, 2017, we recorded \$36,039 and \$40,196, respectively, of interest costs and amortization of financing costs on the Prospect Capital InterNotes® as interest expense.

#### Net Asset Value

During the nine months ended March 31, 2018 our net asset value decreased by \$8,556, or \$0.09 per share. This decrease is primarily due to an increase in accumulated net realized losses and unrealized losses of \$21,811, or \$0.06 per weighted average share, primarily from unrealized losses in our CLO portfolio and other less significant declines in value related to operating performance for certain portfolio companies. These declines in value were partially offset by improvements within the consumer financing and energy industries. (See Change in Unrealized Gains (Losses), Net for further discussion.) Distributions to shareholders also exceeded net investment income by \$0.02 per weighted average share during the period. Our net investment income decreased 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 remaining \$0.01 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 March 31, 2018 and June 30, 2017.



	March 31, 2018	June 30, 2017
Net assets	\$3,346,396	\$3,354,952
Shares of common stock issued and outstanding	362,657,362	360,076,933
Net asset value per share	\$9.23	\$9.32

#### Results of Operations

Net increase in net assets resulting from operations for the three months ended March 31, 2018 and March 31, 2017 was \$51,859, or \$0.14 per share, and \$19,492, or \$0.05 per share, respectively. The increase of \$32,367, or \$0.09 per share, when comparing quarter of quarter, is primarily due to less significant unrealized loss on investments of \$3,856 recognized for three months ended March 31, 2018 compared to a \$53,746 unrealized loss recognized for the three months ended March 31, 2017. This favorable variance was partially offset by a \$15,849 decline in total interest income primarily due to 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.

Net increase in net assets resulting from operations for the nine months ended March 31, 2018 and March 31, 2017 was \$185,559, or \$0.51 per share, and \$201,738, or \$0.56 per share, respectively. The decrease of \$16,179, or \$0.05 per share, is primarily due to a \$60,823 decline in interest income 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. This decrease was partially offset by lower unrealized losses of \$33,359.

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, prepayment penalty fees, dividend income and other income, including settlement of net profits interests, overriding royalty interests and structuring fees, was \$162,835 and \$171,032 for the three months ended March 31, 2018 and March 31, 2017, respectively. Investment income was \$483,814 and \$534,344 for the nine months ended March 31, 2018 and March 31, 2017, respectively. Investment income decreased from prior periods 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.

The following table describes the various components of investment income and the related levels of debt investments:

	Three Months Ended March 31,		Nine Months Ended March 31,		
	2018	2017	2018	2017	
Interest income	\$ 145,862	\$ 161,711	\$ 447,329	\$ 508,152	
Dividend income	6,287	817	7,157	4,580	
Other income	10,686	8,504	29,328	21,612	
Total investment income	\$ 162,835	\$ 171,032	\$ 483,814	\$ 534,344	
Average debt principal of performing interest bearing investments <sup>(1)</sup>	\$ 5,379,123	\$ 5,747,457	\$ 5,448,372	\$ 5,704,796	
Weighted average interest rate earned on performing interest bearing investments <sup>(1)</sup>	10.85	% 11.25	% 10.79	% 11.70	%
Average debt principal of all interest bearing investments <sup>(2)</sup>	\$ 5,674,038	\$ 6,041,303	\$ 5,761,562	\$ 5,971,203	
Weighted average interest rate earned on all interest bearing investments <sup>(2)</sup>	10.28	% 10.71	% 10.20	% 11.18	%

<sup>(1)</sup> Excludes equity investments and non-accrual loans.

<sup>(2)</sup> Excludes equity investments.

Average interest income producing assets decreased from \$5,747,457 for the three months ended March 31, 2017 to \$5,379,123 for the three months ended March 31, 2018. Higher levels of repayments of non-control investments contributed to the decline. The average interest earned on interest bearing performing assets decreased from 11.25% for the three months ended March 31, 2017 to 10.85% for the three months ended March 31, 2018. The decrease is primarily due to reduced returns from our structured credit investments due to lower future expected cash flows and decreases in interest income due to repayments on investments.

Average interest income producing assets decreased from \$5,704,796 for the nine months ended March 31, 2017 to \$5,448,372 for the nine months ended March 31, 2018. The average interest earned on interest bearing performing assets decreased from 11.70% for the nine months ended March 31, 2017 to 10.79% for the nine months ended March 31, 2018. The decrease is primarily due to reduced returns from our structured credit investments due to lower future expected cash flows and decreases in interest income due to repayments on investments.

Investment income is also generated from dividends and other income which is less predictable than interest income. Dividend income increased from \$817 for the three months ended March 31, 2017 to \$6,287 for the three months ended March 31, 2018. The \$5,470 increase in dividend income is primarily attributable to a \$5,639 dividend 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 dividend was received from NPRC for the three months ended March 31, 2017.

Dividend income increased from \$4,580 for the nine months ended March 31, 2017 to \$7,157 for the nine months ended March 31, 2018. The \$2,577 increase in dividend income is primarily attributable to the \$5,639 dividend received from our investment in NPRC during the nine months ended March 31, 2018 as discussed above. 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 nine months ended March 31, 2017, for which no comparable dividend was received in the current period.

Other income is comprised of structuring fees, advisory fees, royalty interests, and settlement of net profits interests. Income from other sources increased to \$10,686 for the three months ended March 31, 2018 from \$8,504 for the three months ended March 31, 2017. The \$2,182 increase is 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. These increases were partially offset by a decrease in structuring fees and amendment fees which are generated from new originations as well as from follow-on investments and amendments to existing portfolio companies.

Income from other sources was \$29,328 and \$21,612 for the nine months ended March 31, 2018 and March 31, 2017, respectively. Included within other income is \$15,216 and \$11,863 of structuring fees for the nine months ended March 31, 2018 and March 31, 2017. The increase in structuring fees is primarily due to an increased level of originations in non-control, broadly syndicated portfolio investments during the nine months ended March 31, 2018.

S-51

---

### Operating Expenses

Our primary operating expenses consist of investment advisory fees (base management and income incentive fees), borrowing costs, legal and professional fees, overhead-related expenses and other operating 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 \$92,389 and \$97,952 for the three months ended March 31, 2018 and March 31, 2017, respectively. Operating expenses were \$276,444 and \$297,940 for the nine months ended March 31, 2018 and March 31, 2017, respectively. Total gross base management fee was \$29,422 and \$30,829 for the three months ended March 31, 2018 and March 31, 2017, 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 \$154 and \$280 from these institutions for the three months ended March 31, 2018 and March 31, 2017, 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 \$29,268 and \$30,549 for the three months ended March 31, 2018 and March 31, 2017, respectively.

Total gross base management fee was \$89,543 and \$93,263 for the nine months ended March 31, 2018 and March 31, 2017, 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 \$553 and \$1,036 from these institutions for the nine months ended March 31, 2018 and March 31, 2017, 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 \$88,990 and \$92,227 for the nine months ended March 31, 2018 and March 31, 2017, respectively.

For the three months ended March 31, 2018 and March 31, 2017, we incurred \$17,612 and \$18,270 of income incentive fees, respectively (\$0.05 and \$0.05 per weighted average share, respectively). This decrease was driven by a corresponding decrease in pre-incentive fee net investment income from \$91,350 for the three months ended March 31, 2017 to \$88,058 for the three months ended March 31, 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.

For the nine months ended March 31, 2018 and March 31, 2017, we incurred \$51,843 and \$59,101 of income incentive fees, respectively (\$0.14 and \$0.16 per weighted average share, respectively). This decrease was driven by a corresponding decrease in pre-incentive fee net investment income from \$295,505 for the nine months ended March 31, 2017 to \$259,213 for the nine months ended March 31, 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 three months ended March 31, 2018 and March 31, 2017, we incurred \$37,479 and \$41,464 respectively, of interest and credit facility expenses related to our Revolving Credit Facility, Convertible Notes, Public Notes and Prospect Capital InterNotes® (collectively, our “Notes”). During the nine months ended March 31, 2018 and March 31, 2017, we incurred \$117,861 and \$123,981 respectively, of interest expenses related to our Notes. These expenses are related directly to the leveraging capacity 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.

	Three Months Ended March 31,		Nine Months Ended March 31,		
	2018	2017	2018	2017	
Interest on borrowings	\$32,288	\$35,972	\$101,956	\$107,140	
Amortization of deferred financing costs	2,949	3,370	9,168	10,131	
Accretion of discount on Public Notes	71	68	212	200	
Facility commitment fees	2,171	2,054	6,525	6,510	
Total interest and credit facility expenses	\$37,479	\$41,464	\$117,861	\$123,981	
Average principal debt outstanding	\$2,427,516	\$2,715,550	\$2,561,834	\$2,677,152	
Annualized weighted average stated interest rate on borrowings <sup>(1)</sup>	5.32	% 5.30	% 5.31	% 5.34	%
Annualized weighted average interest rate on borrowings <sup>(2)</sup>	6.18	% 6.11	% 6.13	% 6.17	%

(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 by \$3,985 for the three months ended March 31, 2018 as compared to three months ended March 31, 2017. The weighted average stated interest rate on borrowings (excluding amortization, accretion and undrawn facility fees) decreased from 5.30% for the three months ended March 31, 2017 to 5.32% for the three months ended March 31, 2018. This decrease is 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.

Interest expense decreased by \$6,120 for the nine months ended March 31, 2018 as compared to nine months ended March 31, 2017. The weighted average stated interest rate on borrowings (excluding amortization, accretion and undrawn facility fees) decreased from 5.34% for the nine months ended March 31, 2017 to 5.31% for the nine months ended March 31, 2018. This decrease is primarily due to the repurchases and maturities of our Convertible Notes and Prospect Capital InterNotes® which bear higher rates than the remaining debt coupled with increased utilization of our Revolving Credit Facility.

The allocation of gross overhead expense from Prospect Administration was \$4,104 and \$7,970 for the three months ended March 31, 2018 and March 31, 2017, respectively. Prospect Administration received estimated payments of \$909 and \$4,389 directly from our portfolio companies, and certain funds managed by the Investment Adviser for legal, tax and portfolio level accounting services during the three months ended March 31, 2018 and March 31, 2017, respectively. 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. Net overhead during the three months ended March 31, 2018 and March 31, 2017 totaled \$3,195 and \$3,581, respectively.

The allocation of gross overhead expense from Prospect Administration was \$12,600 and \$17,283 for the nine months ended March 31, 2018 and March 31, 2017, respectively. Prospect Administration received estimated payments of \$6,701 and \$6,636 directly from our portfolio companies, insurance carrier, and certain funds managed by the Investment Adviser for legal, tax and portfolio level accounting services during the nine months ended March 31, 2018 and March 31, 2017, respectively. 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. Additionally, during the nine months ended March 31, 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 nine months ended March 31, 2018. Net overhead during the nine months ended March 31, 2018 and March 31, 2017 totaled \$5,899 and \$9,771, respectively.

Total operating expenses, excluding investment advisory fees, interest and credit facility expenses, and allocation of overhead from Prospect Administration (“Other Operating Expenses”), net of any expense reimbursements, were \$4,835 and \$4,088 for the three months ended March 31, 2018 and March 31, 2017, respectively. Other Operating Expenses were \$11,851 and \$12,860 for the nine months ended March 31, 2018 and March 31, 2017, respectively.

S-53

---

### Net Investment Income

Net investment income represents the difference between investment income and operating expenses. Net investment income was \$70,446 and \$73,080 for the three months ended March 31, 2018 and March 31, 2017, respectively. Net investment income for the three months ended March 31, 2018 and March 31, 2017 was \$0.19 and \$0.20 per weighted average share, respectively. During the three months ended March 31, 2018, the decrease of \$2,634, or \$0.01 per weighted average share, was primarily due to the decrease in interest income of \$15,849, or \$0.04 per weighted average share, which is due to reduced returns from our structured credit investments, an increase in non-accrual investments, and lower levels of performing investments. This decrease was offset by a \$5,470, or \$0.02 per weighted average share, increase in dividend income primarily attributable to a \$5,639 dividend received from our investment in NPRC coupled with a \$3,985, or \$0.02 per weighted average share decrease in interest and credit facility expenses. Net investment income was \$207,370 and \$236,404 for the nine months ended March 31, 2018 and March 31, 2017, respectively. Net investment income for the nine months ended March 31, 2018 and March 31, 2017 was \$0.57 and \$0.66 per weighted average share, respectively. During the nine months ended March 31, 2018, the decrease of \$29,034 or \$0.09 per weighted average share, was primarily due to the decrease in interest income by \$60,823, or \$0.17 per weighted average share, which is due to reduced returns from our structured credit investments, an increase in non-accrual investments, and lower levels of performing investments. This decrease was offset by a \$7,716, or \$0.02 per weighted average share, increase in other income coupled with favorable decreases of \$10,495, or \$0.03 per weighted average share, in investment advisory fees and \$6,120, or \$0.02 per weighted average share, in interest and credit facility expenses.

### Net Realized (Losses) Gains

Net realized loss for three months ended March 31, 2018 was \$14,218, an unfavorable increase in losses of \$14,396 compared to the \$178 net realized gain recognized during the three months ended March 31, 2017. The net realized loss during the three months ended March 31, 2018 was primarily related to the write-down of Nixon, Inc. upon restructuring, resulting in a realized loss of \$14,197, which had been previously recorded as an unrealized loss as of December 31, 2017. The net realized gain during the three months ended March 31, 2017 was primarily due to an asset sale distribution from our previously held investment in Wind River of \$929, partially offset by write-off of defaulted loans in our small business lending portfolio of \$759.

Net realized loss for the nine months ended March 31, 2018 was \$18,454, an unfavorable variance of \$19,264 compared to the \$810 net realized gain recognized during the nine months ended March 31, 2017. The net realized loss during the nine months ended March 31, 2018 was primarily related to the write-down of Nixon, Inc. upon restructuring, resulting in a realized a loss of \$14,197. The net realized loss of the repayment of our investment in Primesport, for which we agreed to a payment less than the par amount and realized a loss of \$3,019. Additionally, during the nine months ended March 31, 2018, we recognized realized losses of \$2,495 from our call of our investment in Apidos IX CLO. The net realized gain during the nine months ended March 31, 2017 was primarily due to the receipt of bankruptcy proceeds from our investment in New Century Transportation, Inc. of \$936, a working capital adjustment from our investment in Harbortouch of \$432, the exercise of warrants in our investment in R-V for \$171, an asset sale distribution from our previously held investment in Wind River of \$929, as well as from the sales of our investments in Biotronic, Big Tex and Nathan's for which we recognized total realized gains of \$514.

### Change in Unrealized Gains (Losses), Net

During the three months ended March 31, 2018, net unrealized losses were \$3,856 primarily due to \$24,902 of unrealized losses in our CLO portfolio due to spread compression which resulted in lower expected future cash flows. Two of our controlled investments also experienced declines in value - Freedom Marine and Mity. We marked down our investment in Freedom Marine by \$12,558 during the three months ended March 31, 2018, due to asset impairment and continued market softness. Our investment in Mity declined in value by \$7,360 due to poor operating results. These declines in value were partially offset by an increase of \$14,059 in fair value of our investment in First Tower following a recent acquisition and the reversal of a previously recorded unrealized loss of \$14,197 related to our investment in Nixon. The remaining \$12,708 favorable decrease in unrealized losses was due to operating improvements across multiple investments and industries.

During the three months ended March 31, 2017, net unrealized losses were \$53,746 for the three months ended March 31, 2017 was driven primarily by declining operating performance within certain investments and a decline in returns from CLOs. Write-downs in our investments in USES, PrimeSport, Inc. and United Sporting Companies, Inc. were due to declining operating performance and resulted in unrealized losses of \$21,144, \$9,645 and \$8,203, respectively. The valuation of our portfolio was also negatively impacted by the decline in returns from CLOs, and we therefore recognized \$15,252 in unrealized losses.

S-54

---

Net unrealized losses were \$1,912 and \$35,271 for the nine months ended March 31, 2018 and March 31, 2017, respectively. For the nine months ended March 31, 2018, the \$1,912 net unrealized losses were primarily the result of \$81,700 of unrealized losses in our CLO portfolio due to a decline in the weighted average spread in the underlying senior secured loan portfolios, increase in discount rates, and collateral losses. The value of our investment in USC also decreased by \$26,297 due to both a decline in operating performance and the overall decline in demand for firearms and ammunition. Our investment in Mity declined in value by \$14,389 due to poor operating results. These unrealized losses were partially offset by the reversal of previously recorded unrealized losses of \$23,741 and \$14,197 related to our exited investments in PrimeSport and Nixon. Unrealized losses were also offset by unrealized gains related to our investments in consumer financing - Credit Central and First Tower - comprising \$66,331 and energy - Arctic Energy, CP Energy and Spartan Energy - comprising \$43,204. The remaining \$26,999 change in unrealized losses was due to operating performance declines across multiple investments and industries.

During the nine months ended March 31, 2017, net unrealized losses decreased by \$35,271 due the competitive environment faced by our energy-related companies and declining operating performance within certain investments. There were unrealized losses on our Energy Equipment & Services investments of \$29,174. Unrealized losses on our online lending portfolio of \$19,290 were due to an increase in delinquent loans for the nine months ended March 31, 2017. Additionally, the value of our investment in USES decreased by \$18,327 due to a decline in operating performance, and our investment in First Tower Finance declined in value by \$14,353 due to increased regulatory scrutiny within the consumer finance industry. These unrealized losses were partially offset by unrealized appreciation on our REIT investment of \$41,648 due to improved operating performance at the property-level. The remaining \$4,223 decrease in net unrealized losses was due to operating declines across multiple investments and industries.

#### Financial Condition, Liquidity and Capital Resources

For the nine months ended March 31, 2018 and March 31, 2017, our operating activities provided \$258,142 and \$74,744 of cash, respectively. There were no investing activities for the nine months ended March 31, 2018 and March 31, 2017. Financing activities used \$478,662 and \$280,738 of cash during the nine months ended March 31, 2018 and March 31, 2017, respectively, which included dividend payments of \$202,362 and \$245,255, 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 nine months ended March 31, 2018, we borrowed \$427,000 and we made repayments totaling \$341,000 under the Revolving Credit Facility. As of March 31, 2018, we had, net of unamortized discount and debt issuance costs, \$805,092 outstanding on the Convertible Notes, \$739,836 outstanding on the Public Notes and \$743,729 outstanding on the Prospect Capital InterNotes®, and \$86,000 outstanding balance 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 March 31, 2018 and June 30, 2017, we had \$19,675 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 March 31, 2018 and June 30, 2017.

Our shareholders' equity accounts as of March 31, 2018 and June 30, 2017 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 nine months ended March 31, 2018 or March 31, 2017. 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 March 31, 2018, we have the ability to issue up to \$4,621,784 in securities under the registration statement.

S-55

---

#### Off-Balance Sheet Arrangements

As of March 31, 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 April 2, 2018, Ability Network Inc. repaid the \$15,000 second lien term loan receivable to us.

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.

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

On April 4, 2018, we filed an 8-K announcing that our Board of Directors appointed Kristin Van Dask as our Chief Financial Officer, Treasurer, Secretary, and Chief Compliance Officer, effective immediately, in place of Brian H. Oswald who previously served in such positions.

On April 6, 2018, Arctic Oilfield merged with and into CP Energy, with CP Energy as the surviving entity.

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.

On April 16, 2018, we sold 8.78% of the outstanding principal balance of the senior secured note investment in Broder Bros., Co. for a total of \$40,000 at 100% of par. There was no gain or loss realized on the sale.

On April 17, 2018, we made a \$43,000 Senior Secured Term Loan A and \$43,000 Senior Secured Term Loan B investment in Motion Recruitment Partners LLC, a provider of IT-focused contractor and permanent staffing recruitment solutions.

On April 17, 2018, we made a \$10,000 Second Lien Term Loan investment in HelpSystems Holdings, a provider of software products.

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 \$273 loss on the sale.

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

During the period from April 1, 2018 through May 9, 2018 we issued \$3,580 aggregate principal amount of Prospect Capital InterNotes® for net proceeds of \$3,522.

On May 9, 2018, we announced the declaration of monthly dividends in the following amounts and with the following dates:

\$0.06 per share for May 2018 to holders of record on May 31, 2018 with a payment date of June 21, 2018.

\$0.06 per share for June 2018 to holders of record on June 29, 2018 with a payment date of July 19, 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.

## 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-Q, ASC 946, Financial Services—Investment Companies (“ASC 946”), and Articles 6, 10 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 three and nine months ended March 31, 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 March 31, 2018 and June 30, 2017, our qualifying assets as a percentage of total assets, stood at 73.72% 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

S-57

---

- 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 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.

S-59

---

Our investments in CLOs are classified as Level 3 fair value measured securities under ASC 820 and are valued using both a discounted single-path cash flow model and 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, after payments to debt tranches senior to our equity positions, 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 March 31, 2018, approximately 1.3% 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

S-60

---

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 March 31, 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 ten 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 March 31, 2018 and for the three and nine months then ended, 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, 2014 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

S-61

---



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 March 31, 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. We are currently evaluating the impact, if any, of adopting this ASU on our consolidated financial statements.

S-62

---

## 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” in the accompanying prospectus.

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 March 31, 2018, 90.1% 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 an outstanding balance of \$86.0 million as of March 31, 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 March 31, 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	\$ 111,356	\$ 46	\$ 111,310	\$ 89,048
Up 200 basis points	76,777	31	76,746	61,397
Up 100 basis points	42,042	15	42,027	33,622
Down 100 basis points	(22,459 )	(31 )	(22,428 )	(17,942 )

(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 March 31, 2018, one and three month LIBOR was 1.88% and 2.31%, 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 quarter ended March 31, 2018, we did not engage in hedging activities.

## SUPPLEMENT TO MATERIAL U.S. FEDERAL INCOME TAX CONSIDERATIONS

The following summary of U.S. federal income tax considerations supplements the discussion set forth under the heading “Material U.S. Federal Income Tax Considerations” in the accompanying prospectus and is subject to the qualifications and assumptions set forth therein.

The following is a general summary of U.S. federal income tax considerations generally applicable to the purchase, ownership and disposition of the Notes. This discussion is based upon the Code, Treasury Regulations and judicial decisions and administrative interpretations thereof, all as of the date hereof and all of which are subject to change or differing interpretations, possibly with retroactive effect. No ruling from the Internal Revenue Service (“IRS”) has been or will be sought regarding any matter discussed herein. No assurance can be given that the IRS would not assert, or that a court would not sustain, a position contrary to any of the tax aspects set forth below.

This discussion applies only to a holder of the Notes that acquires the Notes for cash pursuant to this offering at the initial offering price and who holds the Notes as a capital asset (generally, property held for investment) under the Code. This discussion does not address any U.S. federal estate or gift tax consequences or any state, local or non-U.S. tax consequences. In addition, this discussion does not address all aspects of U.S. federal income taxation that may be applicable to investors in light of their particular circumstances, or to investors subject to special treatment under U.S. federal income tax law, including, but not limited to:

- banks, insurance companies or other financial institutions;
- pension plans or trusts;
- U.S. Noteholders (as defined below) whose functional currency is not the U.S. dollar;
- real estate investment trusts;
- regulated investment companies;
- persons subject to the alternative minimum tax;
- cooperatives;
- tax-exempt organizations;
- dealers in securities;
- expatriates;
- foreign persons or entities (except to the extent set forth below);
- persons deemed to sell the Notes under the constructive sale provisions of the Code; or
- persons that hold the Notes as part of a straddle, hedge, conversion transaction or other integrated investment.

If a partnership (including any entity or arrangement treated as a partnership for U.S. federal income tax purposes) is an owner of the Notes, the tax treatment of a partner in the partnership will depend upon the status of the partner and the activities of the partnership. Partners in a partnership that owns the Notes should consult their tax advisors as to the particular U.S. federal income tax consequences applicable to them.

We encourage investors to consult their tax advisors regarding the specific consequences of an investment in the Notes, including tax reporting requirements, the applicability of U.S. federal, state, local and non-U.S. tax laws, eligibility for the benefits of any applicable tax treaty and the effect of any possible changes in the tax laws.

### Consequences to U.S. Noteholders

The following is a general summary of U.S. federal income tax consequences generally applicable to you if you are a U.S. Noteholder. U.S. federal income tax consequences generally applicable to non-U.S. Noteholders are described under “Consequences to non-U.S. Noteholders” below. For purposes of this summary, the term “U.S. Noteholder” means a beneficial owner of a Note that is, for U.S. federal income tax purposes (i) an individual who is a citizen or resident of the U.S., (ii) a corporation, or other entity treated as a corporation for U.S. federal income tax purposes, that is created or organized under the laws of the U.S., any of the States or the District of Columbia, (iii) an estate the income of which is subject to U.S. federal income taxation regardless of its source, or (iv) a trust (A) if a court within the U.S. is able to exercise primary supervision over

its administration and one or more U.S. persons have the authority to control all substantial decisions of such trust, or (B) that has made a valid election to be treated as a U.S. person for U.S. federal income tax purposes.

#### Interest on the Notes

Interest on the Notes will be taxable to a U.S. Noteholder as ordinary interest income at the time such Noteholder receives or accrues such amounts, in accordance with its regular method of accounting.

#### Sale, exchange, redemption or other taxable disposition of the Notes

Upon the sale, exchange, redemption or other taxable disposition of a Note, a U.S. Noteholder generally will recognize taxable capital gain or loss equal to the difference, if any, between the amount realized and the U.S. Noteholder's adjusted tax basis in the Note at the time of such disposition. Such gain or loss will be long-term capital gain or loss if the U.S. Noteholder's holding period with respect to the Note disposed of is more than one year. To the extent that amounts received are attributable to accrued but unpaid interest that the U.S. Noteholder has not yet included in income, such interest will not be taken into account in determining gain or loss, but will instead be taxable as ordinary interest income. The deductibility of capital losses is subject to limitations.

#### Information reporting and backup withholding

Interest on, or the proceeds of the sale or other disposition of, a Note are generally subject to information reporting unless the U.S. Noteholder is an exempt recipient (such as a corporation). Such payments, along with principal payments on the Note, 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, certified under penalties of perjury, as well as certain other information or otherwise fails to establish an exemption from backup withholding. Any amounts withheld under the backup withholding rules will be allowed as a refund or credit against that U.S. Noteholder's U.S. federal income tax liability provided the required information is furnished to the IRS.

#### Medicare tax

Certain U.S. Noteholders 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 interest on the Notes and capital gains from the sale or other disposition of the Notes.

#### Consequences to non-U.S. Noteholders

The following is a general summary of U.S. federal income tax consequences generally applicable to you if you are a non-U.S. Noteholder. A beneficial owner of a Note that is not a partnership for U.S. federal income tax purposes or a U.S. Noteholder is referred to herein as a "non-U.S. Noteholder."

#### Interest on the Notes

Subject to the discussion below under the heading "Other withholding rules," interest paid or accrued to a non-U.S. Noteholder generally will not be subject to U.S. federal income or withholding tax if the interest is not effectively connected with its conduct of a trade or business within the United States, and the non-U.S. Noteholder:

• does not own, actually or constructively, 10% or more of the total combined voting power of all classes of our stock entitled to vote;

• is not a "controlled foreign corporation" with respect to which we are, directly or indirectly, a "related person";

• is not a bank whose receipt of interest on the Notes is described in section 881(c)(3)(A) of the Code; and

• provides its name and address, and certifies, under penalties of perjury, that it is not a U.S. person (on a properly executed IRS Form W-8BEN or W-8BEN-E or other applicable form), or holds the Notes through certain foreign intermediaries and satisfies the certification requirements of applicable Treasury Regulations.

If a non-U.S. Noteholder does not qualify for an exemption under these rules, interest income from the Notes may be subject to withholding tax at the rate of 30% (or lower applicable treaty rate). Interest effectively connected with a non-U.S. Noteholder's conduct of a U.S. trade or business (and, if required by an applicable income tax treaty, which is attributable to a United States permanent establishment), however, would not be subject to a 30% withholding tax so long as the non-U.S. Noteholder provides us or our paying agent with an adequate certification (currently on IRS Form W-8ECI); such payments of interest generally would be subject to U.S. federal income tax on a net basis at the rates applicable to U.S. persons generally. In

addition, if a non-U.S. Noteholder is a foreign corporation and the interest is effectively connected with its conduct of a U.S. trade or business, 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. To claim the benefit of a tax treaty, a non-U.S. Noteholder must provide a properly executed IRS Form W-8BEN or W-8BEN-E (or other applicable form) to us or our paying agent before the payment of interest and may be required to obtain a U.S. taxpayer identification number and provide documentary evidence issued by foreign governmental authorities to prove residence in the foreign country.

#### Sale, exchange, redemption or other taxable disposition of the Notes

Subject to the discussion below under the heading “Other withholding rules,” any gain recognized by a non-U.S. Noteholder on the sale, exchange, redemption or other taxable disposition of the Notes (except with respect to accrued and unpaid interest, which would be taxed as described under “Consequences to Non-U.S. Noteholders—Interest on the Notes” above) generally will not be subject to U.S. federal income tax unless:

- the non-U.S. Noteholder’s gain is effectively connected with its conduct of a U.S. trade or business (and, if required under an applicable income tax treaty, is attributable to a United States permanent establishment); or
- the non-U.S. Noteholder is a nonresident alien individual present in the U.S. for 183 or more days in the taxable year within which the sale, exchange, redemption or other disposition takes place and certain other requirements are met.

If a non-U.S. Noteholder is a holder described in the first bullet point above, the net gain derived from the sale, exchange, redemption or other taxable disposition of its Notes generally will be subject to U.S. federal income tax on a net basis at the rates applicable to U.S. persons generally. In addition, if such non-U.S. Noteholder 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 a non-U.S. Noteholder is a holder described in the second bullet point above, it will be subject to a flat 30% U.S. federal income tax on the gain derived from the sale, exchange, redemption or other taxable disposition of its Notes, which may be offset by U.S. source capital losses, even though it is not considered a resident of the United States.

Non-U.S. Noteholders should consult any applicable income tax treaties that may provide for different rules. In addition, non-U.S. Noteholders are urged to consult their tax advisors regarding the tax consequences of the purchase, ownership and disposition of the Notes.

#### Information reporting and backup withholding

A non-U.S. Noteholder may be required to comply with certain certification procedures to establish that the holder is not a U.S. person in order to avoid backup withholding with respect to our payment of principal and interest on, or the proceeds of the sale or other disposition of, a Note. Any amounts withheld under the backup withholding rules will be allowed as a refund or a credit against that non-U.S. Noteholder’s U.S. federal income tax liability provided the required information is timely furnished to the IRS. In certain circumstances, the name and address of the beneficial owner and the amount of interest paid on a Note, as well as the amount, if any, of tax withheld, may be reported to the IRS. Copies of these information returns may also be made available under the provisions of a specific treaty or agreement to the tax authorities of the country in which the non-U.S. Noteholder resides.

#### Other withholding rules

Withholding at a rate of 30% will be required on interest in respect of, and after December 31, 2018, on gross proceeds from the sale of, the Notes 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 United States persons and to withhold on certain payments. Accordingly, the entity through which the Notes are held will affect the determination of whether such withholding is required. Similarly, interest in respect of, and, after December 31, 2018, gross proceeds from the sale of, the Notes held by an investor that is a non-financial non-U.S. entity will be subject to withholding at a rate of 30%, unless such entity either (i) certifies to the applicable withholding agent that such entity does not have any “substantial U.S. owners” or (ii) provides certain information regarding the entity’s “substantial U.S. owners,” which we will in turn provide to the Secretary of the Treasury. An intergovernmental agreement between the United States and an applicable foreign country, or future guidance, may modify these requirements. Non-U.S. Noteholders are encouraged to consult with their tax advisors regarding the

possible implications of these requirements on their investment in the Notes.

S-66

---

**CERTAIN CONSIDERATIONS APPLICABLE TO  
ERISA, GOVERNMENTAL AND OTHER PLAN INVESTORS**

A fiduciary of a pension plan or other employee benefit plan (including a governmental plan, an individual retirement account or a Keogh plan) proposing to invest in the Notes should consider this section carefully.

A fiduciary of an employee benefit plan subject to the Employee Retirement Income Security Act of 1974, as amended (commonly referred to as “ERISA”), should consider fiduciary standards including the prudence and diversification requirements under ERISA in the context of the particular circumstances of such plan before authorizing an investment in the Notes. Such fiduciary should also consider, among other things, whether the investment is in accordance with the documents and instruments governing the plan.

In addition, ERISA and the Code prohibit certain transactions (referred to as “prohibited transactions”) involving the assets of a plan subject to ERISA or the assets of an individual retirement account or plan subject to Section 4975 of the Code (each referred to as an “ERISA plan”), on the one hand, and persons who have certain specified relationships to the plan (“parties in interest” within the meaning of ERISA or “disqualified persons” within the meaning of the Code), on the other. If we (or an affiliate) are considered a party in interest or disqualified person with respect to an ERISA plan, then the investment in Notes by the ERISA plan may give rise to a prohibited transaction, unless the investment is acquired and is held in accordance with an applicable statutory, class or individual prohibited transaction exemption. In this regard, the U.S. Department of Labor has issued prohibited transaction class exemptions (“PTCEs”) that may apply to the acquisition and holding of the notes by an ERISA plan. These class exemptions include, without limitation, PTCE 84-14 respecting transactions determined by independent qualified professional asset managers, PTCE 90-1 respecting transactions involving insurance company pooled separate accounts, PTCE 91-38 respecting transactions involving bank collective investment funds, PTCE 95-60 respecting transactions involving life insurance company general accounts and PTCE 96-23 respecting transactions determined by in-house asset managers. In addition, the statutory exemption under Section 408(b)(17) of ERISA and Section 4975(d)(20) of the Code provides relief from the prohibited transaction provisions of ERISA and Section 4975 of the Code for certain transactions between an ERISA plan and a person who is a party in interest or disqualified person solely as a result of providing services to such ERISA plan (or as a result of being related to person who provides services to such ERISA plan). This relief applies only if neither the party in interest or disqualified person nor any of its affiliates (directly or indirectly) have or exercise any discretionary authority or control or render any investment advice with respect to the assets of the ERISA plan involved in the transaction and the ERISA plan receives no less, and pays no more, than adequate consideration in connection with the transaction. Each of the above-noted exemptions contains conditions and limitations on its application. Fiduciaries of ERISA plans considering acquiring and/or holding the notes in reliance on these or any other exemption should carefully review the exemption to assure it is applicable. There can be no assurance that all of the conditions of any such exemptions will be satisfied, or that any exemption will cover all possible transactions involving Notes.

By purchasing and holding the Notes (including any interest in a Note), the fiduciary making the decision to invest on behalf of an ERISA plan is representing that the purchase and holding of the Notes will not result in a non-exempt prohibited transaction under ERISA or the Code. Therefore, an ERISA plan should not invest in the Notes unless the plan fiduciary acquiring Notes on behalf of the ERISA plan determines that neither we nor an affiliate is or (at any time during the term of the investment) will become a party in interest or a disqualified person and that no other prohibited transaction under ERISA or Section 4975 of the Code would occur in connection with the ERISA plan’s investment in Notes or, alternatively, that an exemption from the prohibited transaction rules is available. If an ERISA plan engages in a prohibited transaction, the transaction may require “correction” and may cause the ERISA plan fiduciary to incur certain liabilities and the parties in interest or disqualified persons to be subject to excise taxes. There can be no assurance that any exemption would be available with respect to any particular ERISA plan’s investment in the Notes.

Employee benefit plans that are governmental plans and non-U.S. plans, and certain church plans, are not subject to ERISA requirements. However, non-U.S., federal, state or local laws or regulations governing the investment and management of the assets of such plans may contain fiduciary and prohibited transaction requirements similar to those under ERISA and Section 4975 of the Code discussed above. By purchasing and holding the Notes (including any interest in a Note), the person making the decision to invest on behalf of any such plan is representing that the



purchase and holding of the Notes will not violate any law or regulation applicable to such plan that is similar to the prohibited transaction provisions of ERISA or the Code. Neither we nor the underwriters nor any of our or their respective affiliates, has provided, and none of them will provide, impartial investment advice and or any advice in a fiduciary capacity, in connection with the ERISA plan's investment in the Notes.

A fiduciary of an employee benefit plan, whether or not subject to ERISA, that proposes to invest in the Notes with the assets of such employee benefit plan, should consult its own legal counsel for further guidance. The sale of Notes (or any interest in a Note) to an employee benefit plan is in no respect a representation by us, the underwriters or any other person that

S-67

---

such an investment meets all relevant legal requirements with respect to investments by employee benefit plans generally or any particular plan or that such an investment is appropriate or recommended for employee benefit plans generally or any particular plan.

Additionally, each purchaser that is acquiring the Notes (or any interest in a Note with the assets of any ERISA plan, at any time when regulation 29 C.F.R. Section 2510.3-21 is applicable, represents, warrants and acknowledges that a fiduciary is making the decision to invest in the Notes on its behalf and that such fiduciary (a) is (1) a bank, insurance company, registered investment adviser, broker-dealer or other person with financial expertise, in each case as described in 29 C.F.R. Section 2510.3-21(c)(1)(i); (2) an independent plan fiduciary within the meaning of 29 C.F.R. Section 2510.3-21; (3) capable of evaluating investment risks independently, both in general and with regard to particular transactions and investment strategies; and (4) responsible for exercising independent judgment in evaluating the transaction and (b) acknowledges and agrees that (1) no fee or other compensation will be paid directly to us, an underwriter or any of our or their respective affiliates, for the provision of investment advice (as opposed to other services) in connection with the ERISA plan's acquisition of, or holding of an interest in the Notes; (2) neither we nor the underwriters or other persons that provide marketing services, nor any of our or their respective affiliates, has provided, and none of them will provide, impartial investment advice and neither we nor they are providing or will provide advice in a fiduciary capacity, in connection with the ERISA plan's investment in the Notes and (3) it has received and understands the disclosure of the existence and nature of the financial interests contained in this offering and related materials. The above representations in this paragraph are intended to comply with the Department of Labor's regulation Sections 29 C.F.R. 2510.3-21(a) and (c)(1) as promulgated on April 8, 2016 (81 Fed. Reg. 20,997), and if these regulations are revoked, repealed or no longer effective, these representations shall be deemed to be no longer required or in effect.

#### USE OF PROCEEDS

We estimate that the net proceeds from this offering will be approximately \$47,925,000 (or approximately \$55,188,750 if the option to purchase up to an additional \$7,500,000 aggregate principal amount of Notes solely to cover over-allotments, if any, is exercised in full) after deducting fees and estimated offering expenses of approximately \$500,000 payable by us.

We expect to use a portion of the net proceeds from the sale of the Notes offered hereby to repay debt under our credit facility. We intend to use the remainder of the net proceeds of the offering to invest in high quality short term debt investments, and/or to make long term investments in accordance with our investment objective and/or to repurchase Unsecured Notes.

As of May 30, 2018, we had \$139.0 million in outstanding borrowings under our credit facility and, based on the assets currently pledged as collateral on the facility, a total of approximately \$457.0 million was available to us for borrowing under our credit facility net of outstanding borrowings. Interest on borrowings under the credit facility is one-month LIBOR plus 225 basis points, with no minimum LIBOR floor. Additionally, the lenders charge a fee on the unused portion of the credit facility equal to either 50 basis points if at least 35% of the credit facility is used or 100 basis points otherwise.

## CAPITALIZATION

The following table sets forth our consolidated capitalization (i) as of March 31, 2018 and (ii) as of March 31, 2018, as adjusted to give effect to the sale of \$50.0 million aggregate principal amount of Notes but without giving effect to the use of the cash proceeds from such sale as described in “Use of Proceeds”.

This table should be read in conjunction with “Use of Proceeds” and our “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and our financial statements and notes thereto included in this prospectus supplement and the accompanying prospectus. The adjusted information is illustrative only.

	As of March 31, 2018 (In thousands, except shares and per share data) (Unaudited)	
	Actual	As Adjusted for this Offering <sup>(1)</sup>
Long term debt, including current maturities:		
Credit facility payable	\$86,000	\$86,000 <sup>(2)</sup>
Convertible notes	817,000	<sup>(3)</sup> 817,000 <sup>(3)</sup>
Public notes	749,281	<sup>(4)</sup> 749,281 <sup>(4)</sup>
Prospect Capital InterNotes®	756,071	756,071
Notes offered hereby	—	50,000
Amount owed to affiliates	49,157	49,157
Total long term debt	\$2,457,509	\$2,507,509
Stockholders’ equity:		
Common stock, par value \$0.001 per share (1,000,000,000 common shares authorized; 362,657,362 shares outstanding actual and 362,657,362 shares outstanding as adjusted)	\$363	\$363
Paid in capital in excess of par value	4,009,704	4,009,704
Accumulated overdistributed net investment income	(59,174 )	(59,174 )
Accumulated realized losses on investments	(459,334 )	(459,334 )
Net unrealized loss on investments	(145,163 )	(145,163 )
Total stockholders’ equity	3,346,396	3,346,396
Total capitalization	\$5,803,905	\$5,853,905

(1) The As Adjusted for this Offering calculations exclude any exercise of the underwriters’ option to purchase additional Notes.

(2) As of May 30, 2018, we had \$139.0 million in outstanding borrowings under our credit facility.

(3) The As Adjusted for this Offering calculation excludes our issuance on May 18, 2018 of \$103.5 million aggregate principal amount of 2022 Notes and our repurchase on May 24, 2018 of \$98.4 million aggregate principal amount of our 2019 Notes.

(4) The As Adjusted for this Offering calculation excludes our issuance of \$4.1 million aggregate principal amount of Prospect Capital Internotes® for net proceeds of \$4.0 million during the period April 1, 2018 through May 30, 2018.

## SENIOR SECURITIES

Information about our senior securities is shown in the following table as of each fiscal year ended June 30 for the fiscal years ended June 30, 2008 through June 30, 2017 and as of March 31, 2018. (All figures in this item are in thousands except per unit data.)

	Total Amount Outstanding(1)	Asset Coverage per Unit(2)	Involuntary Liquidating Preference per Unit(3)	Average Market Value per Unit(4)
<b>Credit Facility(14)</b>				
Fiscal 2018 (as of March 31, 2018, unaudited)(15)	\$ 86,000	\$66,900	—	—
Fiscal 2017 (as of June 30, 2017)	—	—	—	—
Fiscal 2016 (as of June 30, 2016)	—	—	—	—
Fiscal 2015 (as of June 30, 2015)	368,700	18,136	—	—
Fiscal 2014 (as of June 30, 2014)	92,000	69,470	—	—
Fiscal 2013 (as of June 30, 2013)	124,000	34,996	—	—
Fiscal 2012 (as of June 30, 2012)	96,000	22,668	—	—
Fiscal 2011 (as of June 30, 2011)	84,200	18,065	—	—
Fiscal 2010 (as of June 30, 2010)	100,300	8,093	—	—
Fiscal 2009 (as of June 30, 2009)	124,800	5,268	—	—
Fiscal 2008 (as of June 30, 2008)	91,167	5,712	—	—
<b>2015 Notes(6)</b>				
Fiscal 2015 (as of June 30, 2015)	\$ 150,000	\$44,579	—	—
Fiscal 2014 (as of June 30, 2014)	150,000	42,608	—	—
Fiscal 2013 (as of June 30, 2013)	150,000	28,930	—	—
Fiscal 2012 (as of June 30, 2012)	150,000	14,507	—	—
Fiscal 2011 (as of June 30, 2011)	150,000	10,140	—	—
<b>2016 Notes(7)</b>				
Fiscal 2016 (as of June 30, 2016)	\$ 167,500	\$36,677	—	—
Fiscal 2015 (as of June 30, 2015)	167,500	39,921	—	—
Fiscal 2014 (as of June 30, 2014)	167,500	38,157	—	—
Fiscal 2013 (as of June 30, 2013)	167,500	25,907	—	—
Fiscal 2012 (as of June 30, 2012)	167,500	12,992	—	—
Fiscal 2011 (as of June 30, 2011)	172,500	8,818	—	—
<b>2017 Notes(8)</b>				
Fiscal 2017 (as of June 30, 2017)	\$ 50,734	\$118,981	—	—
Fiscal 2016 (as of June 30, 2016)	129,500	47,439	—	—
Fiscal 2015 (as of June 30, 2015)	130,000	51,437	—	—
Fiscal 2014 (as of June 30, 2014)	130,000	49,163	—	—
Fiscal 2013 (as of June 30, 2013)	130,000	33,381	—	—
Fiscal 2012 (as of June 30, 2012)	130,000	16,739	—	—
<b>2018 Notes(9)</b>				
Fiscal 2017 (as of June 30, 2017)	\$ 85,419	\$70,668	—	—
Fiscal 2016 (as of June 30, 2016)	200,000	30,717	—	—
Fiscal 2015 (as of June 30, 2015)	200,000	33,434	—	—
Fiscal 2014 (as of June 30, 2014)	200,000	31,956	—	—

Fiscal 2013 (as of June 30, 2013)	200,000	21,697	—	—
-----------------------------------	---------	--------	---	---

S-71

---

Edgar Filing: PROSPECT CAPITAL CORP - Form 497

	Total Amount Outstanding(1)	Asset Coverage per Unit(2)	Involuntary Liquidating Preference per Unit(3)	Average Market Value per Unit(4)
<b>2019 Notes(13)(15)</b>				
Fiscal 2018 (as of March 31, 2018, unaudited)	\$ 200,000	\$ 28,767	—	—
Fiscal 2017 (as of June 30, 2017)	200,000	30,182	—	—
Fiscal 2016 (as of June 30, 2016)	200,000	30,717	—	—
Fiscal 2015 (as of June 30, 2015)	200,000	33,434	—	—
Fiscal 2014 (as of June 30, 2014)	200,000	31,956	—	—
Fiscal 2013 (as of June 30, 2013)	200,000	21,697	—	—
<b>5.00% 2019 Notes</b>				
Fiscal 2018 (as of March 31, 2018, unaudited)	\$ 300,000	\$ 19,178	—	—
Fiscal 2017 (as of June 30, 2017)	300,000	20,121	—	—
Fiscal 2016 (as of June 30, 2016)	300,000	20,478	—	—
Fiscal 2015 (as of June 30, 2015)	300,000	22,289	—	—
Fiscal 2014 (as of June 30, 2014)	300,000	21,304	—	—
<b>2020 Notes</b>				
Fiscal 2018 (as of March 31, 2018, unaudited)	\$ 392,000	\$ 14,677	—	—
Fiscal 2017 (as of June 30, 2017)	392,000	15,399	—	—
Fiscal 2016 (as of June 30, 2016)	392,000	15,672	—	—
Fiscal 2015 (as of June 30, 2015)	392,000	17,058	—	—
Fiscal 2014 (as of June 30, 2014)	400,000	15,978	—	—
<b>6.95% 2022 Notes(5)</b>				
Fiscal 2015 (as of June 30, 2015)	\$ —	N/A	—	—
Fiscal 2014 (as of June 30, 2014)	100,000	\$ 63,912	—	\$ 1,038
Fiscal 2013 (as of June 30, 2013)	100,000	43,395	—	1,036
Fiscal 2012 (as of June 30, 2012)	100,000	21,761	—	996
<b>2022 Notes(12)(15)</b>				
Fiscal 2018 (as of March 31, 2018, unaudited)	\$ 225,000	\$ 25,571	—	—
Fiscal 2017 (as of June 30, 2017)	225,000	26,828	—	—
<b>2023 Notes(10)</b>				
Fiscal 2018 (as of March 31, 2018, unaudited)	\$ 248,675	\$ 23,136	—	—
Fiscal 2017 (as of June 30, 2017)	248,507	24,291	—	—
Fiscal 2016 (as of June 30, 2016)	248,293	24,742	—	—
Fiscal 2015 (as of June 30, 2015)	248,094	26,953	—	—
Fiscal 2014 (as of June 30, 2014)	247,881	25,783	—	—
Fiscal 2013 (as of June 30, 2013)	247,725	17,517	—	—
<b>2024 Notes</b>				
Fiscal 2018 (as of March 31, 2018, unaudited)	\$ 199,281	\$ 28,871	—	\$ 1,034
Fiscal 2017 (as of June 30, 2017)	199,281	30,291	—	1,027
Fiscal 2016 (as of June 30, 2016)	161,364	38,072	—	951

## Prospect Capital InterNotes®

Fiscal 2018 (as of March 31, 2018, unaudited)	\$ 756,071	\$ 7,610	—	—
Fiscal 2017 (as of June 30, 2017)	980,494	6,156	—	—
Fiscal 2016 (as of June 30, 2016)	908,808	6,760	—	—
Fiscal 2015 (as of June 30, 2015)	827,442	8,081	—	—
Fiscal 2014 (as of June 30, 2014)	785,670	8,135	—	—
Fiscal 2013 (as of June 30, 2013)	363,777	11,929	—	—
Fiscal 2012 (as of June 30, 2012)	20,638	105,442	—	—

S-72

---



	Total Amount Outstanding(1)	Asset Coverage per Unit(2)	Involuntary Liquidating Preference per Unit(3)	Average Market Value per Unit(4)
All Senior Securities(10)(11)(15)				
Fiscal 2018 (as of March 31, 2018, unaudited)	\$ 2,407,027	\$ 2,390	—	—
Fiscal 2017 (as of June 30, 2017)	2,681,435	2,251	—	—
Fiscal 2016 (as of June 30, 2016)	2,707,465	2,269	—	—
Fiscal 2015 (as of June 30, 2015)	2,983,736	2,241	—	—
Fiscal 2014 (as of June 30, 2014)	2,773,051	2,305	—	—
Fiscal 2013 (as of June 30, 2013)	1,683,002	2,578	—	—
Fiscal 2012 (as of June 30, 2012)	664,138	3,277	—	—

- (1) Total amount of each class of senior securities outstanding at the end of the year/period presented (in 000's).  
The asset coverage ratio for a class of senior securities representing indebtedness is calculated as our consolidated total assets, less all liabilities and indebtedness not represented by senior securities, divided by senior securities representing indebtedness. This asset coverage ratio is multiplied by \$1,000 to determine the Asset Coverage Per Unit.
- (2) This column is inapplicable.
- (3) This column is inapplicable, except for the 6.95% 2022 Notes and the 2024 Notes. The average market value per unit is calculated as an average of quarter-end prices and shown as the market value per \$1,000 of indebtedness.
- (4) We redeemed the 6.95% 2022 Notes on May 15, 2015.
- (5) We repaid the outstanding principal amount of the 2015 Notes on December 15, 2015.
- (6) We repaid the outstanding principal amount of the 2016 Notes on August 15, 2016.
- (7) We repaid the outstanding principal amount of the 2017 Notes on October 15, 2017.
- (8) We repaid the outstanding principal amount of the 2018 Notes on March 15, 2018.
- (9) For the quarter ended March 31, 2018 and for all fiscal years ended June 30th, the notes are presented net of unamortized discount.
- (10) While we do not consider commitments to fund under revolving arrangements to be Senior Securities, if we were to elect to treat such unfunded commitments, which were \$19,675 as of March 31, 2018, as Senior Securities for purposes of Section 18 of the 1940 Act, our asset coverage per unit would be \$2,379.
- (11) On May 18, 2018, we issued \$103.5 million in aggregate principal amount of our 2022 Notes (including \$13.5 million in aggregate principal amount of 4.95% Convertible Notes due 2022 pursuant to the exercise in full by the underwriter of its over-allotment option).
- (12) On May 24, 2018, we repurchased \$98.4 million aggregate principal amount of our 2019 Notes.
- (13) As of May 30, 2018, we had \$139.0 million in outstanding borrowings under our credit facility.
- (14) If we were to consider the additional issuances, repurchases, and borrowings subsequent to March 31, 2018, our asset coverage per unit for the 2022 Notes, 2019 Notes, and Credit Facility would be \$17,691, \$57,200, \$41,810, respectively. The asset coverage per unit for all Senior Securities outstanding would be \$2,357 or \$2,347 including the effects of unfunded commitments.

## RATIO OF EARNINGS TO FIXED CHARGES

For the three and nine months ended March 31, 2018 and the years ended June 30, 2017, 2016, 2015, 2014, and 2013, the ratios of earnings to fixed charges of the Company, computed as set forth below, were as follows:

	For the three months ended March 31, 2018	For the nine months ended March 31, 2018	For the Year Ended June 30, 2017	For the Year Ended June 30, 2016	For the Year Ended June 30, 2015	For the Year Ended June 30, 2014	For the Year Ended June 30, 2013
Earnings to Fixed Charges(1)	2.38	2.57	2.53	1.63	3.04	3.45	3.89

For purposes of computing the ratios of earnings to fixed charges, earnings represent net increase in net assets resulting from operations plus (or minus) income tax expense including excise tax expense plus fixed charges. Fixed charges include interest and credit facility fees expense and amortization of debt issuance costs.

Earnings include the net change in unrealized appreciation or depreciation. Net change in unrealized appreciation or depreciation can vary substantially from year to year. Excluding the net change in unrealized appreciation or depreciation, the earnings to fixed charges ratio would be 2.49 for the three months ended March 31, 2018, 2.59 for (1) the nine months ended March 31, 2018, 2.22 for the year ended June 30, 2017, 3.08 for the year ended June 30, 2016, 2.06 for the year ended June 30, 2015, 3.72 for the year ended June 30, 2014, and 4.91 for the year ended June 30, 2013.

## UNDERWRITING

UBS Securities LLC, Morgan Stanley & Co. LLC and RBC Capital Markets, LLC are acting as representatives of each of the underwriters named below. Subject to the terms and conditions set forth in an underwriting agreement among us and the underwriters, we have agreed to sell to the underwriters, and each of the underwriters has agreed, severally and not jointly, to purchase from us, the aggregate principal amount of Notes set forth opposite its name below.

Underwriter	Principal Amount of Notes
UBS Securities LLC	\$13,667,000
Morgan Stanley & Co. LLC	13,666,500
RBC Capital Markets, LLC	13,666,500
Citigroup Global Markets Inc.	2,500,000
Ladenburg Thalmann & Co. Inc.	2,500,000
BB&T Capital Markets, a division of BB&T Securities, LLC	2,125,000
Incapital LLC	875,000
B. Riley FBR, Inc.	500,000
Maxim Group LLC	500,000
Total	\$50,000,000

Subject to the terms and conditions set forth in the underwriting agreement, the underwriters have agreed, severally and not jointly, to purchase all of the Notes sold under the underwriting agreement if any of these Notes are purchased. If an underwriter defaults, the underwriting agreement provides that the purchase commitments of the nondefaulting underwriters may be increased or the underwriting agreement may be terminated.

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

The underwriters are offering the Notes, subject to prior sale, when, as and if issued to and accepted by them, subject to approval of legal matters by counsel and other conditions contained in the underwriting agreement. The underwriters reserve the right to withdraw, cancel or modify offers to the public and to reject orders in whole or in part.

We expect that delivery of the Notes will be made against payment therefor on or about June 7, 2018, which will be the fifth business day following the date of the pricing of the Notes (such settlement being herein referred to as "T+5"). Under Rule 15c6-1 under the Securities Exchange Act of 1934, as amended, trades in the secondary market generally are required to settle in two business days, unless the parties to any such trade expressly agree otherwise. Accordingly, purchasers who wish to trade the Notes prior to the date of delivery hereunder will be required, by virtue of the fact that the Notes initially will settle in T+5 business days, to specify an alternate settlement arrangement at the time of any such trade to prevent a failed settlement.

## Commissions and Discounts

An underwriting discount of 3.15% per Note will be paid by us. This underwriting discount will also apply to any Notes purchased pursuant to the option to purchase up to an additional \$7.5 million in aggregate principal amount of Notes.

The following table shows the total underwriting discounts and commissions that we are to pay to the underwriters in connection with this offering. The information assumes either no exercise or full exercise by the underwriters of their option.

	Per Note	Total Without Option	Total With Option
Public offering price	\$25.00	\$50,000,000	\$57,500,000
Underwriting discount	\$0.7875	\$1,575,000	\$1,811,250
Proceeds, before expense, to us	\$24.2125	\$48,425,000	\$55,688,750

The underwriters propose to offer some of the Notes to the public at the public offering price set forth on the cover page of this prospectus supplement and some of the Notes to certain dealers at the public offering price less a concession not in

S-75

---

excess of 0.50% of the principal amount of the Notes. The underwriters may allow, and dealers may reallow, a concession not in excess of 0.45% of the principal amount of the Notes to certain other dealers. After the initial offering of the Notes to the public, the public offering price and such concessions may be changed. No such change shall change the amount of proceeds to be received by us as set forth on the cover page of this prospectus supplement. We estimate that our share of the total expenses of the offering, excluding the underwriting discount, will be approximately \$0.5 million.

#### Option

We have granted an option to the underwriters to purchase up to an additional \$7,500,000 total aggregate principal amount of Notes solely to cover over-allotments, if any, at the public offering price within 30 days from the date of this prospectus supplement. If the underwriters exercise this option, each will be obligated, subject to conditions contained in the underwriting agreement, to purchase a number of additional Notes proportionate to that underwriter's initial principal amount reflected in the above table.

#### Lock-Up Arrangement

We have agreed that during a period of 30 days from the date of this prospectus supplement, we will not, without the prior written consent of UBS Securities LLC, Morgan Stanley & Co. LLC and RBC Capital Markets, LLC, directly or indirectly, offer, pledge, sell, contract to sell, grant any option for the sale of, or otherwise transfer or dispose of, any senior unsecured debt securities issued or guaranteed by us or any securities convertible into or exercisable or exchangeable for senior unsecured debt securities issued or guaranteed by us or file any registration statement under the Securities Act with respect to any of the foregoing. The foregoing restriction shall not apply to the registration and sale of the Notes to be sold hereunder, to the issuance of, commencing the week of June 11, 2018, Prospect Capital InterNotes® pursuant to that certain Sixth Amended and Restated Selling Agent Agreement, dated as of November 10, 2016, between the Company, Prospect Capital Management, Prospect Administration and the agents named therein, the issuance of additional 2023 Notes or the issuance of any institutional notes not listed on an exchange.

#### Listing

The Notes are a new issue of securities with no established trading market. We intend to list the Notes on The New York Stock Exchange. If the application for the listing is approved, we expect trading in the Notes on The New York Stock Exchange to begin within 30 days after the original issue date. Currently there is no public market for the Notes. We have been advised by the underwriters that they presently intend to make a market in the Notes after completion of the offering as permitted by applicable laws and regulations. The underwriters are not obligated, however, to make a market in the Notes and any such market-making may be discontinued at any time in the sole discretion of the underwriters without any notice. Accordingly, no assurance can be given as to the liquidity of, or development of a public trading market for, the Notes. If an active public trading market for the Notes does not develop, the market price and liquidity of the Notes may be adversely affected.

#### Price Stabilization, Short Positions

In connection with the offering, the underwriters may purchase and sell Notes in the open market. These transactions may include over-allotment, covering transactions and stabilizing transactions. Over-allotment involves sales of securities in excess of the aggregate principal amount of securities to be purchased by the underwriters in the offering, which creates a short position for the underwriters. Covering transactions involve purchases of the securities in the open market after the distribution has been completed in order to cover short positions. Stabilizing transactions consist of certain bids or purchases of securities made for the purpose of preventing or retarding a decline in the market price of the securities while the offering is in progress.

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

Any of these activities may cause the price of the Notes to be higher than the price that otherwise would exist in the open market in the absence of such transactions. These transactions may be affected in the over-the-counter market or otherwise and, if commenced, may be discontinued at any time without any notice relating thereto.

#### Electronic Offer, Sale and Distribution of Notes

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

#### Other Relationships

The underwriters and certain of their affiliates are full service financial institutions engaged in various activities, which may include securities trading, commercial and investment banking, financial advisory, investment management, investment research, principal investment, hedging, financing and brokerage activities. The underwriters and certain of their affiliates have, from time to time, performed, and may in the future perform, various commercial and investment banking and financial advisory services for the issuer and its affiliates, for which they received or may in the future receive customary fees and expenses. In particular, affiliates of certain of the underwriters are lenders under our credit facility and may receive a portion of the net proceeds from the offering made pursuant to this prospectus supplement and the accompanying prospectus through the repayment of any borrowings.

In the ordinary course of its various business activities, the underwriters and certain of their affiliates may make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (including bank loans) for their own account and for the accounts of their customers, and such investment and securities activities may involve securities and/or instruments of the issuer or its affiliates. If the underwriters or their affiliates have a lending relationship with us, they routinely hedge their credit exposure to us consistent with their customary risk management policies. The underwriters and their affiliates may hedge such exposure by entering into transactions which consist of either the purchase of credit default swaps or the creation of short positions in our securities or the securities of our affiliates, including potentially the Notes offered hereby. Any such credit default swaps or short positions could adversely affect future trading prices of the Notes offered hereby. The underwriters and certain of their affiliates may also communicate independent investment recommendations, market color or trading ideas and/or publish or express independent research views in respect of such securities or instruments and may at any time hold, or recommend to clients that they acquire, long and/or short positions in such securities and instruments.

The principal business address of UBS Securities LLC is 1285 Avenue of the Americas, New York, New York 10019. The principal business address of Morgan Stanley & Co. LLC is 1585 Broadway, New York, New York 10036. The principal business address of RBC Capital Markets, LLC is Brookfield Place, 200 Vesey Street, 8th Floor, New York, New York.

#### Other Jurisdictions

Other than in the United States, no action has been taken by us or the underwriters that would permit a public offering of the Notes offered by this prospectus supplement and accompanying prospectus in any jurisdiction where action for that purpose is required. The Notes offered by this prospectus supplement and accompanying prospectus may not be offered or sold, directly or indirectly, nor may this prospectus supplement and accompanying prospectus or any other offering material or advertisements in connection with the offer and sale of any such Notes be distributed or published in any jurisdiction, except under circumstances that will result in compliance with the applicable rules and regulations of that jurisdiction. Persons into whose possession this prospectus supplement and accompanying prospectus comes are advised to inform themselves about and to observe any restriction relating to the offering and the distribution of this prospectus supplement and accompanying prospectus. This prospectus supplement and the accompanying prospectus do not constitute an offer to sell or a solicitation of an offer to buy the Notes offered by this prospectus supplement and the accompanying prospectus in any jurisdiction in which such an offer or a solicitation is unlawful.

#### Selling Restrictions

This prospectus supplement and accompanying prospectus do not constitute an offer to sell to, or a solicitation of an offer to buy from, anyone in any country or jurisdiction (i) in which such an offer or solicitation is not authorized, (ii) in which any person making such offer or solicitation is not qualified to do so or (iii) in which any such offer or solicitation would otherwise be unlawful. No action has been taken that would, or is intended to, permit a public offer of the Notes or possession or distribution of this prospectus supplement and accompanying prospectus or any other offering or publicity material relating to the Notes in any country or jurisdiction (other than the United States) where

any such action for that purpose is required. Accordingly, the underwriters have undertaken that they will not, directly or indirectly, offer or sell any Notes or have in its possession, distribute or publish any prospectus, form of application, advertisement or other document or information in any

S-77

---

country or jurisdiction except under circumstances that will, to the best of their knowledge and belief, result in compliance with any applicable laws and regulations and all offers and sales of Notes by the underwriters will be made on the same terms.

European Economic Area

The Notes are not intended to be offered, sold or otherwise made available to and should not be offered, sold or otherwise made available to any retail investor in the European Economic Area (“EEA”). For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client as defined in point (11) of Article 4(1) of Directive 2014/65/EU (as amended, “MiFID II”); or (ii) a customer within the meaning of Directive 2002/92/EC (as amended, the “Insurance Mediation Directive”), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II; or (iii) not a qualified investor as defined in Directive 2003/71/EC (as amended, the “Prospectus Directive”). Consequently no key information document required by Regulation (EU) No 1286/2014 (as amended, the “PRIIPs Regulation”) for offering or selling the Notes or otherwise making them available to retail investors in the EEA has been prepared and therefore offering or selling the Notes or otherwise making them available to any retail investor in the EEA may be unlawful under the PRIIPs Regulation. This prospectus supplement and accompanying prospectus has been prepared on the basis that any offer of the Notes in any Member State of the EEA will be made pursuant to an exemption under the Prospectus Directive from the requirement to publish a prospectus for offers of the Notes. This prospectus supplement and accompanying prospectus is not a prospectus for the purposes of the Prospectus Directive.



## LEGAL MATTERS

The legality of the Notes offered hereby will be passed upon for the Company by Jonathan Li, our Deputy General Counsel, Skadden, Arps, Slate, Meagher & Flom LLP (“Skadden, Arps”), New York, New York, and Venable LLP, as special Maryland counsel, Baltimore, Maryland, will pass on certain matters for the Company. Troutman Sanders LLP will pass on certain matters for the underwriters. Skadden, Arps and Venable LLP each have from time to time acted as counsel for us and our subsidiaries and may do so in the future.

## INDEPENDENT ACCOUNTING FIRMS

BDO USA, LLP is the independent Registered Public accounting firm of the Company and National Property REIT Corp. RSM US LLP is the independent registered public accounting firm of First Tower Finance Company LLC.

## AVAILABLE INFORMATION

We have filed with the SEC a registration statement on Form N-2, together with all amendments and related exhibits, under the Securities Act, with respect to the Notes offered by this prospectus supplement and accompanying prospectus. The registration statement contains additional information about us and the Notes being registered by this prospectus supplement and accompanying prospectus. 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 Exchange Act. This information and the information specifically regarding how we voted proxies relating to portfolio securities for the period ended June 30, 2017, are available free of charge by contacting us at 10 East 40<sup>th</sup> Street, 42<sup>nd</sup> floor, New York, NY 10016 or by telephone at toll-free (888) 748-0702. You may inspect and copy these reports, proxy statements and other information, as well as the registration statement and related exhibits and schedules, at the Public Reference Room of the SEC at 100 F Street NE, Washington, D.C. 20549. You may obtain information on the operation of the Public Reference Room by calling the SEC at (202) 551-8090. The SEC maintains an Internet site that contains reports, proxy and information statements and other information filed electronically by us with the SEC which are available on the SEC’s Internet site at <http://www.sec.gov>. Copies of these reports, proxy and information statements and other information may be obtained, after paying a duplicating fee, by electronic request at the following E-mail address: [publicinfo@sec.gov](mailto:publicinfo@sec.gov), or by writing the SEC’s Public Reference Section, Washington, D.C. 20549-0102.

No dealer, salesperson or other individual has been authorized to give any information or to make any representation other than those contained in this prospectus supplement and accompanying prospectus and, if given or made, such information or representations must not be relied upon as having been authorized by us or the underwriters. This prospectus supplement does not constitute an offer to sell or a solicitation of an offer to buy any securities in any jurisdiction in which such an offer or solicitation is not authorized or in which the person making such offer or solicitation is not qualified to do so, or to any person to whom it is unlawful to make such offer or solicitation. Neither the delivery of this prospectus supplement and accompanying prospectus nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in our affairs or that information contained herein is correct as of any time subsequent to the date hereof.

INDEX TO FINANCIAL STATEMENTS

Financial Statements

<u>Consolidated Statements of Assets and Liabilities as of March 31, 2018 (Unaudited) and June 30, 2017 (Audited)</u>	<u>F-2</u>
<u>Consolidated Statements of Operations for the three and nine months ended March 31, 2018 and 2017 (Unaudited)</u>	<u>F-3</u>
<u>Consolidated Statements of Changes in Net Assets for the three and nine months ended March 31, 2018 and 2017 (Unaudited)</u>	<u>F-5</u>
<u>Consolidated Statements of Cash Flows for the three and nine months ended March 31, 2018 and 2017 (Unaudited)</u>	<u>F-6</u>
<u>Consolidated Schedules of Investments as of March 31, 2018 (Unaudited) and June 30, 2017 (Audited)</u>	<u>F-7</u>
<u>Notes to Consolidated Financial Statements (Unaudited)</u>	<u>F-51</u>

F-1

---

PROSPECT CAPITAL CORPORATION AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF ASSETS AND LIABILITIES

(in thousands, except share and per share data)

	March 31, 2018 (Unaudited)	June 30, 2017 (Audited)
Assets		
Investments at fair value:		
Control investments (amortized cost of \$1,857,698 and \$1,840,731, respectively)	\$1,986,984	\$1,911,775
Affiliate investments (amortized cost of \$55,482 and \$22,957, respectively)	52,288	11,429
Non-control/non-affiliate investments (amortized cost of \$3,951,787 and \$4,117,868, respectively)	3,680,532	3,915,101
Total investments at fair value (amortized cost of \$5,864,967 and \$5,981,556, respectively)	5,719,804	5,838,305
Cash	97,563	318,083
Receivables for:		
Interest, net	29,511	9,559
Other	836	924
Prepaid expenses	566	1,125
Due from Broker	—	—
Due from Prospect Capital Management (Note 13)	60	—
Due from Affiliate (Note 13)	88	14
Deferred financing costs on Revolving Credit Facility (Note 4)	2,717	4,779
Total Assets	5,851,145	6,172,789
Liabilities		
Revolving Credit Facility (Notes 4 and 8)	86,000	—
Convertible Notes (less unamortized debt issuance costs of \$11,908 and \$15,512, respectively) (Notes 5 and 8)	805,092	937,641
Prospect Capital InterNotes® (less unamortized debt issuance costs of \$12,342 and \$14,240, respectively) (Notes 7 and 8)	743,729	966,254
Public Notes (less unamortized discount and debt issuance costs of \$9,445 and \$10,981, respectively) (Notes 6 and 8)	739,836	738,300
Due to Prospect Capital Management (Note 13)	47,009	48,249
Interest payable	29,588	38,630
Due to Broker	24,457	50,371
Dividends payable	21,759	30,005
Due to Prospect Administration (Note 13)	2,148	1,910
Accrued expenses	4,320	4,380
Other liabilities	811	2,097
Total Liabilities	2,504,749	2,817,837
Commitments and Contingencies (Note 3)	—	—
Net Assets	\$3,346,396	\$3,354,952
Components of Net Assets		
Common stock, par value \$0.001 per share (1,000,000,000 common shares authorized; 362,657,362 and 360,076,933 issued and outstanding, respectively) (Note 9)	\$363	\$360
Paid-in capital in excess of par (Note 9)	4,009,704	3,991,317
Accumulated overdistributed net investment income	(59,174 )	(54,039 )
Accumulated net realized loss	(459,334 )	(439,435 )

Net unrealized loss	(145,163 )	(143,251 )
Net Assets	\$3,346,396	\$3,354,952
Net Asset Value Per Share (Note 16)	\$9.23	\$9.32

See notes to consolidated financial statements.

F-2

---

PROSPECT CAPITAL CORPORATION AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF OPERATIONS  
(in thousands, except share and per share data)  
(Unaudited)

	Three Months Ended March 31,		Nine Months Ended March 31,	
	2018	2017	2018	2017
Investment Income				
Interest income:				
Control investments	\$45,944	\$41,353	\$139,392	\$135,543
Affiliate investments	271	—	476	—
Non-control/non-affiliate investments	68,376	83,794	216,639	257,919
Structured credit securities	31,271	36,564	90,822	114,690
Total interest income	145,862	161,711	447,329	508,152
Dividend income:				
Control investments	5,639	728	5,639	4,250
Non-control/non-affiliate investments	648	89	1,518	330
Total dividend income	6,287	817	7,157	4,580
Other income:				
Control investments	6,188	2,953	12,317	9,749
Non-control/non-affiliate investments	4,498	5,551	17,011	11,863
Total other income (Note 10)	10,686	8,504	29,328	21,612
Total Investment Income	162,835	171,032	483,814	534,344
Operating Expenses				
Base management fee (Note 13)	29,268	30,549	88,990	92,227
Income incentive fee (Note 13)	17,612	18,270	51,843	59,101
Interest and credit facility expenses	37,479	41,464	117,861	123,981
Allocation of overhead from Prospect Administration (Note 13)	3,195	3,581	5,899	9,771
Audit, compliance and tax related fees	1,130	1,223	4,084	3,676
Directors' fees	113	113	338	338
Excise tax	—	—	—	(1,100 )
Other general and administrative expenses	3,592	2,752	7,429	9,946
Total Operating Expenses	92,389	97,952	276,444	297,940
Net Investment Income	70,446	73,080	207,370	236,404
Net Realized and Net Change in Unrealized Gains (Losses) from Investments				
Net realized gains (losses)				
Control investments	2	1	13	184
Affiliate investments	(14,197 )	—	(13,351 )	137
Non-control/non-affiliate investments	(23 )	177	(5,116 )	489
Net realized (losses) gains	(14,218 )	178	(18,454 )	810
Net change in unrealized gains (losses)				
Control investments	1,380	(33,235 )	46,898	(30,937 )
Affiliate investments	12,952	(581 )	19,678	(1,854 )
Non-control/non-affiliate investments	(18,188 )	(19,930 )	(68,488 )	(2,480 )
Net change in unrealized gains (losses)	(3,856 )	(53,746 )	(1,912 )	(35,271 )
Net Realized and Net Change in Unrealized Gains (Losses) from Investments	(18,074 )	(53,568 )	(20,366 )	(34,461 )
Net realized losses on extinguishment of debt	(513 )	(20 )	(1,445 )	(205 )

Edgar Filing: PROSPECT CAPITAL CORP - Form 497

Net Increase in Net Assets Resulting from Operations	\$51,859	\$19,492	\$185,559	\$201,738
--	----------	----------	-----------	-----------

See notes to consolidated financial statements.

F-3

---

PROSPECT CAPITAL CORPORATION AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF OPERATIONS  
(in thousands, except share and per share data)  
(Unaudited)

Net increase in net assets resulting from operations per share	\$0.14	\$0.05	\$0.51	\$0.56
Dividends declared per share	\$(0.18)	\$(0.25)	\$(0.59)	\$(0.75)

See notes to consolidated financial statements.

F-4

---

PROSPECT CAPITAL CORPORATION AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS

(in thousands, except share data)

(Unaudited)

	Nine Months Ended March 31,	
	2018	2017
<b>Operations</b>		
Net investment income	\$207,370	\$236,404
Net realized (losses) gains	(19,899 )	605
Net change in net unrealized losses	(1,912 )	(35,271 )
Net Increase in Net Assets Resulting from Operations	185,559	201,738
<b>Distributions to Shareholders</b>		
Distribution from net investment income	(211,733 )	(268,989 )
Net Decrease in Net Assets Resulting from Distributions to Shareholders	(211,733 )	(268,989 )
<b>Common Stock Transactions</b>		
Value of shares issued through reinvestment of dividends	17,618	23,502
Net Increase in Net Assets Resulting from Common Stock Transactions	17,618	23,502
Total Decrease in Net Assets	(8,556 )	(43,749 )
Net assets at beginning of period	3,354,952	3,435,917
Net Assets at End of Period (Accumulated Overdistributed Net Investment Income of \$59,174 and \$33,719, respectively)	\$3,346,396	\$3,392,168
<b>Common Stock Activity</b>		
Shares issued through reinvestment of dividends	2,580,429	2,778,472
Shares issued and outstanding at beginning of period	360,076,933	357,107,231
Shares Issued and Outstanding at End of Period	362,657,362	359,885,703

See notes to consolidated financial statements.

F-5

---



PROSPECT CAPITAL CORPORATION AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
(in thousands, except share data)  
(Unaudited)

	Nine Months Ended March 31,	
	2018	2017
<b>Operating Activities</b>		
Net increase in net assets resulting from operations	\$ 185,559	\$ 201,738
Net realized losses on extinguishment of debt	1,445	205
Net realized losses (gains) on investments	18,454	(810 )
Net change in net unrealized (gains) losses on investments	1,912	35,271
Amortization of discounts and (accretion of premiums), net	17,706	42,937
Accretion of discount on Public Notes (Note 6)	212	200
Amortization of deferred financing costs	9,168	10,128
Payment-in-kind interest	(6,128 )	(14,326 )
Structuring fees	(9,135 )	(11,674 )
Change in operating assets and liabilities:		
Payments for purchases of investments	(1,375,555 )	(1,240,294 )
Proceeds from sale of investments and collection of investment principal	1,471,247	1,061,839
Decrease in due to Broker	(25,914 )	(957 )
Decrease in due to Prospect Capital Management	(1,240 )	(5,051 )
(Increase) decrease in interest receivable, net	(19,952 )	1,872
Decrease in interest payable	(9,042 )	(7,041 )
(Decrease) increase in accrued expenses	(60 )	2,033
Decrease in other liabilities	(1,286 )	(1,615 )
Decrease in other receivables	88	68
Increase in due from Prospect Administration	(60 )	—
Increase in due from affiliate	(74 )	—
Decrease in prepaid expenses	559	139
Increase in due to Prospect Administration	238	82
<b>Net Cash Provided by Operating Activities</b>	<b>258,142</b>	<b>74,744</b>
<b>Financing Activities</b>		
Borrowings under Revolving Credit Facility (Note 4)	427,000	557,000
Principal payments under Revolving Credit Facility (Note 4)	(341,000 )	(557,000 )
Issuances of Public Notes, net of original issue discount (Note 6)	—	37,466
Redemptions of Convertible Notes (Note 5)	(136,153 )	(167,500 )
Issuances of Prospect Capital InterNotes® (Note 7)	69,428	109,221
Redemptions of Prospect Capital InterNotes®, net (Note 7)	(293,851 )	(12,170 )
Financing costs paid and deferred	(1,724 )	(2,500 )
Dividends paid	(202,362 )	(245,255 )
<b>Net Cash Used in Financing Activities</b>	<b>(478,662 )</b>	<b>(280,738 )</b>
Net Decrease in Cash	(220,520 )	(205,994 )
Cash at beginning of period	318,083	317,798
Cash at End of Period	\$ 97,563	\$ 111,804
<b>Supplemental Disclosures</b>		
Cash paid for interest	\$ 117,523	\$ 120,694
<b>Non-Cash Financing Activities</b>		
Value of shares issued through reinvestment of dividends	\$ 17,618	\$ 23,502

Cost basis of investments written off as worthless	\$20,235	\$2,535
--	----------	---------

See notes to consolidated financial statements.

F-6

---

PROSPECT CAPITAL CORPORATION AND SUBSIDIARIES  
CONSOLIDATED SCHEDULES OF INVESTMENTS  
(in thousands, except share data)

Portfolio Company	Locale / Industry	Investments(1)(44)(47)	March 31, 2018 (Unaudited)		
			Principally Vested	Fair Value(2)	% of Net Assets
<b>LEVEL 3 PORTFOLIO INVESTMENTS</b>					
Control Investments (greater than 25.00% voting control)(47)					
Arctic Energy Services, LLC(37)	Wyoming / Energy Equipment & Services	Class D Units (12.00%, 32,915 units)(16)	\$31,640	\$27,017	0.8%
		Class E Units (14.00%, 21,080 units)(16)	—23,800	—	—%
		Class A Units (14.00%, 700 units)(16)	—9,006	—	—%
		Class C Units (10 units)(16)	—	—	—%
CCPI Inc.(19)	Ohio / Electronic Equipment, Instruments & Components	Senior Secured Term Loan A (10.00%, due 12/31/2020)(3)	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	0.5%
		Common Stock (14,857 shares)	—6,759	15,557	0.5%
			27,459	36,257	1.1%
CP Energy Services Inc.(20)	Oklahoma / Energy Equipment & Services	Senior Secured Term Loan (12.69% (LIBOR + 11.00% with 1.00% LIBOR floor), due 12/29/2022)(11)	35,048	35,048	1.0%
		Series B Convertible Preferred Stock (16.00%, 790 shares)(16)	—63,225	55,135	1.7%
		Common Stock (2,924 shares)(16)	—15,227	—	—%
Credit Central Loan Company, LLC(21)	South Carolina / Consumer Finance	Subordinated Term Loan (20.00% (10.00% plus 10.00% PIK, due 6/26/2019)(14)(46)	51,855	51,855	1.5%
		Class A Units (10,640,642 units)(14)(16)	—13,731	22,353	0.7%
		Net Revenues Interest (25% of Net Revenues)(14)(16)	—	2,249	0.1%
			60,519	76,457	2.3%
Echelon Transportation, LLC (f/k/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	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	0.5%
		Membership Interest (100%)(16)	—22,738	32,202	1.0%

Edgar Filing: PROSPECT CAPITAL CORP - Form 497

			69,837	79,301	2.4%
First Tower Finance Company LLC(23)	Mississippi / Consumer Finance	Subordinated Term Loan to First Tower, LLC (10.00% plus 7.00% PIK, due 6/24/2019)(14)(46)	<del>272,170</del>	272,170	8.1%
		Class A Units (95,709,910 units)(14)(16)	-81,146	162,981	4.9%
			353,316	435,151	13.0%
Freedom Marine Solutions, LLC(24)	Louisiana / Energy Equipment & Services	Membership Interest (100%)(16)	-43,292	13,188	0.4%
			43,292	13,188	0.4%
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)	<del>26,250</del>	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)	<del>24,442</del>	24,442	0.7%
		Subordinated Unsecured Note to Broda Enterprises ULC (10.00%, due on demand)(14)	5,716	5,716	0.2%
		Common Stock (42,053 shares)(16)	-6,849	5,715	0.2%
			64,741	62,123	1.9%

See notes to consolidated financial statements.

F-7

PROSPECT CAPITAL CORPORATION AND SUBSIDIARIES  
CONSOLIDATED SCHEDULES OF INVESTMENTS (CONTINUED)  
(in thousands, except share data)

Portfolio Company	Locale / Industry Investments(1)(44)(47)	March 31, 2018 (Unaudited)			% of Net Assets	
		Principal Value	Amortized Cost	Fair Value(2)		
<b>LEVEL 3 PORTFOLIO INVESTMENTS</b>						
Control Investments (greater than 25.00% voting control)(47)						
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)(11)(46)	\$293,203	\$293,203	\$293,203	8.8%
		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)	276,549	276,549	276,549	8.2%
		Common Stock (2,748,812 shares)	—	257,527	369,123	11.0%
		Net Operating Income Interest (5% of Net Operating Income)	—	—	92,275	2.8%
				827,279	1,031,150	30.8%
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	13,580	0.4%
				39,372	30,990	0.9%
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)	6,900	6,900	6,900	0.2%
		Series A Preferred Stock (7,200 shares)(16)	—	7,200	5,503	0.2%
		Series B Preferred Stock (5,669 shares)(16)	—	5,669	4,332	0.1%
				23,483	20,449	0.6%
R-V Industries, Inc.	Pennsylvania / Machinery	Senior Subordinated Note (11.31% (LIBOR + 9.00% with 1.00% LIBOR floor), due 3/31/2022)(3)(11)	28,622	28,622	28,622	0.8%
		Common Stock (745,107 shares)(16)	—	6,866	2,403	0.1%
				35,488	31,025	0.9%
		—	—	1,011	—%	

Edgar Filing: PROSPECT CAPITAL CORP - Form 497

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)	—	—	—	—%
		Common Stock (100 shares)(16)	—	—	1,011	—%
		Senior Secured Term Loan A (9.00% PIK, in non-accrual status effective 4/1/2016, due 7/22/2020)	36,127	31,601	9,672	0.3%
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)	46,019	35,568	—	—%
		Common Stock (268,962 shares)(16)	—	—	—	—%
				67,169	9,672	0.3%
		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)	27,292	27,292	27,292	0.8%
		Common Stock (50,000 shares)(16)	—	26,204	4,740	0.2%
				63,926	42,462	1.3%
		Membership Interest (100%)(16)	—	—	—	—%
Wolf Energy, LLC(32)	Kansas / Energy Equipment & Services	Membership Interest in Wolf Energy Services Company, LLC (100%)(16)	—	3,871	537	—%
		Net Profits Interest (8% of Equity Distributions)(4)(16)	—	—	11	—%
				3,871	548	—%
Total Control Investments (Level 3)				\$ 1,857,698	\$ 1,986,984	59.4%

See notes to consolidated financial statements.

F-8

Affiliate Investments (5.00% to 24.99% voting control)(48)

		Second Lien Revolving Credit Facility to Edmentum, Inc. – \$7,834 Commitment (5.00% PIK, 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)	7,365	7,365	7,365	0.2%
		Unsecured Junior PIK Note (10.00% PIK, in non-accrual status effective 1/1/2017, due 12/9/2021)	34,377	23,828	17,728	0.5%
		Class A Units (370,964 units)(16)	—	6,577	—	—%
				45,604	32,927	0.9%
Nixon, Inc.(39)	California / Textiles, Apparel & Luxury Goods	Common Stock (857 units)(16)	—	—	—	—%
					—	—%
Targus Cayman HoldCo Limited(33)	California / Textiles, Apparel & Luxury Goods	Common Stock (7,383,395 shares)(16)	—	9,878	19,361	0.6%
				9,878	19,361	0.6%
Total Affiliate Investments (Level 3)				\$55,482	\$52,288	1.5%

See notes to consolidated financial statements.

F-9

PROSPECT CAPITAL CORPORATION AND SUBSIDIARIES  
CONSOLIDATED SCHEDULES OF INVESTMENTS (CONTINUED)  
(in thousands, except share data)

Portfolio Company	Locale / Industry	Investments(1)(44)	March 31, 2018 (Unaudited)			
			Principal Value	Amortized Cost	Fair Value(2)	% of Net Assets
<b>LEVEL 3 PORTFOLIO INVESTMENTS</b>						
Non-Control/Non-Affiliate Investments (less than 5.00% voting control)						
Ability Network Inc.	Minnesota / Health Care Technology	Second Lien Term Loan (9.54% (LIBOR + 7.75% with 0.00% LIBOR floor), due 12/13/2025)(8)(13)	\$ 15,000	\$ 14,928	\$ 15,300	0.5%
				14,928	15,300	0.5%
ACE Cash Express, Inc.	Texas / Consumer Finance	Senior Secured Note (12.00%, due 12/15/2022)(8)(14)	20,000	19,717	22,400	0.7%
				19,717	22,400	0.7%
AgaMatrix, Inc.	New Hampshire / Healthcare Equipment and Supplies	Senior Secured Term Loan (11.06% (LIBOR + 8.75% with 1.25% LIBOR floor), due 9/29/2022)(3)(11)	31,250	31,250	31,250	0.9%
				31,250	31,250	0.9%
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	74	—%
				21	74	—%
Apidos CLO XI	Cayman Islands / Structured Finance	Subordinated Notes (Residual Interest, current yield 8.54%, due 10/17/2028)(5)(14)	40,500	31,872	25,091	0.8%
				31,872	25,091	0.8%
Apidos CLO XII	Cayman Islands / Structured Finance	Subordinated Notes (Residual Interest, current yield 16.49%, due 4/15/2031)(5)(14)	52,203	33,708	26,824	0.8%
				33,708	26,824	0.8%
Apidos CLO XV	Cayman Islands / Structured Finance	Subordinated Notes (Residual Interest, current yield 13.56%, due 4/20/2031)(5)(14)	48,515	35,161	27,452	0.8%
				35,161	27,452	0.8%
Apidos CLO XXII	Cayman Islands / Structured Finance	Subordinated Notes (Residual Interest, current yield 14.40%, due 10/20/2027)(5)(6)(14)	31,350	27,638	25,150	0.8%
				27,638	25,150	0.8%
Ark-La-Tex Wireline Services, LLC	Louisiana / Energy Equipment & Services	Senior Secured Term Loan B (14.50% (LIBOR + 13.50% with 1.00% LIBOR floor), in non-accrual status effective 4/1/2016, due 4/8/2019)(13)	25,595	1,145	787	—%



Edgar Filing: PROSPECT CAPITAL CORP - Form 497

			1,145	787	—%	
Armor Holding II LLC	New York / Commercial Services & Supplies	Second Lien Term Loan (11.30% (LIBOR + 9.00% with 1.25% LIBOR floor), due 12/26/2020)(3)(8)(11)	7,000	6,943	7,000	0.2%
			6,943	7,000	0.2%	
Atlantis Health Care Group (Puerto Rico), Inc.	Puerto Rico / Health Care Providers & Services	Revolving Line of Credit – \$7,000 Commitment (10.19% (LIBOR + 8.50% with 1.50% LIBOR floor), due 8/21/2019)(11)(15)	7,000	7,000	6,934	0.2%
		Senior Term Loan (10.19% (LIBOR + 8.50% with 1.50% LIBOR floor), due 2/21/2020)(3)(11)	78,949	78,949	78,200	2.3%

See notes to consolidated financial statements.

F-10

---

PROSPECT CAPITAL CORPORATION AND SUBSIDIARIES  
CONSOLIDATED SCHEDULES OF INVESTMENTS (CONTINUED)  
(in thousands, except share data)

Portfolio Company	Locale / Industry	Investments(1)(44)	March 31, 2018 (Unaudited)			
			Principal Value	Amortized Cost	Fair Value(2)	% of Net Assets
<b>LEVEL 3 PORTFOLIO INVESTMENTS</b>						
Non-Control/Non-Affiliate Investments (less than 5.00% voting control)						
			85,949	85,134	2.5%	
ATS Consolidated, Inc.	Arizona / Electronic Equipment, Instruments & Components	Second Lien Term Loan (9.40% (LIBOR + 7.75%, due 2/27/2026)(8)(13)	15,000	14,851	14,866	0.4%
			14,851	14,866	0.4%	
Autodata, Inc./ Autodata Solutions, Inc.(9)	Canada / Software	Second Lien Term Loan (9.01% (LIBOR + 7.25% with 1.00% LIBOR floor), due 12/14/2025)(8)(13)	6,000	5,971	5,971	0.2%
			5,971	5,971	0.2%	
Babson CLO Ltd. 2014-III	Cayman Islands / Structured Finance	Subordinated Notes (Residual Interest, current yield 12.43%, due 1/15/2026)(5)(6)(14)	\$52,250	\$40,709	\$34,638	1.0%
			40,709	34,638	1.0%	

See notes to consolidated financial statements.

F-11

PROSPECT CAPITAL CORPORATION AND SUBSIDIARIES  
CONSOLIDATED SCHEDULES OF INVESTMENTS (CONTINUED)  
(in thousands, except share data)

Portfolio Company	Locale / Industry	Investments(1)(44)	March 31, 2018 (Unaudited)	
			Amortized Cost Value	% of Net Assets
<b>LEVEL 3 PORTFOLIO INVESTMENTS</b>				
Non-Control/Non-Affiliate Investments (less than 5.00% voting control)				
Broder Bros., Co.	Pennsylvania / Textiles, Apparel & Luxury Goods	Senior Secured Note (10.31% (LIBOR + 8.00% with 1.25% LIBOR floor), due 12/02/2022)(3)(11)	455,400	3.6%
			455,400	3.6%
Brookside Mill CLO Ltd.	Cayman Islands / Structured Finance	Subordinated Notes (Residual Interest, current yield 10.50%, due 1/18/2028)(5)(14)	38,800	3.4%
			18,873	3.4%
California Street CLO IX Ltd. (f/k/a Symphony CLO IX Ltd.)	Cayman Islands / Structured Finance	Preference Shares (Residual Interest, current yield 14.21%, due 10/16/2028)(5)(14)	48,236	4.1%
			41,236	4.1%
Candle-Lite Company, LLC	Ohio / Household & Personal Products	Senior Secured Term Loan A (7.48% (LIBOR + 5.50% with 1.25% LIBOR floor), due 1/23/2023)(3)(11)	12,500	0.4%
		Senior Secured Term Loan B (11.48% (LIBOR + 9.50% with 1.25% LIBOR floor), due 1/23/2023)(3)(11)	12,500	0.4%
			25,000	0.8%
Capstone Logistics Acquisition, Inc.	Georgia / Commercial Services & Supplies	Second Lien Term Loan (10.13% (LIBOR + 8.25% with 1.00% LIBOR floor), due 10/7/2022)(3)(8)(13)	101,359	9.0%
			101,359	9.0%
Carlyle Global Market Strategies CLO 2014-4, Ltd.	Cayman Islands / Structured Finance	Subordinated Notes (Residual Interest, current yield 21.22%, due 10/15/2026)(5)(6)(14)	20,031	0.6%
			20,031	0.6%
Carlyle Global Market Strategies CLO 2016-3, Ltd.	Cayman Islands / Structured Finance	Subordinated Notes (Residual Interest, current yield 16.87%, due 10/20/2029)(5)(6)(14)	32,106	2.9%
			32,146	2.9%
Cent CLO 17 Limited	Cayman Islands / Structured Finance	Subordinated Notes (Residual Interest, current yield 0.00%, due 1/30/2025)(5)(14)(17)	17,644	0.5%
			17,644	0.5%
Cent CLO 20 Limited	Cayman Islands / Structured Finance	Subordinated Notes (Residual Interest, current yield 15.78%, due 1/25/2026)(5)(14)	30,875	10.9%

			31,811	28,4710.9%
Cent CLO 21 Limited	Cayman Islands / Structured Finance	Subordinated Notes (Residual Interest, current yield 19.00%, due 7/27/2026)(5)(6)(14)	<del>48,588</del>	34,1661.0%
			36,585	34,1661.0%

See notes to consolidated financial statements.

F-12

---

PROSPECT CAPITAL CORPORATION AND SUBSIDIARIES  
 CONSOLIDATED SCHEDULES OF INVESTMENTS (CONTINUED)  
 (in thousands, except share data)

Portfolio Company	Locale / Industry	Investments(1)(44)	March 31, 2018 (Unaudited)	
			Principal Value	Fair Value % of Net Assets
<b>LEVEL 3 PORTFOLIO INVESTMENTS</b>				
Non-Control/Non-Affiliate Investments (less than 5.00% voting control)				
Centerfield Media Holding Company(35)	California / Internet Software and Services	Senior Secured Term Loan A (8.69% (LIBOR + 7.00% with 1.00% LIBOR floor), due 1/17/2022)(3)(8)(11)	66,640	66,6402.0%
		Senior Secured Term Loan B (14.19% (LIBOR + 12.50% with 1.00% LIBOR floor), due 1/17/2022)(8)(11)	68,000	68,0002.0%
			134,640	134,640.0%
CIFC Funding 2013-III-R, Ltd. (f/k/a CIFC Funding 2013-III, Ltd.)	Cayman Islands / Structured Finance	Subordinated Notes (Residual Interest, current yield 12.89%, due 4/24/2031)(5)(14)	<del>29,946</del>	25,8530.8%
			29,946	25,8530.8%

See notes to consolidated financial statements.

F-13

---

PROSPECT CAPITAL CORPORATION AND SUBSIDIARIES  
CONSOLIDATED SCHEDULES OF INVESTMENTS (CONTINUED)  
(in thousands, except share data)

Portfolio Company	Locale / Industry	Investments(1)(44)	March 31, 2018 (Unaudited)			
			Principal Value	Amortized Cost	Fair Value(2)	% of Net Assets
<b>LEVEL 3 PORTFOLIO INVESTMENTS</b>						
Non-Control/Non-Affiliate Investments (less than 5.00% voting control)						
CIFC Funding 2013-IV, Ltd.	Cayman Islands / Structured Finance	Subordinated Notes (Residual Interest, current yield 8.34%, due 11/27/2024)(5)(14)	\$45,500	\$ 31,530	\$ 28,084	0.8%
				31,530	28,084	0.8%
CIFC Funding 2014-IV Investor, Ltd.	Cayman Islands / Structured Finance	Income Notes (Residual Interest, current yield 7.39%, due 10/17/2026)(5)(6)(14)	41,500	28,832	23,982	0.7%
				28,832	23,982	0.7%
CIFC Funding 2016-I, Ltd.	Cayman Islands / Structured Finance	Income Notes (Residual Interest, current yield 12.61%, due 10/21/2028)(5)(6)(14)	34,000	31,268	28,106	0.8%
				31,268	28,106	0.8%
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)	39,710	39,660	39,710	1.2%
				39,660	39,710	1.2%
Class Appraisal, LLC	Michigan / Real Estate Management & Development	Revolving Line of Credit – \$1,500 Commitment (5%, due 3/12/2020)(11)(15)	—	—	—	—%
		Senior Secured Term Loan (10.56% (LIBOR + 8.25% with 1.50% LIBOR floor), due 3/10/2023)(11)	42,000	42,000	42,000	1.3%
				42,000	42,000	1.3%
Coverall North America, Inc.	Florida / Commercial Services & Supplies	Senior Secured Term Loan A (7.69% (LIBOR + 6.00% with 1.00% LIBOR floor), due 11/02/2020)(3)(11)	21,720	21,720	21,720	0.7%
		Senior Secured Term Loan B (12.69% (LIBOR + 11.00% with 1.00% LIBOR floor), due 11/02/2020)(3)(11)	24,875	24,875	24,875	0.8%
				46,595	46,595	1.5%
CP VI Bella Midco	Pennsylvania / IT Services	Second Lien Term Loan (8.63% (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	10,833	10,896	0.3%

Edgar Filing: PROSPECT CAPITAL CORP - Form 497

			10,833	10,896	0.3%
Digital Room, LLC	California / Commercial Services & Supplies	First Lien Term Loan (6.88% (LIBOR + 5.00% with 1.00% LIBOR floor), due 12/29/2023)(8)(13)	9,975	9,878	0.3%
		Second Lien Term Loan (10.63% (LIBOR + 8.75% with 1.00% LIBOR floor), due 12/29/2024)(3)(8)(13)	57,100	56,264	1.7%
			66,142	66,142	2.0%
Dunn Paper, Inc.	Georgia / Paper & Forest Products	Second Lien Term Loan (10.63% (LIBOR + 8.75% with 1.00% LIBOR floor), due 8/26/2023)(3)(8)(13)	11,500	11,320	0.3%
			11,320	11,500	0.3%
Easy Gardener Products, Inc.	Texas / Household Durables	Senior Secured Term Loan (11.69% (LIBOR + 10.00% with 0.25% LIBOR floor), due 09/30/2020)(3)(11)	17,106	17,106	0.5%
			17,106	16,155	0.5%

See notes to consolidated financial statements.

F-14

PROSPECT CAPITAL CORPORATION AND SUBSIDIARIES  
 CONSOLIDATED SCHEDULES OF INVESTMENTS (CONTINUED)  
 (in thousands, except share data)

			March 31, 2018 (Unaudited)		
Portfolio Company	Locale / Industry	Investments(1)(44)	<del>Principal</del> Value	<del>Fair</del> Value	% of Net Assets
<b>LEVEL 3 PORTFOLIO INVESTMENTS</b>					
Non-Control/Non-Affiliate Investments (less than 5.00% voting control)					
Engine Group, Inc.(7)	California / Media	Senior Secured Term Loan (7.05% (LIBOR + 4.75% with 1.00% LIBOR floor), due 9/15/2022)(8)(11)	4,875	4,875	0.2%
		Second Lien Term Loan (11.05% (LIBOR + 8.75% with 1.00% LIBOR floor), due 9/15/2023)(3)(8)(11)	35,000	35,000	1.0%
			39,875	39,875	1.2%

See notes to consolidated financial statements.

F-15

---



PROSPECT CAPITAL CORPORATION AND SUBSIDIARIES  
CONSOLIDATED SCHEDULES OF INVESTMENTS (CONTINUED)  
(in thousands, except share data)

Portfolio Company	Locale / Industry	Investments(1)(44)	March 31, 2018 (Unaudited)			
			Principal Value	Amortized Cost	Fair Value(2)	% of Net Assets
<b>LEVEL 3 PORTFOLIO INVESTMENTS</b>						
Non-Control/Non-Affiliate Investments (less than 5.00% voting control)						
EXC Holdings III Corp.	Massachusetts / Technology Hardware, Storage & Peripherals	Second Lien Term Loan (9.71% (LIBOR + 7.50% with 1.00% LIBOR floor), due 12/01/2025)(8)(10)	\$12,500	\$12,380	\$12,500	0.4%
				12,380	12,500	0.4%
Fleetwash, Inc.	New Jersey / Commercial Services & Supplies	Senior Secured Term Loan B (10.69% (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 (9.84% (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 11.81%, due 10/15/2030)(5)(14)	50,525	34,430	30,734	0.9%
				34,430	30,734	0.9%
Galaxy XVI CLO, Ltd.	Cayman Islands / Structured Finance	Subordinated Notes (Residual Interest, current yield 4.64%, due 11/16/2025)(5)(14)	24,575	16,933	13,965	0.4%
				16,933	13,965	0.4%
Galaxy XVII CLO, Ltd.	Cayman Islands / Structured Finance	Subordinated Notes (Residual Interest, current yield 5.40%, due 7/15/2026)(5)(6)(14)	39,905	27,977	22,618	0.7%
				27,977	22,618	0.7%
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	3,955	4,680	0.1%
				3,955	4,680	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	23,045	16,134	0.5%
				23,045	16,134	0.5%
Halcyon Loan Advisors Funding 2014-1 Ltd.	Cayman Islands / Structured Finance	Subordinated Notes (Residual Interest, current yield 5.03%, due 4/18/2026)(5)(14)	24,500	14,476	12,075	0.4%
				14,476	12,075	0.4%
			41,164	25,092	19,801	0.6%

Edgar Filing: PROSPECT CAPITAL CORP - Form 497

Halcyon Loan Advisors Funding 2014-2 Ltd.	Cayman Islands / Structured Finance	Subordinated Notes (Residual Interest, current yield 8.31%, due 4/28/2025)(5)(6)(14)		25,092	19,801	0.6%
Halcyon Loan Advisors Funding 2015-3 Ltd.	Cayman Islands / Structured Finance	Subordinated Notes (Residual Interest, current yield 19.19%, due 10/18/2027)(5)(6)(14)	39,598	34,934	32,959	1.0%
				34,934	32,959	1.0%
Harbortouch Payments, LLC	Pennsylvania / Commercial Services & Supplies	Escrow Receivable	—	—	900	—%
				—	900	—%

See notes to consolidated financial statements.

F-16

---

PROSPECT CAPITAL CORPORATION AND SUBSIDIARIES  
CONSOLIDATED SCHEDULES OF INVESTMENTS (CONTINUED)  
(in thousands, except share data)

Portfolio Company	Locale / Industry	Investments(1)(44)	March 31, 2018 (Unaudited)			
			Principal Value	Amortized Cost	Fair Value(2)	% of Net Assets
<b>LEVEL 3 PORTFOLIO INVESTMENTS</b>						
Non-Control/Non-Affiliate Investments (less than 5.00% voting control)						
HarbourView CLO VII, Ltd.	Cayman Islands / Structured Finance	Subordinated Notes (Residual Interest, current yield 20.59%, due 11/18/2026)(5)(6)(14)	19,025	15,549	13,823	0.4%
				15,549	13,823	0.4%
Harley Marine Services, Inc.	Washington / Marine	Second Lien Term Loan (12.00% (LIBOR + 10.25% with 1.25% LIBOR floor), due 12/20/2019)(3)(8)(11)	9,000	8,943	8,879	0.3%
				8,943	8,879	0.3%
Ingenio, LLC	California / Internet Software and Services	Senior Secured Term Loan (9.50% (LIBOR + 7.50% with 1.25% LIBOR floor), due 9/26/2022)(3)(8)(11)	10,000	10,000	10,000	0.3%
				10,000	10,000	0.3%
Inpatient Care Management Company, LLC	Florida / Health Care Providers & Services	Senior Secured Term Loan (9.69% (LIBOR + 8.00% with 1.00% LIBOR floor), due 6/8/2021)(3)(11)	\$24,657	\$24,657	\$24,657	0.7%
				24,657	24,657	0.7%
InterDent, Inc.	California / Health Care Providers & Services	Senior Secured Term Loan A (7.39% (LIBOR + 5.50% with 0.75% LIBOR floor), due 12/31/2017, past due)(13) Senior Secured Term Loan B (12.39% (LIBOR + 10.50% with 0.75% LIBOR floor), due 12/31/2017, past due)(13) Senior Secured Term Loan C (18.00% PIK, due on demand)(46) Warrants (to purchase 4,900 shares of Common Stock, expires 3/22/2030)	77,994	77,994	77,950	2.3%
			131,125	131,125	128,039	3.8%
			3,012	3,012	2,560	0.1%
			—	—	—	—%
Janus International Group, LLC	Georgia / Building Products	Second Lien Term Loan (9.49% (LIBOR + 7.75% with 1.00% LIBOR floor), due 2/12/2026)(13)	10,000	9,902	10,000	0.3%
				9,902	10,000	0.3%
JD Power and Associates	California / Capital Markets	Second Lien Term Loan (10.38% (LIBOR + 8.50% with 1.00% LIBOR floor), due 9/7/2024)(3)(8)(13)	20,000	19,792	20,000	0.6%
				19,792	20,000	0.6%
			19,500	16,286	12,489	0.4%

Edgar Filing: PROSPECT CAPITAL CORP - Form 497

Jefferson Mill CLO Ltd.	Cayman Islands / Structured Finance	Subordinated Notes (Residual Interest, current yield 7.70%, due 7/20/2027)(5)(6)(14)	16,286	12,489	0.4%
K&N Parent, Inc.	California / Auto Components	Second Lien Term Loan (10.63% (LIBOR + 8.75% with 1.00% LIBOR floor), due 10/21/2024)(3)(8)(13)	12,786	12,948	0.4%
			12,786	12,948	0.4%
Keystone Acquisition Corp.(36)	Pennsylvania / Health Care Providers & Services	Second Lien Term Loan (11.55% (LIBOR + 9.25% with 1.00% LIBOR floor), due 5/1/2025)(3)(8)(11)	50,000	50,000	1.5%
			50,000	50,000	1.5%
LCM XIV Ltd.	Cayman Islands / Structured Finance	Income Notes (Residual Interest, current yield 0.00%, due 7/15/2025)(5)(14)(17)	30,500	19,520	0.4%
			19,520	13,337	0.4%

See notes to consolidated financial statements.

F-17

PROSPECT CAPITAL CORPORATION AND SUBSIDIARIES  
CONSOLIDATED SCHEDULES OF INVESTMENTS (CONTINUED)  
(in thousands, except share data)

Portfolio Company	Locale / Industry	Investments(1)(44)	March 31, 2018 (Unaudited)			
			Principal Value	Amortized Cost	Fair Value(2)	% of Net Assets
<b>LEVEL 3 PORTFOLIO INVESTMENTS</b>						
Non-Control/Non-Affiliate Investments (less than 5.00% voting control)						
Madison Park Funding IX, Ltd.	Cayman Islands / Structured Finance	Subordinated Notes (Residual Interest, current yield 28.65%, due 8/15/2022)(5)(14)	43,110	1,829	1,890	0.1%
				1,829	1,890	0.1%
Maverick Healthcare Equity, LLC	Arizona / Health Care Providers & Services	Preferred Units (10.00%, 1,250,000 units)(16) Class A Common Units (1,250,000 units)(16)	—	1,252	507	—%
				1,252	507	—%
MedMark Services, Inc. (51)	Texas / Health Care Providers & Services	Second Lien Term Loan (10.27% (LIBOR + 8.25% with 1.00% LIBOR floor), due 3/1/2025)(8)(11)	7,000	6,930	6,952	0.2%
				6,930	6,952	0.2%
Memorial MRI & Diagnostic, LLC	Texas / Health Care Providers & Services	Senior Secured Term Loan (10.81% (LIBOR + 8.50% with 1.00% LIBOR floor), due 3/16/2022)(11)	37,240	37,240	37,240	1.1%
				37,240	37,240	1.1%
Mountain View CLO 2013-II Ltd.	Cayman Islands / Structured Finance	Subordinated Notes (Residual Interest, current yield 15.87%, due 10/12/2030)(5)(14)	43,650	27,873	23,699	0.7%
				27,873	23,699	0.7%
Mountain View CLO IX Ltd.	Cayman Islands / Structured Finance	Subordinated Notes (Residual Interest, current yield 13.94%, due 7/15/2027)(5)(6)(14)	\$47,830	\$40,436	\$37,445	1.1%
				40,436	37,445	1.1%
National Home Healthcare Corp.	Michigan / Health Care Providers & Services	Second Lien Term Loan (10.74% (LIBOR + 9.00% with 1.00% LIBOR floor), due 12/8/2022)(3)(8)(13)	15,407	15,228	15,407	0.5%
				15,228	15,407	0.5%
Octagon Investment Partners XV, Ltd.	Cayman Islands / Structured Finance	Income Notes (Residual Interest, current yield 14.76%, due 7/19/2030)(5)(14)	42,064	31,433	26,490	0.8%

Edgar Filing: PROSPECT CAPITAL CORP - Form 497

			31,433	26,490	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 15.86%, due 4/16/2031)(5)(6)(14)	46,016	26,236	23,418 0.7%
			26,236	23,418	0.7%
		Revolving Line of Credit – \$21,000 Commitment (9.06% (LIBOR + 7.25% with 1.00% LIBOR floor), due 9/26/2020)(13)(15)	20,825	20,825	20,825 0.6%
Pacific World Corporation	California / Personal Products	Senior Secured Term Loan A (7.06% (LIBOR + 5.25% with 1.00% LIBOR floor), due 9/26/2020)(3)(13)	96,500	96,500	93,856 2.8%
		Senior Secured Term Loan B (11.06% (LIBOR + 9.25% with 1.00% LIBOR floor), due 9/26/2020)(3)(13)	96,500	96,500	68,470 2.1%
		Common Stock (6,778,414 units)(16)	—	—	— —%
			213,825	183,151	5.5%

See notes to consolidated financial statements.

F-18

PROSPECT CAPITAL CORPORATION AND SUBSIDIARIES  
CONSOLIDATED SCHEDULES OF INVESTMENTS (CONTINUED)  
(in thousands, except share data)

Portfolio Company	Locale / Industry	Investments(1)(44)	March 31, 2018 (Unaudited)			
			Principal Value	Amortized Cost	Fair Value(2)	% of Net Assets
<b>LEVEL 3 PORTFOLIO INVESTMENTS</b>						
Non-Control/Non-Affiliate Investments (less than 5.00% voting control)						
Pearl Intermediate Parent LLC	Connecticut / Health Care Providers & Services	Second Lien Term Loan (8.03% (LIBOR + 6.25%, due 2/15/2026)(8)(13)	5,000	4,975	5,000	0.1%
				4,975	5,000	0.1%
Pelican Products, Inc.	California / Chemicals	Second Lien Term Loan (10.13% (LIBOR + 8.25% with 1.00% LIBOR floor), due 4/9/2021)(3)(8)(13)	17,500	17,491	17,500	0.5%
				17,491	17,500	0.5%
		Revolving Line of Credit – \$1,000 Commitment (11.20% (LIBOR + 9.50% with 1.00% LIBOR floor), due 7/1/2020)(11)(15)	500	500	500	—%
PeopleConnect Intermediate, LLC (f/k/a Intelius, Inc.)	Washington / Internet Software & Services	Senior Secured Term Loan A (8.20% (LIBOR + 6.50% with 1.00% LIBOR floor), due 7/1/2020)(3)(11)	19,069	19,069	19,069	0.6%
		Senior Secured Term Loan B (14.20% (LIBOR + 12.50% with 1.00% LIBOR floor), due 7/1/2020)(3)(11)	20,284	20,284	20,284	0.6%
				39,853	39,853	1.2%
PGX Holdings, Inc.(40)	Utah / Diversified Consumer Services	Second Lien Term Loan (10.89% (LIBOR + 9.00% with 1.00% LIBOR floor), due 9/29/2021)(3)(13)	118,289	118,289	118,289	3.5%
				118,289	118,289	3.5%
PharMerica Corporation	Kentucky / Pharmaceuticals	Second Lien Term Loan (9.46% (LIBOR + 7.75% with 1.00% LIBOR floor), due 12/7/2025)(8)(13)	12,000	11,881	12,000	0.4%
				11,881	12,000	0.4%
Photonis Technologies SAS	France / Electronic Equipment, Instruments & Components	First Lien Term Loan (9.80% (LIBOR + 7.50% with 1.00% LIBOR floor), due 9/18/2019)(8)(11)(14)	12,872	12,407	11,518	0.3%
				12,407	11,518	0.3%
PlayPower, Inc.	North Carolina / Leisure Products	Second Lien Term Loan (11.05% (LIBOR + 8.75% with 1.00%	\$11,000	\$10,898	\$11,000	0.3%

Edgar Filing: PROSPECT CAPITAL CORP - Form 497

		LIBOR floor), due 6/23/2022)(3)(8)(11)		10,898	11,000	0.3%
		First Lien Term Loan (7.86% (LIBOR + 5.50% with 1.00% LIBOR floor), due 12/20/2024)(8)(10)	10,000	9,518	9,649	0.3%
Research Now Group, Inc.	Connecticut / Professional Services	Second Lien Term Loan (11.86% (LIBOR + 9.50% with 1.00% LIBOR floor), due 12/20/2025)(8)(10)	50,000	46,610	47,229	1.4%
				56,128	56,878	1.7%
RGIS Services, LLC	Michigan / Commercial Services & Supplies	Senior Secured Term Loan (9.38% (LIBOR + 7.50% with 1.00% LIBOR floor), due 3/31/2023)(3)(8)(13)	30,172	29,558	28,499	0.9%
				29,558	28,499	0.9%
RME Group Holding Company	Florida / Media	Senior Secured Term Loan A (8.31% (LIBOR + 6.00% with 1.00% LIBOR floor), due 5/4/2022)(3)(11)	36,938	36,938	36,938	1.1%
		Senior Secured Term Loan B (13.31% (LIBOR + 11.00% with 1.00% LIBOR floor), due 5/4/2022)(3)(11)	24,813	24,813	24,813	0.7%

See notes to consolidated financial statements.

F-19

---



PROSPECT CAPITAL CORPORATION AND SUBSIDIARIES  
CONSOLIDATED SCHEDULES OF INVESTMENTS (CONTINUED)  
(in thousands, except share data)

Portfolio Company	Locale / Industry	Investments(1)(44)	March 31, 2018 (Unaudited)			
			Principal Value	Amortized Cost	Fair Value(2)	% of Net Assets
<b>LEVEL 3 PORTFOLIO INVESTMENTS</b>						
Non-Control/Non-Affiliate Investments (less than 5.00% voting control)						
				61,751	61,751	1.8%
Rocket Software, Inc.	Massachusetts / Software	Second Lien Term Loan (11.38% (LIBOR + 9.50% with 1.00% LIBOR floor), due 10/14/2024)(3)(8)(11)	50,000	49,188	50,000	1.5%
				49,188	50,000	1.5%
Romark WM-R Ltd. (f/k/a Washington Mill CLO Ltd.)	Cayman Islands / Structured Finance	Subordinated Notes (Residual Interest, current yield 12.49%, due 4/20/2031)(5)(6)(14)	27,725	20,865	17,771	0.5%
				20,865	17,771	0.5%
Rosa Mexicano	New York / Hotels, Restaurants & Leisure	Revolving Line of Credit – \$2,500 Commitment (9.80% (LIBOR + 7.50% with 1.50% LIBOR floor), due 3/29/2023)(8)(11)(15) Senior Secured Term Loan (9.80% (LIBOR + 7.50% with 1.50% LIBOR floor), due 3/29/2023)(8)(11)	—	—	—	—%
			30,000	30,000	30,000	0.9%
				30,000	30,000	0.9%
SCS Merger Sub, Inc.	Texas / IT Services	Second Lien Term Loan (11.38% (LIBOR + 9.50% with 1.00% LIBOR floor), due 10/30/2023)(3)(8)(13)	20,000	19,586	20,000	0.6%
				19,586	20,000	0.6%
Securus Technologies Holdings, Inc.	Texas / Communications Equipment	Second Lien Term Loan (10.13% (LIBOR + 8.25% with 1.00% LIBOR floor), due 11/01/2025)(8)(13)	40,000	39,855	40,000	1.2%
				39,855	40,000	1.2%
SESAC Holdco II LLC	Tennessee / Media	Second Lien Term Loan (9.13% (LIBOR + 7.25% with 1.00% LIBOR floor), due 2/23/2025)(8)(13)	3,000	2,974	2,974	0.1%
				2,974	2,974	0.1%
Small Business Whole Loan Portfolio(41)	New York / Online Lending	124 Small Business Loans purchased from On Deck Capital, Inc.	288	288	199	—%
				288	199	—%
SMG US Midco	Pennsylvania / Hotels, Restaurants	Second Lien Term Loan (8.88% (LIBOR + 7.00%, due	7,500	7,482	7,482	0.2%

Edgar Filing: PROSPECT CAPITAL CORP - Form 497

	& Leisure	1/23/2026)(8)(13)		7,482	7,482	0.2%
Spartan Energy Services, Inc.	Louisiana / Energy Equipment & Services	Senior Secured Term Loan A (7.65% (LIBOR + 6.00% with 1.00% LIBOR floor), due 12/28/2018)(13)	\$13,156	\$12,232	\$12,988	0.4%
		Senior Secured Term Loan B (13.65% PIK (LIBOR + 12.00% with 1.00% LIBOR floor)13.65% PIK, due 12/28/2018)(13)(46)	17,608	15,615	17,250	0.5%
Spectrum Holdings III Corp.	Georgia / Health Care Equipment & Supplies	Second Lien Term Loan (8.88% (LIBOR + 7.00% with 1.00% LIBOR floor), due 1/31/2026)(8)(13)		27,847	30,238	0.9%
			7,500	7,463	7,500	0.2%
Strategic Materials	Texas / Household Durables	Second Lien Term Loan (9.52% (LIBOR + 7.75% with 1.00% LIBOR floor), due 11/1/2025)(11)		7,463	7,500	0.2%
			7,000	6,934	6,934	0.2%
Sudbury Mill CLO Ltd.	Cayman Islands / Structured Finance	Subordinated Notes (Residual Interest, current yield 8.10%, due 1/17/2026)(5)(14)		6,934	6,934	0.2%
			28,200	18,700	14,514	0.4%
				18,700	14,514	0.4%

See notes to consolidated financial statements.

F-20

PROSPECT CAPITAL CORPORATION AND SUBSIDIARIES  
 CONSOLIDATED SCHEDULES OF INVESTMENTS (CONTINUED)  
 (in thousands, except share data)

Portfolio Company	Locale / Industry	Investments(1)(44)	March 31, 2018 (Unaudited)	
			<del>Amortized</del> Carrying Value	Fair Value(2) % of Net Assets
<b>LEVEL 3 PORTFOLIO INVESTMENTS</b>				
Non-Control/Non-Affiliate Investments (less than 5.00% voting control)				
Symphony CLO XIV Ltd.	Cayman Islands / Structured Finance	Subordinated Notes (Residual Interest, current yield 6.70%, due 7/14/2026)(5)(6)(14)	<del>49,836</del> 34,875	28,075.8%
Symphony CLO XV, Ltd.	Cayman Islands / Structured Finance	Subordinated Notes (Residual Interest, current yield 11.01%, due 10/17/2026)(5)(14)	<del>50,250</del> 40,170	32,967.1%
TGP HOLDINGS III LLC	Oregon / Household Durables	Second Lien Term Loan (10.80% (LIBOR + 8.50% with 1.00% LIBOR floor), due 9/25/2025)(8)(11)	<del>3,968</del> 3,000	0.1%

See notes to consolidated financial statements.  
 F-21

PROSPECT CAPITAL CORPORATION AND SUBSIDIARIES  
CONSOLIDATED SCHEDULES OF INVESTMENTS (CONTINUED)  
(in thousands, except share data)

Portfolio Company	Locale / Industry	Investments(1)(44)	March 31, 2018 (Unaudited)			
			Principal Value	Amortized Cost	Fair Value(2)	% of Net Assets
<b>LEVEL 3 PORTFOLIO INVESTMENTS</b>						
Non-Control/Non-Affiliate Investments (less than 5.00% voting control)						
				2,958	3,000	0.1%
TouchTunes Interactive Networks, Inc.	New York / Internet Software & Services	Second Lien Term Loan (9.94% (LIBOR + 8.25% with 1.00% LIBOR floor), due 5/29/2022)(3)(8)(13)	14,000	13,921	14,000	0.4%
				13,921	14,000	0.4%
Town & Country Holdings, Inc.	New York / Distributors	First Lien Term Loan (10.98% (LIBOR + 9.00% with 1.25% LIBOR floor), due 1/26/2023)(3)(8)(11)	70,000	70,000	70,000	2.1%
				70,000	70,000	2.1%
Transplace Holdings, Inc.	Texas / Transportation Infrastructure	Second Lien Term Loan (10.46% (LIBOR + 8.75% with 1.00% LIBOR floor), due 10/6/2025)(8)(13)	30,923	30,291	30,923	0.9%
				30,291	30,923	0.9%
Turning Point Brands, Inc.(42)	Kentucky / Tobacco	Second Lien Term Loan (8.70% (LIBOR + 7.00% with 0.00% LIBOR floor), due 3/7/2024)(3)(8)(13)	14,500	14,386	13,933	0.4%
				14,386	13,933	0.4%
United Sporting Companies, Inc.(18)	South Carolina / Distributors	Second Lien Term Loan (12.89% (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)	143,717	131,699	47,780	1.4%
			—	—	—	—%
				131,699	47,780	1.4%
Universal Fiber Systems, LLC	Virginia / Textiles, Apparel & Luxury Goods	Second Lien Term Loan (11.29% (LIBOR + 9.50% with 1.00% LIBOR floor), due 10/02/2022)(3)(8)(12)	37,000	36,525	37,000	1.1%
				36,525	37,000	1.1%
Universal Turbine Parts, LLC	Alabama / Trading Companies & Distributors	Senior Secured Term Loan A (7.32% (LIBOR + 5.75% with 1.00% LIBOR floor), due 7/22/2021)(3)(13) Senior Secured Term Loan B (13.32% (LIBOR + 11.75% with 1.00% LIBOR floor), due 7/22/2021)(3)(13)	\$31,525	\$31,525	\$29,080	0.9%
			32,500	32,500	28,530	0.9%
				64,025	57,610	1.8%
		Revolving Line of Credit – \$2,500 Commitment (11.14% (LIBOR + 9.25% with 1.50% LIBOR floor), due 8/24/2018)(13)(15)	2,500	2,500	2,500	0.1%
USG Intermediate, LLC	Texas / Leisure Products					

Edgar Filing: PROSPECT CAPITAL CORP - Form 497

		Senior Secured Term Loan A (8.64% (LIBOR + 6.75% with 1.00% LIBOR floor), due 8/24/2022)(3)(13)	14,070	14,070	14,070	0.4%
		Senior Secured Term Loan B (13.64% (LIBOR + 11.75% with 1.00% LIBOR floor), due 8/24/2022)(3)(13)	21,537	21,537	21,537	0.6%
		Equity(16)	—	1	—	—%
				38,108	38,107	1.1%
UTZ Quality Foods, LLC	Pennsylvania / Food Products	Second Lien Term Loan (9.10% (LIBOR + 7.25%, due 11/21/2025)(8)(13)	10,000	9,880	9,880	0.3%
				9,880	9,880	0.3%
VC GB Holdings, Inc.	Illinois / Household Durables	Subordinated Secured Term Loan (9.88% (LIBOR + 8.00% with 1.00% LIBOR floor), due 2/28/2025)(3)(8)(13)	18,667	18,407	18,667	0.6%
				18,407	18,667	0.6%

See notes to consolidated financial statements.

F-22

PROSPECT CAPITAL CORPORATION AND SUBSIDIARIES  
CONSOLIDATED SCHEDULES OF INVESTMENTS (CONTINUED)  
(in thousands, except share data)

Portfolio Company	Locale / Industry	Investments(1)	March 31, 2018 (Unaudited)			% of Net Assets
			Principal Value	Amortized Cost	Fair Value(2)	
<b>LEVEL 3 PORTFOLIO INVESTMENTS</b>						
Non-Control/Non-Affiliate Investments (less than 5.00% voting control)						
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)	21,510	17,122	18,285	0.5%
				17,122	18,285	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	822	940	—%
				822	940	—%
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	201	987	—%
				201	987	—%
Voya CLO 2012-4, Ltd.	Cayman Islands / Structured Finance	Income Notes (Residual Interest, current yield 11.84%, due 10/15/2028)(5)(14)	40,613	30,965	28,434	0.8%
				30,965	28,434	0.8%
Voya CLO 2014-1, Ltd.	Cayman Islands / Structured Finance	Subordinated Notes (Residual Interest, current yield 15.93%, due 4/18/2031)(5)(6)(14)	40,773	28,010	27,489	0.8%
				28,010	27,489	0.8%
Voya CLO 2016-3, Ltd.	Cayman Islands / Structured Finance	Subordinated Notes (Residual Interest, current yield 11.82%, due 10/18/2027)(5)(6)(14)	28,100	27,178	22,980	0.7%
				27,178	22,980	0.7%
Voya CLO 2017-3, Ltd.	Cayman Islands / Structured Finance	Subordinated Notes (Residual Interest, current yield 14.32%, due 7/20/2030)(5)(6)(14)	44,885	46,010	43,562	1.3%
				46,010	43,562	1.3%
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)	15,300	15,300	15,300	0.5%
		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%
			20,760	20,760	20,760	0.7%
Wink Holdco, Inc.	Texas / Insurance	Second Lien Term Loan (8.24% (LIBOR + 6.75% with 1.00% LIBOR floor), due 12/1/2025)(8)(13)	\$3,000	\$2,986	\$2,986	0.1%

Edgar Filing: PROSPECT CAPITAL CORP - Form 497

	2,986	2,986	0.1%
Total Non-Control/Non-Affiliate Investments (Level 3)	\$3,951,787	\$3,680,532	110.0%
Total Portfolio Investments (Level 3)	\$5,864,967	\$5,719,804	170.9%

See notes to consolidated financial statements.

F-23

---

PROSPECT CAPITAL CORPORATION AND SUBSIDIARIES  
CONSOLIDATED SCHEDULES OF INVESTMENTS (CONTINUED)  
(in thousands, except share data)

Portfolio Company	Locale / Industry	Investments(1)(45)(49)	June 30, 2017		
			Principal Value	Fair Value(2)	% of Net Assets
<b>LEVEL 3 PORTFOLIO INVESTMENTS</b>					
Control Investments (greater than 25.00% voting control)(49)					
Arctic Energy Services, LLC(37)	Wyoming / Energy Equipment & Services	Class D Units (12.00%, 32,915 units)(16)	\$31,640	\$17,370	0.5%
		Class E Units (14.00%, 21,080 units)(16)	20,230	—	—%
		Class A Units (14.00%, 700 units)(16)	9,006	—	—%
		Class C Units (10 units)(16)	—	—	—%
CCPI Inc.(19)	Ohio / Electronic Equipment, Instruments & Components	Senior Secured Term Loan A (10.00%, due 12/31/2020)(3)	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	0.5%
		Common Stock (14,857 shares)	6,759	21,870	0.7%
			27,941	43,052	1.3%
CP Energy Services Inc.(20)	Oklahoma / Energy Equipment & Services	Series B Convertible Preferred Stock (16.00%, 1,043 shares)(16)	98,273	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	51,855	1.5%
		Class A Units (10,640,642 units)(14)(16)	13,731	9,881	0.3%
		Net Revenues Interest (25% of Net Revenues)(14)(16)	—	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	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	0.5%
		Membership Interest (99%)	22,738	24,219	0.7%
			69,837	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	0.2%
		Unsecured Senior PIK Note (8.50% PIK, due 6/9/2020)(46)	6,905	6,905	0.2%
		Unsecured Junior PIK Note (10.00% PIK, in non-accrual status effective 1/1/2017, due 6/9/2020)	31,829	31,870	1.0%



Edgar Filing: PROSPECT CAPITAL CORP - Form 497

		Class A Units (370,964 units)(16)	6,577	286	—%
			45,145	46,895	1.4%
First Tower Finance Company LLC(23)	Mississippi / Consumer Finance	Subordinated Term Loan to First Tower, LLC (10.00% plus 7.00% PIK, due 6/24/2019)(14)(46)	261,114	261,114	7.8%
		Class A Units (93,997,533 units)(14)(16)	78,481	104,474	3.1%
			339,595	365,588	10.9%
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%

See notes to consolidated financial statements.

F-24

---

PROSPECT CAPITAL CORPORATION AND SUBSIDIARIES  
CONSOLIDATED SCHEDULES OF INVESTMENTS (CONTINUED)  
(in thousands, except share data)

Portfolio Company	Locale / Industry	Investments(1)(45)(49)	June 30, 2017			% of Net Assets
			Principal Value	Amortized Cost	Fair Value(2)	
<b>LEVEL 3 PORTFOLIO INVESTMENTS</b>						
Control Investments (greater than 25.00% voting control)(49)						
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)	5,659	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%
National Property REIT Corp.(26)	Various / Equity Real Estate Investment Trusts (REITs) / Online Lending	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%
		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% plus 10.00% PIK, due 6/18/2019)(14)(46)	16,819	16,819	16,819	0.5%

Edgar Filing: PROSPECT CAPITAL CORP - Form 497

		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	0.1%
NMMB, Inc.(28)	New York / Media	Senior Secured Note to Armed Forces Communications, Inc. (14.00%, due 5/6/2021)	6,900	6,900	0.2%
		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%
R-V Industries, Inc.	Pennsylvania / Machinery	Senior Subordinated Note (10.30% (LIBOR + 9.00% with 1.00% LIBOR floor), due 3/31/2022)(3)(11)	28,622	28,622	0.9%
		Common Stock (745,107 shares)	6,866	4,056	0.1%
			35,488	32,678	1.0%
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)	—	1,940	0.1%
		Common Stock (100 shares)(16)	—	—	—%
			—	1,940	0.1%

See notes to consolidated financial statements.

F-25

PROSPECT CAPITAL CORPORATION AND SUBSIDIARIES  
CONSOLIDATED SCHEDULES OF INVESTMENTS (CONTINUED)  
(in thousands, except share data)

Portfolio Company	Locale / Industry	Investments(1)(45)(49)	June 30, 2017		Fair Value(2)	% of Net Assets
			Principal Value	Amortized Cost		
<b>LEVEL 3 PORTFOLIO INVESTMENTS</b>						
Control Investments (greater than 25.00% voting control)(49)						
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)	\$31,068	\$28,604	\$12,517	0.4%
		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%	
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	10,430	0.3%
		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)	—	—	—	—%
			62,258	32,509	1.0%	
Wolf Energy, LLC(32)	Kansas / Energy Equipment & Services	Membership Interest (100%)(16)	—	—	—	—%
		Membership Interest in Wolf Energy Services Company, LLC (100%)(16)	6,801	5,662	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	\$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	—	—%
Targus Cayman HoldCo Limited(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
				8,760	11,429	0.3%
Total Affiliate Investments (Level 3)			\$22,957	\$11,429	\$11,429	0.3%

See notes to consolidated financial statements.

F-26

---

PROSPECT CAPITAL CORPORATION AND SUBSIDIARIES  
CONSOLIDATED SCHEDULES OF INVESTMENTS (CONTINUED)  
(in thousands, except share data)

Portfolio Company	Locale / Industry	Investments(1)	June 30, 2017		
			Principal Value	Fair Value(2)	% of Net Assets
<b>LEVEL 3 PORTFOLIO INVESTMENTS</b>					
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)	23,527	7,597	0.2%
			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)	40,004	24,777	0.7%
			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)	43,074	26,047	0.8%
			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)	32,449	26,083	0.8%
			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)	32,501	25,432	0.8%
			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)	21,630	1,630	—%
			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)	7,028	7,000	0.2%
			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) Senior Term Loan (9.50% (LIBOR + 8.00% with 1.50% LIBOR floor), due 2/21/2020)(3)(11)	3,850	3,850	0.1%
			79,560	79,560	2.4%
			83,410	83,410	2.5%
Babson CLO Ltd. 2014-III	Cayman Islands / Structured Finance	Subordinated Notes (Residual Interest, current yield 15.01%, due 1/15/2026)(5)(6)(14)	52,501	39,001	1.2%

Edgar Filing: PROSPECT CAPITAL CORP - Form 497

			42,101	39,001	1.2%
		Senior Secured Term Loan A (7.05%			
		(LIBOR + 5.75% with 1.25% LIBOR floor),	110,876	110,876	6.3%
Broder Bros., Co.	Pennsylvania /	due 6/03/2021)(3)(11)			
	Textiles, Apparel &	Senior Secured Term Loan B (13.55%			
	Luxury Goods	(LIBOR + 12.25% with 1.25% LIBOR floor),	114,901	114,901	6.4%
		due 6/03/2021)(11)			
			225,777	225,777	6.7%
Brookside Mill CLO	Cayman Islands /	Subordinated Notes (Residual Interest,	26,008	14,022	0.4%
Ltd.	Structured Finance	current yield 1.29%, due 4/17/2025)(5)(14)			
			17,178	14,022	0.4%

See notes to consolidated financial statements.

F-27

PROSPECT CAPITAL CORPORATION AND SUBSIDIARIES  
CONSOLIDATED SCHEDULES OF INVESTMENTS (CONTINUED)  
(in thousands, except share data)

Portfolio Company	Locale / Industry Investments(1)	June 30, 2017				
		Principal Value	Amortized Cost	Fair Value(2)	% of Net Assets	
<b>LEVEL 3 PORTFOLIO INVESTMENTS</b>						
Non-Control/Non-Affiliate Investments (less than 5.00% voting control)						
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 1.00% LIBOR floor), due 1/17/2022)(8)(11)	68,000	68,000	68,000	2.0%
				135,320	135,320	4.0%
			44,100	31,233	30,265	0.9%



Edgar Filing: PROSPECT CAPITAL CORP - Form 497

CIFC Funding 2013-III, Ltd.	Cayman Islands /Subordinated Notes (Residual Structured Finance	Interest, current yield 15.42%, due 10/24/2025)(5)(14)		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%
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%
CIFC Funding 2016-I, Ltd.	Cayman Islands /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%
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%

See notes to consolidated financial statements.

F-28

PROSPECT CAPITAL CORPORATION AND SUBSIDIARIES  
CONSOLIDATED SCHEDULES OF INVESTMENTS (CONTINUED)  
(in thousands, except share data)

Portfolio Company	Locale / Industry	Investments(1)	June 30, 2017			% of Net Assets
			Principal Value	Amortized Cost	Fair Value(2)	
<b>LEVEL 3 PORTFOLIO INVESTMENTS</b>						
Non-Control/Non-Affiliate Investments (less than 5.00% voting control)						
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%
				29,963	29,963	0.9%
Fleetwash, Inc.	New Jersey / Commercial Services & Supplies	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	21,544	0.6%
		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%

Edgar Filing: PROSPECT CAPITAL CORP - Form 497

Galaxy XV CLO, Ltd.	Cayman Islands / Subordinated Notes (Residual Interest, Structured Finance	current yield 12.14%, due 4/15/2025)(5)(14)	50,525	33,887	33,794	1.0%
				33,887	33,794	1.0%
Galaxy XVI CLO, Ltd.	Cayman Islands / Subordinated Notes (Residual Interest, Structured Finance	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 / Subordinated Notes (Residual Interest, Structured Finance	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 / Subordinated Notes (Residual Interest, Structured Finance	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 / Subordinated Notes (Residual Interest, Structured Finance	current yield 5.76%, due 4/15/2025)(5)(14)	40,400	26,949	23,937	0.7%
				26,949	23,937	0.7%

See notes to consolidated financial statements.

F-29

PROSPECT CAPITAL CORPORATION AND SUBSIDIARIES  
CONSOLIDATED SCHEDULES OF INVESTMENTS (CONTINUED)  
(in thousands, except share data)

Portfolio Company	Locale / Industry	Investments(1)	June 30, 2017			
			Principal Value	Amortized Cost	Fair Value(2)	% of Net Assets
<b>LEVEL 3 PORTFOLIO INVESTMENTS</b>						
Non-Control/Non-Affiliate Investments (less than 5.00% voting control)						
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	—%
HarbourView CLO VII, Ltd.	Cayman Islands / Structured Finance	Subordinated Notes (Residual Interest, current yield 19.25%, due 11/18/2026)(5)(6)(14)	19,025	14,955	14,047	0.4%
				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	8,800	0.3%
				8,919	8,800	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	25,467	0.8%
				25,467	25,467	0.8%
		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%
Instant Web, LLC	Minnesota / Media	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%
			27,000	27,000	27,000	0.8%

Edgar Filing: PROSPECT CAPITAL CORP - Form 497

		Senior Secured Term Loan C-1 (13.05% (LIBOR + 11.75% with 1.00% LIBOR floor), due 3/28/2019)(11)					
		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%	
		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%	
InterDent, Inc.	California / Health Care Providers & Services	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%	
		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%	
JD Power and Associates	California / Capital Markets			14,796	15,000	0.4%	
		Subordinated Notes (Residual Interest, current yield 10.45%, due 7/20/2027)(5)(6)(14)	19,500	16,501	13,507	0.4%	
Jefferson Mill CLO Ltd.	Cayman Islands / Structured Finance			16,501	13,507	0.4%	
		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%	
K&N Parent, Inc.	California / Auto Components			12,762	13,000	0.4%	

See notes to consolidated financial statements.

F-30

PROSPECT CAPITAL CORPORATION AND SUBSIDIARIES  
CONSOLIDATED SCHEDULES OF INVESTMENTS (CONTINUED)  
(in thousands, except share data)

Portfolio Company	Locale / Industry	Investments(1)	June 30, 2017			% of Net Assets
			Principal Value	Amortized Cost	Fair Value(2)	
<b>LEVEL 3 PORTFOLIO INVESTMENTS</b>						
Non-Control/Non-Affiliate Investments (less than 5.00% voting control)						
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%
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%
				117,989	117,989	3.6%
Maverick Healthcare Equity, LLC	Arizona / Health Care Providers & Services	Preferred Units (10.00%, 1,250,000 units)(16)		1,252	782	—%
		Class A Common Units (1,250,000 units)(16)		—	—	—%
				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%

Edgar Filing: PROSPECT CAPITAL CORP - Form 497

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 12/16/2024)(5)(6)(14)	28,200	18,468	17,415	0.5%
				18,468	17,415	0.5%

See notes to consolidated financial statements.

F-31

PROSPECT CAPITAL CORPORATION AND SUBSIDIARIES  
CONSOLIDATED SCHEDULES OF INVESTMENTS (CONTINUED)  
(in thousands, except share data)

Portfolio Company	Locale / Industry	Investments(1)	June 30, 2017			% of Net Assets
			Principal Value	Amortized Cost	Fair Value(2)	
<b>LEVEL 3 PORTFOLIO INVESTMENTS</b>						
Non-Control/Non-Affiliate Investments (less than 5.00% voting control)						
		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%
		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)	19,606	19,606	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	20,552	0.6%
				40,158	40,158	1.2%
PGX Holdings, Inc.(40)	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	143,767	4.3%
				143,767	143,767	4.3%
Photonis Technologies SAS	France / Electronic Equipment, Instruments &	First Lien Term Loan (8.80% (LIBOR + 7.50% with 1.00% LIBOR floor), due	9,872	9,755	8,794	0.3%



Edgar Filing: PROSPECT CAPITAL CORP - Form 497

Components		9/18/2019)(8)(11)(14)				
			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)	7,037	6,947	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)	11,000	10,880	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)	53,138	53,138	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	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	9,953	10,000	0.3%
			9,953	10,000	0.3%	
RGIS Services, LLC	Michigan / Commercial Services & Supplies	Senior Secured Term Loan (8.80% (LIBOR + 7.50% with 1.00% LIBOR floor), due 3/31/2023)(8)(11)	14,963	14,744	14,744	0.4%
			14,744	14,744	0.4%	

See notes to consolidated financial statements.

F-32

PROSPECT CAPITAL CORPORATION AND SUBSIDIARIES  
CONSOLIDATED SCHEDULES OF INVESTMENTS (CONTINUED)  
(in thousands, except share data)

Portfolio Company	Locale / Industry	Investments(1)	June 30, 2017		
			Principal Cost	Fair Value(2)	% of Net Assets
<b>LEVEL 3 PORTFOLIO INVESTMENTS</b>					
Non-Control/Non-Affiliate Investments (less than 5.00% voting control)					
		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%
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	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	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	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	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)	13,153	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)	16,369	—	—%
			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)	28,251	17,304	0.5%

Edgar Filing: PROSPECT CAPITAL CORP - Form 497

			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)	<del>49,668</del>	33,744	1.0%
			36,668	33,744	1.0%
Symphony CLO XV, Ltd.	Cayman Islands / Structured Finance	Subordinated Notes (Residual Interest, current yield 13.68%, due 10/17/2026)(5)(14)	<del>50,233</del>	38,123	1.1%
			41,383	38,123	1.1%
TouchTunes Interactive Networks, Inc.	New York / Internet Software & Services	Second Lien Term Loan (9.47% (LIBOR + 8.25% with 1.00% LIBOR floor), due 5/29/2022)(3)(8)(11)	<del>14,907</del>	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)	<del>53,994</del>	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)	<del>56,031</del>	56,031	1.6%
			109,125	109,125	2.2%

See notes to consolidated financial statements.

F-33

PROSPECT CAPITAL CORPORATION AND SUBSIDIARIES  
CONSOLIDATED SCHEDULES OF INVESTMENTS (CONTINUED)  
(in thousands, except share data)

Portfolio Company	Locale / Industry	Investments(1)	June 30, 2017			
			Principal Value	Amortized Cost	Fair Value(2)	% of Net Assets
<b>LEVEL 3 PORTFOLIO INVESTMENTS</b>						
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%
				—	—	—%
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) Senior Secured Term Loan B (12.98% (LIBOR + 11.75% with 1.00% LIBOR floor), due 7/22/2021)(3)(13)	32,013	32,013	32,013	1.0%
			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) Senior Secured Term Loan B (13.48% (LIBOR + 12.25% with 1.00% LIBOR floor), due 4/15/2020)(3)(13) Equity(16)	13,307	13,307	13,307	0.4%
			18,897	18,897	18,897	0.6%
				1	—	—%
			33,205	33,204	1.0%	

Edgar Filing: PROSPECT CAPITAL CORP - Form 497

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%
Voya CLO 2012-4, Ltd.	Cayman Islands / Structured Finance	Income Notes (Residual Interest, current yield 14.13%, due 10/15/2028)(5)(14)	40,613	31,018	30,544	0.9%
				31,018	30,544	0.9%

See notes to consolidated financial statements.

F-34

PROSPECT CAPITAL CORPORATION AND SUBSIDIARIES  
CONSOLIDATED SCHEDULES OF INVESTMENTS (CONTINUED)  
(in thousands, except share data)

Portfolio Company	Locale / Industry Investments(1)	June 30, 2017		Fair Value(2)	% of Net Assets	
		Principal Value	Amortized Cost			
<b>LEVEL 3 PORTFOLIO INVESTMENTS</b>						
Non-Control/Non-Affiliate Investments (less than 5.00% voting control)						
Voya CLO 2014-1, Ltd.	Cayman Islands / Structured Finance	/Subordinated Notes (Residual 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 / Structured Finance	/Subordinated Notes (Residual 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 / Structured Finance	/Subordinated Notes (Residual 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 / Structured Finance	/Subordinated Notes (Residual 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%
			5,460	5,460	5,460	0.2%
Total Non-Control/Non-Affiliate Investments (Level 3)				17,460	17,460	0.6%
			\$4,117,868	\$3,915,101	\$3,915,101	116.7%
Total Portfolio Investments (Level 3)				\$5,981,556	\$5,838,305	174.0%

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 March 31, 2018 (Unaudited) 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 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 March 31, 2018 and June 30, 2017, all of our investments were valued using significant unobservable inputs. In accordance with ASC 820, such 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 security is not available as collateral to our general creditors (see Note 4). The fair values of the investments held by PCF at March 31, 2018 and June 30, 2017 were \$1,202,305 and \$1,513,413, respectively, representing 21.0% and 25.9% of our total investments, respectively.

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 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.

Co-investment with another fund managed by an affiliate of our investment adviser, Prospect Capital Management L.P. See Note 13 for further discussion.

Engine Group. Inc., Clearstream.TV. Inc., and ORC International, Inc., are joint borrowers on the senior secured and the second lien term loans.

Syndicated investment which was originated by a financial institution and broadly distributed.

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 2.45% and 1.45% at March 31, 2018 and June 30, 2017, respectively. The current base rate for each investment may be different from the reference rate on March 31, 2018 and June 30, 2017.

The interest rate on these investments is subject to the base rate of 3-Month LIBOR, which was 2.31% and 1.30% at March 31, 2018 and June 30, 2017, respectively. The current base rate for each investment may be different from the reference rate on March 31, 2018 and June 30, 2017.

The interest rate on these investments is subject to the base rate of 2-Month LIBOR, which was 2.00% and 1.25% at March 31, 2018 and June 30, 2017, respectively. The current base rate for each investment may be different from the reference rate on March 31, 2018 and June 30, 2017.

The interest rate on these investments is subject to the base rate of 1-Month LIBOR, which was 1.88% and 1.23% at March 31, 2018 and June 30, 2017, respectively. The current base rate for each investment may be different from the reference rate on March 31, 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 such acquisition is made, qualifying assets represent at least 70% of our total assets. As of March 31, 2018 and June 30, 2017, our qualifying assets as a percentage of total assets, stood at 73.72% 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 March 31, 2018 and June 30, 2017, we had \$19,675 and \$22,925, respectively, of undrawn revolver and delayed draw term loan commitments to our portfolio companies.

See notes to consolidated financial statements.

F-36

---



PROSPECT CAPITAL CORPORATION AND SUBSIDIARIES  
 CONSOLIDATED SCHEDULES OF INVESTMENTS (CONTINUED)  
 (in thousands, except share data)

Endnote Explanations as of March 31, 2018 (Unaudited) and June 30, 2017

- (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 March 31, 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 94.2% of CP Energy Services Inc. ("CP Energy") as of March 31, 2018, which is an increase from 82.3% owned 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. Effective December 31, 2014, CP Energy underwent a corporate reorganization in order to consolidate certain of its wholly-owned subsidiaries. On October 30, 2015, we restructured our investment in CP Energy. Concurrent with the restructuring, we exchanged our \$86,965 senior secured loan and \$15,924 subordinated loan for Series B Convertible Preferred Stock in CP Energy. 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.
- (20) 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 March 31, 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.
- (21) 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 11.5% and the investment was transferred from a controlled to an affiliate investment classification as of March 31, 2018.
- (22) 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 March 31, 2018 and June 30, 2017. We report First Tower Finance as a separate controlled company.
- (23) Energy Solutions Holdings Inc., a consolidated entity in which we own 100% of the 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. On October 30, 2015, we restructured our investment in Freedom Marine. Concurrent with the restructuring, we exchanged our \$32,500 senior secured loans for additional membership interest in Freedom Marine.
- (24) MITY Holdings of Delaware Inc. ("MITY Delaware"), a consolidated entity in which we own 100% of the common stock, owns 95.48% and 95.83% of the equity of MITY, Inc. (f/k/a MITY Enterprises, Inc.) ("MITY"), as of

March 31, 2018 and June 30, 2017, respectively. 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 March 31, 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”), the principal and fair value of 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 nine months ended March 31, 2018, we received \$211 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.

F-37

---

PROSPECT CAPITAL CORPORATION AND SUBSIDIARIES  
 CONSOLIDATED SCHEDULES OF INVESTMENTS (CONTINUED)  
 (in thousands, except share data)

Endnote Explanations as of March 31, 2018 (Unaudited) and June 30, 2017

(26) 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 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.

(27) Nationwide Acceptance Holdings LLC, a consolidated entity in which we own 100% of the membership interests, owns 94.48% and 93.79% of Nationwide Loan Company LLC (f/k/a Nationwide Acceptance LLC), the operating company, as of March 31, 2018 and June 30, 2017, respectively. We report Nationwide Loan Company LLC as a separate controlled company. On June 1, 2015, Nationwide Acceptance LLC completed a reorganization and was renamed 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.

(28) 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 March 31, 2018 and June 30, 2017, respectively. NMMB owns 100% of Refuel Agency, Inc., which owns 100% of Armed Forces Communications, Inc. We report NMMB as a separate controlled company.

(29) 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 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. Gulf Coast holds \$2,050 in escrow related to the sale, which will be distributed to Prospect once released to Gulf Coast, and will be recognized as a realized gain if and when it is received. 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 March 31, 2018 and June 30, 2017.

(31) 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 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 the 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.

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 March 31, 2018 and June 30, 2017, respectively. On September 25, (33)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.

As of March 31, 2018 and June 30, 2017, we own 99.9999% of AGC/PEP, LLC (“AGC/PEP”). As of September 30, 2016, AGC/PEP, 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 (34)Gilsonite Company (“AGC”). On October 24, 2016, AGC filed for a joint prepackaged plan of reorganization under Chapter 11 of the bankruptcy code. As of June 30, 2017, AGC has emerged from bankruptcy and AGC Holdco was dissolved. AGC/PEP received a total of 131 shares in AGC, representing a total ownership stake of 0.05% in AGC.

See notes to consolidated financial statements.

F-38

---

PROSPECT CAPITAL CORPORATION AND SUBSIDIARIES  
CONSOLIDATED SCHEDULES OF INVESTMENTS (CONTINUED)  
(in thousands, except share data)

Endnote Explanations as of March 31, 2018 (Unaudited) and June 30, 2017

(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. We report Arctic Energy as a separate controlled company. On September 30, 2015, we restructured our investment in (37) Arctic Energy. Concurrent with the restructuring, we exchanged our \$31,640 senior secured loan and our \$20,230 subordinated loan for Class D and Class E Units in Arctic Energy. Our ownership of Arctic Energy 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.

(38) NCP Finance Limited Partnership, NCP Finance Ohio, LLC, and certain affiliates thereof are joint borrowers on the subordinated secured term loan.

As of March 31, 2018 and June 30, 2017, Prospect owns 8.57% of the equity in Encinitas Watches Holdco, LLC (39) (f/k/a Nixon Holdco, LLC), the parent company of Nixon, Inc. On February 26, 2018, Prospect entered into a debt 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 as a result of this transaction.

(40) As of March 31, 2018 and June 30, 2017, PGX Holdings, Inc. is the sole borrower on the second lien term loan.

(41) Our wholly-owned subsidiary Prospect Small Business Lending, LLC purchases small business whole loans from small business loan originators, including On Deck Capital, Inc.

(42) Turning Point Brands, Inc. and North Atlantic Trading Company, Inc. are joint borrowers and guarantors on the secured loan facility.

(43) The overriding royalty interests held receive payments at the stated rates based upon operations of the borrower.

(44) The following shows the composition of our investment portfolio at cost by control designation, investment type and by industry as of March 31, 2018:

Industry	1st Lien Term Loan	2nd Lien Term Loan	CLO Residual Interest	Unsecured Debt	Equity (C)	Cost Total
Control Investments						
Aerospace & Defense	\$47,099	\$—	\$	—\$	\$22,738	\$69,837
Commercial Services & Supplies	117,862	—	—	7,200	6,849	131,911
Construction & Engineering	37,722	—	—	—	26,204	63,926
Consumer Finance	—	336,367	—	—	116,839	453,206
Electronic Equipment, Instruments & Components	20,700	—	—	—	6,759	27,459
Energy Equipment & Services	35,048	—	—	—	190,061	225,109
Equity Real Estate						
Investment Trusts (REITs)	293,203	—	—	—	156,578	449,781
Machinery	—	28,622	—	—	6,866	35,488
Media	10,614	—	—	—	12,869	23,483
Online Lending	276,549	—	—	—	100,949	377,498
Total Control Investments	\$838,797	\$364,989	\$	—\$ 7,200	\$646,712	\$1,857,698
Affiliate Investments						

Edgar Filing: PROSPECT CAPITAL CORP - Form 497

Diversified Consumer Services	\$—	\$7,834	\$	-\$ 31,193	\$6,577	\$45,604
Textiles, Apparel & Luxury Goods	—	—	—	—	9,878	9,878

See notes to consolidated financial statements.

F-39

---

PROSPECT CAPITAL CORPORATION AND SUBSIDIARIES  
CONSOLIDATED SCHEDULES OF INVESTMENTS (CONTINUED)  
(in thousands, except share data)

Endnote Explanations as of March 31, 2018 (Unaudited) and June 30, 2017

Total Affiliate Investments	\$—	\$7,834	\$—	\$31,193	\$16,455	\$55,482
Non-Control/Non-Affiliate Investments						
Air Freight & Logistics	\$—	\$—	\$—	\$—	\$—	\$—
Auto Components	—	33,546	—	—	—	33,546
Building Products	—	9,902	—	—	—	9,902
Capital Markets	—	19,792	—	—	—	19,792
Chemicals	—	17,491	—	—	—	17,491
Commercial Services & Supplies	107,576	164,342	—	—	—	271,918
Communications Equipment	—	39,855	—	—	—	39,855
Consumer Finance	30,550	—	—	—	—	30,550
Distributors	525,400	131,699	—	—	—	657,099
Diversified Consumer Services	10,000	118,289	—	—	—	128,289
Electronic Equipment, Instruments & Components	12,407	14,851	—	—	—	27,258
Energy Equipment & Services	28,992	—	—	—	—	28,992
Food Products	—	9,880	—	—	—	9,880
Health Care Equipment & Supplies	31,250	7,463	—	—	—	38,713
Health Care Providers & Services	359,977	77,134	—	—	1,252	438,363
Health Care Technology	—	14,928	—	—	—	14,928
Hotels, Restaurants & Leisure	30,000	7,482	—	—	—	37,482
Household & Personal Products	25,000	—	—	—	—	25,000
Household Durables	17,106	28,298	—	—	—	45,404
Insurance	—	2,986	—	—	—	2,986
Internet & Direct Marketing Retail	4,875	35,000	—	—	—	39,875
Internet Software & Services	174,493	13,921	—	—	—	188,414
IT Services	—	21,576	—	—	—	21,576
Leisure Products	38,107	10,898	—	—	1	49,006
Marine	—	8,943	—	—	—	8,943
Media	101,411	2,974	—	—	—	104,385
Metals & Mining	—	—	—	—	—	—
Online Lending	—	—	—	288	—	288
Paper & Forest Products	—	11,320	—	—	—	11,320
Personal Products	213,825	—	—	—	—	213,825
Pharmaceuticals	—	11,881	—	—	—	11,881
Professional Services	9,518	63,731	—	—	—	73,249
Real Estate Management & Development	42,000	—	—	—	—	42,000
Software	—	55,160	—	—	—	55,160
Technology Hardware, Storage & Peripherals	—	12,380	—	—	—	12,380
Textiles, Apparel & Luxury Goods	—	36,525	—	—	—	36,525
Tobacco	—	14,387	—	—	—	14,387
Trading Companies & Distributors	64,025	—	—	—	—	64,025
Transportation Infrastructure	—	30,291	—	—	—	30,291
Structured Finance (B)	—	—	1,096,809	—	—	1,096,809
Total Non-Control/ Non-Affiliate	\$1,826,512	\$1,026,925	\$1,096,809	\$288	\$1,253	\$3,951,787
Total Portfolio Investment Cost	\$2,665,309	\$1,399,748	\$1,096,809	\$38,681	\$664,420	\$5,864,967

The following table shows the composition of our investment portfolio at fair value by control designation, investment type and by industry as of March 31, 2018:

See notes to consolidated financial statements.

F-40

---



PROSPECT CAPITAL CORPORATION AND SUBSIDIARIES  
CONSOLIDATED SCHEDULES OF INVESTMENTS (CONTINUED)  
(in thousands, except share data)

Endnote Explanations as of March 31, 2018 (Unaudited) and June 30, 2017

Industry	1st Lien Term Loan	2nd Lien Term Loan	CLO Residual Interest	Unsecured Debt	Equity <sup>(C)</sup>	Fair Value Total	% Net Assets
<b>Control Investments</b>							
Aerospace & Defense	\$47,099	\$—	\$ —	\$—	\$32,202	\$79,301	2.4 %
Commercial Services & Supplies	60,364	—	—	5,716	5,715	71,795	2.1 %
Construction & Engineering	37,722	—	—	—	4,740	42,462	1.3 %
Consumer Finance	—	341,435	—	—	201,163	542,598	16.2 %
Electronic Equipment, Instruments & Components	20,700	—	—	—	15,557	36,257	1.1 %
Energy Equipment & Services	35,048	—	—	—	96,899	131,947	3.9 %
Equity Real Estate							
Investment Trusts (REITs)	293,203	—	—	—	440,423	733,626	21.9 %
Machinery	—	28,622	—	—	2,403	31,025	0.9 %
Media	10,614	—	—	—	9,835	20,449	0.6 %
Online Lending	276,549	—	—	—	20,975	297,524	8.9 %
Total Control Investments	\$781,299	\$370,057	\$ —	\$5,716	\$829,912	\$1,986,984	59.4 %
% of Net Assets	23.3	%11.1	%—	%0.2	%24.8	%59.4	%
<b>Affiliate Investments</b>							
Diversified Consumer Services	\$—	\$7,834	\$ —	\$25,093	\$—	\$32,927	1.0 %
Textiles, Apparel & Luxury Goods	—	—	—	—	19,361	19,361	0.6 %
Total Affiliate Investments	\$—	\$7,834	\$ —	\$25,093	\$19,361	\$52,288	1.6 %
% of Net Assets	—	%0.2	%—	%0.7	%0.6	%1.6	%
<b>Non-Control/Non-Affiliate Investments</b>							
Air Freight & Logistics	\$—	\$—	\$ —	\$—	\$—	\$—	— %
Auto Components	—	33,708	—	—	—	33,708	1.0 %
Building Products	—	10,000	—	—	—	10,000	0.3 %
Capital Markets	—	20,000	—	—	—	20,000	0.6 %
Chemicals	—	17,500	—	—	—	17,500	0.5 %
Commercial Services & Supplies	106,515	162,593	—	—	900	270,008	8.1 %
Communications Equipment	—	40,000	—	—	—	40,000	1.2 %
Consumer Finance	33,296	—	—	—	—	33,296	1.0 %
Distributors	525,400	47,780	—	—	—	573,180	17.1 %
Diversified Consumer Services	10,000	118,289	—	—	—	128,289	3.8 %
Electronic Equipment, Instruments & Components	11,518	14,866	—	—	—	26,384	0.8 %
Energy Equipment & Services	31,025	—	—	—	—	31,025	0.9 %
Food Products	—	9,880	—	—	—	9,880	0.3 %
Health Care Equipment & Supplies	31,250	7,500	—	—	—	38,750	1.2 %
Health Care Providers & Services	355,580	77,359	—	—	506	433,445	13.0 %
Health Care Technology	—	15,300	—	—	—	15,300	0.5 %
Hotels, Restaurants & Leisure	30,000	7,482	—	—	—	37,482	1.1 %
Household & Personal Products	25,000	—	—	—	—	25,000	0.7 %

Edgar Filing: PROSPECT CAPITAL CORP - Form 497

Household Durables	16,155	28,600	—	—	—	44,755	1.3 %
Insurance	—	2,986	—	—	—	2,986	0.1 %
Internet & Direct Marketing Retail	4,875	35,000	—	—	—	39,875	1.2 %
Internet Software & Services	174,493	14,000	—	—	—	188,493	5.6 %
IT Services	—	21,990	—	—	—	21,990	0.7 %

See notes to consolidated financial statements.

F-41

---

PROSPECT CAPITAL CORPORATION AND SUBSIDIARIES  
CONSOLIDATED SCHEDULES OF INVESTMENTS (CONTINUED)  
(in thousands, except share data)

Endnote Explanations as of March 31, 2018 (Unaudited) and June 30, 2017

Leisure Products	38,107	11,000	—	—	—	49,107	1.5	%
Marine (A)	—	8,879	—	—	—	8,879	0.3	%
Media	101,461	2,974	—	—	—	104,435	3.1	%
Metals & Mining	—	—	—	—	—	—	—	%
Online Lending	—	—	—	199	—	199	—	%
Paper & Forest Products	—	11,500	—	—	—	11,500	0.3	%
Personal Products	183,151	—	—	—	—	183,151	5.5	%
Pharmaceuticals	—	12,000	—	—	—	12,000	0.4	%
Professional Services	9,649	65,514	—	—	—	75,163	2.2	%
Real Estate Management & Development	42,000	—	—	—	—	42,000	1.3	%
Software	—	55,971	—	—	—	55,971	1.7	%
Technology Hardware, Storage & Peripherals	—	12,500	—	—	—	12,500	0.4	%
Textiles, Apparel & Luxury Goods	—	37,000	—	—	—	37,000	1.1	%
Tobacco	—	13,933	—	—	—	13,933	0.4	%
Trading Companies & Distributors	57,610	—	—	—	—	57,610	1.7	%
Transportation Infrastructure	—	30,923	—	—	—	30,923	0.9	%
Structured Finance (B)	—	—	944,815	—	—	944,815	28.2	%
Total Non-Control/ Non-Affiliate	\$1,787,085	\$947,027	\$944,815	\$199	\$1,406	\$3,680,532	110.0	%
% of Net Assets	53.4	%28.3	%28.2	%—	%—	%110.0		%
Total Portfolio	\$2,568,384	\$1,324,918	\$944,815	\$31,008	\$850,679	\$5,719,804	170.9	%
% of Net Assets	76.8	%39.6	%28.2	%0.9	%25.4	%170.9		%

(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 March 31, 2018 is \$171,851.

(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.

(45) The following table 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 Term Loan	2nd Lien Term Loan	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

Edgar Filing: PROSPECT CAPITAL CORP - Form 497

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
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

See notes to consolidated financial statements.

F-42

---

PROSPECT CAPITAL CORPORATION AND SUBSIDIARIES  
CONSOLIDATED SCHEDULES OF INVESTMENTS (CONTINUED)  
(in thousands, except share data)

Endnote Explanations as of March 31, 2018 (Unaudited) and June 30, 2017

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
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 table 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	% Net Assets
Control Investments							
Aerospace & Defense	\$47,099	\$	\$	\$	\$24,219	\$71,318	2.1 %

Edgar Filing: PROSPECT CAPITAL CORP - Form 497

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	%

See notes to consolidated financial statements.

F-43

---

PROSPECT CAPITAL CORPORATION AND SUBSIDIARIES  
CONSOLIDATED SCHEDULES OF INVESTMENTS (CONTINUED)  
(in thousands, except share data)

Endnote Explanations as of March 31, 2018 (Unaudited) and June 30, 2017

Industry	1st Lien Term Loan	2nd Lien Term Loan	CLO Residual Interest	Unsecured Debt	Equity (C)	Fair Value Total	% Net Assets
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 %
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 %
% 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 %
% of Net Assets	0.2	%—	%—	%—	%0.2	%0.3	%
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 %

Edgar Filing: PROSPECT CAPITAL CORP - Form 497

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 %

See notes to consolidated financial statements.

F-44

---



PROSPECT CAPITAL CORPORATION AND SUBSIDIARIES  
CONSOLIDATED SCHEDULES OF INVESTMENTS (CONTINUED)  
(in thousands, except share data)

Endnote Explanations as of March 31, 2018 (Unaudited) and June 30, 2017

Industry	1st Lien Term Loan	2nd Lien Term Loan	CLO Residual Interest	Unsecured Debt	Equity (C)	Fair Value Total	% Net Assets
Trading Companies & Distributors	64,513	—	—	—	—	64,513	1.9 %
Structured Finance (B)	—	—	1,079,712	—	—	1,079,712	32.2 %
Total Non-Control/ Non-Affiliate	\$2,077,149	\$748,630	\$1,079,712	\$7,964	\$1,646	\$3,915,101	116.7 %
% 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	174.0 %
% 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.

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 March 31, 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	—%	2.25%	2.25%	
Echelon Transportation LLC	—%	1.00%	1.00%	
Edmentum Ultimate Holdings, LLC - Revolving Credit Facility	N/A	N/A	N/A	(B)
Edmentum Ultimate Holdings, LLC - Unsecured Senior PIK Note	8.50%	—%	8.50%	
First Tower Finance Company LLC	—%	7.00%	7.00%	
InterDent, Inc.	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	—%	5.00%	5.00%	
Nationwide Loan Company LLC	3.50%	6.50%	10.00%	
Spartan Energy Services, Inc.	13.65%	—%	13.65%	
Valley Electric Co. of Mt. Vernon, Inc.	—%	2.50%	2.50%	
Valley Electric Company, Inc.	8.50%	—%	8.50%	
Venio LLC	N/A	N/A	N/A	(A)

(A) The issuer capitalized 10.00% PIK on the next payment/capitalization date, which was April 2, 2018.

(B) The issuer capitalized 5.00% PIK on the next payment/capitalization date, which was April 30, 2018.

See notes to consolidated financial statements.

F-45

---

PROSPECT CAPITAL CORPORATION AND SUBSIDIARIES  
 CONSOLIDATED SCHEDULES OF INVESTMENTS (CONTINUED)  
 (in thousands, except share data)

Endnote Explanations as of March 31, 2018 (Unaudited) and June 30, 2017

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 Cayman HoldCo Limited - Senior Secured Term Loan A	15.00%	—%	15.00%	
Targus Cayman HoldCo Limited - 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) Next PIK payment/capitalization date was July 31, 2017. The company paid 2.25% PIK in cash.

(D) Next PIK payment/capitalization date was July 31, 2017. The company paid 1.00% PIK in cash.

See notes to consolidated financial statements.

F-46

PROSPECT CAPITAL CORPORATION AND SUBSIDIARIES  
CONSOLIDATED SCHEDULES OF INVESTMENTS (CONTINUED)  
(in thousands, except share data)

Endnote Explanations as of March 31, 2018 (Unaudited) and June 30, 2017

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 nine months ended March 31, 2018 with these controlled 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 March 31, 2018	Interest income	Dividend income	Other income	Net realized gains (losses)
Arctic Energy Services, LLC	\$17,370	\$3,569	\$—	\$6,078	\$27,017	\$—	\$—	\$—	\$—
CCPI Inc.	43,052	—	(481)	(6,314)	36,257	2,776	—	—	—
CP Energy Services Inc.	72,216	—	—	17,967	90,183	2,217	—	228	—
Credit Central Loan Company, LLC	64,435	1,533	—	10,489	76,457	9,425	—	903	—
Echelon Transportation LLC (f/k/a Echelon Aviation LLC)	71,318	—	—	7,983	79,301	4,774	—	—	—
Edmentum Ultimate Holdings, LLC***	46,895	5,394	(39,196)	(13,093)	—	415	—	—	—
First Tower Finance Company LLC	365,588	20,456	(6,735)	55,842	435,151	33,737	—	2,664	—
Freedom Marine Solutions, LLC	23,994	682	—	(11,488)	13,188	—	—	—	—
MITY, Inc.	76,512	—	—	(14,389)	62,123	6,156	—	1,093	13
National Property REIT Corp.	987,304	110,692	(73,709)	6,863	1,031,150	69,436	5,639	6,207	—
Nationwide Loan Company LLC	36,945	4,370	—	(10,325)	30,990	2,605	—	—	—
NMMB, Inc.	20,825	—	—	(376)	20,449	1,131	—	—	—
R-V Industries, Inc.	32,678	—	—	(1,653)	31,025	2,254	—	—	—
SB Forging Company II, Inc. (f/k/a Gulf Coast Machine & Supply Company)	1,940	—	—	(929)	1,011	—	—	—	—
USES Corp.	12,517	2,999	(3)	(5,841)	9,672	—	—	—	—
Valley Electric Company, Inc.	32,509	1,670	—	8,283	42,462	4,466	—	—	—
Wolf Energy, LLC	5,677	—	(2,930)	(2,199)	548	—	—	1,222	—
Total	\$1,911,775	\$151,365	\$(123,054)	\$46,898	\$1,986,984	\$139,392	\$5,639	\$12,317	\$13

\* Gross additions include increases in the cost basis of the investments resulting from new portfolio investments, OID accretion and PIK interest.

\*\* 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.

\*\*\* Investment was transferred to affiliated investments at \$31,362, the fair market value at the beginning of the three month period ended March 31, 2018. Refer to endnote #22.

See notes to consolidated financial statements.

F-47

---

PROSPECT CAPITAL CORPORATION AND SUBSIDIARIES  
CONSOLIDATED SCHEDULES OF INVESTMENTS (CONTINUED)  
(in thousands, except share data)

Endnote Explanations as of March 31, 2018 (Unaudited) and June 30, 2017

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 nine months ended March 31, 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 March 31, 2018	Interest income	Dividend income	Other income	Net realized gains (losses)
Edmentum Ultimate Holdings, LLC***	\$—	\$ 34,261	\$—	\$ (1,334 )	\$32,927	\$ 271	\$	—	—
Nixon, Inc.	—	—	(14,197 )	14,197	—	—	—	—	(14,197 )
Targus Cayman HoldCo Limited	11,429	1,117	—	6,815	19,361	205	—	—	846
Total	\$ 11,429	\$ 35,378	\$ (14,197 )	\$ 19,678	\$ 52,288	\$ 476	\$	—	—\$(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.

\*\*\* Investment was transferred from controlled investments at \$31,362, the fair market value at the beginning of the three month period ended March 31, 2018. Refer to endnote #22.

See notes to consolidated financial statements.

F-48

PROSPECT CAPITAL CORPORATION AND SUBSIDIARIES  
CONSOLIDATED SCHEDULES OF INVESTMENTS (CONTINUED)  
(in thousands, except share data)

Endnote Explanations as of March 31, 2018 (Unaudited) and June 30, 2017

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	—
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 Company II, Inc. (f/k/a Gulf Coast Machine & Supply Company)	7,312	8,750	(69,125)	)55,003	1,940	—	—	—	(66,103)
USES Corp.	40,286	2,599	(154)	)(30,214)	)12,517	—	—	—	—
Valley Electric Company, Inc.	31,091	1,821	—	(403)	)32,509	5,629	—	—	—
Wolf Energy, LLC	678	22,145	(15,344)	)(1,802)	)5,677	—	—	—	—
Total	\$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 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.

See notes to consolidated financial statements.

F-49

---



PROSPECT CAPITAL CORPORATION AND SUBSIDIARIES  
 CONSOLIDATED SCHEDULES OF INVESTMENTS (CONTINUED)  
 (in thousands, except share data)

Endnote Explanations as of March 31, 2018 (Unaudited) and June 30, 2017

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 Cayman HoldCo Limited	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, 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.

\*\*\* 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.

See notes to consolidated financial statements.

F-50

PROSPECT CAPITAL CORPORATION AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(in thousands, except share and per share data)  
(Unaudited)

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: APH Property Holdings, LLC (“APH”); Arctic Oilfield Equipment USA, Inc.; 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”); 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. We collectively refer to these entities as the “Consolidated Holding Companies.”

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-Q, ASC 946, Financial Services—Investment Companies (“ASC 946”), and Articles 6, 10 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.

F-51

---

## 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 three and nine months ended March 31, 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 March 31, 2018 and June 30, 2017, our qualifying assets as a percentage of total assets, stood at 73.72% 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 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 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 both a discounted single-path cash flow model and 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, after payments to debt tranches senior to our equity positions, 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.

F-54

---



#### 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 March 31, 2018, approximately 1.3% 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 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

F-55

---

(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 March 31, 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 ten 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 March 31, 2018 and for the three and nine months then ended, 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, 2014 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 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

F-56

---

to capital upon the receipt of proceeds from an equity offering or charged to expense if no offering is completed. As of March 31, 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. We are currently evaluating the impact, if any, of adopting this ASU on our consolidated financial statements.

#### Note 3. Portfolio Investments

At March 31, 2018, we had investments in 134 long-term portfolio investments, which had an amortized cost of \$5,864,967 and a fair value of \$5,719,804. 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 \$1,390,816 and \$1,266,294 during the nine

months ended March 31, 2018 and March 31, 2017, respectively. Debt repayments and considerations from sales of equity securities of \$1,471,246 and \$1,061,839 were received during the nine months ended March 31, 2018 and March 31, 2017, respectively.

F-57

---

The following table shows the composition of our investment portfolio as of March 31, 2018 and June 30, 2017.

	March 31, 2018		June 30, 2017	
	Cost	Fair Value	Cost	Fair Value
Revolving Line of Credit	\$38,659	\$38,593	\$27,409	\$27,409
Senior Secured Debt	2,634,484	2,537,625	2,940,163	2,798,796
Subordinated Secured Debt	1,391,914	1,317,084	1,160,019	1,107,040
Subordinated Unsecured Debt	38,393	30,809	37,934	44,434
Small Business Loans	288	199	8,434	7,964
CLO Residual Interest	1,096,809	944,815	1,150,006	1,079,712
Equity	664,420	850,679	657,591	772,950
Total Investments	\$5,864,967	\$5,719,804	\$5,981,556	\$5,838,305

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 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 March 31, 2018.

	Level 1	Level 2	Level 3	Total
Revolving Line of Credit	\$ —	—\$	—\$38,593	\$38,593
Senior Secured Debt	—	—	2,537,625	2,537,625
Subordinated Secured Debt	—	—	1,317,084	1,317,084
Subordinated Unsecured Debt	—	—	30,809	30,809
Small Business Loans	—	—	199	199
CLO Residual Interest	—	—	944,815	944,815
Equity	—	—	850,679	850,679
Total Investments	\$ —	—\$	—\$5,719,804	\$5,719,804

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

The following tables show the aggregate changes in the fair value of our Level 3 investments during the nine months ended March 31, 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 )	(5,800 )	(19,138 )
Net change in unrealized gains (losses)(1)	46,898	19,678	(68,488 )	(1,912 )
Net realized and unrealized gains (losses)	46,911	6,327	(74,288 )	(21,050 )
Purchases of portfolio investments	145,623	3,588	1,235,479	1,384,690
Payment-in-kind interest	4,210	428	1,490	6,128
Accretion (amortization) of discounts and premiums, net	1,532	—	(19,238 )	(17,706 )
Repayments and sales of portfolio investments	(91,705 )	(846 )	(1,378,012 )	(1,470,563 )
Transfers within Level 3(1)	(31,362 )	31,362	—	—
Transfers in (out) of Level 3(1)	—	—	—	—
Fair value as of March 31, 2018	\$ 1,986,984	\$ 52,288	\$ 3,680,532	\$ 5,719,804



Edgar Filing: PROSPECT CAPITAL CORP - Form 497

	Revolving Senior Line of Credit	Secured Debt	Subordinated Secured Debt	Subordinate Unsecured Debt	Small Business Loans	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 gains (losses) on investments	—	(16,369 )	—	13	(322 )	(2,495 )	35	(19,138 )
Net change in unrealized gains (losses)(1)	(66 )	44,514	(21,855 )	(14,085 )	381	(81,704 )	70,903	(1,912 )
Net realized and unrealized gains (losses)	(66 )	28,145	(21,855 )	(14,072 )	59	(84,199 )	70,938	(21,050 )
Purchases of portfolio investments	19,308	902,101	354,603	—	7,551	32,134	68,993	1,384,690
Payment-in-kind interest	—	3,672	1,996	460	—	—	—	6,128
Accretion (amortization) of discounts and premiums, net	—	2,304	3,960	—	—	(23,970 )	—	(17,706 )
Repayments and sales of portfolio investments	(8,058 )	(1,240,097 )	(128,660 )	(13 )	(15,375 )	(58,862 )	(19,498 )	(1,470,563 )
Transfers within Level 3(1)	—	42,704	—	—	—	—	(42,704 )	—
Transfers in (out) of Level 3(1)	—	—	—	—	—	—	—	—
Fair value as of March 31, 2018	\$38,593	\$2,537,625	\$1,317,084	\$30,809	\$199	\$944,815	\$850,679	\$5,719,804

Transfers, if any, are assumed to have occurred at the beginning of the quarter during which the asset was (1) transferred. Refer to Consolidated Schedule of Investment endnotes #47 and #48 for the fair value and change in unrealized transferred as a result of changes in control.

The following tables show the aggregate changes in the fair value of our Level 3 investments during the nine months ended March 31, 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 gains (losses) on investments	184	137	(1,438 )	(1,117 )
Net change in unrealized gains (losses)	(30,937 )	(1,854 )	(2,480 )	(35,271 )
Net realized and unrealized gains (losses)	(30,753 )	(1,717 )	(3,918 )	(36,388 )
Purchases of portfolio investments	300,921	—	951,047	1,251,968
Payment-in-kind interest	11,003	—	3,323	14,326
Accretion (amortization) of discounts and premiums, net	563	—	(43,500 )	(42,937 )
Repayments and sales of portfolio investments	(163,609 )	(2,364 )	(893,938 )	(1,059,911 )

Edgar Filing: PROSPECT CAPITAL CORP - Form 497

Transfers within Level 3(1)				22,145	—	(22,145)	)	—
Transfers in (out) of Level 3(1)				—	—	—		—
Fair value as of March 31, 2017				\$ 1,892,719	\$ 7,239	\$ 4,124,808		\$ 6,024,766
	Revolving Senior	Subordinated	Subordinate	Small	CLO			
	Line of Credit	Secured Debt	Secured Debt	Unsecured Debt	Business Loans	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 gains (losses) on investments	—	238	146	5	(2,378)	)	—	872 (1,117)
Net change in unrealized gains (losses)	—	(37,062)	) 10,610	11,723	(167)	) 773	(21,148)	) (35,271)
Net realized and unrealized gains (losses)	—	(36,824)	) 10,756	11,728	(2,545)	) 773	(20,276)	) (36,388)
Purchases of portfolio investments	15,621	683,381	328,791	—	42,164	108,676	73,335	1,251,968
Payment-in-kind interest	—	4,364	8,048	1,914	—	—	—	14,326
Accretion (amortization) of discounts and premiums, net	—	499	3,192	—	—	(46,628)	)	(42,937)
Repayments and sales of portfolio investments	(7,424)	) (593,665)	) (329,714)	) (40,005)	) (43,313)	)	—	(45,790) (1,059,911)
Transfers within Level 3(1)	—	(77,145)	)	—	—	—	77,145	—
Transfers in (out) of Level 3(1)	—	—	—	—	—	—	—	—
Fair value as of March 31, 2017	\$ 21,471	\$ 2,922,332	\$ 1,230,677	\$ 41,995	\$ 10,521	\$ 1,072,517	\$ 725,253	\$ 6,024,766

(1) Transfers, if any, are assumed to have occurred at the beginning of the quarter during which the asset was transferred.

For the nine months ended March 31, 2018 and March 31, 2017, the net change in unrealized (losses) gains on the investments that use Level 3 inputs was (\$28,205) and (\$46,678) for investments still held as of March 31, 2018 and March 31, 2017, respectively.

Edgar Filing: PROSPECT CAPITAL CORP - Form 497

The ranges of unobservable inputs used in the fair value measurement of our Level 3 investments as of March 31, 2018 were as follows:

Asset Category	Fair Value	Primary Valuation Approach or Technique	Unobservable Input		Weighted Average
			Input	Range	
Senior Secured Debt	\$1,691,444	Discounted Cash Flow (Yield analysis)	Market Yield	7.1% - 23.1%	11.7%
Senior Secured Debt	222,417	Enterprise Value Waterfall (Market approach)	EBITDA Multiple	4.0x - 9.8x	6.8x
Senior Secured Debt	44,719	Enterprise Value Waterfall (Market approach)	Revenue Multiple	0.3x - 3.0x	2.7x
Senior Secured Debt	47,099	Enterprise Value Waterfall (Discounted cash flow)	Discount Rate	7.4% - 16.0%	10.6%
Senior Secured Debt	787	Liquidation Analysis	N/A	N/A	N/A
Senior Secured Debt (1)	276,549	Enterprise Value Waterfall	Loss-adjusted discount rate	3.0% - 14.0%	10.8%
Senior Secured Debt (2)	293,203	Enterprise Value Waterfall (NAV Analysis)	Capitalization Rate	3.3% - 8.0%	5.6%
Senior Secured Debt (2)		Discounted Cash Flow	Discount Rate	6.5% - 7.5%	7.0%
Subordinated Secured Debt	899,248	Discounted Cash Flow (Yield analysis)	Market Yield	6.1% - 25.8%	11.6%
Subordinated Secured Debt	28,622	Enterprise Value Waterfall (Market approach)	EBITDA Multiple	6.8x - 9.5x	8.1x
Subordinated Secured Debt	47,780	Enterprise Value Waterfall (Market approach)	Revenue Multiple	0.3x - 0.4x	0.3x
Subordinated Secured Debt (3)	341,434	Enterprise Value Waterfall (Market approach)	Book Value Multiple	0.7x - 3.1x	2.5x
Subordinated Secured Debt (3)		Enterprise Value Waterfall (Market approach)	Earnings Multiple	7.5x - 13.0x	11.9x
Subordinated Unsecured Debt	30,809	Enterprise Value Waterfall (Market approach)	EBITDA Multiple	5.8x - 10.8x	9.1x
Small Business Loans (4)	199	Discounted Cash Flow	Loss-adjusted Discount Rate	4.4% - 27.7%	15.7%
CLO Residual Interest (5)	944,815	Discounted Cash Flow	Discount Rate	1.6% - 26.3%	17.9%
Preferred Equity	65,477	Enterprise Value Waterfall (Market approach)	EBITDA Multiple	2.5x - 7.5x	3.0x
Common Equity/Interests/Warrants	28,415	Enterprise Value Waterfall (Market approach)	EBITDA Multiple	2.5x - 8.5x	5.8x
Common Equity/Interests/Warrants	46,378	Enterprise Value Waterfall (Market approach)	Revenue Multiple	0.6x - 1.4x	0.9x
Common Equity/Interests/Warrants (1)	20,975	Enterprise Value Waterfall	Loss-adjusted discount rate	3.0% - 14.0%	10.8%
Common Equity/Interests/Warrants (2)	348,148	Enterprise Value Waterfall (NAV analysis)	Capitalization Rate	3.3% - 8.0%	5.6%
Common Equity/Interests/Warrants (2)		Discounted Cash Flow	Discount Rate	6.5% - 7.5%	7.0%
Common Equity/Interests/Warrants (3)	198,914	Enterprise Value Waterfall (Market approach)	Book Value Multiple	0.7x - 3.1x	2.4x

Edgar Filing: PROSPECT CAPITAL CORP - Form 497

Common Equity/Interests/Warrants (3)		Enterprise Value Waterfall (Market approach)	Earnings Multiple	7.5x - 13.0x	11.9x
Common Equity/Interests/Warrants (6)	92,275	Discounted Cash Flow	Discount Rate	6.5% - 7.5%	7.0%
Common Equity/Interests/Warrants	35,462	Discounted Cash Flow	Discount Rate	7.4% - 16.0%	8.8%
Common Equity/Interests/Warrants	13,735	Liquidation Analysis	N/A	N/A	N/A
Escrow Receivable	900	Discounted Cash Flow	Discount Rate	7.4% - 8.5%	8.0%
Total Level 3 Investments	\$5,719,804				

F-61

---

- 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 0.00-21.53%, with a weighted average of 5.77%.
  - (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 utilizes the discounted cash flow technique whereby the significant unobservable input is the discount rate. For these companies the book value multiple and earnings multiple techniques are weighted 37.5% and the discounted cash flow technique is weighted 25%. For these companies the discount rate ranged from 13.0% to 16.0% with a weighted average of 14.2%.
  - (3) For these companies the book value multiple and earnings multiple techniques are weighted 37.5% and the discounted cash flow technique is weighted 25%. For these companies the discount rate ranged from 13.0% to 16.0% 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%-0.62%, with a weighted average of 0.06%.
  - (5) Discount rate range and weighted average calculations exclude investments called for redemption.
  - (6) Represents net operating income interests in our REIT investments.

F-62

---

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 (5)	1,079,712	Discounted Cash Flow	Discount Rate	12.0%-21.9%	17.0%
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%
Common Equity/Interests/Warrants		Discounted Cash Flow	Discount Rate	6.5%-7.5%	7.0%

(2) Common Equity/Interests/Warrants	134,481	Enterprise Value Waterfall (Market approach)	Book Value Multiple	1.2x-2.8x	2.3x
(3) Common Equity/Interests/Warrants		Enterprise Value Waterfall (Market approach)	Earnings Multiple	7.5x-12.0x	10.8x
(3) Common Equity/Interests/Warrants	88,777	Discounted Cash Flow	Discount Rate	6.5%-7.5%	7.0%
(6) 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				



- 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 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 discounted cash flow) is weighted equally. For these companies the discount rate ranged from 13.5% to 18.0% with a weighted average of 14.7%.
  - (3)
  - (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) Discount rate range and weighted average calculations exclude investments called for redemption.
  - (6) 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 both a discounted single-path cash flow model and 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) the 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

F-64

---

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. 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.

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.

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. 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.

F-65

---

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 nine months ended March 31, 2018, the valuation methodology for Arctic Energy Services, LLC (“Arctic Energy”) changed to remove the liquidation analysis. As a result of the company’s performance and current market conditions, the fair value of our investment in Arctic Energy increased to \$27,017 as of March 31, 2018, a discount of \$37,429 from its amortized cost, compared to the \$43,506 unrealized depreciation recorded at June 30, 2017.

During the nine months ended March 31, 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 \$30,238 as of March 31, 2018, a premium of \$2,391 from its amortized cost, compared to the \$16,769 unrealized depreciation recorded at June 30, 2017.

During the nine months ended March 31, 2018, one of our CLO investments was deemed to have an other-than-temporary impairment. In accordance with ASC 325-40, we recorded a total loss of \$2,495 related to this investment for the amount by which amortized cost exceeded fair value as of the respective determination dates.

During the nine months ended March 31, 2018, we provided \$60,912 of equity financing to NPRC for the acquisition of real estate properties and \$1,112 of debt and \$12,601 of equity financing to NPRC to fund capital expenditures for existing real estate properties.

During the nine months ended March 31, 2018, we provided \$21,858 and \$13,433 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 nine months ended March 31, 2018, we received partial repayments of \$63,307 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 March 31, 2018, the outstanding investment in online consumer loans by certain of NPRC’s wholly-owned subsidiaries was comprised of 73,663 individual loans and residual interests in two securitizations, and had an aggregate fair value of \$441,123. The average outstanding individual loan balance was approximately \$6 and the loans mature on dates ranging from April 1, 2018 to March 12, 2025 with a weighted-average outstanding term of 27 months as of March 31, 2018. Fixed interest rates range from 4.0% to 36.0% with a weighted-average current interest rate of 24.0%. As of March 31, 2018, our investment in NPRC and its wholly-owned subsidiaries relating to online consumer lending had a fair value of \$297,524.

As of March 31, 2018, based on outstanding principal balance, 6.2% of the portfolio was invested in super prime loans (borrowers with a Fair Isaac Corporation (“FICO”) score, of 720 or greater), 19.0% of the portfolio in prime loans (borrowers with a FICO score of 660 to 719) and 74.8% of the portfolio in near prime loans (borrowers with a FICO score of 580 to 659, a portion of which are considered sub-prime).

Loan Type	Outstanding Principal Balance	Fair Value	Weighted Average Interest Rate*
Super Prime	\$ 24,957	\$24,319	13.2%
Prime	77,169	73,535	16.5%
Near Prime**	303,354	275,383	26.8%

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

\*\*A portion of these loans are sub-prime borrowers.

F-66

---

As of March 31, 2018, our investment in NPRC and its wholly-owned subsidiaries had an amortized cost of \$827,279 and a fair value of \$1,031,150, including our investment in online consumer lending as discussed above. The fair value of \$733,626 related to NPRC's real estate portfolio was comprised of thirty-nine 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 March 31, 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	46,622
3	Lofton Place, LLC	Tampa, FL	4/30/2013	26,000	20,309
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	176,653
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	19,840
13	City West Apartments II, LLC	Orlando, FL	11/19/2013	23,562	23,170
14	Vinings Corner II, LLC	Smyrna, GA	11/19/2013	35,691	32,772
15	Atlanta Eastwood Village LLC	Stockbridge, GA	12/12/2013	25,957	22,635
16	Atlanta Monterey Village LLC	Jonesboro, GA	12/12/2013	11,501	11,013
17	Atlanta Hidden Creek LLC	Morrow, GA	12/12/2013	5,098	4,714
18	Atlanta Meadow Springs LLC	College Park, GA	12/12/2013	13,116	12,965
19	Atlanta Meadow View LLC	College Park, GA	12/12/2013	14,354	13,020
20	Atlanta Peachtree Landing LLC	Fairburn, GA	12/12/2013	17,224	15,422
21	NPH Carroll Bartram Park, LLC	Jacksonville, FL	12/31/2013	38,000	26,601
22	Crestview at Cordova, LLC	Pensacola, FL	1/17/2014	8,500	7,828
23	NPH Carroll Atlantic Beach, LLC	Atlantic Beach, FL	1/31/2014	13,025	8,234
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	74,077
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

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	43,123
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	32,058
53	Vesper Kennesaw, LLC	Kennesaw, GA	9/28/2016	57,900	48,676
54	Vesper Statesboro, LLC	Statesboro, GA	9/28/2016	7,500	5,912
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
				\$1,708,122	\$1,399,579

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 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. As of March 31, 2018, \$3,439,901 of our loans to portfolio companies, at fair value, bear interest at floating rates and have LIBOR floors ranging from 0.0% to 4.0%. As of March 31, 2018, \$484,210 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, \$3,488,672 of our loans to portfolio companies, at fair value, bear 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, bear interest at fixed rates ranging from 5.0% to 20.0%.

At March 31, 2018, four loan investments were on non-accrual status: Ark-La-Tex, Edmentum Ultimate Holdings, LLC (“Edmentum”) (the Unsecured Junior PIK Note), United Sporting Companies, Inc. (“USC”), and USES Corp. (“USES”). At June 30, 2017, seven loan investments were on non-accrual status: Ark-La-Tex, Edmentum (the Unsecured Junior PIK Note), Nixon, Spartan, USC, USES, and Venio LLC. Cost balances of these loans amounted to \$223,842 and \$286,388 as of March 31, 2018 and June 30, 2017, respectively. The fair value of these loans amounted to \$75,966 and \$154,417 as of March 31, 2018 and June 30, 2017, respectively. The fair values of these investments represent approximately 1.3% and 2.5% of our total assets at fair value as of March 31, 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 March 31, 2018 and June 30, 2017, we had \$19,675 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 March 31, 2018 and June 30, 2017.

During the nine months ended March 31, 2018 and the nine months ended March 31, 2017, there were no sales of the senior secured Term Loan A investments. We serve as an agent for these loans and collect a servicing fee from the counterparties on behalf of the Investment Adviser. We receive a credit for these payments as a reduction of base management fee payable by us to the Investment Adviser. See Note 13 for further discussion.

#### 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%, and summarized financial information in a quarterly report if either the investment or income test exceeds 20% pursuant to Rule 10-01(b) of Regulation S-X.

The following table summarizes the results of our analysis for the three tests for the nine months ended March 31, 2018 and year ended June 30, 2017.

	Asset Test		Income Test		Investment Test	
	Greater than 10% but Less than 20%	Greater than 20%	Greater than 10% but Less than 20%	Greater than 20%	Greater than 10% but Less than 20%	Greater than 20%
Nine Months Ended March 31, 2018	N/A	N/A	N/A	First Tower Finance NPRC	N/A	-

Year Ended June 30, 2017	-	NPRC	First Tower Finance USES	NPRC	NPRC	-
--------------------------	---	------	-----------------------------	------	------	---

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

F-69

---

among several investments. After performing the income analysis for the nine months ended March 31, 2018, as currently promulgated by the SEC, we determined that two of our controlled investments individually generated more than 20% of our income, primarily due to the unrealized gains that were recognized on the investments during the nine months ended March 31, 2018. 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 period ended March 31, 2018 and year ended June 30, 2017.

The following tables show summarized financial information for First Tower Finance, which met the 20% income test for the nine months ended March 31, 2018:

	March 31, 2018	June 30, 2017
Balance Sheet Data		
Cash and invested assets	\$69,086	\$77,058
Accounts receivable, net	519,953	432,278
Property, plant and equipment, net	28,898	24,919
Intangibles, including goodwill	79,479	90,897
Other assets	4,702	2,404
Notes payable, due to Prospect or Affiliate	353,316	339,595
Other liabilities	406,865	341,553
Total equity	(58,063 )	(53,592 )

	Three Months Ended March 31,		Nine Months Ended March 31,	
	2018	2017	2018	2017
Summary of Operations				
Total revenue	\$56,941	\$54,299	\$174,143	\$169,034
Total expenses	64,615	60,688	182,981	184,267
Net loss	\$(7,674 )	\$(6,389 )	\$(8,838 )	\$(15,233 )

The following tables show summarized financial information for NPRC, which met the 20% income test for the nine months ended March 31, 2018:

	March 31, 2018	June 30, 2017
Balance Sheet Data		
Cash and cash equivalents	\$164,789	\$94,394
Real estate, net	1,548,377	1,452,424
Unsecured consumer loans, at fair value	442,387	648,277
Other assets	37,128	40,386
Mortgages payable	1,390,108	1,310,462
Revolving credit facilities and other secured financing	227,533	341,878
Notes payable, due to Prospect or Affiliate	569,752	559,464
Other liabilities	49,145	37,339
Total equity	(43,857 )	(13,662 )

	Three Months Ended		Nine Months Ended	
	March 31, 2018	2017	March 31, 2018	2017
Summary of Operations				
Total revenue	\$144,196	\$125,667	\$342,539	\$320,773
Total expenses	87,305	79,449	254,776	236,973
Operating income	56,891	46,218	87,763	83,800
Depreciation and amortization	(18,816 )	(21,380 )	(54,418 )	(55,650 )
Fair value adjustment	(15,883 )	(26,640 )	(76,137 )	(73,553 )
Net income (loss)	\$22,192	\$(1,802 )	\$(42,792 )	\$(45,403 )

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 March 31, 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 March 31, 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 March 31, 2018 and June 30, 2017, we had \$382,262 and \$665,409, respectively, available to us for borrowing under the Revolving Credit Facility, of which \$86,000 was outstanding as of March 31, 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 March 31, 2018, the investments, including cash, used as collateral for the Revolving Credit Facility had an aggregate fair value of \$1,225,288, which represents 21.1% of our total investments, including cash. 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 March 31, 2018, \$2,717 remains to be amortized and is reflected as deferred financing costs on the Consolidated Statements of Assets and Liabilities.

During the three months ended March 31, 2018 and March 31, 2017, we recorded \$3,016 and \$3,218, respectively, of interest costs, unused fees and amortization of financing costs on the Revolving Credit Facility as interest expense.

During the nine months ended March 31, 2018 and March 31, 2017, we recorded \$9,356 and \$9,247, respectively, of interest costs, unused fees and amortization of financing costs on the Revolving Credit Facility as interest expense.



#### Note 5. Convertible Notes

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 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”), unless previously converted or repurchased in accordance with their terms. 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, on the 2018 Notes. 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 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.

On April 11, 2017, we issued \$225,000 aggregate principal amount of convertible notes that mature on July 15, 2022 (the “2022 Notes”), unless previously converted or repurchased in accordance with their terms. The 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.

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

Edgar Filing: PROSPECT CAPITAL CORP - Form 497

Conversion rate at March 31, 2018(1)(2)	79.8360	80.6670	100.2305
Conversion price at March 31, 2018(2)(3)	\$ 12.53	\$ 12.40	\$ 9.98
Last conversion price calculation date	12/21/2017	4/11/2017	4/11/2017
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.

F-72

---

(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 \$24,795 of fees which are being amortized over the terms of the notes, of which \$11,908 remains to be amortized and is included as a reduction within Convertible Notes on the Consolidated Statement of Assets and Liabilities as of March 31, 2018.

During the three months ended March 31, 2018 and March 31, 2017, we recorded \$12,664 and \$13,484, respectively, of interest costs and amortization of financing costs on the Convertible Notes as interest expense. During the nine months ended March 31, 2018 and March 31, 2017, we recorded \$39,323 and \$41,674, 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 "2023 Notes"). The 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 2023 Notes, net of underwriting discounts and offering costs, were \$243,641.

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 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 March 31, 2018, we have issued a total of \$199,281 in aggregate principal amount of our 2024 Notes for net proceeds of \$193,253 after commissions and offering costs.



The 2023 Notes, the 5.00% 2019 Notes, and the 2024 Notes (collectively, the “Public Notes”) are direct unsecured obligations and rank equally with all of our unsecured indebtedness from time to time outstanding.

F-73

---

Filed Pursuant to Rule 497  
File No. 333-213391

In connection with the issuance of the 2023 Notes, the 5.00% 2019 Notes, and the 2024 Notes, we recorded a discount of \$2,777 and debt issuance costs of \$13,613, which are being amortized over the terms of the notes. As of March 31, 2018, \$1,678 of the original issue discount and \$7,767 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 three months ended March 31, 2018 and March 31, 2017, we recorded \$11,054 and \$11,026, respectively, of interest costs and amortization of financing costs on the Public Notes as interest expense. During the nine months ended March 31, 2018 and March 31, 2017, we recorded \$33,143 and \$32,864, 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 nine months ended March 31, 2018, we issued \$69,428 aggregate principal amount of Prospect Capital InterNotes® for net proceeds of \$68,396. These notes were issued with stated interest rates ranging from 4.00% to 5.00% with a weighted average interest rate of 4.37%. These notes mature between July 15, 2022 and March 15, 2026. The following table summarizes the Prospect Capital InterNotes® issued during the nine months ended March 31, 2018:

Tenor at Origination (in years)	Principal Amount	Interest Rate Range	Weighted Average Interest Rate	Maturity Date Range
5	\$43,587	4.00%–4.75%	4.20 %	July 15, 2022 – March 15, 2023
7	2,825	4.75%–5.00%	4.93 %	July 15, 2024
8	23,016	4.50%–5.00%	4.62 %	August 15, 2025 – March 15, 2026
	\$69,428			

During the nine months ended March 31, 2017, we issued \$109,221 aggregate principal amount of our Prospect Capital InterNotes® for net proceeds of \$107,860. The following table summarizes the Prospect Capital InterNotes® issued during the nine months ended March 31, 2017:

Tenor at Origination (in years)	Principal Amount	Interest Rate Range	Weighted Average Interest Rate	Maturity Date Range
5	\$109,221	4.75%–5.50%	5.15 %	July 15, 2021 – March 15, 2022

During the nine months ended March 31, 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 nine months ended March 31, 2018, we repaid \$4,883 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 nine months ended March 31, 2018 was \$1,445. The following table summarizes the Prospect Capital InterNotes® outstanding as of March 31, 2018:

Edgar Filing: PROSPECT CAPITAL CORP - Form 497

Tenor at Origination (in years)	Principal Amount	Interest Rate Range	Weighted Average Interest Rate	Maturity Date Range
5	\$225,639	4.00%–5.50%	4.92 %	July 15, 2018 – March 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	86,218	4.25%–5.00%	4.61 %	February 15, 2019 – November 15, 2020
6	2,182	4.88	% 4.88 %	April 15, 2021 – May 15, 2021
6.5	38,852	5.10%–5.50%	5.23 %	February 15, 2020 – May 15, 2022
7	145,500	4.00%–6.55%	5.05 %	June 15, 2019 – July 15, 2024
7.5	1,996	5.75	% 5.75 %	February 15, 2021
8	23,016	4.50%–5.00%	4.62 %	August 15, 2025 – March 15, 2026
10	37,424	5.12%–7.00%	6.18 %	March 15, 2022 - December 15, 2025
12	2,978	6.00	% 6.00 %	November 15, 2025 - December 15, 2025
15	17,177	5.25%–6.00%	5.35 %	May 15, 2028 – November 15, 2028
18	20,903	4.13%–6.25%	5.55 %	December 15, 2030 – August 15, 2031
20	4,170	5.63%–6.00%	5.89 %	November 15, 2032 – October 15, 2033
25	33,349	6.25%–6.50%	6.39 %	August 15, 2038 – May 15, 2039
30	109,591	5.50%–6.75%	6.24 %	November 15, 2042 – October 15, 2043
	\$756,071			

During the nine months ended March 31, 2017, we repaid \$6,460 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 loss on the extinguishment of Prospect Capital InterNotes® in the nine months ended March 31, 2017 was \$205.

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			

F-75

---

In connection with the issuance of Prospect Capital InterNotes®, we incurred \$24,259 of fees which are being amortized over the term of the notes, of which \$12,342 remains to be amortized and is included as a reduction within Prospect Capital InterNotes® on the Consolidated Statement of Assets and Liabilities as of March 31, 2018.

During the three months ended March 31, 2018 and March 31, 2017, we recorded \$10,745 and \$13,736, respectively, of interest costs and amortization of financing costs on the Prospect Capital InterNotes® as interest expense. During the nine months ended March 31, 2018 and March 31, 2017, we recorded \$36,039 and \$40,196, respectively, of interest costs and amortization of financing costs on the Prospect Capital InterNotes® as interest expense.

#### Note 8. Fair Value and Maturity of Debt Outstanding

The following table shows our outstanding debt as of March 31, 2018.

	Principal Outstanding	Unamortized Discount & Debt Issuance Costs	Net Carrying Value	Fair Value (1)	Effective Interest Rate	
Revolving Credit Facility(2)	\$ 86,000	\$ 2,717	\$ 86,000	(3)\$ 86,000	1ML+2.25%	(6)
2019 Notes	200,000	969	199,031	204,336	(4)6.51	%(7)
2020 Notes	392,000	4,828	387,172	393,642	(4)5.38	%(7)
2022 Notes	225,000	6,111	218,889	224,728	(4)5.66	%(7)
Convertible Notes	817,000	11,908	805,092	822,706		
5.00% 2019 Notes	300,000	1,099	298,901	305,460	(4)5.29	%(7)
2023 Notes	250,000	3,627	246,373	259,718	(4)6.09	%(7)
2024 Notes	199,281	4,719	194,562	204,829	(4)6.74	%(7)
Public Notes	749,281	9,445	739,836	770,007		
Prospect Capital InterNotes®	756,071	12,342	743,729	774,859	(5)5.78	%(8)
Total	\$ 2,408,352	\$ 36,412	\$ 2,374,657	\$ 2,453,572		

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 March 31, 2018.

(2)The maximum draw amount of the Revolving Credit facility as of March 31, 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.

(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 which approximates level yield, are weighted against the average year-to-date principal balance.

Edgar Filing: PROSPECT CAPITAL CORP - Form 497

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	15,512	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	10,981	738,300	774,318		
Prospect Capital InterNotes®	980,494	14,240	966,254	1,003,852	(5)5.55	%(8)
Total	\$ 2,682,928	\$ 45,512	\$ 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.

(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 which approximates level yield, 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 March 31, 2018.

	Payments Due by Period				
	Total	Less than 1 Year	1 – 3 Years	3 – 5 Years	After 5 Years
Revolving Credit Facility	\$86,000	\$—	\$86,000	\$—	\$—
Convertible Notes	817,000	200,000	392,000	225,000	—
Public Notes	749,281	—	300,000	250,000	199,281
Prospect Capital InterNotes®	756,071	—	245,778	273,942	236,351
Total Contractual Obligations	\$2,408,352	\$ 200,000	\$ 1,023,778	\$ 748,942	\$ 435,632

F-77

---

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 during the nine months ended March 31, 2018 and March 31, 2017. As of March 31, 2018, the approximate dollar value of shares that may yet be purchased under the Repurchase Program is \$65,860.

Excluding dividend reinvestments, during the nine months ended March 31, 2018 and March 31, 2017, we did not issue any shares of our common stock.

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 March 31, 2018, we have the ability to issue up to \$4,621,784 in securities under the registration statement.



During the nine months ended March 31, 2018 and March 31, 2017, we distributed approximately \$211,733 and \$268,989, respectively, to our stockholders. The following table summarizes our distributions declared and payable for the nine months ended March 31, 2017 and March 31, 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
Total declared and payable for the nine months ended March 31, 2017				\$ 268,989
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
Total declared and payable for the nine months ended March 31, 2018				\$ 211,733

Dividends and distributions to common stockholders are recorded on the ex-dividend date. As such, the table above includes distributions with record dates during nine months ended March 31, 2018 and March 31, 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 March 31, 2018:

\$0.06 per share for April 2018 to holders of record on April 30, 2018 with a payment date of May 24, 2018.

During the nine months ended March 31, 2018 and March 31, 2017, we issued 2,580,429 and 2,778,472 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.

During the nine months ended March 31, 2018, Prospect officers purchased 11,313,201 shares of our stock, or 3.12% of total outstanding shares as of March 31, 2018, both through the open market transactions and shares issued in connection with our dividend reinvestment plan.

As of March 31, 2018, we have reserved 70,140,541 shares of our common stock for issuance upon conversion of the Convertible Notes (see Note 5).

F-79

---

Filed Pursuant to Rule 497  
File No. 333-213391

#### 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 three and nine months ended March 31, 2018 and March 31, 2017.

	Three Months Ended March 31,		Nine Months Ended March 31,	
	2018	2017	2018	2017
Structuring, amendment, and advisory fees	\$8,296	\$6,841	\$23,254	\$17,114
Royalty and Net Revenue interests	2,322	1,476	5,772	3,979
Administrative agent fees	68	187	302	519
Total Other Income	\$10,686	\$8,504	\$29,328	\$21,612

#### 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 three and nine months ended March 31, 2018 and March 31, 2017.

	Three Months Ended March 31,		Nine Months Ended March 31,	
	2018	2017	2018	2017
Net increase in net assets resulting from operations	\$51,859	\$ 19,492	\$185,559	\$ 201,738
Weighted average common shares outstanding	361,759,950	350,402,527	360,794,835	358,468,092
Net increase in net assets resulting from operations per share	\$0.14	\$ 0.05	\$0.51	\$ 0.56

#### 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. The tax return for the tax year ended August 31, 2017 has not been filed. Taxable income and all amounts related to taxable income for the tax year ended August 31, 2017 are estimates and will not be fully determined until the Company's tax return is filed.

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, 46.91% of our distributions as of March 31, 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 March 31, 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.

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	\$254,766	\$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	\$260,703	\$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 the Company’s 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 March 31, 2018, the cost basis of investments for tax purposes was \$5,922,058 resulting in estimated gross unrealized gains and losses of \$424,689 and \$626,943, 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 March 31, 2018 and June 30, 2017 was calculated based on the book cost of investments as of March 31, 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 ending 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 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

F-81

---

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 \$29,422 and \$30,829 during the three months ended March 31, 2018 and March 31, 2017, respectively. The total gross base management fee incurred to the favor of the Investment Adviser was \$89,543 and \$93,263 during the nine months ended March 31, 2018 and March 31, 2017, 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 three months ended March 31, 2018 and March 31, 2017, we received payments of \$154 and \$280, 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 \$29,268 and \$30,549 for the three months ended March 31, 2018 and March 31, 2017, respectively. During the nine months ended March 31, 2018 and March 31, 2017, we received payments of \$553 and \$1,036, 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 \$88,990 and \$92,227 for the nine months ended March 31, 2018 and March 31, 2017, 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.

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 \$17,612 and \$18,270 during the three months ended March 31, 2018 and March 31, 2017, respectively. The fees incurred for the nine months ended March 31, 2018 and March 31, 2017 were \$51,843 and \$59,101, respectively. No capital gains incentive fee was incurred during the three or nine months ended March 31, 2018 and March 31, 2017.

As of March 31, 2018, we accrued a receivable from the Investment Adviser of \$60, that will be reimbursed to us.

#### 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 \$4,104 and \$7,970 for the three months ended March 31, 2018 and March 31, 2017, respectively. Prospect Administration received estimated payments of \$909 and \$4,389 directly from our portfolio companies, and certain funds managed by the Investment Adviser for legal, tax and portfolio level accounting services during the three months ended March 31, 2018 and March 31, 2017, respectively. 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. Net overhead during the three months ended March 31, 2018 and March 31, 2017 totaled \$3,195 and \$3,581, respectively.

F-83

---

The allocation of gross overhead expense from Prospect Administration was \$12,600 and \$17,283 for the nine months ended March 31, 2018 and March 31, 2017, respectively. Prospect Administration received estimated payments of \$6,701 and \$6,636 directly from our portfolio companies, insurance carrier, and certain funds managed by the Investment Adviser for legal, tax and portfolio level accounting services during the nine months ended March 31, 2018 and March 31, 2017, respectively. 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. Additionally, during the nine months ended March 31, 2017, other operating expenses in the amount of \$876 incurred by us, which were attributable to CCPI, were reimbursed by CCPI and are reflected as an offset to our overhead allocation for the period then ended. No such expenses or reimbursements occurred during the nine months ended March 31, 2018. Net overhead during the nine months ended March 31, 2018 and March 31, 2017 totaled \$5,899 and \$9,771, 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 three months ended March 31, 2018 and March 31, 2017, we received payments of \$1,893 and \$2,443, respectively, from our portfolio companies for managerial assistance and subsequently remitted these amounts to Prospect Administration. During the nine months ended March 31, 2018 and March 31, 2017, we received payments of \$4,955 and \$5,340, respectively, from our portfolio companies for managerial assistance and subsequently remitted these amounts to Prospect Administration. 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 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.

F-84

---

As of March 31, 2018, we had co-investments with Priority Income Fund, Inc. in the following CLO funds: Apidos CLO XXII, Babson CLO Ltd. 2014-III, Carlyle Global Market Strategies CLO 2016-3, Ltd., Cent CLO 21 Limited, CIFIC Funding 2014-IV Investor, Ltd., CIFIC Funding 2016-I, Ltd., Galaxy XVII CLO, Ltd., Halcyon Loan Advisors Funding 2014-2 Ltd., Halcyon Loan Advisors Funding 2015-3 Ltd., 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, Ltd. and Octagon Investment Partners 18-R Ltd. (f/k/a Octagon Investment Partners XVIII, Ltd.) are not considered co-investments pursuant to the Order as they were purchased on the secondary market.

As of March 31, 2018, we had a co-investment with Pathway Capital Opportunity Fund, Inc. in 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.

We reimburse CLO investment valuation services fees initially incurred by Priority Income Fund, Inc. During the three months ended March 31, 2018 and March 31, 2017, we recognized expenses that were reimbursed for valuation services of \$54 and \$25, respectively. During the nine months ended March 31, 2018 and March 31, 2017, we recognized expenses that were reimbursed for valuation services of \$156 and \$77, respectively. Conversely, Priority Income Fund, Inc. and Pathway Capital Opportunity Fund, Inc. (f/k/a Pathway Energy Infrastructure Fund, Inc.) reimburse us for software fees, expenses which were initially incurred by Prospect. As of March 31, 2018 and June 30, 2017 we accrued a receivable from Priority Income Fund, Inc. and Pathway Capital Opportunity Fund, Inc. for software fees of \$88 and \$14, respectively, which will be reimbursed to us.

#### Note 14. Transactions with Controlled Companies

The descriptions below detail the transactions which Prospect Capital Corporation (“Prospect”) has 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 owns 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.

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

March 31, 2018 225

The following amounts were due from Arctic Energy to Prospect for reimbursement of expenses paid by Prospect on behalf of Arctic Energy and were included by Prospect within other receivables:

June 30, 2017 \$—

March 31, 2018 7



## 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:

Three Months Ended March 31, 2017 \$113

Three Months Ended March 31, 2018 112

Nine Months Ended March 31, 2017 337

Nine Months Ended March 31, 2018 337

During the nine months ended March 31, 2017, Prospect reclassified \$123 of return of capital received from CCPI in prior periods as dividend income.

The following interest payments were accrued and paid from CCPI to Prospect and recognized by Prospect as interest income:

Three Months Ended March 31, 2017 \$745

Three Months Ended March 31, 2018 913

Nine Months Ended March 31, 2017 2,243

Nine Months Ended March 31, 2018 2,776

The following managerial assistance payments were paid from CCPI to Prospect and subsequently remitted to Prospect Administration (no income was recognized by Prospect):

Three Months Ended March 31, 2017 \$60

Three Months Ended March 31, 2018 60

Nine Months Ended March 31, 2017 180

Nine Months Ended March 31, 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

March 31, 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 able to recognize these payments as a reduction of the administrative services costs payable by Prospect to Prospect Administration):

Three Months Ended March 31, 2017 \$ —

Three Months Ended March 31, 2018 —

Nine Months Ended March 31, 2017 —

Nine Months Ended March 31, 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

March 31, 2018 2

## 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 94.2% of the equity of CP Energy Services Inc. (“CP Energy”), and the remaining 5.8% of the equity is owned by CP Energy management. As of June 30, 2014, CP Energy owned directly or indirectly 100% of each of CP Well Testing Services, LLC (f/k/a CP Well Testing Holding Company LLC) (“CP Well Testing”); CP Well Testing, LLC (“CP Well”); Fluid Management Services, Inc. (f/k/a Fluid Management Holdings, Inc.) (“Fluid Management”); Fluid Management Services LLC (f/k/a Fluid Management Holdings LLC); Wright Transport, Inc. (f/k/a Wright Holdings, Inc.); Wright Foster Disposals, LLC; Foster Testing Co., Inc.; ProHaul Transports, LLC; Artexoma Logistics, LLC; and Wright Trucking, Inc. Effective December 31, 2014, CP Energy underwent a corporate reorganization in order to consolidate certain of its wholly-owned subsidiaries. As of June 30, 2015, CP Energy owned 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.

The following interest payments were accrued and paid from CP Energy to Prospect and recognized by Prospect as interest income:

Three Months Ended March 31, 2017	\$	—
Three Months Ended March 31, 2018		1,112
Nine Months Ended March 31, 2017		—
Nine Months Ended March 31, 2018		2,217

The following interest income recognized had not yet been paid by CP Energy to Prospect and was included by Prospect within interest receivable:

June 30, 2017	\$	—
March 31, 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):

Three Months Ended March 31, 2017	\$75
Three Months Ended March 31, 2018	—
Nine Months Ended March 31, 2017	225
Nine Months Ended March 31, 2018	175

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
March 31, 2018	—

The following managerial assistance recognized had not yet been paid by CP Energy to Prospect and was included by Prospect within other receivables and due to Prospect Administration:

June 30, 2017	\$	—
March 31, 2018		100

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 able to recognize these payments as a reduction of the administrative services costs payable by Prospect to Prospect Administration):

Three Months Ended March 31, 2017 \$15

Three Months Ended March 31, 2018 —

Nine Months Ended March 31, 2017 15

Nine Months Ended March 31, 2018 —

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 nine months ended March 31, 2018 and March 31, 2017, the following amounts of the aforementioned original issue discount of \$7,521 accreted during the respective period, and included in interest income.

Three Months Ended March 31, 2017 \$300

Three Months Ended March 31, 2018 592

Nine Months Ended March 31, 2017 564

Nine Months Ended March 31, 2018 1,532

The following amounts were paid from Central Credit to Prospect and recorded by Prospect as repayment of loan receivable:

Three Months Ended March 31, 2017 \$403

Three Months Ended March 31, 2018 —

Nine Months Ended March 31, 2017 403

Nine Months Ended March 31, 2018 —

The following interest payments were accrued and paid from Credit Central to Prospect and recognized by Prospect as interest income:

Three Months Ended March 31, 2017 \$2,605

Three Months Ended March 31, 2018 3,184

Nine Months Ended March 31, 2017 7,329

Nine Months Ended March 31, 2018 9,425

Included above, the following payment-in-kind interest from Credit Central was capitalized and recognized by Prospect as interest income:

Three Months Ended March 31, 2017 \$888

Three Months Ended March 31, 2018 —

Nine Months Ended March 31, 2017 2,803

Nine Months Ended March 31, 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

March 31, 2018 —

The following net revenue interest payments were paid from Credit Central to Prospect and recognized by Prospect as other income:

Three Months Ended March 31, 2017 \$ —

Three Months Ended March 31, 2018 586

Nine Months Ended March 31, 2017 —

Nine Months Ended March 31, 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):

Three Months Ended March 31, 2017 \$175

Three Months Ended March 31, 2018 175

Nine Months Ended March 31, 2017 525

Nine Months Ended March 31, 2018 525

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

March 31, 2018 175

The following payments were paid from Credit Central to Prospect Administration as reimbursement for legal, tax and portfolio level accounting services provided directly to Credit Central (no direct income was recognized by Prospect, but Prospect was able to recognize these payments as a reduction of the administrative services costs payable by Prospect to Prospect Administration):

Three Months Ended March 31, 2017 \$ —

Three Months Ended March 31, 2018 148

Nine Months Ended March 31, 2017 —

Nine Months Ended March 31, 2018 148

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 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:

F-89

Three Months Ended March 31, 2017 \$ —

Three Months Ended March 31, 2018 —

Nine Months Ended March 31, 2017 200

Nine Months Ended March 31, 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:

Three Months Ended March 31, 2017 \$1,568

Three Months Ended March 31, 2018 1,568

Nine Months Ended March 31, 2017 4,149

Nine Months Ended March 31, 2018 4,774

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

March 31, 2018 1,045

The following managerial assistance payments were paid from Echelon to Prospect and subsequently remitted to Prospect Administration (no income was recognized by Prospect):

Three Months Ended March 31, 2017 \$63

Three Months Ended March 31, 2018 63

Nine Months Ended March 31, 2017 188

Nine Months Ended March 31, 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

March 31, 2018 63

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 able to recognize these payments as a reduction of the administrative services costs payable by Prospect to Prospect Administration):

Three Months Ended March 31, 2017 \$ —

Three Months Ended March 31, 2018 —

Nine Months Ended March 31, 2017 120

Nine Months Ended March 31, 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 \$—

March 31, 2018 2

## Edmentum Ultimate Holdings, LLC

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 11.5% 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 nine months ended March 31, 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:

Three Months Ended March 31, 2017	\$	—
Three Months Ended March 31, 2018	—	
Nine Months Ended March 31, 2017	6,424	
Nine Months Ended March 31, 2018	7,834	

The following interest payments were accrued and paid from Edmentum to Prospect and recognized by Prospect as interest income:

Three Months Ended March 31, 2017	\$(342)
Three Months Ended March 31, 2018	271
Nine Months Ended March 31, 2017	1,487
Nine Months Ended March 31, 2018	686

Included above, the following payment-in-kind interest from Edmentum was capitalized and recognized by Prospect as interest income:

Three Months Ended March 31, 2017	\$144
Three Months Ended March 31, 2018	157
Nine Months Ended March 31, 2017	1,916
Nine Months Ended March 31, 2018	459

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
March 31, 2018	195

## 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:

Three Months Ended March 31, 2017	\$952
Three Months Ended March 31, 2018	3,524
Nine Months Ended March 31, 2017	1,889
Nine Months Ended March 31, 2018	6,735

The following interest payments were accrued and paid from First Tower to Prospect and recognized by Prospect as interest income:

Three Months Ended March 31, 2017	\$11,036
Three Months Ended March 31, 2018	11,134
Nine Months Ended March 31, 2017	39,936
Nine Months Ended March 31, 2018	33,737

Included above, the following payment-in-kind interest from First Tower was capitalized and recognized by Prospect as interest income:

Three Months Ended March 31, 2017	\$1,612
Three Months Ended March 31, 2018	—
Nine Months Ended March 31, 2017	4,996
Nine Months Ended March 31, 2018	870

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
March 31, 2018	4,113

The following managerial assistance payments were paid from First Tower to Prospect and subsequently remitted to Prospect Administration (no income was recognized by Prospect):

Three Months Ended March 31, 2017	\$600
Three Months Ended March 31, 2018	—
Nine Months Ended March 31, 2017	1,800
Nine Months Ended March 31, 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

March 31, 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

March 31, 2018 16

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.

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 nine months ended March 31, 2018, Prospect purchased an additional \$682 in membership interests in Freedom Marine to support its ongoing operations and liquidity needs.

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

March 31, 2018 750

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 distributes it to its shareholders based on pro-rata ownership. During the nine months ended March 31, 2018 and March 31, 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 dividend income:

Three Months Ended March 31, 2017 \$ —

Three Months Ended March 31, 2018 —

Nine Months Ended March 31, 2017 468

Nine Months Ended March 31, 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:

Three Months Ended March 31, 2017 \$1,772  
 Three Months Ended March 31, 2018 1,871  
 Nine Months Ended March 31, 2017 4,385  
 Nine Months Ended March 31, 2018 5,711

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  
 March 31, 2018 —

The following interest payments were accrued and paid from Broda Canada to Prospect and recognized by Prospect as interest income:

Three Months Ended March 31, 2017 \$139  
 Three Months Ended March 31, 2018 146  
 Nine Months Ended March 31, 2017 425  
 Nine Months Ended March 31, 2018 445

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  
 March 31, 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 nine months ended March 31, 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):

Three Months Ended March 31, 2017 \$75  
 Three Months Ended March 31, 2018 75  
 Nine Months Ended March 31, 2017 225  
 Nine Months Ended March 31, 2018 225

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  
 March 31, 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 able to recognize these payments as a reduction of the administrative services costs payable by Prospect to Prospect Administration):

Three Months Ended March 31, 2017 \$62  
 Three Months Ended March 31, 2018 —  
 Nine Months Ended March 31, 2017 62  
 Nine Months Ended March 31, 2018 —

The following amounts were due from MITY to Prospect for reimbursement of expenses paid by Prospect on behalf of MITY and included by Prospect within other receivables:

June 30, 2017 \$—

March 31, 2018 1

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, and multi-family 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.

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%

F-95

---



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.

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 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.

F-96

---

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.

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 common 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). The remaining \$7,000 of proceeds were retained by NPRC to acquire a controlling interest in the JV real estate transaction.

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.

During the nine months ended March 31, 2018, we provided \$21,858 and \$13,433 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 nine months ended March 31, 2018, we received partial repayments of \$63,307 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.

F-97

---

The following dividends were declared and paid from NPRC to Prospect and recognized as dividend income by Prospect:

Three Months Ended March 31, 2017	\$	—
Three Months Ended March 31, 2018		5,639
Nine Months Ended March 31, 2017		—
Nine Months Ended March 31, 2018		5,639

All dividends were paid from earnings and profits of NPRC.

The following interest payments were accrued and paid by NPRC to Prospect and recognized by Prospect as interest income:

Three Months Ended March 31, 2017	\$14,188
Three Months Ended March 31, 2018	17,703
Nine Months Ended March 31, 2017	46,971
Nine Months Ended March 31, 2018	52,639

Included above, the following payment-in-kind interest from NPRC was capitalized and recognized by Prospect as interest income:

Three Months Ended March 31, 2017	\$	—
Three Months Ended March 31, 2018		—
Nine Months Ended March 31, 2017		—
Nine Months Ended March 31, 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
March 31, 2018	6,028

The following interest payments were accrued and paid by ACLLH to Prospect and recognized by Prospect as interest income:

Three Months Ended March 31, 2017	\$3,941
Three Months Ended March 31, 2018	552
Nine Months Ended March 31, 2017	12,363
Nine Months Ended March 31, 2018	3,170

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
March 31, 2018	—

The following interest payments were accrued and paid by ACLL to Prospect and recognized by Prospect as interest income:

Three Months Ended March 31, 2017	\$1,877
Three Months Ended March 31, 2018	4,236
Nine Months Ended March 31, 2017	3,477
Nine Months Ended March 31, 2018	13,627

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
March 31, 2018	4,413

The following prepayment penalty fees were paid from NPRC to Prospect and recognized by Prospect as interest income:

Three Months Ended March 31, 2017	\$ 180
Three Months Ended March 31, 2018	—
Nine Months Ended March 31, 2017	2,177
Nine Months Ended March 31, 2018	—

The following net operating income interest payments were paid from NPRC to Prospect and recognized by Prospect as other income:

Three Months Ended March 31, 2017	\$1,476
Three Months Ended March 31, 2018	1,678
Nine Months Ended March 31, 2017	3,965
Nine Months Ended March 31, 2018	4,810

The following structuring fees were paid from NPRC to Prospect and recognized by Prospect as other income:

Three Months Ended March 31, 2017	\$ 827
Three Months Ended March 31, 2018	39
Nine Months Ended March 31, 2017	2,147
Nine Months Ended March 31, 2018	1,397

The following structuring fees were paid from ACLLH to Prospect and recognized by Prospect as other income:

Three Months Ended March 31, 2017	\$ 171
Three Months Ended March 31, 2018	—
Nine Months Ended March 31, 2017	1,506
Nine Months Ended March 31, 2018	—

The following managerial assistance payments were paid from NPRC to Prospect and subsequently remitted to Prospect Administration (no income was recognized by Prospect):

Three Months Ended March 31, 2017	\$ 325
Three Months Ended March 31, 2018	525
Nine Months Ended March 31, 2017	975
Nine Months Ended March 31, 2018	1,175

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
March 31, 2018	525

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 able to recognize these payments as a reduction of the administrative services costs payable by Prospect to Prospect Administration):

Three Months Ended March 31, 2017	\$3,620
Three Months Ended March 31, 2018	396
Nine Months Ended March 31, 2017	5,056
Nine Months Ended March 31, 2018	1,547

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  
 March 31, 2018 6

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  
 March 31, 2018 6

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:

Three Months Ended March 31, 2017 \$730  
 Three Months Ended March 31, 2018 —  
 Nine Months Ended March 31, 2017 3,310  
 Nine Months Ended March 31, 2018 —

All dividends were paid from earnings and profits of Nationwide.

The following interest payments were accrued and paid from Nationwide to Prospect and recognized by Prospect as interest income:

Three Months Ended March 31, 2017 \$841  
 Three Months Ended March 31, 2018 868  
 Nine Months Ended March 31, 2017 2,556  
 Nine Months Ended March 31, 2018 2,605

Included above, the following payment-in-kind interest from Nationwide was capitalized and recognized by Prospect as interest income:

Three Months Ended March 31, 2017 \$ —  
 Three Months Ended March 31, 2018 296  
 Nine Months Ended March 31, 2017 —  
 Nine Months Ended March 31, 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  
 March 31, 2018 —

The following managerial assistance payments were paid from Nationwide to Prospect and subsequently remitted to Prospect Administration (no income was recognized by Prospect):

Three Months Ended March 31, 2017 \$100

Three Months Ended March 31, 2018 100

Nine Months Ended March 31, 2017 300

Nine Months Ended March 31, 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 \$100

March 31, 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 able to recognize these payments as a reduction of the administrative services costs payable by Prospect to Prospect Administration):

Three Months Ended March 31, 2017 \$ —

Three Months Ended March 31, 2018 —

Nine Months Ended March 31, 2017 —

Nine Months Ended March 31, 2018 46

The following amounts were due from Nationwide to Prospect for reimbursement of expenses paid by Prospect on behalf of Nationwide and included by Prospect within other receivables:

June 30, 2017 \$—

March 31, 2018 7

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 interest payments were accrued and paid from NMMB to Prospect and recognized by Prospect as interest income:

Three Months Ended March 31, 2017 \$130

Three Months Ended March 31, 2018 130

Nine Months Ended March 31, 2017 396

Nine Months Ended March 31, 2018 396

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

March 31, 2018 3

The following interest payments were accrued and paid from Armed Forces to Prospect and recognized by Prospect as interest income:

Three Months Ended March 31, 2017 \$245

Three Months Ended March 31, 2018 241

Nine Months Ended March 31, 2017 746

Nine Months Ended March 31, 2018 735



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

March 31, 2018 5

The following managerial assistance payments were paid from NMMB to Prospect and subsequently remitted to Prospect

Administration (no income was recognized by Prospect):

Three Months Ended March 31, 2017 \$38

Three Months Ended March 31, 2018 100

Nine Months Ended March 31, 2017 113

Nine Months Ended March 31, 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 \$100

March 31, 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

March 31, 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 \$—

March 31, 2018 3

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 dividends were declared and paid from R-V to Prospect and recognized as dividend income by Prospect:

Three Months Ended March 31, 2017 \$ —

Three Months Ended March 31, 2018 —

Nine Months Ended March 31, 2017 150

Nine Months Ended March 31, 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:

Three Months Ended March 31, 2017 \$718

Three Months Ended March 31, 2018 775

Nine Months Ended March 31, 2017 2,149

Nine Months Ended March 31, 2018 2,254

The following managerial assistance payments were paid from R-V to Prospect and subsequently remitted to Prospect Administration (no income was recognized by Prospect):

Three Months Ended March 31, 2017 \$45

Three Months Ended March 31, 2018 45

Nine Months Ended March 31, 2017 120

Nine Months Ended March 31, 2018 135

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

March 31, 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 able to recognize these payments as a reduction of the administrative services costs payable by Prospect to Prospect Administration):

Three Months Ended March 31, 2017 \$17

Three Months Ended March 31, 2018 —

Nine Months Ended March 31, 2017 17

Nine Months Ended March 31, 2018 2

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.

During the three months ended March 31, 2017, Prospect incurred \$53 of additional overhead expense related to SB Forging, which were 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 able to recognize these payments as a reduction of the administrative services costs payable by Prospect to Prospect Administration):

Three Months Ended March 31, 2017 \$53

Three Months Ended March 31, 2018 —

Nine Months Ended March 31, 2017 598

Nine Months Ended March 31, 2018 —

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. Gulfco holds \$2,050 in escrow related to the sale, which will be distributed to Prospect once released to Gulfco, and will be recognized as a realized gain if and when it is received. 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:

Three Months Ended March 31, 2017	\$	—
Three Months Ended March 31, 2018	—	
Nine Months Ended March 31, 2017	3,022	
Nine Months Ended March 31, 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 able to recognize these payments as a reduction of the administrative services costs payable by Prospect to Prospect Administration):

Three Months Ended March 31, 2017	\$	—
Three Months Ended March 31, 2018	—	
Nine Months Ended March 31, 2017	503	
Nine Months Ended March 31, 2018	1,202	

On November 14, 2017, we received proceeds of \$1,363 from our insurance carrier related to our investment in Gulfco. The \$1,363 reimbursed us for covered third-party legal expenses incurred and expensed in prior periods, for which we recorded the amount received as a reduction to our legal fees for the current period. Prospect Administration also received \$1,430 from the insurance carrier related to covered legal services provided by Prospect Administration which was recorded as a reduction of allocation of overhead from Prospect Administration.

#### 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 \$2,999 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
March 31, 2018	550



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:

Three Months Ended March 31, 2017	\$1,137
Three Months Ended March 31, 2018	1,236
Nine Months Ended March 31, 2017	3,356
Nine Months Ended March 31, 2018	3,632

Included above, the following payment-in-kind interest from Valley Electric was capitalized and recognized by Prospect as interest income:

Three Months Ended March 31, 2017	\$522
Three Months Ended March 31, 2018	567
Nine Months Ended March 31, 2017	1,288
Nine Months Ended March 31, 2018	1,670

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
March 31, 2018	14

The following interest payments were accrued and paid from Valley to Prospect and recognized by Prospect as interest income:

Three Months Ended March 31, 2017	\$274
Three Months Ended March 31, 2018	274
Nine Months Ended March 31, 2017	834
Nine Months Ended March 31, 2018	834

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
March 31, 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):

Three Months Ended March 31, 2017	\$75
Three Months Ended March 31, 2018	75
Nine Months Ended March 31, 2017	225
Nine Months Ended March 31, 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:

F-105

---

June 30, 2017 \$75

March 31, 2018 75

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

March 31, 2018 3

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 able to recognize these payments as a reduction of the administrative services costs payable by Prospect to Prospect Administration):

Three Months Ended March 31, 2017 \$—

Three Months Ended March 31, 2018 4

Nine Months Ended March 31, 2017 —

Nine Months Ended March 31, 2018 4

#### 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 nine months ended March 31, 2018 Wolf Energy Services received \$2,930 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 \$1,222 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):

Three Months Ended March 31, 2017 \$ —

Three Months Ended March 31, 2018 —

Nine Months Ended March 31, 2017 28

Nine Months Ended March 31, 2018 28

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  
March 31, 2018 28

The following amounts were due from Wolf Energy to Prospect for reimbursement of expenses paid by Prospect on behalf of Wolf Energy and were included by Prospect within other receivables:

June 30, 2017 \$—  
March 31, 2018 2

#### 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 March 31, 2018.

#### Note 16. Financial Highlights

The following is a schedule of financial highlights for the three and nine months ended March 31, 2018 and March 31, 2017:

	Three Months Ended March		Nine Months Ended March	
	31,	31,	31,	31,
	2018	2017	2018	2017
<b>Per Share Data</b>				
Net asset value at beginning of period	\$9.28	\$9.62	\$9.32	\$9.62
Net investment income(1)	0.19	0.20	0.57	0.66
Net realized and change in unrealized gains (losses)(1)	(0.05 )	(0.15 )	(0.06 )	(0.10 )
Net increase from operations	0.14	0.05	0.51	0.56
Distributions of net investment income	(0.18 )	(0.25 )	(0.59 )	(0.75 )
Common stock transactions(2)	(0.01 )	0.01	(0.01 )	—
Net asset value at end of period	\$9.23	\$9.43	\$9.23	\$9.43
Per share market value at end of period	\$6.55	\$9.04	\$6.55	\$9.04
Total return based on market value(3)	(0.20 %)	11.30 %	(12.00 %)	26.27 %
Total return based on net asset value(3)	2.14 %	0.77 %	8.04 %	7.07 %
Shares of common stock outstanding at end of period	362,657,362	359,885,703	362,657,362	359,885,703
Weighted average shares of common stock outstanding	361,759,954	359,402,527	360,794,837	358,468,092
<b>Ratios/Supplemental Data</b>				
Net assets at end of period	\$3,346,396	\$3,392,168	\$3,346,396	\$3,392,168
Portfolio turnover rate	2.12 %	5.06 %	24.55 %	17.72 %
Annualized ratio of operating expenses to average net assets	11.05 %	11.45 %	11.08 %	11.58 %
Annualized ratio of net investment income to average net assets	8.42 %	8.54 %	8.31 %	9.19 %

The following is a schedule of financial highlights for each of the five years ended in the period ended June 30, 2017:

	Year Ended June 30,				
	2017	2016	2015	2014	2013
<b>Per Share Data</b>					
Net asset value at beginning of year	\$9.62	\$10.31	\$10.56	\$10.72	\$10.83
Net investment income <sup>(1)</sup>	0.85	1.04	1.03	1.19	1.57
Net realized and change in unrealized (losses) gains <sup>(1)</sup>	(0.15 )	(0.75 )	(0.05 )	(0.13 )	(0.50 )
Net increase from operations	0.70	0.29	0.98	1.06	1.07
Distributions of net investment income	(1.00 )	(1.00 )	(1.19 )	(1.32 )	(1.28 )
Common stock transactions <sup>(2)</sup>	—	<sup>(4)</sup> 0.02	(0.04 )	0.10	0.10
Net asset value at end of year	\$9.32	\$9.62	\$10.31	\$10.56	\$10.72
Per share market value at end of year	\$8.12	\$7.82	\$7.37	\$10.63	\$10.80
Total return based on market value <sup>(3)</sup>	16.80 %	21.84 %	(20.84 %)	10.88 %	6.24 %
Total return based on net asset value <sup>(3)</sup>	8.98 %	7.15 %	11.47 %	10.97 %	10.91 %
Shares of common stock outstanding at end of year	360,076,933	357,107,231	359,090,759	342,626,637	247,836,965
Weighted average shares of common stock outstanding	358,841,714	356,134,297	353,648,522	300,283,941	207,069,971
<b>Ratios/Supplemental Data</b>					
Net assets at end of year	\$3,354,952	\$3,435,917	\$3,703,049	\$3,618,182	\$2,656,494
Portfolio turnover rate	23.65 %	15.98 %	21.89 %	15.21 %	29.24 %
Ratio of operating expenses to average net assets	11.57 %	11.95 %	11.66 %	11.11 %	11.50 %
Ratio of net investment income to average net assets	8.96 %	10.54 %	9.87 %	11.18 %	14.86 %

(1) Per share data amount is based on the weighted average number of common shares outstanding for the year/period 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. For periods less than a year, total return is not annualized.

(4) Amount is less than \$0.01.



## Note 17. Selected Quarterly Financial Data (Unaudited)

The following table sets forth selected financial data for each quarter within the three years ending 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

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

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.

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

On April 4, 2018, we filed an 8-K announcing that our Board of Directors appointed Kristin Van Dask as our Chief Financial Officer, Treasurer, Secretary, and Chief Compliance Officer, effective immediately, in place of Brian H. Oswald who previously served in such positions.

On April 6, 2018, Arctic Oilfield merged with and into CP Energy, with CP Energy as the surviving entity.

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.

On April 16, 2018, we sold 8.78% of the outstanding principal balance of the senior secured note investment in Broder Bros., Co. for a total of \$40,000 at 100% of par. There was no gain or loss realized on the sale.

On April 17, 2018, we made a \$43,000 Senior Secured Term Loan A and \$43,000 Senior Secured Term Loan B investment in Motion Recruitment Partners LLC, a provider of IT-focused contractor and permanent staffing recruitment solutions.

On April 17, 2018, we made a \$10,000 Second Lien Term Loan investment in HelpSystems Holdings, a provider of software products.

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 \$273 loss on the sale.

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

---

During the period from April 1, 2018 through May 9, 2018 we issued \$3,580 aggregate principal amount of Prospect Capital InterNotes® for net proceeds of \$3,522.

On May 9, 2018, we announced the declaration of monthly dividends in the following amounts and with the following dates:

\$0.06 per share for May 2018 to holders of record on May 31, 2018 with a payment date of June 21, 2018.

\$0.06 per share for June 2018 to holders of record on June 29, 2018 with a payment date of July 19, 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.

F-110

---

\$5,000,000,000

PROSPECT CAPITAL CORPORATION

Common Stock

Preferred Stock

Debt Securities

Subscription Rights

Warrants

Units

Our shelf registration statement (Registration No. 333-213391) for the sale of up to \$5,000,000,000 of our 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, collectively, the Securities, was declared effective by the Securities and Exchange Commission on November 3, 2016. From November 3, 2016 to October 26, 2017, we have sold \$348,655,000 in Securities and \$4,651,345,000 remain registered under this shelf registration statement. Accordingly, we may offer, from time to time, in one or more offerings or series, together or separately, under this registration statement up to \$4,651,345,000 of our Securities, to provide us with additional capital. Securities may be offered at prices and on terms to be disclosed in one or more supplements to this prospectus. You should read this prospectus and the applicable prospectus supplement carefully before you invest in our Securities.

We may offer shares of common stock, subscription rights, units, warrants, options or rights to acquire shares of common stock, at a discount to net asset value per share in certain circumstances. Sales of common stock at prices below net asset value per share dilute the interests of existing stockholders, have the effect of reducing our net asset value per share and may reduce our market price per share. At our 2016 annual meeting, held on December 2, 2016, 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, our stockholders approved our ability to sell or otherwise issue shares of our common stock at any level of discount from net asset value per share for a twelve month period expiring on the anniversary of the date of stockholder approval. We are not currently seeking stockholder approval at our 2017 annual meeting, to be held on December 12, 2017, to continue for an additional year our ability to issue shares of common stock below net asset value, 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.

Our Securities may be offered directly to one or more purchasers, or through agents designated from time to time by us, or to or through underwriters or dealers. The prospectus supplement relating to the offering will identify any agents, underwriters or dealers involved in the sale of our Securities, and will disclose any applicable purchase price, fee, commission or discount arrangement between us and our agents, underwriters or dealers, or the basis upon which such amount may be calculated. See "Plan of Distribution." We may not sell any of our Securities through agents, underwriters or dealers without delivery of the prospectus and a prospectus supplement describing the method and terms of the offering of such Securities. Our common stock is traded on The NASDAQ Global Select Market under the symbol "PSEC." As of October 25, 2017 the last reported sales price for our common stock was \$6.10.

Prospect Capital Corporation, or the Company, is a company that lends to and invests in middle market privately-held companies. Prospect Capital Corporation, a Maryland corporation, has been organized as a closed-end investment company since April 13, 2004 and has filed an election to be treated as a business development company under the Investment Company Act of 1940, as amended, or the 1940 Act, and is a non-diversified investment company within the meaning of the 1940 Act.

Prospect Capital Management L.P., our investment adviser, manages our investments and Prospect Administration LLC, our administrator, provides the administrative services necessary for us to operate.

Investing in our Securities involves a heightened risk of total loss of investment. Before buying any Securities, you should read the discussion of the material risks of investing in our Securities in “Risk Factors” beginning on page 11 of this prospectus.

This prospectus contains important information about us that you should know before investing in our Securities. Please read it before making an investment decision and keep it for future reference. We file annual, quarterly and current reports, proxy statements and other information about us with the Securities and Exchange Commission, or the SEC. You may make inquiries or obtain this information free of charge by writing to Prospect Capital Corporation at 10 East 40<sup>th</sup> Street, 42<sup>nd</sup> Floor, New York, NY 10016, or by calling 212-448-0702. Our Internet address is <http://www.prospectstreet.com>. Information contained on our website is not incorporated by reference into this prospectus and you should not consider information contained on our website to be a part of this prospectus. You may also obtain information about us from our website and the SEC’s website (<http://www.sec.gov>).

The SEC has not approved or disapproved of these securities or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

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

The date of this Prospectus is October 30, 2017.

---

## TABLE OF CONTENTS

	Page
<u>About This Prospectus</u>	<u>1</u>
<u>Prospectus Summary</u>	<u>2</u>
<u>Selected Condensed Financial Data</u>	<u>10</u>
<u>Risk Factors</u>	<u>12</u>
<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>44</u>
<u>Quantitative and Qualitative Disclosures about Market Risk</u>	<u>80</u>
<u>Report of Management on Internal Control Over Financial Reporting</u>	<u>81</u>
<u>Use of Proceeds</u>	<u>81</u>
<u>Forward-Looking Statements</u>	<u>83</u>
<u>Distributions</u>	<u>84</u>
<u>Senior Securities</u>	<u>86</u>
<u>Price Range of Common Stock</u>	<u>89</u>
<u>Business</u>	<u>90</u>
<u>Certain Relationships and Transactions</u>	<u>111</u>
<u>Control Persons and Principal Stockholders</u>	<u>111</u>
<u>Portfolio Companies</u>	<u>113</u>
<u>Determination of Net Asset Value</u>	<u>122</u>
<u>Sales of Common Stock Below Net Asset Value</u>	<u>123</u>
<u>Dividend Reinvestment and Direct Stock Purchase Plan</u>	<u>127</u>
<u>Material U.S. Federal Income Tax Considerations</u>	<u>130</u>
<u>Description of Our Capital Stock</u>	<u>136</u>
<u>Description of Our Preferred Stock</u>	<u>142</u>
<u>Description of Our Debt Securities</u>	<u>143</u>
<u>Description of Our Subscription Rights</u>	<u>153</u>
<u>Description of Our Warrants</u>	<u>154</u>
<u>Description of Our Units</u>	<u>155</u>
<u>Regulation</u>	<u>156</u>
<u>Custodian, Transfer and Dividend Paying Agent and Registrar</u>	<u>161</u>
<u>Brokerage Allocation and Other Practices</u>	<u>162</u>
<u>Plan of Distribution</u>	<u>163</u>
<u>Legal Matters</u>	<u>165</u>
<u>Independent Accounting Firms</u>	<u>165</u>
<u>Available Information</u>	<u>165</u>
<u>Index to Consolidated Financial Statements</u>	<u>F-1</u>

## ABOUT THIS PROSPECTUS

This prospectus is part of a registration statement that we have filed with the SEC, using the “shelf” registration process. Under the shelf registration process, we may offer, from time to time on a delayed basis, up to \$4,672,820,000 of our common stock, preferred stock, debt securities, subscription rights to purchase shares of our securities, warrants representing rights to purchase our securities or separately tradeable units combining two or more of our securities, on the terms to be determined at the time of the offering. The Securities may be offered at prices and on terms described in one or more supplements to this prospectus. This prospectus provides you with a general description of the Securities that we may offer. Each time we use this prospectus to offer Securities, we will provide a prospectus supplement that will contain specific information about the terms of that offering. The prospectus supplement may also add, update or change information contained in this prospectus. Please carefully read this prospectus and any prospectus supplement together with any exhibits and the additional information described under the heading “Available Information” and the section under the heading “Risk Factors” before you make an investment decision.

## PROSPECTUS SUMMARY

The following summary contains basic information about this offering. It does not contain all the information that may be important to an investor. For a more complete understanding of this offering, we encourage you to read this entire document and the documents to which we have referred.

Information contained or incorporated by reference in this prospectus may contain “forward-looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995, which are statements about the future that may be identified by the use of forward-looking terminology such as “may,” “will,” “expect,” “intend,” “plans,” “anticipate,” “estimate” or “continue” or the negative thereof or other variations thereon or comparable terminology. These forward-looking statements do not meet the safe harbor for forward-looking statements pursuant to Section 27A of the Securities Act of 1933, as amended, or the Securities Act. The matters described in “Risk Factors” and certain other factors noted throughout this prospectus and in any exhibits to the registration statement of which this prospectus is a part, constitute cautionary statements identifying important factors with respect to any such forward-looking statements, including certain risks and uncertainties, that could cause actual results to differ materially from those in such forward-looking statements. The Company reminds all investors that no forward-looking statement can be relied upon as an accurate or even mostly accurate forecast because humans cannot forecast the future.

The terms “we,” “us,” “our,” “Prospect,” and “Company” refer to Prospect Capital Corporation; “Prospect Capital Management” refers to Prospect Capital Management L.P., our investment adviser; and “Prospect Administration” or the “Administrator” refers to Prospect Administration LLC, our administrator.

### The Company

We are a financial services company that lends to and invests in middle market privately-held companies. In this prospectus, we use the term “middle-market” to refer to companies typically with annual revenues between \$50 million and \$2 billion.

From our inception to the fiscal year ended June 30, 2007, we invested primarily in industries related to the industrial/energy economy, which consists of companies in the discovery, production, transportation, storage and use of energy resources as well as companies that sell products and services to, or acquire products and services from, these companies. Since then, we have widened our strategy to focus on other sectors of the economy and continue to broaden our portfolio holdings.

We have been organized as a closed-end investment company since April 13, 2004 and have filed an election to be treated as a business development company under the 1940 Act. We are a non-diversified company within the meaning of the 1940 Act. Our headquarters are located at 10 East 40<sup>th</sup> Street, 42<sup>nd</sup> Floor, New York, NY 10016, and our telephone number is (212) 448-0702.

### The Investment Adviser

Prospect Capital Management, an affiliate of the Company, manages our investment activities. Prospect Capital Management is an investment adviser that has been registered under the Investment Advisers Act of 1940, or the Advisers Act, since March 31, 2004. Under an investment advisory and management agreement between us and Prospect Capital Management, or the Investment Advisory Agreement, we have agreed to pay Prospect Capital Management investment advisory fees, which will consist of an annual base management fee based on our gross assets, which we define as total assets without deduction for any liabilities (and, accordingly, includes the value of assets acquired with proceeds from borrowings), as well as a two-part incentive fee based on our performance.

### 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 senior loans and mezzanine debt. First and second lien senior loans generally are senior debt instruments that rank ahead of subordinated 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. Mezzanine debt and our investments in CLOs are subordinated to senior loans and are generally unsecured. Our investments have generally ranged between \$5 million and \$250 million each, although the investment size may be more or less than this range. Our investment sizes are expected to grow as our capital base expands.





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. These securities, which are often referred to as “junk” or “high yield,” have predominantly speculative characteristics with respect to the issuer’s capacity to pay interest and repay principal. 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. Our potential investment in CLOs is limited by the 1940 Act to 30% of our portfolio. 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.”

#### The Offering

We may offer, from time to time, in one or more offerings or series, together or separately, up to \$4,655,763,000 of our Securities, which we expect to use initially to maintain balance sheet liquidity, involving repayment of debt under our credit facility, investment in high quality short-term debt instruments or a combination thereof, and thereafter to make long-term investments in accordance with our investment objectives.

Our Securities may be offered directly to one or more purchasers, through agents designated from time to time by us, or to or through underwriters or dealers. The prospectus supplement relating to a particular offering will disclose the terms of that offering, including the name or names of any agents, underwriters or dealers involved in the sale of our Securities by us, the purchase price, and any fee, commission or discount arrangement between us and our agents, underwriters or dealers, or the basis upon which such amount may be calculated. See "Plan of Distribution." We may not sell any of our Securities through

3

---

agents, underwriters or dealers without delivery of a prospectus supplement describing the method and terms of the offering of our Securities.

We may sell our common stock, subscription rights, units, warrants, options or rights to acquire our common stock, at a price below the current net asset value of our common stock upon approval of our directors, including a majority of our independent directors, in certain circumstances. Our stockholders approved our ability to issue warrants, options or rights to acquire our common stock at our 2008 annual meeting of stockholders for an unlimited time period and in accordance with the 1940 Act which provides that the conversion or exercise price of such warrants, options or rights may be less than net asset value per share at the date such securities are issued or at the date such securities are converted into or exercised for shares of our common stock. At our 2016 annual meeting, held on December 2, 2016, 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, our stockholders approved our ability to sell or otherwise issue shares of our common stock at any level of discount from net asset value per share for a twelve month period expiring on the anniversary of the date of the stockholder approval. We are not currently seeking stockholder approval at our 2017 annual meeting to continue for an additional year our ability to issue shares of common stock below net asset value, 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. See “Sales of Common Stock Below Net Asset Value” in this prospectus and in the prospectus supplement, if applicable. Sales of common stock at prices below net asset value per share dilute the interests of existing stockholders, have the effect of reducing our net asset value per share and may reduce our market price per share. We have no current intention of engaging in a rights offering, although we reserve the right to do so in the future.

Set forth below is additional information regarding the offering of our Securities:

Use of proceeds Unless otherwise specified in a prospectus supplement, we intend to use the net proceeds from selling Securities pursuant to this prospectus initially to maintain balance sheet liquidity, involving repayment of debt under our credit facility, if any, investments in high quality short-term debt instruments or a combination thereof, and thereafter to make long-term investments in accordance with our investment objective. Interest on borrowings under our credit facility is one-month LIBOR plus 225 basis points, with no minimum LIBOR floor. Additionally, the lenders charge a fee on the unused portion of the credit facility equal to either 50 basis points if at least thirty-five percent of the credit facility is drawn or 100 basis points otherwise. See “Use of Proceeds.”

Distributions In June 2010, our Board of Directors approved a change in dividend policy from quarterly distributions to monthly distributions. Since that time, we have paid monthly distributions to the holders of our common stock and intend to continue to do so. The amount of the monthly distributions is determined by our Board of Directors and is based on our estimate of our investment company taxable income and net short-term capital gains. Certain amounts of the monthly distributions may from time to time be paid out of our capital rather than from earnings for the month as a result of our deliberate planning or accounting reclassifications. Distributions in excess of our current and accumulated earnings and profits constitute a return of capital and will reduce the stockholder’s adjusted tax basis in such stockholder’s common stock. A return of capital (1) is a return of the original amount invested, (2) does not constitute earnings or profits and (3) will have the effect of reducing the basis such that when a stockholder sells its shares the sale may be subject to taxes even if the shares are sold for less than the original purchase price. After the adjusted basis is reduced to zero, these distributions will constitute capital gains to such stockholders. Certain additional amounts may be deemed as distributed to stockholders for income tax purposes. Other types of Securities will likely pay distributions in accordance with their terms. See “Price Range of Common Stock,” “Distributions” and “Material U.S. Federal Income Tax Considerations.”

Taxation	<p>We have qualified and elected to be treated for U.S. federal income tax purposes as a regulated investment company, or a RIC, under Subchapter M of the Internal Revenue Code of 1986, or 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 maintain our qualification as a RIC and obtain RIC tax treatment, we must satisfy certain source-of-income and asset diversification requirements and distribute annually 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. See “Distributions” and “Material U.S. Federal Income Tax Considerations.”</p>
Dividend reinvestment and direct stock purchase plan	<p>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, 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. Stockholders who receive distributions in the form of stock are subject to the same U.S. federal, state and local tax consequences as stockholders who elect to receive their distributions in cash. See “Dividend Reinvestment and Direct Stock Purchase Plan.”</p>
The NASDAQ Global Select Market Symbol	PSEC
Anti-takeover provisions	<p>Our charter and bylaws, as well as certain statutory and regulatory requirements, contain provisions that may have the effect of discouraging a third party from making an acquisition proposal for us. These anti-takeover provisions may inhibit a change in control in circumstances that could give the holders of our common stock the opportunity to realize a premium over the market price of our common stock. See “Description Of Our Capital Stock.”</p>
Management arrangements	<p>Prospect Capital Management serves as our investment adviser. Prospect Administration serves as our administrator. For a description of Prospect Capital Management, Prospect Administration and our contractual arrangements with these companies, see “Business—Management Services—Investment Advisory Agreement,” and “Business— Management Services—Administration Agreement.”</p>
Risk factors	<p>Investment in our Securities involves certain risks relating to our structure and investment objective that should be considered by prospective purchasers of our Securities. In addition, as a business development company, our portfolio primarily includes securities issued by privately-held companies. These investments generally involve a high degree of business and financial risk, and are less liquid than public securities. We are required to mark the carrying value of our investments to fair value on a quarterly basis, and economic events, market conditions and events affecting individual portfolio companies can result in quarter-to-quarter mark-downs and mark-ups of the value of individual investments that collectively can materially affect our net asset value, or NAV. Also, our determinations of fair value of privately-held securities may differ materially from the values that would exist if there was a ready market for these investments. A large number of entities compete for the same kind of investment opportunities as we do. Moreover, our business requires a substantial amount of capital to operate and to grow and we seek additional capital from external sources. In addition, the failure to qualify as a RIC eligible for pass-through tax treatment under the Code on income distributed to stockholders could have a materially adverse effect on the total return, if any, obtainable from an investment in our Securities. See “Risk Factors” and the other information included in this prospectus for a discussion of factors you should carefully consider before deciding to invest in our Securities.</p>



Plan of  
distribution

We may offer, from time to time, up to \$4,651,345,000 of our common stock, preferred stock, debt securities, subscription rights to purchase shares of our securities, warrants representing rights to purchase our securities or separately tradeable units combining two or more of our securities on the terms to be determined at the time of the offering. Securities may be offered at prices and on terms described in one or more supplements to this prospectus directly to one or more purchasers, through agents designated from time to time by us, or to or through underwriters or dealers. The supplement to this prospectus relating to the offering will identify any agents or underwriters involved in the sale of our Securities, and will set forth any applicable purchase price, fee and commission or discount arrangement or the basis upon which such amount may be calculated. We may not sell Securities pursuant to this prospectus without delivering a prospectus supplement describing the method and terms of the offering of such Securities. For more information, see “Plan of Distribution.”

## Fees and Expenses

The following tables are intended to assist you in understanding the costs and expenses that an investor in this offering will bear directly or indirectly. We caution you that some of the percentages indicated in the table below are estimates and may vary. In these tables, we assume that we have borrowed \$835.2 million under our credit facility, which is the maximum amount available under the credit facility with the current levels of other debt, in addition to our other indebtedness of \$2.5 billion. We do not intend to issue preferred stock during the year. Except where the context suggests otherwise, whenever this prospectus contains a reference to fees or expenses paid by “you” or “us” or that “we” will pay fees or expenses, the Company will pay such fees and expenses out of our net assets and, consequently, you will indirectly bear such fees or expenses as an investor in the Company. However, you will not be required to deliver any money or otherwise bear personal liability or responsibility for such fees or expenses.

## Stockholder transaction expenses:

Sales load (as a percentage of offering price)(1)	-	
Offering expenses borne by the Company (as a percentage of offering price)(2)	-	
Dividend reinvestment plan expenses(3)	\$15.00	
Total stockholder transaction expenses (as a percentage of offering price)(4)	-	
Annual expenses (as a percentage of net assets attributable to common stock):		
Management fees(5)	4.08	%
Incentive fees payable under Investment Advisory Agreement (20% of realized capital gains and 20% of pre-incentive fee net investment income)(6)	2.28	%
Total advisory fees	6.36	%
Total interest expense(7)	5.24	%
Acquired Fund Fees and Expenses(8)	0.01	%
Other expenses(9)	0.91	%
Total annual expenses(6)(9)	12.52	%

## Example

The following table demonstrates the projected dollar amount of cumulative expenses we would pay out of net assets and that you would indirectly bear over various periods with respect to a hypothetical investment in our common stock. In calculating the following expense amounts, we have assumed we have borrowed all \$835.2 million available under our line of credit, in addition to our other indebtedness of \$2.5 billion and that our annual operating expenses would remain at the levels set forth in the table above and that we would pay the costs shown in the table above. We do not anticipate increasing the leverage percentage to a level higher than that which would be indicated after the borrowing of the entire available balance of the credit facility. Any future debt issuances would be dependent on future equity issuances and we do not anticipate any significant change in the borrowing costs as a percentage of net assets attributable to common stock. In the event that securities to which this prospectus relates are sold to or through underwriters, a corresponding prospectus supplement will restate these examples to reflect the applicable sales load.

	1 Year	3 Years	5 Years	10 Years
You would pay the following expenses on a \$1,000 investment, assuming a 5% annual return*	\$102.37	\$291.30	\$460.96	\$813.22
You would pay the following expenses on a \$1,000 investment, assuming a 5% annual return**	\$112.37	\$319.45	\$505.00	\$888.26

\* Assumes that we will not realize any capital gains computed net of all realized capital losses and unrealized capital depreciation.

\*\* Assumes no unrealized capital depreciation or realized capital losses and 5% annual return resulting entirely from net realized capital gains (and therefore subject to the capital gains incentive fee).



While the example assumes, as required by the SEC, a 5% annual return, our performance will vary and may result in a return greater or less than 5%. The income incentive fee under our Investment Advisory Agreement with Prospect Capital Management is unlikely to be material assuming a 5% annual return and is not included in the example. If we achieve sufficient returns on our investments, including through the realization of capital gains, to trigger an incentive fee of a material amount, our distributions to our common stockholders and our expenses would likely be higher. In addition, while the example assumes reinvestment of all dividends and other distributions at NAV, participants in our dividend reinvestment plan will receive a number of shares of our common stock determined by dividing the total dollar amount of the distribution payable to a participant by the market price per share of our common stock at the close of trading on the valuation date for the distribution. See “Dividend Reinvestment and Direct Stock Purchase Plan” for additional information regarding our dividend reinvestment plan.

This example and the expenses in the table above should not be considered a representation of our future expenses. Actual expenses (including the cost of debt, if any, and other expenses) may be greater or less than those shown.

---

(1) In the event that the Securities to which this prospectus relates are sold to or through underwriters, a corresponding prospectus supplement will disclose the estimated applicable sales load.

(2) The related prospectus supplement will disclose the estimated amount of offering expenses, the offering price and the estimated offering expenses borne by us as a percentage of the offering price.

The expenses of the dividend reinvestment plan are included in “other expenses.” The plan administrator’s fees under the plan are paid by us. There are no brokerage charges or other charges to stockholders who participate in reinvestment of dividends or distributions under the plan except that, if a participant elects by written notice to the

(3) 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. See “Capitalization” and “Dividend Reinvestment and Direct Stock Repurchase Plan” in this prospectus.

(4) The related prospectus supplement will disclose the offering price and the total stockholder transaction expenses as a percentage of the offering price.

Our base management fee is 2% of our gross assets (which include any amount borrowed, i.e., total assets without deduction for any liabilities, including any borrowed amounts for non-investment purposes, for which purpose we have not and have no intention of borrowing). Although we have no intent to borrow the entire amount available under our line of credit, assuming that we had total borrowings of \$3.4 billion, the 2% management fee of gross assets would equal approximately 4.08% of net assets. Based on our borrowings as of October 25, 2017 of \$2.5 billion, the 2% management fee of gross assets would equal approximately 3.58% of net assets including costs of the undrawn credit facility. See “Business— Management Services—Investment Advisory Agreement” and footnote 6 below.

(5) Based on the incentive fee paid during our most recently completed quarter ended June 30, 2017, all of which consisted of an income incentive fee. The capital gain incentive fee is paid without regard to pre-incentive fee income. The incentive fee has two parts. The first part, the income incentive fee, which is payable quarterly in arrears, will equal 20% of the excess, if any, of our pre-incentive fee net investment income that exceeds a 1.75% quarterly (7% annualized) hurdle rate, subject to a “catch up” provision measured as of the end of each 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 appreciation or depreciation. 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% annualized). The “catch-up” provision requires us to pay 100% of our pre-incentive fee net investment income with respect to that portion of such income, if any, that exceeds the hurdle rate but is less than 125% of the quarterly hurdle rate in any calendar quarter (8.75% annualized assuming an annualized hurdle rate of 7%). The “catch-up” provision is meant to provide Prospect Capital Management with 20% of our pre-incentive fee net investment income as if a hurdle rate did not apply when our pre-incentive fee net investment income exceeds 125% of the quarterly hurdle rate in any calendar quarter (8.75% annualized assuming an annualized hurdle rate of 7%). 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% 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. For a more detailed discussion of the calculation of the two-part incentive fee, see “Management Services—Investment Advisory Agreement” in the accompanying prospectus.

As of October 25, 2017 Prospect has \$2.5 billion outstanding of its Unsecured Notes (as defined below) in various maturities, ranging from November 15, 2017 to October 15, 2043, and interest rates, ranging from 3.75% to 7.00%, some of which are convertible into shares of Prospect common stock at various conversion rates. Interest on borrowings under our credit facility is one-month LIBOR plus 225 basis points, with no minimum LIBOR floor.

(7) Additionally, the lenders charge a fee on the unused portion of the credit facility equal to either 50 basis points if at least thirty-five percent of the credit facility is drawn or 100 basis points otherwise. Please see “Business of Prospect—General” and “Risks Related to Prospect—Risks Relating to Prospect’s Business” below for more detail on the Unsecured Notes.

The Company’s stockholders indirectly bear the expenses of underlying investment companies in which the Company invests. This amount includes the fees and expenses of investment companies in which the Company is invested in as of June 30, 2017. When applicable, fees and expenses are based on historic fees and expenses for the investment companies, and for those investment companies with little or no operating history fees and expenses are based on expected fees and expenses stated in the investment companies’ prospectus or other similar

(8) communication without giving effect to any performance. Future fees and expenses for certain investment companies may be substantially higher or lower because certain fees and expenses are based on the performance of the investment companies, which may fluctuate over time. The amount of the Company’s average net assets used in calculating this percentage was based on net assets of approximately \$3.4 billion as of June 30, 2017. The expenses of the CLOs in which we invest are not included in Acquired Fund Fees and Expenses and are included in Other expenses.

“Other expenses” are based on estimated amounts for the current fiscal year. The amount shown above represents annualized expenses during our three months ended June 30, 2017 representing all of our estimated recurring operating expenses (except fees and expenses reported in other items of this table) that are deducted from our operating income and reflected as expenses in our Statement of Operations. The estimate of our overhead expenses, including payments under an administration agreement with Prospect Administration, or the Administration Agreement is based on our projected allocable portion of overhead and other expenses incurred by Prospect Administration in performing its obligations under the Administration Agreement. “Other expenses” does not include non-recurring expenses. See “Business—Management Services—Administration Agreement.”

## SELECTED CONDENSED FINANCIAL DATA

You should read the condensed consolidated financial information below with the Consolidated Financial Statements and notes thereto included in this prospectus. Financial information below for the years ended June 30, 2017, 2016, 2015, 2014 and 2013 has been derived from the financial statements that were audited by our independent registered public accounting firm. Certain reclassifications have been made to the prior period financial information to conform to the current period presentation. See “Management’s Discussion and Analysis of Financial Condition and Results of Operations” starting on page 44 for more information.

	Year Ended June 30,				
	2017	2016	2015	2014	2013
	(in thousands except data relating to shares, per share and number of portfolio companies)				
<b>Performance Data:</b>					
Total interest income	\$668,717	\$731,618	\$748,974	\$613,741	\$435,455
Total dividend income	5,679	26,501	7,663	26,837	82,705
Total other income	26,650	33,854	34,447	71,713	58,176
Total Investment Income	701,046	791,973	791,084	712,291	576,336
Interest and credit facility expenses	(164,848 )	(167,719 )	(170,660 )	(130,103 )	(76,341 )
Investment advisory expense	(199,394 )	(219,305 )	(225,277 )	(198,296 )	(151,031 )
Other expenses	(30,722 )	(33,821 )	(32,400 )	(26,669 )	(24,040 )
Total Operating Expenses	(394,964 )	(420,845 )	(428,337 )	(355,068 )	(251,412 )
Net Investment Income	306,082	371,128	362,747	357,223	324,924
Net realized and change in unrealized (losses) gains	(53,176 )	(267,766 )	(16,408 )	(38,203 )	(104,068 )
Net Increase in Net Assets from Operations	\$252,906	\$103,362	\$346,339	\$319,020	\$220,856
<b>Per Share Data:</b>					
Net Increase in Net Assets from Operations(1)	\$0.70	\$0.29	\$0.98	\$1.06	\$1.07
Dividends declared per share	\$(1.00 )	\$(1.00 )	\$(1.19 )	\$(1.32 )	\$(1.28 )
Weighted average shares of common stock outstanding	358,841,714	356,134,297	353,648,522	300,283,941	207,069,971
<b>Assets and Liabilities Data:</b>					
Investments at Fair Value	5,838,305	5,897,708	\$6,609,558	\$6,253,739	\$4,172,852
Other Assets(4)	334,484	338,473	144,356	166,520	237,758
Total Assets(4)	6,172,789	6,236,181	6,753,914	6,420,259	4,410,610
Revolving Credit Facility	—	—	368,700	92,000	124,000
Convertible Notes(4)	937,641	1,074,361	1,218,226	1,219,676	827,246
Public Notes(4)	738,300	699,368	541,490	637,584	340,611
Prospect Capital InterNotes®(4)	966,254	893,210	811,180	766,781	353,538
Due to Prospect Administration and Prospect Capital Management	50,159	55,914	6,788	2,211	6,690
Other liabilities	125,483	77,411	104,481	83,825	102,031
Total Liabilities(4)	2,817,837	2,800,264	3,050,865	2,802,077	1,754,116
Net Assets	\$3,354,952	\$3,435,917	\$3,703,049	\$3,618,182	\$2,656,494

	Year Ended June 30,					
	2017	2016	2015	2014	2013	
	(in thousands except data relating to shares, per share and number of portfolio companies)					
Investment Activity Data:						
No. of portfolio companies at period end	121	125	131	142	124	
Acquisitions	\$1,489,470	\$979,102	\$1,867,477	\$2,933,365	\$3,103,217	
Sales, repayments, and other disposals	\$1,413,882	\$1,338,875	\$1,411,562	\$767,978	\$931,534	
Total return based on market value(2)	16.80	% 21.84	% (20.84)	% 10.88	% 6.24	%
Total return based on net asset value(2)	8.98	% 7.15	% 11.47	% 10.97	% 10.91	%
Weighted average yield on debt portfolio at year end(3)	12.20	% 13.20	% 12.70	% 12.10	% 13.60	%
Weighted average yield on total portfolio at year end(5)	10.35	% 12.04	% 11.87	% 11.90	% 15.07	%

(1) Per share data 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).

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, \$44,140, (4) \$57,010, and \$37,607 previously reported as an asset on the Consolidated Statements of Assets and Liabilities as of June 30, 2016, 2015, 2014, and 2013, respectively, have been reclassified as a direct deduction to the respective Unsecured Notes. See Critical Accounting Policies and Estimates for further discussion.

(5) Includes equity investments and non-performing loans.

## RISK FACTORS

Investing in our Securities involves a high degree of risk. You should carefully consider the risks described below, together with all of the other information included in this prospectus, 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.

### 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 2019, 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.

In November 2016, the U.S. held its Federal election and the Republican Party nominee was elected. The Republican Party now controls both the executive and legislative branches of government. Although it remains too early to accurately predict the forthcoming regulatory environment, a number of recent regulatory reforms, as well as proposals for future regulatory reform, may be blocked, repealed, modified or otherwise invalidated, including those that are in the process of being implemented. Potential reform initiatives or regulatory changes, including those arising out of or in connection with the presidential executive order dated February 3, 2017, that may directly or indirectly impact our business or operating activities include:

- a repeal or modification of portions of the Dodd-Frank Act, including the Volcker Rule;
  - changes to the regulatory landscape of public companies, financial institutions and trading, advisory and asset management firms;
- alterations to the SEC's enforcement authority; and
- the changing leadership at key financial regulatory agencies, including the SEC, the Office of the Comptroller of the Currency, the Commodity Futures Trading Commission, the Federal Reserve and the Financial Stability Oversight Council.

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. According to publicly released statements, a top legislative



priority of the new Congress and administration may be to enact significant reform of the Code, including significant changes to taxation of business entities and the deductibility of interest expense and capital investment. There is a substantial lack of clarity around the likelihood, timing and details of any such tax reform and the impact of any potential tax reform on us or an investment in our

securities. We cannot predict how any changes in the tax laws might affect our investors or us. New legislation, U.S. Treasury regulations, administrative interpretations or court decisions, with or without retroactive application, could significantly and negatively affect our ability to qualify as a RIC or the U.S. federal income tax consequences to our investors and us of such qualification, 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.

Actions by the BBA, 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. 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.

In June 2016, the United Kingdom held a referendum (the "Referendum") in which voters approved an exit from the European Union, commonly referred to as "Brexit," which resulted in significant volatility in several international markets. The timing and the outcome of the negotiations between the United Kingdom and the European Union in connection with Brexit are highly uncertain and information regarding the long-term consequences of the vote is expected to become clearer over time. Brexit has led to significant uncertainty in the business, legal and political environment. Risks associated with the outcome of the Referendum include short and long term market volatility 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), macroeconomic risk to the United Kingdom and European economies, impetus for further disintegration of the European Union and related political stresses (including those related to sentiment against cross border capital movements and activities of investors like us), prejudice to financial services businesses that are conducting business in the European Union 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. We will continue to monitor the potential impact of Brexit on its results of operations and financial condition. Should the economic recovery in the United States be adversely impacted by increased volatility in the global financial markets caused by continued contagion from the Eurozone crisis, further turbulence in Chinese stock markets and global commodity markets, Brexit or for any other reason, loan and asset growth and liquidity conditions at U.S. financial institutions, including us, may deteriorate.

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.

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, 2017 and our NAV when calculated effective September 30, 2017 and thereafter may be higher or lower.

Our NAV per share is \$9.32 as of June 30, 2017. NAV per share as of September 30, 2017 may be higher or lower than \$9.32 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, 2017. 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. The calculation of pre-incentive fee net investment income includes, among other things, fees from controlled companies, which could give rise to a conflict. Further, the 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.

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. Cyberattacks 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. Any failure or interruption of those systems, including as a result of the termination of an agreement with any third-party service providers, could cause delays or other problems in our 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 is 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 would 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.

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.

25

---

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 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.

30

---

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 effects of compliance with the Volcker Rule may affect the CLO market in ways that we cannot currently anticipate.

Section 619 of the Dodd-Frank Act added a provision, commonly referred to as the "Volcker Rule," to federal banking laws to prohibit covered banking entities from engaging in proprietary trading or acquiring or retaining an ownership interest in, sponsoring or having certain relationships with "covered funds." Generally, a covered fund would include a hedge fund or a private equity fund; however, the definition is sufficiently broad that it may include certain CLOs.

The Volcker Rule provides that certain loan securitization vehicles are not considered "covered funds" for purposes of the prohibitions. In order to meet the definition of a loan securitization, the assets or holdings of the fund must, among other things, consist solely of loans and cannot include securities, such as bonds. In an effort to qualify for this "loan securitization" exclusion, many current CLOs are undertaking amendments to their related transaction documents that restrict the ability of the issuer to acquire bonds and certain other securities. Such an amendment may have the effect of reducing the return available to holders of CLO equity securities because bonds are generally higher yielding assets than are loans. In addition, the costs associated with such an amendment are typically paid out of the cash flow of the CLO, which could impact the return on our investment in any CLO equity securities. In addition, as a result of the uncertainty regarding the implementation and interpretation of the Volcker Rule, it is likely that many future CLOs will contain similar restrictions on the acquisition of bonds and certain other securities, which may have the effect of lowering returns on CLO equity securities. Our CLO equity portfolio is comprised principally of non-Volcker Rule compliant CLOs.

Generally, due to the lack of clarity as to the application of the Volcker Rule and the availability of certain exemptions, certain investors that are subject to the Volcker Rule may not be as interested in CLO investments in the future. Any decline in interest may adversely affect the market value or liquidity of any or all of the CLO investments we hold. Similarly, it is possible that uncertainty regarding the treatment of CLOs may adversely affect the volume of CLO issuance.

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 OID and 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 original issue discount, or OID, instruments and payment in kind, or 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.

#### 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:

• A 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) \$6.2 billion in total assets, (ii) an average cost of funds of 5.31%, (iii) \$2.8 billion in debt outstanding and (iv) \$3.4 billion of shareholders' equity.

Assumed Return on Our Portfolio (net of expenses)	(10 )%	(5 )%	0 %	5 %	10 %
Corresponding Return to Stockholder	(22.6)%	(13.5)%	(4.4)%	4.7%	13.9%

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.

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

37

---

• Maintenance of a minimum level of stockholders' equity.

As of June 30, 2017, 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, 2019, 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, 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. If the credit facility is not renewed or extended by the participant banks by March 27, 2019, 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, 2020. As of June 30, 2017, we did not have any outstanding borrowings under our credit facility. Interest on borrowings under the credit facility is one-month LIBOR plus 225 basis points with no minimum LIBOR floor. Additionally, the lenders charge a fee on the unused portion of the credit facility equal to either 50 basis points if at least 35% of the credit facility is drawn or 100 basis points otherwise.

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 November 15, 2017 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;

38

---

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. We do not intend to seek stockholder approval at our 2017 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 monthly 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 will 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.

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 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. We do not intend to seek stockholder approval at our 2017 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 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, 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. See "Description of Our Capital Stock" for more information.

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 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 pay dividends in cash and our stock.

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

(All figures in this section 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 prospectus or incorporated by reference into this prospectus. In addition to historical information, the following discussion and other parts of this prospectus contain forward-looking information that involves risks and uncertainties. Our actual results could differ materially from those anticipated by such forward-looking information due to the factors discussed under "Risk Factors" and "Forward-Looking Statements" appearing elsewhere herein.

### Note on Forward Looking Statements

Some of the statements in this section of the prospectus constitute forward-looking statements, which relate to future events or our future performance or financial condition. The forward-looking statements contained herein involve risks and uncertainties, including statements as to:

- 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;

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

### 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: AMU Holdings Inc.; APH Property Holdings, LLC ("APH"); Arctic Oilfield Equipment USA, Inc.; 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”); 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. 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. We collectively refer to these entities as the “Consolidated Holding Companies.”

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 online loans. 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 generally 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 5%-10% 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.

45

---

**Investing in Structured Credit** - We make investments in CLOs, often taking a significant position in the subordinated interests (equity) 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 Online Loans** - We purchase loans originated by certain small-and-medium-sized business (“SME”) loan facilitators. We generally purchase each loan in its entirety (i.e., a “whole loan”). The borrowers are 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, 2017, as shown in our Consolidated Schedule of Investments, the cost basis and fair value of our investments in controlled companies was \$1,840,731 and \$1,911,775, respectively. This structure gives rise to several of the risks described in our public documents and highlighted elsewhere in this prospectus. 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, 2017, we acquired \$201,206 of new investments, completed follow-on investments in existing portfolio companies totaling approximately \$12,550, funded \$5,938 of revolver advances, and recorded paid in kind (“PIK”) interest of \$3,482, resulting in gross investment originations of \$223,176. During the three months ended June 30, 2017, we received full repayments on five investments, sold three investments and received several partial prepayments and amortization payments totaling \$352,043.

##### Debt Issuances and Redemptions

During the three months ended June 30, 2017, we redeemed \$49,497 aggregate principal amount of our Prospect Capital InterNotes® at par with a weighted average interest rate of 4.87%, and issued \$29,661 aggregate principal amount of Prospect Capital InterNotes® with a stated and weighted average interest rate of 4.82%, to extend our borrowing base. The newly issued notes mature between April 15, 2022 and June 15, 2022 and generated net proceeds of \$29,290.



During the three months ended June 30, 2017, we repaid \$2,420 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, 2017 was \$320.

In April, 2017 we repurchased \$78,766 aggregate principal amount of the 2017 Notes at a price of 102.0% of face value, 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 2017 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, 2017 was \$1,786.

In April, 2017 we repurchased \$114,581 aggregate principal amount of the 2018 Notes at a price of 103.5% of face value, 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 2018 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, 2017 was \$4,700.

On April 11, 2017, we issued \$225,000 aggregate principal amount of convertible notes that mature on July 15, 2022 (the "2022 Notes"), unless previously converted or repurchased in accordance with their terms. The 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.

#### Equity Issuances

On April 20, 2017, May 18, 2017, and June 22, 2017, we issued 53,517, 65,054, and 72,659 shares of our common stock in connection with the dividend reinvestment plan, respectively.

#### Investment Holdings

As of June 30, 2017, we continue to pursue our investment strategy. At June 30, 2017, approximately \$5,838,305, or 174.0%, of our net assets are invested in 121 long-term portfolio investments and CLOs.

During the year ended June 30, 2017, we originated \$1,489,470 of new investments, primarily composed of \$985,844 of debt and equity financing to non-controlled portfolio investments, \$325,174 of debt and equity financing to controlled investments, and \$178,452 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 12.2% and 13.2% as of June 30, 2017 and June 30, 2016, respectively, across all performing interest bearing investments.

Our annualized current yield was 10.4% and 12.0% as of June 30, 2017 and June 30, 2016, respectively, across all investments. The decline is primarily due to a decrease in cash-on-cash yields in our CLO investment portfolio.

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, 2017, we own controlling interests in the following portfolio companies: Arctic Energy Services, LLC (“Arctic Energy”); CCPI Inc. (“CCPI”); CP Energy Services Inc. (“CP Energy”); Credit Central Loan Company, LLC (“Credit Central”); Echelon Aviation LLC (“Echelon”); Edmentum Ultimate Holdings, LLC; First Tower Finance Company LLC (“First Tower Finance”); Freedom Marine Solutions, LLC (“Freedom Marine”); MITY, Inc. (“MITY”); NPRC; Nationwide Loan Company LLC (f/k/a Nationwide Acceptance LLC) (“Nationwide”); NMMB, Inc. (“NMMB”); R-V Industries, Inc.; 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. We also own affiliated interests in Nixon, Inc. and Targus International, LLC (“Targus”).

The following shows the composition of our investment portfolio by level of control as of June 30, 2017 and June 30, 2016:

Level of Control	June 30, 2017				June 30, 2016			
	Cost	% of Portfolio	Fair Value	% of Portfolio	Cost	% of Portfolio	Fair Value	% of Portfolio
Control Investments	\$1,840,731	30.8 %	\$1,911,775	32.7 %	\$1,768,220	29.0 %	\$1,752,449	29.7 %
Affiliate Investments	22,957	0.4 %	11,429	0.2 %	10,758	0.2 %	11,320	0.2 %
Non-Control/Non-Affiliate Investments	4,117,868	68.8 %	3,915,101	67.1 %	4,312,122	70.8 %	4,133,939	70.1 %
Total Investments	\$5,981,556	100.0 %	\$5,838,305	100.0 %	\$6,091,100	100.0 %	\$5,897,708	100.0 %

The following shows the composition of our investment portfolio by type of investment as of June 30, 2017 and June 30, 2016:

Type of Investment	June 30, 2017				June 30, 2016			
	Cost	% of Portfolio	Fair Value	% of Portfolio	Cost	% of Portfolio	Fair Value	% of Portfolio
Revolving Line of Credit	\$27,409	0.5 %	\$27,409	0.5 %	\$13,274	0.2 %	\$13,274	0.2 %
Senior Secured Debt	2,940,163	49.2 %	2,798,796	47.9 %	3,072,839	50.5 %	2,941,722	49.9 %
Subordinated Secured Debt	1,160,019	19.4 %	1,107,040	19.0 %	1,228,598	20.2 %	1,209,604	20.5 %
Subordinated Unsecured Debt	37,934	0.6 %	44,434	0.8 %	75,878	1.2 %	68,358	1.2 %
Small Business Loans	8,434	0.1 %	7,964	0.1 %	14,603	0.2 %	14,215	0.2 %
CLO Residual Interest	1,150,006	19.2 %	1,079,712	18.5 %	1,083,540	17.8 %	1,009,696	17.1 %
Preferred Stock	112,394	1.9 %	83,209	1.4 %	140,902	2.3 %	81,470	1.4 %
Common Stock	295,200	4.9 %	391,374	6.7 %	229,389	3.8 %	258,498	4.4 %
Membership Interest	249,997	4.2 %	206,012	3.5 %	226,479	3.7 %	221,949	3.8 %
Participating Interest(1)	—	— %	91,491	1.6 %	—	— %	70,590	1.2 %
Escrow Receivable	—	— %	864	— %	3,916	0.1 %	6,116	0.1 %
Warrants	—	— %	—	— %	1,682	— %	2,216	— %
Total Investments	\$5,981,556	100.0 %	\$5,838,305	100.0 %	\$6,091,100	100.0 %	\$5,897,708	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, 2017 and June 30, 2016:

Type of Investment	June 30, 2017				June 30, 2016			
	Cost	% of Portfolio	Fair Value	% of Portfolio	Cost	% of Portfolio	Fair Value	% of Portfolio
First Lien	\$2,959,738	55.6 %	\$2,818,371	55.6 %	\$3,079,689	56.1 %	\$2,948,572	56.1 %
Second Lien	1,167,853	21.9 %	1,114,874	22.0 %	1,235,022	22.5 %	1,216,028	23.1 %
Unsecured	37,934	0.7 %	44,434	0.9 %	75,878	1.4 %	68,358	1.3 %
Small Business Loans	8,434	0.2 %	7,964	0.2 %	14,603	0.3 %	14,215	0.3 %
CLO Residual Interest	1,150,006	21.6 %	1,079,712	21.3 %	1,083,540	19.7 %	1,009,696	19.2 %
Total Debt Investments	\$5,323,965	100.0 %	\$5,065,355	100.0 %	\$5,488,732	100.0 %	\$5,256,869	100.0 %

The following shows the composition of our investment portfolio by geographic location as of June 30, 2017 and June 30, 2016:

Edgar Filing: PROSPECT CAPITAL CORP - Form 497

Geographic Location	June 30, 2017				June 30, 2016				
	Cost	% of Portfolio	Fair Value	% of Portfolio	Cost	% of Portfolio	Fair Value	% of Portfolio	
Canada	\$9,831	0.2	% \$10,000	0.2	% \$15,000	0.2	% \$8,081	0.1	%
Cayman Islands	1,150,006	19.2	% 1,079,712	18.5	% 1,083,540	17.8	% 1,009,696	17.1	%
France	9,755	0.2	% 8,794	0.2	% 9,756	0.2	% 9,015	0.2	%
Midwest US	605,417	10.1	% 678,766	11.6	% 804,515	13.2	% 849,029	14.4	%
Northeast US	786,552	13.1	% 823,616	14.1	% 838,331	13.8	% 824,408	13.9	%
Northwest US	281,336	4.7	% 207,962	3.6	% 242,540	4.0	% 189,464	3.2	%
Puerto Rico	83,410	1.4	% 83,410	1.4	% 40,516	0.7	% 40,516	0.7	%
Southeast US	1,367,606	22.9	% 1,412,351	24.2	% 1,498,976	24.6	% 1,531,943	26.0	%
Southwest US	616,008	10.3	% 558,368	9.5	% 770,441	12.6	% 675,745	11.5	%
Western US	1,071,635	17.9	% 975,326	16.7	% 787,485	12.9	% 759,811	12.9	%
Total Investments	\$5,981,556	100.0	% \$5,838,305	100.0	% \$6,091,100	100.0	% \$5,897,708	100.0	%

The following shows the composition of our investment portfolio by industry as of June 30, 2017 and June 30, 2016:

Industry	June 30, 2017			June 30, 2016					
	Cost	% of Portfolio	Fair Value	% of Portfolio	Cost	% of Portfolio	Fair Value	% of Portfolio	
Aerospace & Defense	\$69,837	1.2	% \$71,318	1.2	% \$57,762	0.9	% \$60,821	1.0	%
Air Freight & Logistics	51,952	0.9	% 51,952	0.9	% 55,784	0.9	% 51,824	0.9	%
Auto Components	30,222	0.5	% 30,460	0.5	% 20,328	0.3	% 20,328	0.3	%
Capital Markets	14,796	0.2	% 15,000	0.3	% —	—	% —	—	%
Chemicals	17,489	0.3	% 16,699	0.3	% 22,453	0.4	% 20,563	0.3	%
Commercial Services & Supplies	354,185	5.9	% 312,634	5.3	% 479,034	7.9	% 461,089	7.9	%
Construction & Engineering	62,258	1.0	% 32,509	0.6	% 60,436	1.0	% 31,091	0.5	%
Consumer Finance	469,869	7.9	% 502,941	8.6	% 449,203	7.4	% 474,652	8.0	%
Distributors	140,847	2.4	% 83,225	1.4	% 190,835	3.1	% 186,606	3.2	%
Diversified Consumer Services	188,912	3.2	% 190,662	3.3	% 176,678	2.9	% 179,346	3.0	%
Diversified Telecommunication Services	4,395	0.1	% 4,410	0.1	% 4,392	0.1	% 4,392	0.1	%
Electronic Equipment, Instruments & Components	37,696	0.6	% 51,846	0.9	% 63,024	1.0	% 73,071	1.2	%
Energy Equipment & Services	251,019	4.2	% 131,660	2.3	% 346,480	5.7	% 173,081	2.9	%
Equity Real Estate Investment Trusts (REITs)	374,380	6.3	% 624,337	10.7	% 335,048	5.5	% 480,763	8.2	%
Food & Staples Retailing	—	—	% —	—	% 17,876	0.3	% 18,000	0.3	%
Food Products	—	—	% —	—	% 150,000	2.5	% 145,546	2.5	%
Health Care Providers & Services	422,919	7.2	% 421,389	7.1	% 304,908	5.0	% 305,503	5.2	%
Health Care Technology	—	—	% —	—	% 2,228	—	% 2,842	—	%
Hotels, Restaurants & Leisure	127,638	2.1	% 103,897	1.8	% 142,813	2.3	% 142,954	2.4	%
Household Durables	146,031	2.4	% 146,183	2.5	% 106,831	1.8	% 107,394	1.8	%
Internet Software & Services	219,348	3.7	% 219,348	3.8	% 46,253	0.8	% 45,058	0.8	%
IT Services	19,531	0.3	% 20,000	0.3	% 128,197	2.1	% 128,396	2.2	%
Leisure Products	44,085	0.7	% 44,204	0.8	% 144,065	2.4	% 143,043	2.4	%
Machinery	35,488	0.6	% 32,678	0.6	% 35,391	0.6	% 36,877	0.6	%
Marine (1)	8,919	0.1	% 8,800	0.2	% 8,886	0.1	% 8,886	0.2	%
Media	469,108	7.8	% 466,500	8.0	% 432,444	7.1	% 418,918	7.1	%
Metals & Mining	9,953	0.2	% 10,000	0.2	% 9,934	0.2	% 9,309	0.2	%
Online Lending	424,350	7.0	% 370,931	6.3	% 406,931	6.7	% 377,385	6.4	%
Paper & Forest Products	11,295	0.2	% 11,500	0.2	% —	—	% —	—	%
Personal Products	222,698	3.7	% 192,748	3.3	% 213,585	3.5	% 193,054	3.3	%
Pharmaceuticals	117,989	2.0	% 117,989	2.0	% 70,739	1.2	% 70,739	1.2	%
Professional Services	64,242	1.1	% 64,473	1.1	% 170,865	2.7	% 166,741	2.9	%
Real Estate Management & Development	—	—	% —	—	% 3,916	0.1	% 3,900	0.1	%
Software	56,041	0.9	% 55,150	0.9	% 26,772	0.4	% 25,425	0.4	%
Textiles, Apparel & Luxury Goods	285,180	4.8	% 274,206	4.7	% 323,139	5.3	% 319,904	5.4	%
Tobacco	14,365	0.2	% 14,431	0.2	% —	—	% —	—	%
Trading Companies & Distributors	64,513	1.1	% 64,513	1.1	% 330	—	% 511	—	%
Subtotal	\$4,831,550	80.8	% \$4,758,593	81.5	% \$5,007,560	82.2	% \$4,888,012	82.9	%
Structured Finance (2)	\$1,150,006	19.2	% \$1,079,712	18.5	% \$1,083,540	17.8	% \$1,009,696	17.1	%

Total Investments \$5,981,556 100.0 % \$5,838,305 100.0 % \$6,091,100 100.0 % \$5,897,708 100.0 %

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 and June 30, 2016 is \$140,460 and \$181,967, respectively.

(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, 2017, we acquired \$850,770 of new investments, completed follow-on investments in existing portfolio companies totaling approximately \$599,333, funded \$21,559 of revolver advances, and recorded PIK interest of \$17,808, resulting in gross investment originations of \$1,489,470. The more significant of these transactions are briefly described below.

On July 1, 2016, we made an investment of \$7,320 to purchase 19.7% of the subordinated notes in Madison Park Funding IX, Ltd.

On July 22, 2016, we made a \$32,500 Senior Secured Term Loan A and a \$32,500 Senior Secured Term Loan B debt investment in Universal Turbine Parts, LLC, an independent supplier of aftermarket turboprop engines and parts. The \$32,500 Term Loan A bears interest at the greater of 6.75% or LIBOR plus 5.75% and has a final maturity of July 22, 2021. The \$32,500 Term Loan B bears interest at the greater of 12.75% or LIBOR plus 11.75% and has a final maturity of July 22, 2021.

On August 9, 2016, we made an investment of \$29,634 to purchase 71.9% of the subordinated notes in Carlyle Global Market Strategies CLO 2016-3, Ltd. in a co-investment transaction with Priority Income Fund, Inc., a closed-end fund managed by an affiliate of Prospect Capital Management.

On August 17, 2016, we made a \$5,000 first lien senior secured debt 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 September 6, 2016, we made an additional investment of \$5,693 to purchase 18.0% of the subordinated notes in California Street CLO IX Ltd. (f/k/a Symphony CLO IX Ltd.).

On September 16, 2016, we made a \$15,000 second lien secured investment in J.D. Power and Associates, a global market research company, in support of an acquisition of the company. The second lien term loan bears interest at the greater of 9.50% or LIBOR plus 8.50% and has a final maturity of September 7, 2024.

On September 28, 2016, we have made an additional \$12,523 second lien debt and \$2,098 equity investment in Credit Central. The note bears interest of 10.00% and interest payment in kind of 10.00%, and has a final maturity date of June 26, 2019.

On September 30, 2016, we made an investment of \$26,414 to purchase 50.2% of the subordinated notes in Voya 2016-3, Ltd. in a co-investment transaction with Priority Income Fund, Inc., a closed-end fund managed by an affiliate of Prospect Capital Management.

On September 30, 2016, we made an additional \$22,500 of Senior Secured Term Loan A and \$22,500 of Senior Secured Term Loan B debt investment in Onyx Payments (“Onyx”) to fund a dividend recapitalization. The \$22,500 Term Loan A bears interest at the greater of 6.00% or LIBOR plus 5.00% and has a final maturity of September 10, 2019. The \$22,500 Term Loan B bears interest at the greater of 13.00% or LIBOR plus 12.00% and has a final maturity of September 10, 2019.

On September 30, 2016, we made a \$10,000 follow-on first lien senior secured debt investment in Matrixx Initiatives, Inc. (“Matrixx”) to fund a dividend recapitalization. The \$5,000 Term Loan A bears interest at the greater of 7.50% or LIBOR plus 6.50% and has a final maturity of February 24, 2020. The \$5,000 Term Loan B bears interest at the greater of 12.50% or LIBOR plus 11.50% and has a final maturity of February 24, 2020.

On October 4, 2016, we made a \$40,000 second lien senior secured investment to support the recapitalization of Outerwall Inc. (“Outerwall”), an automated network of self-service coin counting machines. 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 27, 2024.

On October 7, 2016, we made an \$11,500 second lien senior secured debt investment in Dunn Paper, Inc., a leading specialty packaging supplier, 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 August 26, 2023.

On October 14, 2016, we provided \$22,500 of second lien senior secured debt to support the refinancing of Vivid Seats LLC (“Vivid Seats”), a secondary marketplace for entertainment tickets. The second lien term loan bears interest at the greater of 10.75% or LIBOR plus 9.75% and has a final maturity of October 12, 2023.



On October 20, 2016, we made a \$50,000 second lien senior secured debt investment in Rocket Software, Inc. (“Rocket”) to support an acquisition and dividend recapitalization. The second lien term loan bears interest at the greater of 10.50% or LIBOR plus 9.50% and has a final maturity of October 14, 2024.

On November 1, 2016, we made a \$13,000 second lien secured investment to support an acquisition of K&N Parent, Inc., a leader in aftermarket automotive performance filtration products. 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 20, 2024.

During the period from November 29, 2016 through December 7, 2016, we collectively made a \$34,000 second lien secured investment to fund a recapitalization of Digital Room LLC, an online printing and design company. The second lien term loan bears interest at the greater of 11.00% or LIBOR plus 10.00% and has a final maturity of May 21, 2023.

On December 8, 2016, we made a \$15,400 second lien secured investment in National Home Healthcare Corp., a provider of home health and hospice care services, to support an acquisition. The second lien term loan bears interest at the greater of 10.00% or LIBOR plus 9.00% and has a final maturity of December 8, 2022.

On December 9, 2016, we made a \$42,000 follow-on first lien senior secured debt investment in Atlantis Health Care Group (Puerto Rico), Inc. to support a recapitalization. The senior secured term loan bears interest at the greater of 9.50% or LIBOR plus 8.00% and has a final maturity of February 21, 2020.

On December 9, 2016, we made a follow-on \$16,044 first lien senior secured debt and \$2,831 equity investment in Echelon to support an asset acquisition. The new senior secured term loan bears interest at the greater of 11.00% or LIBOR plus 9.00% and interest payment in kind of 1.0%, and has a final maturity of December 7, 2024.

On December 9, 2016, we made an investment of \$29,951 to purchase 69.0% of the subordinated notes in CIFIC 2016-I, Ltd. in a co-investment transaction with Priority Income Fund, Inc., a closed-end fund managed by an affiliate of Prospect Capital Management L.P.

On December 22, 2016, we made a \$10,000 follow-on first lien senior secured debt investment in Inpatient Care Management Company, LLC (“Inpatient Care”). The senior secured term loan bears interest at the greater of 10.00% or LIBOR plus 9.00% and has a final maturity of June 8, 2021.

On December 28, 2016, we made a \$45,000 second lien senior secured investment to fund a recapitalization of Keystone Peer Review Organization Holdings, Inc. (“KEPRO”), a medical management services company. The second lien term loan bears interest at the greater of 10.00% or LIBOR plus 9.00% and has a final maturity of July 28, 2023.

On December 28, 2016, we made a \$15,000 follow-on second lien senior secured debt investment in PGX Holdings, Inc. The second lien term loan bears interest at the greater of 10.00% or LIBOR plus 9.00% and has a final maturity of September 29, 2021.

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. Term Loan A bears interest at the greater of 10.00% or LIBOR plus 7.00% and has a final maturity of January 30, 2020. Term Loan B bears interest at the greater of 10.00% or LIBOR plus 7.00% and interest payment in kind of 10.0% and has a final maturity of January 30, 2020.

On January 17, 2017, we made a \$68,000 of Senior Secured Term Loan A and \$68,000 of Senior Secured Term Loan B debt investments in Centerfield Media Holdings, LLC, a provider of customer acquisition and conversion services, to support an acquisition and refinancing of existing debt. Term Loan A bears interest at the greater of 8.00% or LIBOR plus 7.00% and has a final maturity of January 17, 2022. Term Loan B bears interest at the greater of 13.50% or LIBOR plus 12.50% and has a final maturity of January 17, 2022.

On January 31, 2017, we made a \$20,000 of Senior Secured Term Loan A and \$20,000 of Senior Secured Term Loan B debt investments in Traeger Pellet Grills LLC, to fund a recapitalization of the company. Term Loan A bears interest at the greater of 6.50% or LIBOR plus 4.50% and has a final maturity of June 18, 2019. Term Loan B bears interest at the greater of 11.50% or LIBOR plus 9.50% and has a final maturity of June 18, 2019.

On February 1, 2017, we made a \$10,000 senior secured debt investment to support a recapitalization in CURO Financial Technologies Corp. The senior secured debt bears interest at 12.00% and has a final maturity of March 1, 2022. On March 17, 2017, CURO Group Holdings Corp (f/k/a Speedy Cash Holdings Corp.) repaid the \$25,000 loan receivable to us.





On February 17, 2017, we made a \$14,500 second lien secured investment in Turning Point Brands, Inc., a provider of other tobacco products. The second lien note bears interest at 11.00% and has a final maturity of August 17, 2022.

On February 24, 2017, we made an additional \$33,000 of Senior Secured Term Loan A and \$7,000 of Senior Secured Term Loan B debt investment in Matrixx to fund a dividend recapitalization. Term Loan A bears interest at the greater of 7.50% or LIBOR plus 6.50% and has a final maturity of February 24, 2020. Term Loan B bears interest at the greater of 12.50% or LIBOR plus 11.50% and has a final maturity of February 24, 2020.

On March 8, 2017, we made a \$20,000 second lien secured investment in VC GB Holdings II Corp. to support a refinancing and acquisition for Generation Brands Holdings, Inc. (“Generation Brands”). The second lien note bears interest at the greater of 9.00% or LIBOR plus 8.00% and has a final maturity of February 28, 2025.

On March 16, 2017, we made a first lien senior secured investment of \$38,000 to support the recapitalization of Memorial MRI & Diagnostic, L.L.C., a provider of multi-modality diagnostic imaging and pain management services. The Term Loan bears interest at the greater of 9.50% or LIBOR plus 8.50% and has a final maturity of March 16, 2022.

On March 28, 2017, we made a \$15,000 of Senior Secured Term Loan A and \$15,000 of Senior Secured Term Loan B debt investment to support an acquisition of EZShield, Parent Inc., a provider of fraud and identify theft protection services. Term Loan A bears interest at the greater of 7.75% or LIBOR plus 6.75% and has a final maturity of February 26, 2021. Term Loan B bears interest at the greater of 12.75% or LIBOR plus 11.75% and has a final maturity of February 26, 2021.

On April 7, 2017, we made an investment of \$19,408 to purchase 50.48% of the subordinated notes in Carlyle Global Market Strategies CLO 2014-4, Ltd. in a co-investment transaction Pathway Energy Infrastructure Fund, Inc., a closed-end fund managed by an affiliate of Prospect Capital Management.

On April 20, 2017, we made a \$15,000 first lien senior secured investment to support a refinancing of RGIS Services, LLC, a provider of inventory, merchandising and staffing solutions. The senior secured term loan bears interest at the greater of 8.50% or LIBOR plus 7.50% and has a final maturity of March 31, 2023.

On May 4, 2017, we provided \$64,500 of senior secured financing, of which \$62,500 was funded at closing, to support the acquisition of RME Group Holdings Company, a provider of client acquisition and lead generation services to professional service firms. The \$2,000 unfunded revolver bears interest in at the greater of 9.00% or LIBOR plus 8.00% and has a final maturity of August 4, 2017. The \$37,500 Term Loan A bears interest at the greater of 7.00% or LIBOR plus 6.00% and has a final maturity of May 4, 2022. The \$25,000 Term Loan B bears interest at the greater of 12.00% or LIBOR plus 11.00% and has a final maturity of May 4, 2022.

On May 18, 2017, we made a \$50,000 second lien secured investment to support KEPRO’s refinancing and acquisition of Keystone Acquisition Corp. The second lien term loan bears interest at the greater of 10.25% or LIBOR plus 9.25% and has a final maturity of May 1, 2025.

On June 13, 2017, we made an investment of \$44,900 to purchase 84.21% of the subordinated notes in Voya CLO 2017-3, Ltd. in a co-investment transaction with Priority Income Fund, Inc., a closed-end fund managed by an affiliate of Prospect Capital Management L.P.

During the year ended June 30, 2017, we made twelve follow-on investments in NPRC totaling \$123,506 to support the online consumer lending initiative. We invested \$23,077 of equity through NPH and \$100,429 of debt directly to NPRC and its wholly-owned subsidiaries. We also provided \$75,591 of debt and \$25,200 of equity financing to NPRC, which was utilized for the acquisition of real estate properties. In addition, we provided \$13,553 of equity investment which was used to fund capital expenditures for existing properties.

During the year ended June 30, 2017, we purchased \$51,802 of small business whole loans from OnDeck.

During the year ended June 30, 2017, we received full repayments on twenty-one investments, sold six investments, and received several partial prepayments and amortization payments totaling \$1,413,882, which resulted in net realized losses totaling \$96,306. The more significant of these transactions are briefly described below.

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 9, 2016, JHH Holdings, Inc. repaid the \$35,507 loan receivable to us.



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 28, 2016, Rocket repaid the \$20,000 loan receivable to us.

On October 5, 2016, Focus Brands, Inc. repaid the \$18,000 loan receivable to us.

On October 13, 2016, Harbortouch Payments LLC ("Harbortouch") repaid the \$27,711 loan receivable to us.

On October 14, 2016, Security Alarm Financing Enterprise, L.P. repaid the \$25,000 loan receivable to us.

On October 14, 2016, Trinity Services Group, Inc. repaid the \$134,576 loan receivable to us.

On October 31, 2016, System One Holdings, LLC ("System One") repaid the \$104,553 loan receivable to us.

On December 19, 2016, Empire Today, LLC repaid the \$50,426 loan receivable to us.

On December 20, 2016, Onyx repaid the \$70,130 Senior Secured Term Loan A and \$81,889 Senior Secured Term Loan B receivable 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.

On February 23, 2017, SESAC Holdco II LLC repaid the \$10,000 loan receivable to us.

On February 28, 2017, Generation Brands repaid the \$19,000 loan receivable to us.

On March 20, 2017, Arctic Glacier U.S.A., Inc. repaid the \$150,000 loan receivable to us.

On March 31, 2017, ALG USA Holdings, LLC repaid the \$11,771 loan receivable to us.

On March 14, 2017, assets previously held by Ark-La-Tex Wireline Services, LLC ("Ark-La-Tex") were distributed to us in exchange for the reduction of Ark-La-Tex's debt by \$22,145, eliminating Senior Secured Term Loan A in full. The assets we received were simultaneously assigned to Wolf Energy Services Company, LLC, a wholly owned subsidiary of Wolf Energy Holdings. 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 May 1, 2017, Broder Bros., Co. ("Broder") partially repaid the \$6,910 Senior Secured Term Loan A and \$4,607 Senior Secured Term Loan B receivable to us.

On May 2, 2017, KEPRO repaid the \$45,000 loan receivable to us.

On May 12, 2017, Outerwall repaid the \$40,000 loan receivable to us.

During the period from April 25, 2017 to May 17, 2017, we sold our \$21,750 debt investment in SITEL Worldwide Corporation.

On June 2, 2017, Crosman Corporation ("Crosman") repaid the \$98,054 loan receivable to us.

During the period from May 10, 2017 through June 9, 2017, Hollander Sleep Products, LLC repaid the \$21,860 loan receivable to us.

On June 3, 2017, 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. Gulfco holds \$2,050 in escrow related to the sale, which will be distributed to Prospect once released to Gulfco, and will be recognized as a realized gain if and when it is received.

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

On June 30, 2017, Vivid Seats repaid the \$22,500 loan receivable to us.

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.

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.

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, Beneficial Interest in Securitized Financial Assets, we recorded a total loss of \$17,242 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, 2016, there was no OTTI assessed for any CLO investment within our portfolio.

During the year ended June 30, 2017, we received a partial repayment of \$122,009 for the NPRC and its wholly-owned subsidiaries' loan previously outstanding and \$52,923 as a return of capital on the equity investment in NPRC.

The following table provides a summary of our investment activity for each quarter within the three years ending June 30, 2017:

Quarter Ended	Acquisitions(1)	Dispositions(2)
September 30, 2014	714,255	690,194
December 31, 2014	522,705	224,076
March 31, 2015	219,111	108,124
June 30, 2015	411,406	389,168
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

(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. For stressed debt and equity investments, a liquidation analysis was prepared.

In determining the range of values for our investments in CLOs, management and the independent valuation firm use primarily 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 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 \$5,838,305.

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, 2017.

#### Arctic Energy Services, LLC

Prospect owns 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, with Ailport Holdings, LLC (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.

The Board of Directors decreased the fair value of our investment in Arctic Energy to \$17,370 as of June 30, 2017, a discount of \$43,506 to its amortized cost, compared to the discount of \$22,536 to its amortized cost as of June 30, 2016. The decrease in fair value was driven primarily by the impact of current energy market conditions resulting in a continued decline in operating performance.

#### CP Energy Services Inc.

Prospect owns 100% of the equity of CP Holdings, a Consolidated Holding Company. CP Holdings owns 82.3% of the equity of CP Energy, and the remaining 17.7% of the equity is owned by CP Energy management. CP Energy provides oilfield flowback services and fluid hauling and disposal services through its subsidiaries

As a result of a continued decline in operating performance primarily driven by the impact of current energy market conditions, the Board of Directors decreased the fair value of our investment in CP Energy to \$72,216 as of June 30, 2017, a discount of \$41,284 from its amortized cost, compared to the discount of \$37,498 to its amortized cost as of June 30, 2016.

## 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. On October 30, 2015, we restructured our investment in Freedom Marine. Concurrent with the restructuring, we exchanged our \$32,500 senior secured loans for additional membership interest in Freedom Marine. The Board of Directors decreased the fair value of our investment in Freedom Marine to \$23,994 as of June 30, 2017, a discount of \$18,616 to its amortized cost, compared to a discount of \$14,192 to its amortized cost as of June 30, 2016. The decline in fair value was driven by the continuing challenging environment for the oil and gas industry, which has decreased the utilization of their vessels.

## 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. 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, 2017, we own 100% of the fully-diluted common equity of NPRC.

During the year ended June 30, 2017, we provided \$75,591 of debt and \$25,200 of equity financing to NPRC for the acquisition of real estate properties and \$13,553 of equity financing to NPRC to fund capital expenditures for existing properties. In addition, during the year ended June 30, 2017, we received partial repayments of \$32,954 of our loans previously outstanding and \$42,059 as a return of capital on our equity investment.

During the year ended June 30, 2017, we provided \$100,429 and \$23,077 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, 2017, we received partial repayments of \$89,055 of our loans previously outstanding with NPRC and its wholly-owned subsidiaries and \$10,864 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, 2017, the outstanding investment in online consumer loans by certain of NPRC's wholly-owned subsidiaries was comprised of 102,602 individual loans and one securitization equity residual, and had an aggregate fair value of \$648,277. The average outstanding individual loan balance is approximately \$6 and the loans mature on dates ranging from July 1, 2017 to June 28, 2024 with a weighted-average outstanding term of 31 months as of June 30, 2017. Fixed interest rates range from 4.0% to 36.0% with a weighted-average current interest rate of 23.9%. As of June 30, 2017, our investment in NPRC and its wholly-owned subsidiaries relating to online consumer lending had a fair value of \$362,967.

As of June 30, 2017, 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), 18.0% of the portfolio in prime loans (borrowers with a FICO score of 660 to 719) and 75.7% of the portfolio in near prime loans (borrowers with a FICO score of 580 to 659, a portion of which are considered sub-prime).

Loan Type	Outstanding Principal Balance	Fair Value	Weighted Average Interest Rate*
Super Prime	\$ 41,293	\$40,264	11.8%
Prime	117,505	112,159	15.8%
Near Prime	495,467	465,293	