

PROSPECT CAPITAL CORP

Form 497

April 02, 2018

The information in this preliminary pricing supplement is not complete and may be changed. This preliminary pricing supplement and the accompanying prospectus supplement and prospectus are not offers to sell these securities and are not soliciting an offer to buy these securities in any jurisdiction where the offer or sale is not permitted.

Subject to completion

Preliminary Pricing Supplement dated

April 2, 2018

Prospect Capital Corporation

Prospect Capital InterNotes®

4.500% Notes due 2023 (the "2023 Notes")

5.000% Notes due 2026 (the "2026 Notes" and together with the 2023 Notes, the "Notes")

Filed under Rule 497, Registration Statement No. 333-213391

Preliminary Pricing Supplement Nos. 548 and 549 — Dated Monday, April 2, 2018

(To: Prospectus Dated October 30, 2017, and Prospectus Supplement Dated February 9, 2018)

CUSIP Number	ISIN Number	Principal Amount	Selling Price	Gross Concession	Net Proceeds	Coupon Type	Coupon Rate	Coupon Frequency	Maturity Date	1st Coupon Date	1st Coupon Amount
74348YB42	US74348YB424	\$ 100.000	% 1.250	% 1.250	\$	Fixed	4.500%	Semi-Annual	4/15/2023	10/15/2018	\$22.8

Redemption Information: Callable at 100.000% on 10/15/2018 and every business day thereafter ("Optional Redemption Date")

CUSIP Number	ISIN Number	Principal Amount	Selling Price	Gross Concession	Net Proceeds	Coupon Type	Coupon Rate	Coupon Frequency	Maturity Date	1st Coupon Date	1st Coupon Amount
74348YB59	US74348YB598	\$ 100.000	% 1.900	% 1.900	\$	Fixed	5.000%	Semi-Annual	4/15/2026	10/15/2018	\$25.4

Redemption Information: Callable at 100.000% on 10/15/2018 and every business day thereafter ("Optional Redemption Date")

Trade Date: Monday, April 9, 2018 @ 12:00 PM ET

Settle Date: Thursday, April 12, 2018

Minimum Denomination/Increments: \$1,000.00/\$1,000.00

Initial trades settle flat and clear SDFS: DTC Book Entry only

The Notes will be issued pursuant to the Indenture, dated as of February 16, 2012, as amended and supplemented by that certain Five Hundred Forty-Eighth and Five Hundred Forty-Ninth Supplemental Indenture dated as of April 12, 2018.

The date from which interest shall accrue on the Notes is Thursday, April 12, 2018. The "Interest Payment Dates" for the Notes shall be April 15 and October 15 of each year, commencing October 15, 2018; the interest payable on any Interest Payment Date, will be paid to the Person in whose name the Notes (or one or more predecessor Notes) is registered at the close of business on the Regular Record Date (as defined in the Indenture) for such interest, which shall be April 1 or October 1, as the case may be, next preceding such Interest Payment Date.

The Notes will be redeemable in whole or in part at any time or from time to time, at the option of Prospect Capital Corporation, on or after October 15, 2018 at a redemption price of \$1,000 per Note plus accrued and unpaid interest payments otherwise payable for the then-current semi-annual interest period accrued to, but excluding, the date fixed for redemption and upon not less than 5 days nor more that 60 days prior notice to the noteholder and the trustee, as described in the prospectus.

Except for Notes sold to level-fee accounts, Notes offered to the public will be offered at the public offering price set forth above. Agents purchasing Notes on an agency basis for client accounts shall purchase Notes at the public offering price. Notes sold by the Agents for their own account may be sold at the public offering price less the 3% discount specified above. Notes purchased by the Agents on behalf of level-fee accounts may be sold to such accounts at the discount to the public offering price specified above, in which case, such Agents will not retain any portion of the sales price as compensation.

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.

This preliminary pricing supplement relates only to the securities described in the accompanying prospectus supplement and prospectus, is only a summary of changes and should be read together with the accompanying prospectus supplement and prospectus, including among other things the section entitled "Risk Factors" beginning on page S-8 of such prospectus supplement and page 10 of such prospectus. This preliminary pricing supplement and the accompanying prospectus supplement and 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 preliminary pricing supplement. 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.

InterNotes® is a registered trademark of Incapital Holdings LLC.

#### Recent Developments:

On February 22, 2018, we made a \$10.0 million second lien secured investment in Janus International Group, LLC, a manufacturer of steel roll-up doors and building components.

On March 1, 2018, LaserShip, Inc. repaid the \$23.0 million Senior Secured Term Loan A and \$14.1 million Senior Secured Term Loan B loan receivable to us.

On March 9, 2018, we made a follow-on \$16.9 million subordinated debt investment in First Tower LLC and a \$2.7 million equity investment in First Tower Finance Company LLC, to support an acquisition.

On March 12, 2018, we made a \$42.0 million senior secured investment in Class Appraisal, LLC, a provider of residential appraisal services.

On March 19, 2018, we made a \$15.0 million second lien secured investment in ATS Consolidated Inc., a traffic management company.

On March 20, 2018, PGX Holdings, Inc, partially repaid \$16.4 million second lien term loan receivable to us.

During the period from March 22, 2018 through March 30, 2018, we received partial repayments of \$35.0 million of our loans previously outstanding with National Property REIT Corp. (“NPRC”) and its wholly-owned subsidiaries. We also provided \$11.1 million of equity financing to NPRC, which was used to fund capital expenditures for existing properties.

On March 28, 2018, Prince Mineral Holding Corp. fully repaid \$10.0 million senior secured term loan receivable to us.

On March 29, 2018, we made a \$32.5 million senior secured investment in Rosa Mexicano Company, an operator of Mexican themed restaurants. Our investment is comprised of a \$30.0 million senior secured term loan and a \$2.5 million unfunded revolving credit facility.

During the period from February 10, 2018 through March 29, 2018, we issued \$9.3 million in aggregate principal amount of our Prospect Capital InterNotes® for net proceeds of \$9.2 million.

#### Additional Risk Factors:

Our Board of Directors have approved decreasing our asset coverage requirement under the 1940 Act from 200% to 150%, effective March 25, 2019, which will allow us to increase our leverage. Increasing our leverage exposes us to additional risks, including the typical risks associated with leverage and could adversely affect our business, financial condition and results of operations.

Historically, under the 1940 Act, a business development company was generally not permitted to incur indebtedness unless immediately after such borrowing the business development company had asset coverage for total borrowings of at least 200% (i.e., the amount of debt could not exceed 50% of the value of the business development company’s total assets). The Small Business Credit Availability Act, which was signed into law in March 2018, modifies this section of the 1940 Act and decreases this percentage from 200% to 150% (subject to either stockholder approval or approval of both a majority of the board of directors and a majority of directors who are not interested persons). On March 25, 2018, our Board of Directors approved the application of the modified asset coverage to us, which will decrease the asset coverage applicable to the Company from 200% to 150%, effective March 25, 2019. As a result of this, we will be able to incur additional indebtedness and therefore your risk of an investment in us may increase. In addition, since our management fee is calculated as a percentage of the value of our gross assets, which includes any

borrowings for investment purposes, the management fee expenses will increase if we incur additional indebtedness. Please see, "Risk Factors-Risks Relating to Our Securities" in the accompanying prospectus.

---

Filed pursuant to Rule 497  
File No. 333-213391

PROSPECTUS SUPPLEMENT

(To Prospectus dated October 30, 2017)

Prospect Capital Corporation

Prospect Capital InterNotes®

We may offer to sell our Prospect Capital InterNotes® from time to time. The specific terms of the notes will be set prior to the time of sale and described in a pricing supplement. You should read this prospectus supplement, the accompanying prospectus and the applicable pricing supplement carefully before you invest. We may offer other debt securities from time to time other than the notes under our Registration Statement or in private placements.

We may offer the notes to or through agents for resale. The applicable pricing supplement will specify the purchase price, agent discounts and net proceeds of any particular offering of notes. The agents are not required to sell any specific amount of notes but will use their reasonable best efforts to sell the notes. We also may offer the notes directly. We have not set a date for termination of our offering.

The agents have advised us that from time to time they may purchase and sell notes in the secondary market, but they are not obligated to make a market in the notes and may suspend or completely stop that activity at any time. Unless otherwise specified in the applicable pricing supplement, we do not intend to list the notes on any stock exchange.

Investing in the notes involves certain risks, including those described in the “Risk Factors” section beginning on page S-8 of this prospectus supplement and page 10 of the accompanying prospectus.

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. 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.

We may sell the notes to or through one or more agents or dealers, including the agents listed below.

Incapital LLC Citigroup RBC Capital Markets

Prospectus Supplement dated February 9, 2018.

®InterNotes is a registered trademark of Incapital Holdings LLC

**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, 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, including any pricing supplement included hereto, and the accompanying prospectus. We have not, and the agent(s) or dealer(s) has not, authorized any other person to provide you with information that is different from that contained in this prospectus supplement, including any pricing supplement included hereto, or the accompanying prospectus. If anyone provides you with different or inconsistent information, you should not rely on it. We are not, and the agents 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, including any pricing supplement included hereto, 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, including any pricing supplement included hereto, 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-6</u>
<u>Risk Factors</u>	<u>S-8</u>
<u>Description of Notes</u>	<u>S-13</u>
<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>S-22</u>
<u>Quantitative and Qualitative Disclosures About Market Risk</u>	<u>S-54</u>
<u>Registration and Settlement</u>	<u>S-55</u>
<u>Supplement to Material U.S. Federal Income Tax Considerations</u>	<u>S-58</u>
<u>Certain Considerations Applicable to ERISA, Governmental and Other Plan Investors</u>	<u>S-63</u>
<u>Use of Proceeds</u>	<u>S-64</u>
<u>Senior Securities</u>	<u>S-65</u>
<u>Ratio of Earnings to Fixed Charges</u>	<u>S-68</u>
<u>Plan of Distribution</u>	<u>S-69</u>
<u>Legal Matters</u>	<u>S-71</u>
<u>Independent Accounting Firms</u>	<u>S-71</u>
<u>Available Information</u>	<u>S-71</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 the legal and financial terms of the notes that are described in more detail in “Description of Notes” beginning on page S-13. Final terms of any particular notes will be determined at the time of sale and will be contained in the pricing supplement, which will be included with this prospectus supplement, relating to those notes. The terms in that pricing supplement may vary from and supersede the terms contained in this summary and in “Description of Notes.” In addition, you should read the more detailed information appearing elsewhere in this prospectus supplement, the accompanying prospectus and in that pricing supplement.

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.

### 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 \$5.9 billion of total assets as of December 31, 2017.

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 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 yieldproducing 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.

S-1

---

**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”). 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 selfstorage. 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 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 December 31, 2017, we had investments in 122 portfolio companies and CLOs. The aggregate fair value as of December 31, 2017 of investments in these portfolio companies held on that date is approximately \$5.4 billion. Our portfolio across all our performing interest-bearing investments had an annualized current yield of 12.5% as of December 31, 2017. Our annualized current yield was 10.3% as of December 31, 2017 across all investments.

S-2

---

#### Recent Developments

##### Investment Transactions

On January 5, 2018, we made a \$10.0 million first lien and \$50.0 million second lien secured investment in Research Now Group, Inc., a provider of customer surveys for market research activities.

On January 23, 2018, we made a \$12.5 million Senior Secured Term Loan A and \$12.5 million Senior Secured Term Loan B investment in Luminex Home Decor & Fragrance Company, LLC, a manufacturer and designer of decorative candles.

On January 29, 2018, we made a \$70.0 million first lien senior secured investment in Town & Country Holdings, Inc., a manufacturer and designer of kitchen textiles and table linens.

During the period from February 8, 2018 through February 9, 2018, we made a \$67.1 million second lien investment in Digital Room LLC, an online printing and design company.

##### Debt and Equity

We called \$50.6 million of our Prospect Capital InterNotes® at par maturing between July 15, 2018 and July 15, 2020, with a weighted average rate of 5.10%.

On January 12, 2018, we called, with settlement on February 15, 2018, \$37.2 million of our Prospect Capital InterNotes® at par maturing between February 15, 2019 and August 15, 2020, with a weighted average rate of 4.80%.

During the period from January 1, 2018 through February 8, 2018 we issued \$7.9 million aggregate principal amount of Prospect Capital InterNotes® for net proceeds of \$7.8 million.

##### Dividends

On February 7, 2018, we announced the declaration of monthly dividends in the following amounts and with the following dates:

\$0.06 per share for February 2018 to holders of record on February 28, 2018 with a payment date of March 22, 2018.

\$0.06 per share for March 2018 to holders of record on March 30, 2018 with a payment date of April 19, 2018.

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



The Offering Issuer	Prospect Capital Corporation
Purchasing Agent	Incapital LLC
Agents	Citigroup Global Markets Inc. and RBC Capital Markets, LLC. From time to time, we may sell the notes to or through additional agents.
Title of Notes	Prospect Capital InterNotes®
Amount	We may issue notes from time to time in various offerings up to \$1.5 billion, the aggregate principal amount authorized by our board of directors for notes. As of February 8, 2018, \$1.3 billion aggregate principal amount of notes has been issued. We have, from time to time, repurchased certain notes and, therefore, as of February 8, 2018, \$747.6 million aggregate principal amount of notes were outstanding, including intended repurchases of \$37.2 million on February 15, 2018. There are no limitations on our ability to issue additional indebtedness in the form of Prospect Capital InterNotes® or otherwise other than under the 1940 Act and the asset coverage requirement under our credit facility.
Denominations	The notes will be issued and sold in denominations of \$1,000 and multiples of \$1,000 (unless otherwise stated in the pricing supplement).
Status	The notes will be our direct unsecured senior obligations and will rank equally in right of payment with all of our other unsecured senior indebtedness from time to time outstanding.
Maturities	Each note will mature 12 months or more from its date of original issuance.
Interest	Notes may be issued with a fixed or floating interest rate; a floating interest rate note will be based on the London Interbank Offered Rate (“LIBOR”). Interest on each fixed or floating interest rate note will be payable either monthly, quarterly, semi-annually or annually on each interest payment date and on the stated maturity date. Interest also will be paid on the date of redemption or repayment if a note is redeemed or repaid prior to its stated maturity in accordance with its terms. Interest on the notes will be computed on the basis of a 360-day year of twelve 30-day months, often referred to as the 30/360 (ISDA) day count convention.
Principal	The principal amount of each note will be payable on its stated maturity date at the corporate trust office of the paying agent or at any other place we may designate.
Redemption and Repayment	Unless otherwise stated in the applicable pricing supplement, a note will not be redeemable at our option or be repayable at the option of the holder prior to its stated maturity date. The notes will not be subject to any sinking fund.
Survivor’s Option	Specific notes may contain a provision permitting the optional repayment of those notes prior to stated maturity, if requested by the authorized representative of the beneficial owner of those notes, following the death of the beneficial owner of the notes, so long as the notes were owned by the beneficial owner or his or her estate at least six months prior to the request. This feature is referred to as a “Survivor’s Option.” Your notes will not be repaid in this manner unless the pricing supplement for your notes provides for the Survivor’s Option. If the pricing supplement for your notes provides for the Survivor’s Option, your right to exercise the Survivor’s Option will be subject to limits set by us

on (1) the permitted dollar amount of total exercises by all holders of notes in any calendar year, and (2) the permitted dollar amount of an individual exercise by a holder of a note in any calendar year. Additional details on the Survivor's Option are described in the section entitled "Description of Notes—Survivor's Option."

Sale and  
Clearance

We will sell notes in the United States only. Notes will be issued in book-entry only form and will clear through The Depository Trust Company. We do not intend to issue notes in certificated form.

Trustee

The trustee for the notes is U.S. Bank National Association, under an indenture dated as of February 16, 2012, as amended and as supplemented from time to time.

S-4

---

Selling  
Group

The agents and dealers comprising the selling group are broker-dealers and securities firms. Each of the Purchasing Agent, Citigroup Global Markets Inc. and RBC Capital Markets, LLC entered into a Sixth Amended and Restated Selling Agent Agreement with us dated November 10, 2016 (as amended, the “Selling Agent Agreement”). Additional agents appointed by us from time to time in connection with the offering of the notes contemplated by this prospectus supplement will become parties to the Selling Agent Agreement. Dealers who are members of the selling group have executed a Master Selected Dealer Agreement with the Purchasing Agent. The agents and the dealers have agreed to market and sell the notes in accordance with the terms of those respective agreements and all other applicable laws and regulations. You may contact the Purchasing Agent at [info@incapital.com](mailto:info@incapital.com) for a list of selling group members.

S-5

---

## 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 six months ended December 31, 2017 and 2016 has been derived from unaudited financial data. Interim results for the three and six months ended December 31, 2017 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-22 for more information.

	For the Three Months Ended December 31, 2017		For the Six Months Ended December 31, 2017		For the Year Ended June 30, 2017			2016	2015	2014
	2016	2016	2016	2016	2017	2016	2015	2014	2013	
	(in thousands except data relating to shares, per share and number of portfolio companies)									
Performance Data:										
Total interest income	\$ 153,382	\$ 174,791	\$ 301,467	\$ 346,441	\$ 668,717	\$ 731,618	\$ 748,974	\$ 611,111	\$ 611,111	\$ 611,111
Total dividend income	326	1,379	870	3,763	5,679	26,501	7,663	26,800	26,800	26,800
Total other income	8,692	7,310	18,642	13,108	26,650	33,854	34,447	71,700	71,700	71,700
Total Investment Income	162,400	183,480	320,979	363,312	701,046	791,973	791,084	712,000	712,000	712,000
Interest and credit facility expenses	(39,347 )	(40,848 )	(80,382 )	(82,517 )	(164,848 )	(167,719 )	(170,660 )	(130,000 )	(130,000 )	(130,000 )
Investment advisory expense	(47,857 )	(51,987 )	(93,953 )	(102,509 )	(199,394 )	(219,305 )	(225,277 )	(198,000 )	(198,000 )	(198,000 )
Other expenses	(2,004 )	(6,240 )	(9,720 )	(14,962 )	(30,722 )	(33,821 )	(32,400 )	(26,000 )	(26,000 )	(26,000 )
Total Operating Expenses	(89,208 )	(99,075 )	(184,055 )	(199,988 )	(394,964 )	(420,845 )	(428,337 )	(355,000 )	(355,000 )	(355,000 )
Net Investment Income	73,192	84,405	136,924	163,324	306,082	371,128	362,747	357,000	357,000	357,000
Net realized and change in unrealized gains (losses)	48,535	16,475	(3,224 )	18,922	(53,176 )	(267,766 )	(16,408 )	(38,000 )	(38,000 )	(38,000 )
Net increase in Net Assets from Operations	\$ 121,727	\$ 100,880	\$ 133,700	\$ 182,246	\$ 252,906	\$ 103,362	\$ 346,339	\$ 319,000	\$ 319,000	\$ 319,000
Per Share Data:										
Net Increase in Net Assets from Operations(1)	\$ 0.34	\$ 0.28	\$ 0.37	\$ 0.51	\$ 0.70	\$ 0.29	\$ 0.98	\$ 1.00	\$ 1.00	\$ 1.00

Edgar Filing: PROSPECT CAPITAL CORP - Form 497

Dividends declared per share	\$(0.18 )	\$(0.25 )	\$(0.41 )	\$(0.50 )	\$(1.00 )	\$(1.00 )	\$(1.19 )	\$(1.19 )	\$(1.19 )
Weighted average shares of common stock outstanding	360,473,705	358,494,783	360,322,770	358,011,031	358,841,714	356,134,297	353,648,522	300,000,000	300,000,000
Assets and Liabilities Data:									
Investments at Fair Value	\$5,421,132	\$5,936,999	\$5,421,132	\$5,936,999	\$5,838,305	\$5,897,708	\$6,609,558	\$6,200,000	\$6,200,000
Other Assets(4)	496,381	241,149	496,381	241,149	334,484	338,473	144,356	166,000	166,000
Total Assets(4)	5,917,513	6,178,148	5,917,513	6,178,148	6,172,789	6,236,181	6,753,914	6,420,000	6,420,000
Revolving Credit Facility	—	—	—	—	—	—	368,700	92,000	92,000
Convertible notes(4)	889,233	909,505	889,233	909,505	937,641	1,074,361	1,218,226	1,218,226	1,218,226
Public notes (4)	739,318	737,311	739,318	737,311	738,300	699,368	541,490	637,000	637,000
Prospect Capital InterNotes®(4)	824,383	947,172	824,383	947,172	966,254	893,210	811,180	766,000	766,000
Due to Prospect Administration and Prospect Capital Management	49,564	55,222	49,564	55,222	50,159	55,914	6,788	2,218,226	2,218,226
Other liabilities	66,603	74,342	66,603	74,342	125,483	77,411	104,481	83,800	83,800
Total Liabilities(4)	2,569,101	2,723,552	2,569,101	2,723,552	2,817,837	2,800,264	3,050,865	2,800,000	2,800,000
Net Assets	\$3,348,412	\$3,454,596	\$3,348,412	\$3,454,596	\$3,354,952	\$3,435,917	\$3,703,049	\$3,620,000	\$3,620,000
Investment Activity Data:									
No. of portfolio companies at period end	122	123	122	123	121	125	131	142	142
Acquisitions	\$738,737	\$469,537	\$960,888	\$816,687	\$1,489,470	\$979,102	\$1,867,477	\$2,900,000	\$2,900,000
Sales, repayments, and other disposals	\$1,042,269	\$644,995	\$1,353,163	\$759,326	\$1,413,882	\$1,338,875	\$1,411,562	\$760,000	\$760,000
Total return based on market value(2)	3.01	% 6.29	% (11.82 )	% 13.45	% 16.80	% 21.84	% (20.84 )	% 10.8	% 10.8
Total return based on net asset value(2)	4.51	% 3.33	% 5.78	% 6.25	% 8.98	% 7.15	% 11.47	% 10.9	% 10.9
Weighted average yield on debt portfolio at	12.5	% 13.2	% 12.5	% 13.2	% 12.2	% 13.2	% 12.7	% 12.1	% 12.1

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

10.3      % 11.5      % 10.3      % 11.5      % 10.4      % 12.0      % 11.9      % 11.9

---

S-6

---

- (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) 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, \$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

Your investment in the notes will involve certain risks. This prospectus supplement and the accompanying prospectus do not describe all of those risks.

You should, in consultation with your own financial and legal advisors, carefully consider the following discussion of risks before deciding whether an investment in the notes is suitable for you. The notes will not be an appropriate investment for you if you are not knowledgeable about significant features of the notes or financial matters in general. You should not purchase the notes unless you understand, and know that you can bear, these investment risks.

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 February 8, 2018, we and our subsidiaries had approximately \$2.4 billion of unsecured senior indebtedness outstanding and as our credit facility was undrawn, no 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 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 amended senior 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 existing or amended senior 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 any notes sold, 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.

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. Neither we nor the agents undertake any obligation to maintain the ratings or to advise holders of notes of any changes in ratings.

The notes will be 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.

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, the \$85.4 million aggregate principal



amount of 5.75% Convertible Notes due 2018 (the “2018 Notes”), the \$200.0 million aggregate principal amount of 5.875% Convertible

S-8

---

Notes due 2019 (the “2019 Notes”), the \$300.0 million aggregate principal amount of 5.00% Public Notes due 2019 (the “5.00% 2019 Notes”), the \$392.0 million aggregate principal amount of 4.75% Convertible Notes due 2020 (the “2020 Notes”), the \$225.0 million aggregate principal amount of 4.95% Convertible Notes due 2022 (the “2022 Notes”), the \$250.0 million aggregate principal amount of 5.875% Public Notes due 2023 (the “2023 Notes”) and the \$199.3 million aggregate principal amount of 6.25% Public Notes due 2024 (the “2024 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 February 8, 2018, our credit facility was undrawn. 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.

Each of the 2018 Notes, the 2019 Notes, the 5.00% 2019 Notes, the 2020 Notes, the 2022 Notes, the 2023 Notes and the 2024 Notes may be due prior to their maturities. We do not currently know whether we will be able to replace any of the 2018 Notes, the 2019 Notes, the 5.00% 2019 Notes, the 2020 Notes, the 2022 Notes, the 2023 Notes or the 2024 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 the 2018 Notes, the 2019 Notes, the 5.00% 2019 Notes, the 2020 Notes, the 2022 Notes, the 2023 Notes or the 2024 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 and supplemental indentures under which the notes will be issued will contain limited protection for holders of the notes.

The indenture and supplemental indentures (collectively, the “indenture”) under which the notes will be issued offer limited protection to holders of the notes. The terms of the indenture and the notes do not restrict our or any of our subsidiaries’ 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 subsidiaries’ 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 subsidiaries.

In addition, the indenture will not require us to offer to purchase the notes in connection with a change of control or any other event.

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 subsidiaries adhere to any financial tests or ratios or specified levels of net worth, revenues, income, cash

S-9

---

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. See in the accompanying prospectus “Risk Factors—Risks Relating to Our Business—The Notes present other risks to holders of our common stock, including the possibility that the Notes could discourage an acquisition of the Company by a third party and accounting uncertainty” and “—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.” 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.

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

If your notes will be redeemable at our option, we may choose to redeem your 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 being redeemed. Our redemption right also may adversely impact your ability to sell your notes as the optional redemption date or period approaches.

Survivor’s Option may be limited in amount.

We will have a discretionary right to limit the aggregate principal amount of notes subject to the Survivor’s Option that may be exercised in any calendar year to an amount equal to the greater of \$2.0 million or 2% of the outstanding principal amount of all notes outstanding as of the end of the most recent calendar year. We also have the discretionary right to limit to \$250,000 in any calendar year the aggregate principal amount of notes subject to the Survivor’s Option that may be exercised in such calendar year on behalf of any individual deceased beneficial owner of notes. Accordingly, no assurance can be given that exercise of the Survivor’s Option for the desired amount will be permitted in any single calendar year.

We cannot assure that a trading market for your notes will ever develop or be maintained.

In evaluating the notes, you should assume that you will be holding the notes until their stated maturity. The notes are a new issue of securities. We cannot assure you that a trading market for your notes will ever develop, be liquid or be maintained. Many factors independent of our creditworthiness affect the trading market for and market value of your notes. Those factors include, without limitation:

• the method of calculating the principal and interest for the notes;

• the time remaining to the stated maturity of the notes;

• the outstanding amount of the notes;

• the redemption or repayment features of the notes; and

• the level, direction and volatility of interest rates generally.

There may be a limited number of buyers when you decide to sell your notes. This may affect the price you receive for your notes or your ability to sell your notes at all.

Your investment in the floating rate notes will involve certain risks not associated with an investment in conventional debt securities. You should consider carefully the following discussion of risks before you decide that an investment in the floating rate notes is suitable for you.

Floating rate notes present different investment considerations than fixed rate notes. For notes with only floating rates, the rate of interest paid by us on the notes for each applicable interest period is not fixed, but will vary depending on LIBOR and accordingly could be substantially less than the rates of interest we would pay on fixed rate notes of the same maturity. Additionally, the notes may change the interest rate or interest rate formula in relation to LIBOR at one or more points during the term of such notes (often referred to as a “step up” feature) or may switch from floating to

fixed rate or from a fixed to a floating rate during the term of the notes. Consequently, the return on the notes may be less than returns otherwise payable on fixed rate debt securities issued by us with similar maturities whose interest rates cannot change. The variable interest rate on

S-10

---

the notes, while determined, in part, by reference to LIBOR, may not actually pay at such rates. Furthermore, we have no control over any fluctuations in LIBOR.

If the relevant pricing supplement specifies a maximum rate, the interest rate for any interest period will be limited by the maximum rate. The maximum rate will limit the amount of interest you may receive for each such interest period, even if the fixed or floating rate component, as adjusted by any spread factor, if applicable, and/or a spread, if applicable, would have otherwise resulted in an interest rate greater than the maximum rate. As a result, if the interest rate for any interest period without taking into consideration the maximum rate would have been greater than the maximum rate, the notes will provide you less interest income than an investment in a similar instrument that is not subject to a maximum interest rate.

Our most recent NAV was calculated on December 31, 2017 and our NAV when calculated effective March 31, 2018 and thereafter may be higher or lower.

Our NAV per share is \$9.28 as of December 31, 2017. NAV per share as of March 31, 2018 may be higher or lower than \$9.28 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 December 31, 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.

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

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

These covenants include:

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

As of December 31, 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.

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

S-11

---

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. Additionally, if signed into law, the Financial Choice Act would decrease the asset coverage requirement for BDCs to 150 percent from 200 percent under certain circumstances. Other BDCs may be better positioned to take advantage of such changes, potentially leaving the Company at a competitive disadvantage.

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 NOTES

The following description of the particular terms of the notes being offered supplements and, to the extent inconsistent with or otherwise specified in an applicable pricing supplement, replaces the description of the general terms and provisions of the debt securities set forth under the heading “Description of Our Debt Securities” in the accompanying prospectus. Unless otherwise specified in an applicable pricing supplement, the notes will have the terms described below. Capitalized terms used but not defined below have the meanings given to them in the accompanying prospectus and in the indenture relating to the notes.

The notes being offered by this prospectus supplement, the accompanying prospectus and the applicable pricing supplement will be issued under an indenture, dated as of February 16, 2012, as amended and as supplemented from time to time. U.S. Bank National Association was appointed as trustee, as successor to American Stock Transfer & Trust Company, LLC, pursuant to an Agreement of Resignation, Appointment and Acceptance dated as of March 9, 2012. The indenture is more fully described in the accompanying prospectus. The indenture does not limit the aggregate amount of debt securities that may be issued under it and provides that the debt securities may be issued under it from time to time in one or more series. The following statements are summaries of the material provisions of the indenture and the notes. These summaries do not purport to be complete and are qualified in their entirety by reference to the indenture, including for the definitions of certain terms. From time to time we may offer other debt securities either publicly or through private placement having maturities, interest rates, covenants and other terms that may differ materially from the terms of the notes described herein and in any pricing supplement.

The notes constitute a single series of debt securities for purposes of the indenture and are unlimited in aggregate principal amount under the terms of the indenture. Our board of directors has authorized the issuance and sale of the notes from time to time, up to an aggregate principal amount of \$1.5 billion. As of February 8, 2018, \$1.3 billion aggregate principal amount of notes has been issued. We have, from time to time, repurchased certain notes and, therefore, as of February 8, 2018, \$747.6 million aggregate principal amount of notes were outstanding, including intended repurchases of \$37.2 million on February 15, 2018.

Notes issued in accordance with this prospectus supplement, the accompanying prospectus and the applicable pricing supplement will have the following general characteristics:

- the notes will be our direct unsecured senior obligations and will rank equally with all of our other unsecured senior indebtedness from time to time outstanding;
- the notes may be offered from time to time by us through the Purchasing Agent or the agents and each note will mature on a day that is at least 12 months from its date of original issuance;
- each note may be issued with a fixed or floating interest rate; any floating interest rate will be based on LIBOR;
- the notes will not be subject to any sinking fund; and
- the minimum denomination of the notes will be \$1,000 (unless otherwise stated in the pricing supplement).

In addition, the pricing supplement relating to each offering of notes will describe specific terms of the notes, including but not limited to:

- the stated maturity;
- the denomination of your notes;
- the price at which we originally issue your notes, expressed as a percentage of the principal amount, and the original issue date;
- whether your notes are fixed rate notes or floating rate notes;
- if your notes are fixed rate notes, the annual rate at which your notes will bear interest, or the periodic rates in the case of notes that bear different rates at different times during the term of the notes, and the interest payment dates, if different from those stated below under “—Interest Rates—Fixed Rate Notes;”
- if your notes are floating rate notes, the interest rate, spread or spread multiplier or initial base rate, maximum rate and/or minimum rate; if there is more than one spread to be applied at different times during the term of the notes for your interest rate, which spread during which periods applies to your notes; and the interest reset, determination, calculation and payment dates, all of which we describe under “—Interest Rates—Floating Rate Notes” below;
- if applicable, the circumstances under which your notes may be redeemed at our option or repaid at the holder’s option before the stated maturity, including any redemption commencement date, repayment date(s), redemption price(s) and redemption period(s), all of which we describe under “—Redemption and Repayment” below;

whether the authorized representative of the holder of a beneficial interest in the notes will have the right to seek repayment upon the death of the holder as described under “—Survivor’s Option;”  
any special U.S. federal income tax consequences of the purchase, ownership and disposition of the notes; and

S-13

---

any other significant terms of your notes, which could be different from those described in this prospectus supplement and the accompanying prospectus, but in no event inconsistent with the indenture.

We may at any time purchase notes at any price or prices in the open market or otherwise. Notes so purchased by us may, at our discretion, be held, resold or surrendered to the trustee for cancellation.

#### Types of Notes

We may issue either of the two types of notes described below. Notes may have elements of each of the two types of notes described below. For example, notes may bear interest at a fixed rate for some periods and at a floating rate in others.

**Fixed Rate Notes.** Notes of this type will bear interest at one or more fixed rates described in your pricing supplement.

Fixed rate notes will bear interest from their original issue date or from the most recent date to which interest on the notes has been paid or made available for payment. Interest will accrue on the principal of fixed rate notes at the fixed rate or rates per annum stated in your pricing supplement during the applicable time periods as stated in your pricing supplement, until the principal is paid or made available for payment. Each payment of interest due on an interest payment date or the maturity will include interest accrued from and including the last date to which interest has been paid, or made available for payment, or from the issue date if none has been paid or made available for payment, to but excluding the interest payment date or maturity. We will compute interest on fixed rate notes on the basis of a 360-day year of twelve 30-day months (the 30/360 (ISDA) day count convention) unless your pricing supplement provides that we will compute interest on a different basis. We will pay interest on each interest payment date and at maturity as described below under “—Payments of Principal and Interest.” Notes may be offered that switch from a fixed rate to a floating rate or from a floating rate to a fixed rate during the term of the notes.

**Floating Rate Notes.** Notes of this type will bear interest at rates that are determined by reference to an interest rate formula based on LIBOR. In some cases, the rates may also be adjusted by adding or subtracting a spread in relation to LIBOR or multiplying by a spread multiplier and may be subject to a minimum rate and/or a maximum rate. The various interest rate formulas and these other features are described below in “—Interest Rates—Floating Rate Notes.” If your notes are floating rate notes, the formula and any adjustments that apply to the interest rate will be specified in your pricing supplement.

Floating rate notes will bear interest from their original issue date or from the most recent date to which interest on the notes has been paid or made available for payment. Interest will accrue on the principal of floating rate notes at a rate per annum determined according to the interest rate formula stated in your pricing supplement during the applicable interest rate periods as stated in your pricing supplement, until the principal is paid or made available for payment. We will pay interest on each interest payment date and at maturity as described below “—Payments of Principal and Interest.” Notes may be offered that switch from a fixed rate to a floating rate or from a floating rate to a fixed rate during the term of the notes.

#### Interest Rates

This subsection describes the different kinds of interest rates that may apply to your notes, as specified in your pricing supplement.

**Fixed Rate Notes.** Fixed rate notes will bear interest from their original issue date or from the most recent date to which interest on the notes has been paid or made available for payment. Interest will accrue on the principal of fixed rate notes at the fixed yearly rate or rates stated in your pricing supplement during the applicable time periods as stated in your pricing supplement, until the principal is paid or made available for payment. Your pricing supplement will describe the interest periods and relevant interest payment dates on which interest on fixed rate notes will be payable. Each payment of interest due on an interest payment date or the maturity will include interest accrued from and including the last date to which interest has been paid, or made available for payment, or from the issue date if none has been paid or made available for payment, to but excluding the interest payment date or the maturity. We will compute interest on fixed rate notes on the basis of a 360-day year of twelve 30-day months (the 30/360 (ISDA) day count convention), unless your pricing supplement provides that we will compute interest on a different basis. We will pay interest on each interest payment date and at maturity as described below under “—Payments of Principal and Interest.”

Floating Rate Notes. Floating rate notes will bear interest at rates that are determined by reference to an interest rate formula based on LIBOR. In some cases, the rates may also be adjusted by adding or subtracting a spread in relation to LIBOR or multiplying by a spread multiplier and may be subject to a minimum rate and/or a maximum rate. If your note is a floating rate note, the formula and any adjustments that apply to the interest rate will be specified in your pricing supplement.

Each floating rate note will bear interest from its original issue date or from the most recent date to which interest on the note has been paid or made available for payment. Interest will accrue on the principal of a floating rate note at a rate per annum determined according to the interest rate formula stated in the pricing supplement during the applicable interest rate

S-14

---

period specified in your pricing supplement, until the principal is paid or made available for payment. We will pay interest on each interest payment date and at maturity as described below under “—Payment of Principal and Interest.” In addition, the following will apply to floating rate notes.

#### Initial Base Rate

Unless otherwise specified in your pricing supplement, for floating rate notes, the initial base rate will be the applicable LIBOR base rate in effect from and including the original issue date to but excluding the initial interest reset date. We will specify the initial LIBOR base rate in your pricing supplement.

#### Spread or Spread Multiplier

In some cases, the base rate for floating rate notes may be adjusted:

- by adding or subtracting a specified number of basis points, called the spread, with one basis point being 0.01%; or
- by multiplying the base rate by a specified percentage, called the spread multiplier.

If you purchase floating rate notes, your pricing supplement will specify whether a spread or spread multiplier will apply to your notes and, if so, the amount of the applicable spread or spread multiplier and any increases or decreases in the spread or spread multiplier during the term of your notes.

#### Maximum and Minimum Rates

The actual interest rate, after being adjusted by the spread or spread multiplier, may also be subject to either or both of the following limits:

- a maximum rate—i.e., a specified upper limit that the actual interest rate in effect at any time may not exceed; and/or
- a minimum rate—i.e., a specified lower limit that the actual interest rate in effect at any time may not fall below.

If you purchase floating rate notes, your pricing supplement will specify whether a maximum rate and/or minimum rate will apply to your notes and, if so, what those rates are.

Whether or not a maximum rate applies, the interest rate on floating rate notes will in no event be higher than the maximum rate permitted by New York law, as it may be modified by U.S. law of general application. Under current New York law, the maximum rate of interest, with some exceptions, for any loan in an amount less than \$250,000 is 16% and for any loan in the amount of \$250,000 or more but less than \$2,500,000 is 25%, per year on a simple interest basis. These limits do not apply to loans of \$2,500,000 or more.

The rest of this subsection describes how the interest rate and the interest payment dates will be determined, and how interest will be calculated, on floating rate notes.

#### Interest Reset Dates

Except as otherwise specified in your pricing supplement, the rate of interest on floating rate notes will be reset, by the calculation agent described below, daily, weekly, monthly, quarterly, semi-annually or annually (each, an “interest reset period”). The date on which the interest rate resets and the reset rate becomes effective is called the interest reset date. Except as otherwise specified in your pricing supplement, the interest reset date will be as follows:

- for floating rate notes that reset daily, each London business day (as defined below);
- for floating rate notes that reset weekly, the Wednesday of each week;
- for floating rate notes that reset monthly, the third Wednesday of each month;
- for floating rate notes that reset quarterly, the third Wednesday of each of four months of each year as specified in your pricing supplement;
- for floating rate notes that reset semi-annually, the third Wednesday of each of two months of each year as specified in your pricing supplement; and
- for floating rate notes that reset annually, the third Wednesday of one month of each year as specified in your pricing supplement.

For floating rate notes, the interest rate in effect on any particular day will be the interest rate determined with respect to the latest interest reset date that occurs on or before that day. There are several exceptions, however, to the reset provisions described above.

Interest reset dates are subject to adjustment, as described below under “—Business Day Conventions.”

The base rate in effect from and including the original issue date to but excluding the first interest reset date will be the initial base rate. For floating rate notes that reset daily or weekly, the base rate in effect for each day following the fifth business day before an interest payment date to, but excluding, the interest payment date, and for each day following the fifth business day before the maturity to, but excluding, the maturity, will be the base rate in effect on that fifth business day.

#### Interest Determination Dates

The interest rate that takes effect on an interest reset date will be determined by the calculation agent for the LIBOR base rates by reference to a particular date called an interest determination date. Except as otherwise specified in your pricing supplement, the interest determination date relating to a particular interest reset date will be the second London business day preceding the interest reset date. We refer to an interest determination date for LIBOR notes as a LIBOR interest determination date.

#### Interest Calculation Date

The interest rate that takes effect on a particular interest reset date will be determined by reference to the corresponding interest determination date or interest reset date, as applicable. For some notes, however, the calculation agent will set the rate on a day no later than the corresponding interest calculation date. Unless otherwise specified in your pricing supplement, the interest calculation date for rates to which a calculation date applies will be the business day immediately preceding the date on which interest will next be paid (on an interest payment date or the maturity, as the case may be). The calculation agent need not wait until the relevant interest calculation date to determine the interest rate if the rate information it needs to make the determination is available from the relevant sources sooner.

#### Interest Rate Calculations

Interest payable on floating rate notes for any particular interest period will be calculated as described below using an interest factor, expressed as a decimal, applicable to each day during the applicable interest period, unless otherwise specified in your pricing supplement.

Calculations relating to floating rate notes will be made by the calculation agent, an institution that we appoint as our agent for this purpose. We have initially appointed U.S. Bank National Association as our calculation agent for any floating rate notes. We may specify a different calculation agent in your pricing supplement. The applicable pricing supplement for your floating rate note will name the institution that we have appointed to act as the calculation agent for that note as of its original issue date. We may appoint a different institution to serve as calculation agent from time to time after the original issue date of your floating rate note without your consent and without notifying you of the change. Absent manifest error, all determinations of the calculation agent will be final and binding on you and us, without any liability on the part of the calculation agent.

For floating rate notes, the calculation agent will determine, on the corresponding interest calculation date or interest determination date, as described below, the interest rate that takes effect on each interest reset date. In addition, the calculation agent will calculate the amount of interest that has accrued during each interest period—i.e., the period from and including the original issue date, or the last date to which interest has accrued (which may be the interest payment date or any interest reset date in accordance with the business day convention), to but excluding the next date to which interest will accrue (which may be the interest payment date or any interest reset date in accordance with the business day convention). For each interest period, the calculation agent will calculate the amount of accrued interest by multiplying the face amount of the floating rate note by an accrued interest factor for the interest period. Such accrued interest rate factor is determined by multiplying the applicable interest rate for the period by the day count fraction. The day count fraction will be determined in accordance with the 30/360 (ISDA) day count convention, where the number of days in the interest period in respect of which payment is being made is divided by 360, calculated on a formula basis as follows:

where:

“Y1” is the year, expressed as a number, in which the first day of the interest period falls;

“Y2” is the year, expressed as a number, in which the day immediately following the last day included in the interest period falls;

“M1” is the calendar month, expressed as a number, in which the first day of the interest period falls;

“M2” is the calendar month, expressed as a number, in which the day immediately following the last day included in the interest period falls;

S-16

---

“D1” is the first calendar day, expressed as a number, of the interest period, unless such number would be 31, in which case D1 will be 30; and

“D2” is the calendar day, expressed as a number, immediately following the last day included in the interest period, unless such number would be 31 and D1 is greater than 29, in which case D2 will be 30.

Upon the request of the holder of any floating rate note, the calculation agent will provide the interest rate then in effect, and, if determined, the interest rate that will become effective on the next interest reset date with respect to such floating rate note.

All percentages resulting from any calculation relating to any note will be rounded upward or downward, as appropriate, to the next higher or lower one hundred-thousandth of a percentage point, e.g., 9.876541% (or .09876541) being rounded down to 9.87654% (or .0987654) and 9.876545% (or .09876545) being rounded up to 9.87655% (or .0987655). All amounts used in or resulting from any calculation relating to any note will be rounded upward or downward to the nearest cent.

#### Sources and Corrections

If we refer to a rate as set forth on a display page, other published source, information vendor or other vendor officially designated by the sponsor of that rate, if there is a successor source for the display page, other published source, information vendor or other official vendor, we refer to that successor source as applicable as determined by the calculation agent. When we refer to a particular heading or headings on any of those sources, those references include any successor or replacement heading or headings as determined by the calculation agent.

If the applicable rate is based on information obtained from a Reuters screen, that rate will be subject to the corrections, if any, published on that Reuters screen within one hour of the time that rate was first displayed on such source.

#### LIBOR Calculation

LIBOR, with respect to the base rate and any interest reset date, will be the London interbank offered rate for deposits in U.S. dollars for the index maturity specified in your pricing supplement, appearing on the Reuters screen LIBOR page as of approximately 11:00 A.M., London time, on the relevant LIBOR interest determination date.

If the rate described above does not so appear on the Reuters screen LIBOR page, then LIBOR will be determined on the basis of the rates at which deposits in U.S. dollars are offered by four major banks in the London interbank market selected by the calculation agent at approximately 11:00 A.M., London time, on the relevant LIBOR interest determination date, to prime banks in the London interbank market for a period of the specified index maturity, beginning on the relevant interest reset date, and in a representative amount. The calculation agent will request the principal London office of each of these major banks to provide a quotation of its rate. If at least two quotations are provided, LIBOR for the relevant interest reset date will be the arithmetic mean of the quotations.

If fewer than two of the requested quotations described above are provided, LIBOR for the relevant interest reset date will be the arithmetic mean of the rates quoted by major banks in New York City selected by the calculation agent, at approximately 11:00 A.M., New York City time (or the time in the relevant principal financial center), on the relevant interest reset date, for loans in U.S. dollars (or the index currency) to leading European banks for a period of the specified index maturity, beginning on the relevant interest reset date, and in a representative amount.

If no quotation is provided as described in the preceding paragraph, then the calculation agent, after consulting such sources as it deems comparable to any of the foregoing quotations or display page, or any such source as it deems reasonable from which to estimate LIBOR or any of the foregoing lending rates, shall determine LIBOR for that interest reset date in its sole discretion.

For the purpose of this section, we define the term “index maturity” as the interest rate period of LIBOR on which the interest rate formula is based as specified in your pricing supplement.

In all cases, if the stated maturity or any earlier redemption date or repayment date with respect to any note falls on a day that is not a business day, any payment of principal, premium, if any, and interest otherwise due on such day will be made on the next succeeding business day, and no interest on such payment shall accrue for the period from and after such stated maturity, redemption date or repayment date, as the case may be.

#### Business Days



The term “London business day” will apply to your floating rate notes, as specified in your pricing supplement, and it means each Monday, Tuesday, Wednesday, Thursday and Friday that is not a day on which banking institutions in London generally are authorized or obligated by law, regulation or executive order to close and is also a day on which dealings in the applicable index currency are transacted in the London interbank market.

S-17

---

**Business Day Convention**

The business day convention that will apply to your notes is the “following business day convention.” The “following business day convention” means, for any interest payment date or interest reset date, other than the maturity, if such date would otherwise fall on a day that is not a business day, then such date will be postponed to the next day that is a business day.

**Payment of Principal and Interest**

Principal of and interest on beneficial interests in the notes will be made in accordance with the arrangements then in place between the paying agent and The Depository Trust Company (referred to as “DTC”) and its participants as described under “Registration and Settlement—The Depository Trust Company.” Payments in respect of any notes in certificated form will be made as described under “Registration and Settlement—Registration, Transfer and Payment of Certificated Notes.”

Interest on each note will be payable either monthly, quarterly, semi-annually or annually on each interest payment date and at the note’s stated maturity or on the date of redemption or repayment if a note is redeemed or repaid prior to maturity. Interest is payable to the person in whose name a note is registered at the close of business on the regular record date before each interest payment date. Interest due at a note’s stated maturity or on a date of redemption or repayment will be payable to the person to whom principal is payable.

We will pay any administrative costs imposed by banks in connection with making payments in immediately available funds, but any tax, assessment or governmental charge imposed upon any payments on a note, including, without limitation, any withholding tax, is the responsibility of the holders of beneficial interests in the note in respect of which such payments are made.

**Payment and Record Dates for Interest**

Interest on the notes will be paid as follows:

Interest Payment Frequency	Interest Payment Dates
Monthly	Fifteenth day of each calendar month, beginning in the first calendar month following the month the note was issued.
Quarterly	Fifteenth day of every third month, beginning in the third calendar month following the month the note was issued.
Semi-annually	Fifteenth day of every sixth month, beginning in the sixth calendar month following the month the note was issued.
Annually	Fifteenth day of every twelfth month, beginning in the twelfth calendar month following the month the note was issued.

The regular record date for any interest payment date will be the first day of the calendar month in which the interest payment date occurs, except that the regular record date for interest due on the note’s stated maturity date or date of earlier redemption or repayment will be that particular date. For the purpose of determining the holder at the close of business on a regular record date when business is not being conducted, the close of business will mean 5:00 P.M., New York City time, on that day.

Interest on a note will be payable beginning on the first interest payment date after its date of original issuance to holders of record on the corresponding regular record date.

“Business day” means any day, other than a Saturday or Sunday, that is neither a legal holiday nor a day on which banking institutions are authorized or required by law or regulation to close in The City of New York.

**Redemption and Repayment**

Unless we otherwise provide in the applicable pricing supplement, a note will not be redeemable or repayable prior to its stated maturity date.

If the pricing supplement states that the note will be redeemable at our option prior to its stated maturity date, then on such date or dates specified in the pricing supplement, we may redeem those notes at our option either in whole or from time to time in part, upon not less than five nor more than 60 days’ written notice to the holder of those notes. If the pricing supplement states that your note will be repayable at your option prior to its stated maturity date, we will require receipt of notice of the request for repayment at least 30 but not more than 60 days prior to the date or dates specified in

S-18

---

the pricing supplement. We also must receive the completed form entitled “Option to Elect Repayment.” Exercise of the repayment option by the holder of a note is irrevocable.

Since the notes will be represented by a global note, DTC or its nominee will be treated as the holder of the notes; therefore DTC or its nominee will be the only entity that receives notices of redemption of notes from us, in the case of our redemption of notes, and will be the only entity that can exercise the right to repayment of notes, in the case of optional repayment. See “Registration and Settlement.”

To ensure that DTC or its nominee will timely exercise a right to repayment with respect to a particular beneficial interest in a note, the beneficial owner of the interest in that note must instruct the broker or other direct or indirect participant through which it holds the beneficial interest to notify DTC or its nominee of its desire to exercise a right to repayment. Because different firms have different cut-off times for accepting instructions from their customers, each beneficial owner should consult the broker or other direct or indirect participant through which it holds an interest in a note to determine the cut-off time by which the instruction must be given for timely notice to be delivered to DTC or its nominee. Conveyance of notices and other communications by DTC or its nominee to participants, by participants to indirect participants and by participants and indirect participants to beneficial owners of the notes will be governed by agreements among them and any applicable statutory or regulatory requirements.

The redemption of a note normally will occur on a specified interest payment date and any business day thereafter following receipt of a valid notice. The repayment of a note normally will occur on the interest payment date or dates following receipt of a valid notice. Unless otherwise specified in the pricing supplement, the redemption or repayment price will equal 100% of the principal amount of the note plus unpaid interest accrued to the date or dates of redemption or repayment.

We may at any time purchase notes at any price or prices in the open market or otherwise. We may also purchase notes otherwise tendered for repayment by a holder or tendered by a holder’s duly authorized representative through exercise of the Survivor’s Option described below. If we purchase the notes in this manner, we have the discretion to either hold, resell or surrender the notes to the trustee for cancellation.

#### Survivor’s Option

The “Survivor’s Option” is a provision in a note pursuant to which we agree to repay that note, if requested by the authorized representative of the beneficial owner of that note, following the death of the beneficial owner of the note, so long as the note was owned by that beneficial owner or the estate of that beneficial owner at least six months prior to the request. The pricing supplement relating to each offering of notes will state whether the Survivor’s Option applies to those notes.

If a note is entitled to a Survivor’s Option, upon the valid exercise of the Survivor’s Option and the proper tender of that note for repayment, we will, at our option, repay or repurchase that note, in whole or in part, at a price equal to 100% of the principal amount of the deceased beneficial owner’s interest in that note plus unpaid interest accrued to the date of repayment.

To be valid, the Survivor’s Option must be exercised by or on behalf of the person who has authority to act on behalf of the deceased beneficial owner of the note (including, without limitation, the personal representative or executor of the deceased beneficial owner or the surviving joint owner with the deceased beneficial owner) under the laws of the applicable jurisdiction.

The death of a person holding a beneficial ownership interest in a note as a joint tenant or tenant by the entirety with another person, or as a tenant in common with the deceased holder’s spouse, will be deemed the death of a beneficial owner of that note, and the entire principal amount of the note so held will be subject to repayment by us upon request. However, the death of a person holding a beneficial ownership interest in a note as tenant in common with a person other than such deceased holder’s spouse will be deemed the death of a beneficial owner only with respect to such deceased person’s interest in the note.

The death of a person who, during his or her lifetime, was entitled to substantially all of the beneficial ownership interests in a note will be deemed the death of the beneficial owner of that note for purposes of the Survivor’s Option, regardless of whether that beneficial owner was the registered holder of that note, if entitlement to those interests can be established to the satisfaction of the trustee. A beneficial ownership interest will be deemed to exist in typical cases of nominee ownership, ownership under the Uniform Transfers to Minors Act or Uniform Gifts to Minors Act, community property or other joint ownership arrangements between a husband and wife. In addition, a beneficial

ownership interest will be deemed to exist in custodial and trust arrangements where one person has all of the beneficial ownership interests in the applicable note during his or her lifetime.

We have the discretionary right to limit the aggregate principal amount of notes as to which exercises of the Survivor's Option shall be accepted by us from authorized representatives of all deceased beneficial owners in any calendar year to an amount equal to the greater of \$2,000,000 or 2% of the principal amount of all notes outstanding as of the end of the most recent calendar year. We also have the discretionary right to limit to \$250,000 in any calendar year the aggregate principal

S-19

---

amount of notes as to which exercises of the Survivor's Option shall be accepted by us from the authorized representative of any individual deceased beneficial owner of notes in such calendar year. In addition, we will not permit the exercise of the Survivor's Option except in principal amounts of \$1,000 and multiples of \$1,000. An otherwise valid election to exercise the Survivor's Option may not be withdrawn. Each election to exercise the Survivor's Option will be accepted in the order that elections are received by the trustee, except for any note the acceptance of which would contravene any of the limitations described in the preceding paragraph. Notes accepted for repayment through the exercise of the Survivor's Option normally will be repaid on the first interest payment date that occurs 20 or more calendar days after the date of the acceptance. For example, if the acceptance date of a note tendered through a valid exercise of the Survivor's Option is September 1, 2017, and interest on that note is paid monthly, we would normally, at our option, repay that note on the interest payment date occurring on October 15, 2017, because the September 15, 2017 interest payment date would occur less than 20 days from the date of acceptance. Each tendered note that is not accepted in any calendar year due to the application of any of the limitations described in the preceding paragraph will be deemed to be tendered in the following calendar year in the order in which all such notes were originally tendered. If a note tendered through a valid exercise of the Survivor's Option is not accepted, the trustee will deliver a notice by first-class mail to the registered holder, at that holder's last known address as indicated in the note register, that states the reason that note has not been accepted for repayment. With respect to notes represented by a global note, DTC or its nominee is treated as the holder of the notes and will be the only entity that can exercise the Survivor's Option for such notes. To obtain repayment pursuant to exercise of the Survivor's Option for a note, the deceased beneficial owner's authorized representative must provide the following items to the broker or other entity through which the beneficial interest in the note is held by the deceased beneficial owner:

- a written instruction to such broker or other entity to notify DTC of the authorized representative's desire to obtain repayment pursuant to exercise of the Survivor's Option;
- appropriate evidence satisfactory to the trustee (a) that the deceased was the beneficial owner of the note at the time of death and his or her interest in the note was owned by the deceased beneficial owner or his or her estate at least six months prior to the request for repayment, (b) that the death of the beneficial owner has occurred, (c) of the date of death of the beneficial owner, and (d) that the representative has authority to act on behalf of the beneficial owner;
- if the interest in the note is held by a nominee of the deceased beneficial owner, a certificate satisfactory to the trustee from the nominee attesting to the deceased's beneficial ownership of such note;
- written request for repayment signed by the authorized representative of the deceased beneficial owner with the signature guaranteed by a member firm of a registered national securities exchange or of the Financial Industry Regulatory Authority, Inc. or a commercial bank or trust company having an office or correspondent in the United States;
- if applicable, a properly executed assignment or endorsement;
- tax waivers and any other instruments or documents that the trustee reasonably requires in order to establish the validity of the beneficial ownership of the note and the claimant's entitlement to payment; and
- any additional information the trustee reasonably requires to evidence satisfaction of any conditions to the exercise of the Survivor's Option or to document beneficial ownership or authority to make the election and to cause the repayment of the note.

In turn, the broker or other entity will deliver each of these items to the trustee, together with evidence satisfactory to the trustee from the broker or other entity stating that it represents the deceased beneficial owner.

The death of a person owning a note in joint tenancy or tenancy by the entirety with another or others shall be deemed the death of the holder of the note, and the entire principal amount of the note so held shall be subject to repayment, together with interest accrued thereon to the repayment date. The death of a person owning a note by tenancy in common shall be deemed the death of a holder of a note only with respect to the deceased holder's interest in the note so held by tenancy in common; except that in the event a note is held by husband and wife as tenants in common, the death of either shall be deemed the death of the holder of the note, and the entire principal amount of the note so held shall be subject to repayment. The death of a person who, during his or her lifetime, was entitled to substantially all of the beneficial interests of ownership of a note, shall be deemed the death of the holder thereof for purposes of this provision, regardless of the registered holder, if such beneficial interest can be established to the satisfaction of the

trustee and us. Such beneficial interest shall be deemed to exist in typical cases of nominee ownership, ownership under the Uniform Gifts to Minors Act, the Uniform Transfers to Minors Act, community property or other joint ownership arrangements between a husband and wife and trust arrangements where one person has substantially all of the beneficial ownership interest in the note during his or her lifetime.

We retain the right to limit the aggregate principal amount of notes as to which exercises of the Survivor's Option applicable to the notes will be accepted in any one calendar year as described above. All other questions regarding the eligibility

S-20

---

or validity of any exercise of the Survivor's Option will be determined by the trustee, in its sole discretion, which determination will be final and binding on all parties.

The broker or other entity will be responsible for disbursing payments received from the trustee to the authorized representative. See "Registration and Settlement."

Forms for the exercise of the Survivor's Option may be obtained from the Trustee at 100 Wall Street, Suite 1600, New York, NY 10005, Attention: General Counsel.

If applicable, we will comply with the requirements of Section 14(e) of the Exchange Act, and the rules promulgated thereunder, and any other securities laws or regulations in connection with any repayment of notes at the option of the registered holders or beneficial owners thereof.

S-21

---



## 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-22

---

**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 December 31, 2017, as shown in our Consolidated Schedule of Investments, the cost basis and fair value of our investments in controlled companies was \$1,895,360 and \$2,011,922, respectively. This structure gives rise to several of the risks described in our public documents and highlighted elsewhere in this Quarterly Report. We consolidate all wholly-owned and substantially wholly-owned holding companies formed by us for the purpose of holding our controlled investments in operating companies. There is no significant effect of consolidating these holding companies as they hold minimal assets other than their investments in the controlled operating companies. Investment company accounting prohibits the consolidation of any operating companies.

#### Second Quarter Highlights

##### Investment Transactions

We seek to be a long-term investor with our portfolio companies. During the three months ended December 31, 2017, we acquired \$151,300 of new investments, completed follow-on investments in existing portfolio companies totaling approximately \$573,320, funded \$12,117 of revolver advances, and recorded paid in kind ("PIK") interest of \$2,000, resulting in gross investment originations of \$738,737. During the three months ended December 31, 2017, we received full repayments on 7 investments and received several partial repayments and amortization payments totaling \$1,042,269.

##### Debt Issuances and Redemptions

During the three months ended December 31, 2017, we redeemed \$91,558 aggregate principal amount of our Prospect Capital InterNotes® at par with a weighted average interest rate of 4.79%, and repaid \$1,909 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 December 31, 2017 was \$488.

During the three months ended December 31, 2017 we issued \$24,775 aggregate principal amount of Prospect Capital InterNotes® with a stated and weighted average interest rate of 4.20%, to extend our borrowing base. The newly issued notes mature between October 15, 2022 and December 15, 2025 and generated net proceeds of \$24,401.

##### Equity Issuances

On October 19, 2017, November 22, 2017, and December 21, 2017, we issued 83,913, 98,276, and 488,141 shares of our common stock in connection with the dividend reinvestment plan, respectively.

##### Investment Holdings

As of December 31, 2017, we continue to pursue our investment strategy. At December 31, 2017, approximately \$5,421,132, or 161.9%, of our net assets are invested in 122 long-term portfolio investments and CLOs.

During the six months ended December 31, 2017, we originated \$960,888 of new investments, primarily composed of \$853,975 of debt and equity financing to non-controlled portfolio investments and \$106,913 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 12.5% and 12.2% as of

December 31, 2017 and June 30, 2017, respectively, across all performing interest bearing investments, excluding equity investments and non-accrual loans. Our annualized current yield was 10.3% and 10.4% as of December 31, 2017 and June 30, 2017, respectively, across all investments. Monetization of equity positions that we hold and loans on non-accrual status are not included in this yield calculation. In many of our portfolio companies we hold equity positions, ranging from minority interests to majority stakes, which we expect over time to contribute to our investment returns. Some of these equity positions include features such as contractual minimum internal rates of returns, preferred distributions, flip structures and other features expected to generate additional investment returns, as well as contractual protections and preferences over junior equity, in addition to the yield and security offered by our cash flow and collateral debt protections.

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

As of December 31, 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 (“Edmentum”); 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”). We also own affiliated interests in Nixon, Inc. (“Nixon”) and Targus Cayman HoldCo Limited (“Targus”). The following shows the composition of our investment portfolio by level of control as of December 31, 2017 and June 30, 2017:

Level of Control	December 31, 2017				June 30, 2017			
	Cost	% of Portfolio	Fair Value	% of Portfolio	Cost	% of Portfolio	Fair Value	% of Portfolio
Control Investments	\$ 1,895,360	34.1 %	\$ 2,011,922	37.1 %	\$ 1,840,731	30.8 %	\$ 1,911,775	32.7 %
Affiliate Investments	24,075	0.4 %	19,272	0.4 %	22,957	0.4 %	11,429	0.2 %
Non-Control/Non-Affiliate Investments	3,643,003	65.5 %	3,389,938	62.5 %	4,117,868	68.8 %	3,915,101	67.1 %
Total Investments	\$ 5,562,438	100.0 %	\$ 5,421,132	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 December 31, 2017 and June 30, 2017:

Type of Investment	December 31, 2017				June 30, 2017			
	Cost	% of Portfolio	Fair Value	% of Portfolio	Cost	% of Portfolio	Fair Value	% of Portfolio
Revolving Line of Credit	\$ 34,317	0.6 %	\$ 34,096	0.6 %	\$ 27,409	0.5 %	\$ 27,409	0.5 %
Senior Secured Debt	2,497,404	44.9 %	2,381,739	44.0 %	2,940,163	49.2 %	2,798,796	47.9 %
Subordinated Secured Debt	1,233,051	22.2 %	1,153,876	21.3 %	1,160,019	19.4 %	1,107,040	19.0 %
Subordinated Unsecured Debt	38,236	0.7 %	32,052	0.6 %	37,934	0.6 %	44,434	0.8 %
Small Business Loans	1,484	— %	1,365	— %	8,434	0.1 %	7,964	0.1 %
CLO Residual Interest	1,067,371	19.2 %	940,276	17.3 %	1,150,006	19.2 %	1,079,712	18.5 %
Preferred Stock	77,346	1.4 %	62,678	1.2 %	112,394	1.9 %	83,209	1.4 %
Common Stock	362,348	6.5 %	458,025	8.4 %	295,200	4.9 %	391,374	6.7 %
Membership Interest	250,881	4.5 %	258,774	4.8 %	249,997	4.2 %	206,012	3.5 %
Participating Interest(1)	—	— %	97,395	1.8 %	—	— %	91,491	1.6 %

Edgar Filing: PROSPECT CAPITAL CORP - Form 497

Escrow Receivable	—	—	% 856	—	% —	—	% 864	—	%
Total Investments	\$5,562,438	100.0	%	\$5,421,132	100.0	%	\$5,981,556	100.0	%

S-24

---

(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 December 31, 2017 and June 30, 2017:

Type of Investment	December 31, 2017				June 30, 2017			
	Cost	% of Portfolio	Fair Value	% of Portfolio	Cost	% of Portfolio	Fair Value	% of Portfolio
First Lien	\$2,526,629	51.9 %	\$2,410,743	53.1 %	\$2,959,738	55.6 %	\$2,818,371	55.6 %
Second Lien	1,238,143	25.4 %	1,158,968	25.5 %	1,167,853	21.9 %	1,114,874	22.0 %
Unsecured	38,236	0.8 %	32,052	0.7 %	37,934	0.7 %	44,434	0.9 %
Small Business Loans	1,484	— %	1,365	— %	8,434	0.2 %	7,964	0.2 %
CLO Residual Interest	1,067,371	21.9 %	940,276	20.7 %	1,150,006	21.6 %	1,079,712	21.3 %
Total Debt Investments	\$4,871,863	100.0 %	\$4,543,404	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 December 31, 2017 and June 30, 2017:

Geographic Location	December 31, 2017				June 30, 2017			
	Cost	% of Portfolio	Fair Value	% of Portfolio	Cost	% of Portfolio	Fair Value	% of Portfolio
Canada	\$18,403	0.3 %	\$18,470	0.3 %	\$9,831	0.2 %	\$10,000	0.2 %
Cayman Islands	1,067,371	19.2 %	940,276	17.3 %	1,150,006	19.2 %	1,079,712	18.5 %
France	12,325	0.2 %	11,283	0.2 %	9,755	0.2 %	8,794	0.2 %
Midwest US	322,759	5.8 %	343,836	6.3 %	605,417	10.1 %	678,766	11.6 %
Northeast US	913,669	16.4 %	914,612	16.9 %	786,552	13.1 %	823,616	14.0 %
Northwest US	173,290	3.1 %	114,145	2.1 %	281,336	4.7 %	207,962	3.6 %
Puerto Rico	86,153	1.5 %	83,428	1.5 %	83,410	1.4 %	83,410	1.4 %
Southeast US	1,230,425	22.1 %	1,450,187	26.8 %	1,367,606	22.9 %	1,412,351	24.2 %
Southwest US	650,475	11.7 %	568,639	10.5 %	616,008	10.3 %	558,368	9.6 %
Western US	1,087,568	19.7 %	976,256	18.1 %	1,071,635	17.9 %	975,326	16.7 %
Total Investments	\$5,562,438	100.0 %	\$5,421,132	100.0 %	\$5,981,556	100.0 %	\$5,838,305	100.0 %



Edgar Filing: PROSPECT CAPITAL CORP - Form 497

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

Industry	December 31, 2017				June 30, 2017				
	Cost	% of Portfolio	Fair Value	% of Portfolio	Cost	% of Portfolio	Fair Value	% of Portfolio	
Aerospace & Defense	\$69,837	1.3	% \$76,577	1.4	% \$69,837	1.2	% \$71,318	1.2	%
Air Freight & Logistics	37,114	0.7	% 37,114	0.7	% 51,952	0.9	% 51,952	0.9	%
Auto Components	33,538	0.6	% 33,594	0.6	% 30,222	0.5	% 30,460	0.5	%
Capital Markets	19,785	0.4	% 20,000	0.4	% 14,796	0.2	% 15,000	0.3	%
Chemicals	17,491	0.3	% 17,077	0.3	% 17,489	0.3	% 16,699	0.3	%
Commercial Services & Supplies	338,263	6.1	% 278,723	5.1	% 354,185	5.9	% 312,634	5.3	%
Communications Equipment	39,851	0.7	% 39,851	0.7	% —	—	% —	—	%
Construction & Engineering	63,358	1.1	% 40,930	0.8	% 62,258	1.0	% 32,509	0.6	%
Consumer Finance	468,390	8.4	% 542,497	10.0	% 469,869	7.9	% 502,941	8.6	%
Distributors	591,124	10.6	% 506,339	9.3	% 140,847	2.4	% 83,225	1.4	%
Diversified Consumer Services	187,373	3.4	% 176,030	3.2	% 188,912	3.2	% 190,662	3.3	%
Diversified Telecommunication Services	—	—	% —	—	% 4,395	0.1	% 4,410	0.1	%
Electronic Equipment, Instruments & Components	39,897	0.7	% 49,920	0.9	% 37,696	0.6	% 51,846	0.9	%
Energy Equipment & Services	248,499	4.5	% 166,318	3.1	% 251,019	4.2	% 131,660	2.3	%
Equity Real Estate									
Investment Trusts (REITs)	437,063	7.8	% 718,356	13.3	% 374,380	6.3	% 624,337	10.7	%
Food Products	9,876	0.2	% 9,876	0.2	% —	—	% —	—	%
Health Care Providers & Services	455,946	8.2	% 452,712	8.4	% 422,919	7.1	% 421,389	7.1	%
Health Care Technology	14,926	0.3	% 14,926	0.3	% —	—	% —	—	%
Hotels, Restaurants & Leisure	—	—	% —	—	% 127,638	2.1	% 103,897	1.8	%
Household Durables	45,390	0.8	% 45,241	0.8	% 146,031	2.4	% 146,183	2.5	%
Insurance	2,985	0.1	% 2,985	0.1	% —	—	% —	—	%
Internet Software & Services	228,615	4.1	% 228,699	4.2	% 219,348	3.7	% 219,348	3.8	%
IT Services	19,568	0.4	% 20,000	0.4	% 19,531	0.3	% 20,000	0.3	%
Leisure Products	49,217	0.9	% 49,324	0.9	% 44,085	0.7	% 44,204	0.8	%
Machinery	35,488	0.6	% 31,408	0.6	% 35,488	0.6	% 32,678	0.6	%
Marine (1)	8,935	0.2	% 8,935	0.2	% 8,919	0.1	% 8,800	0.2	%
Media	128,616	2.3	% 126,411	2.3	% 469,108	7.8	% 466,500	8.0	%
Metals & Mining	9,963	0.2	% 10,000	0.2	% 9,953	0.2	% 10,000	0.2	%
Online Lending	408,280	7.2	% 331,384	6.1	% 424,350	7.1	% 370,931	6.3	%
Paper & Forest Products	11,312	0.2	% 11,500	0.2	% 11,295	0.2	% 11,500	0.2	%
Personal Products	212,725	3.8	% 183,136	3.4	% 222,698	3.7	% 192,748	3.3	%
Pharmaceuticals	11,880	0.2	% 12,000	0.2	% 117,989	2.0	% 117,989	2.0	%
Professional Services	16,287	0.3	% 17,076	0.3	% 64,242	1.1	% 64,473	1.1	%
Software	55,127	1.0	% 55,970	1.0	% 56,041	0.9	% 55,150	0.9	%
Technology Hardware, Storage & Peripherals	12,376	0.2	% 12,376	0.2	% —	—	% —	—	%
Textiles, Apparel & Luxury Goods	60,574	1.1	% 56,272	1.0	% 285,180	4.8	% 274,206	4.7	%
Tobacco	14,380	0.3	% 14,500	0.3	% 14,365	0.2	% 14,431	0.2	%
Trading Companies & Distributors	64,188	1.2	% 55,969	1.0	% 64,513	1.1	% 64,513	1.1	%

Edgar Filing: PROSPECT CAPITAL CORP - Form 497

Transportation Infrastructure	26,830	0.5	%	26,830	0.5	%	\$—	—	%	\$—	—	%
Subtotal	\$4,495,067,80.9		%	\$4,480,856,82.6		%	\$4,831,550,80.8		%	\$4,758,593,81.5		%
Structured Finance (2)	\$1,067,371,19.1		%	\$940,276,17.4		%	\$1,150,006,19.2		%	\$1,079,712,18.5		%
Total Investments	\$5,562,438,100.0		%	\$5,421,132,100.0		%	\$5,981,556,100.0		%	\$5,838,305,100.0		%

S-26

---

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 December 31, 2017 and June 30, 2017 is \$175,253 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 six months ended December 31, 2017, we acquired \$236,255 of new investments, completed follow-on investments in existing portfolio companies totaling approximately \$705,686, funded \$14,967 of revolver advances, and recorded PIK interest of \$3,980, resulting in gross investment originations of \$960,888. 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 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). We expect the liquidation fee agreement to result in a fee, net of third-party transaction costs, of \$1,180 in early 2018, which, if received, will be reflected as other income on our accompanying Consolidated Statement of Operations. As of December 31, 2017, the valuation of our investment in Wolf decreased by the same amount as a result of the related liability.

During the six months ended December 31, 2017, we made three follow-on investments in NPRC totaling \$29,588 to support the online consumer lending initiative. We invested \$10,356 of equity through NPH and \$19,233 of debt directly to NPRC and its wholly-owned subsidiaries. In addition, we provided \$52,914 of equity financing to NPRC for the acquisition of real estate properties and \$1,112 of debt and \$7,881 of equity financing to NPRC to fund capital expenditures for existing real estate properties

During the six months ended December 31, 2017, we purchased \$7,551 of small business whole loans from OnDeck. During the six months ended December 31, 2017, we received full repayments on twelve investments and received several partial prepayments and amortization payments totaling \$1,353,163, which resulted in net realized gains totaling \$4,236. The more significant of these transactions are briefly described below.

During the period from July 19, 2017 through September 22, 2017, we received \$21,545 and \$25,914 as a partial return of capital on our investments in Voya CLO 2012-2, Ltd. and Voya CLO 2012-3, 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.

During the six months ended December 31, 2017, we received partial repayments of \$28,307 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

(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 use 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.

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 \$5,421,132.

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 six months ended December 31, 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 increased the fair value of our investment in Arctic Energy to \$24,158 as of December 31, 2017, reflecting a discount of \$36,718 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 an improvement 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 improved operating performance, the Board of Directors increased the fair value of our investment in CP Energy to \$86,557 as of December 31, 2017, reflecting a discount of \$26,943 to its amortized cost, compared to a discount of \$41,284 to its amortized cost as of June 30, 2017.

#### Edmentum Ultimate Holdings, LLC

Prospect owns 37.1% of the equity of Edmentum Ultimate Holdings, LLC ("Edmentum Holdings"). Edmentum Holdings owns 100% of the equity of Edmentum, Inc. ("Edmentum"). 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.

On June 9, 2015, Prospect provided additional debt and equity financing to support the recapitalization of Edmentum. As part of the recapitalization, Prospect exchanged 100% of the \$50,000 second lien term loan previously outstanding for \$26,365 of junior paid in kind ("PIK") notes and 370,964.14 Class A common units representing 37.1% equity ownership in Edmentum Holdings. In addition, Prospect invested \$5,875 in senior PIK notes and committed \$7,834 as



part of a second lien revolving credit facility, of which \$4,896 was funded at closing. On June 9, 2015, our investment in Edmentum was written-down for

S-30

---

tax purposes and a loss of \$22,116 was therefore realized for the amount that the amortized cost exceeded the fair value, reducing the amortized cost to \$37,216.

The Board of Directors decreased the fair value of our investment in Edmentum to \$31,362 as of December 31, 2017, reflecting a discount of \$11,343 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.

#### 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 Board of Directors increased the fair value of our investment in First Tower to \$405,030, representing a premium of 20% to its amortized cost basis, as of December 31, 2017, from \$365,588, representing a premium of 8% to its amortized cost basis, as of June 30, 2017. The increase in fair value was driven by 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 Board of Directors increased the fair value of our investment in Freedom Marine to \$25,266 as of December 31, 2017, a discount of \$17,546 to its amortized cost, compared to a discount of \$18,616 to its amortized cost as of June 30, 2017. The increase in fair value was driven by improved operating results.

#### 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 December 31, 2017, we own 100% of the fully-diluted common equity of NPRC.

During the six months ended December 31, 2017, we provided \$52,914 of equity financing to NPRC for the acquisition of real estate properties and \$1,112 of debt and \$7,881 of equity financing to NPRC to fund capital expenditures for existing real estate properties.

During the six months ended December 31, 2017, we provided \$19,233 and \$10,356 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 six months ended December 31, 2017, we received partial repayments of \$28,307 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 December 31, 2017, the outstanding investment in online consumer loans by certain of NPRC’s wholly-owned subsidiaries was comprised of 105,315 individual loans and one securitization equity residual, and had an aggregate fair value of \$629,837. The average outstanding individual loan balance was approximately \$6 and the loans mature on dates ranging from January



1, 2018 to January 3, 2025 with a weighted-average outstanding term of 29 months as of December 31, 2017. Fixed interest rates range from 4.0% to 36.0% with a weighted-average current interest rate of 24.8%. As of December 31, 2017, our investment in NPRC and its wholly-owned subsidiaries relating to online consumer lending had a fair value of \$330,019.

As of December 31, 2017, based on outstanding principal balance, 4.5% of the portfolio was invested in super prime loans (borrowers with a Fair Isaac Corporation (“FICO”) score, of 720 or greater), 14.1% of the portfolio in prime loans (borrowers with a FICO score of 660 to 719) and 81.4% 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	\$ 28,643	\$27,730	13.3%
Prime	90,104	85,268	16.0%
Near Prime**	521,139	483,150	26.9%

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

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

As of December 31, 2017, our investment in NPRC and its wholly-owned subsidiaries had an amortized cost of \$843,859 and a fair value of \$1,048,375, including our investment in online consumer lending as discussed above. The fair value of \$718,356 related to NPRC’s real estate portfolio was comprised of forty 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 December 31, 2017.

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	46,700
3	Lofton Place, LLC	Tampa, FL	4/30/2013	26,000	20,324
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	177,455
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	19,918
13	City West Apartments II, LLC	Orlando, FL	11/19/2013	23,562	23,264
14	Vinings Corner II, LLC	Smyrna, GA	11/19/2013	35,691	32,901
15	Uptown Park Apartments II, LLC	Altamonte Springs, FL	11/19/2013	36,590	29,793
16	St. Marin Apartments II, LLC	Coppell, TX	11/19/2013	73,078	62,383
17	Atlanta Eastwood Village LLC	Stockbridge, GA	12/12/2013	25,957	22,729
18	Atlanta Monterey Village LLC	Jonesboro, GA	12/12/2013	11,501	11,059
19	Atlanta Hidden Creek LLC	Morrow, GA	12/12/2013	5,098	4,734
20	Atlanta Meadow Springs LLC	College Park, GA	12/12/2013	13,116	13,019
21	Atlanta Meadow View LLC	College Park, GA	12/12/2013	14,354	13,074
22	Atlanta Peachtree Landing LLC	Fairburn, GA	12/12/2013	17,224	15,486
23	NPH Carroll Bartram Park, LLC	Jacksonville, FL	12/31/2013	38,000	27,402
24	Crestview at Cordova, LLC	Pensacola, FL	1/17/2014	8,500	7,874
25	NPH Carroll Atlantic Beach, LLC	Atlantic Beach, FL	1/31/2014	13,025	8,527

S-32

---

Edgar Filing: PROSPECT CAPITAL CORP - Form 497

No.	Property Name	City	Acquisition Date	Purchase Price	Mortgage Outstanding
26	Taco Bell, OK	Yukon, OK	6/4/2014	1,719	—
27	Taco Bell, MO	Marshall, MO	6/4/2014	1,405	—
28	23 Mile Road Self Storage, LLC	Chesterfield, MI	8/19/2014	5,804	4,350
29	36th Street Self Storage, LLC	Wyoming, MI	8/19/2014	4,800	3,600
30	Ball Avenue Self Storage, LLC	Grand Rapids, MI	8/19/2014	7,281	5,460
31	Ford Road Self Storage, LLC	Westland, MI	8/29/2014	4,642	3,480
32	Ann Arbor Kalamazoo Self Storage, LLC	Ann Arbor, MI	8/29/2014	4,458	3,345
33	Ann Arbor Kalamazoo Self Storage, LLC	Ann Arbor, MI	8/29/2014	8,927	6,695
34	Ann Arbor Kalamazoo Self Storage, LLC	Kalamazoo, MI	8/29/2014	2,363	1,775
35	Canterbury Green Apartments Holdings LLC	Fort Wayne, IN	9/29/2014	85,500	74,109
36	Abbie Lakes OH Partners, LLC	Canal Winchester, OH	9/30/2014	12,600	13,055
37	Kengary Way OH Partners, LLC	Reynoldsburg, OH	9/30/2014	11,500	13,502
38	Lakeview Trail OH Partners, LLC	Canal Winchester, OH	9/30/2014	26,500	23,256
39	Lakepoint OH Partners, LLC	Pickerington, OH	9/30/2014	11,000	14,480
40	Sunbury OH Partners, LLC	Columbus, OH	9/30/2014	13,000	14,115
41	Heatherbridge OH Partners, LLC	Blacklick, OH	9/30/2014	18,416	18,328
42	Jefferson Chase OH Partners, LLC	Blacklick, OH	9/30/2014	13,551	17,200
43	Goldenstrand OH Partners, LLC	Hilliard, OH	10/29/2014	7,810	9,600
44	Jolly Road Self Storage, LLC	Okemos, MI	1/16/2015	7,492	5,620
45	Eaton Rapids Road Self Storage, LLC	Lansing West, MI	1/16/2015	1,741	1,305
46	Haggerty Road Self Storage, LLC	Novi, MI	1/16/2015	6,700	5,025
47	Waldon Road Self Storage, LLC	Lake Orion, MI	1/16/2015	6,965	5,225
48	Tyler Road Self Storage, LLC	Ypsilanti, MI	1/16/2015	3,507	2,630
49	SSIL I, LLC	Aurora, IL	11/5/2015	34,500	26,450
50	Vesper Tuscaloosa, LLC	Tuscaloosa, AL	9/28/2016	54,500	41,250
51	Vesper Iowa City, LLC	Iowa City, IA	9/28/2016	32,750	24,825
52	Vesper Corpus Christi, LLC	Corpus Christi, TX	9/28/2016	14,250	10,800
53	Vesper Campus Quarters, LLC	Corpus Christi, TX	9/28/2016	18,350	14,175
54	Vesper College Station, LLC	College Station, TX	9/28/2016	41,500	32,058
55	Vesper Kennesaw, LLC	Kennesaw, GA	9/28/2016	57,900	44,727
56	Vesper Statesboro, LLC	Statesboro, GA	9/28/2016	7,500	5,548
57	Vesper Manhattan KS, LLC	Manhattan, KS	9/28/2016	23,250	17,487
58	JSIP Union Place, LLC	Franklin, MA	12/7/2016	64,750	51,800
59	9220 Old Lantern Way, LLC	Laurel, MD	1/30/2017	187,250	153,580
60	7915 Baymeadows Circle Owner, LLC	Jacksonville, FL	10/31/2017	95,700	76,560
61	8025 Baymeadows Circle Owner, LLC	Jacksonville, FL	10/31/2017	15,300	12,240
62	23275 Riverside Drive Owner, LLC	Southfield, MI	11/8/2017	52,000	44,044
63	23741 Pond Road Owner, LLC	Southfield, MI	11/8/2017	16,500	14,185
				\$1,773,290	\$1,453,943

The Board of Directors increased the fair value of our investment in NPRC to \$1,048,375 as of December 31, 2017, a premium of \$204,516 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.

NMMB, Inc.

Prospect owns 100% of the equity of NMMB Holdings, a Consolidated Holding Company. NMMB Holdings owns 96.33% of the fully-diluted equity of NMMB (f/k/a NMMB Acquisition, Inc.), with NMMB management owning the remaining 3.67% of the equity. NMMB owns 100% of Refuel Agency, Inc. ("Refuel Agency"). Refuel Agency owns 100% of Armed Forces Communications, Inc. NMMB is an advertising media buying business.

Due to reduced operating expenses resulting from a realignment of operations, new initiatives and improved focus on core business segments, the Board of Directors increased the fair value of our investment in NMMB to \$21,228 as of December 31, 2017, a discount of \$2,255 to its amortized cost, compared to the discount of \$2,658 to its amortized cost at June 30, 2017.

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. R-V is an industrial engineering and metal fabrication company specializing in designing, building, and installing industrial process equipment for customers throughout the U.S. and worldwide. The Board of Directors decreased the fair value of our investment in R-V to \$31,408 as of December 31, 2017, a discount of \$4,080 to its amortized cost, compared to a discount of \$2,811 to its amortized cost as of June 30, 2017. The decrease in fair value was driven by higher operating expenses.

USES Corp.

We own 99.96% of USES as of December 31, 2017. USES provides industrial and environmental services in the Gulf States region. USES offers industrial services, such as tank and chemical cleaning, hydro blasting, waste management, vacuum, safety training, turnaround management, and oilfield response/remediation services.

On June 15, 2016, we provided additional \$1,300 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 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.

Due to an industry-wide decline in emergency response activity as well as a decline in revenues from other service lines, the Board of Directors determined the fair value of our investment in USES to be \$6,655 as of December 31, 2017, a discount of \$60,515 from its amortized cost, compared to \$51,655 of unrealized depreciation at June 30, 2017.

Valley Electric Company, Inc.

We own 94.99% of Valley Electric as of December 31, 2017. 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"). Valley is a leading provider of specialty electrical services in the state of Washington and is among the top 50 electrical contractors in the U.S. The company, with its headquarters in Everett, Washington, offers a comprehensive array of contracting services, primarily for commercial, industrial, and transportation infrastructure applications, including new installation, engineering and design, design-build, traffic lighting and signalization, low to medium voltage power distribution, construction management, energy management and control systems, 24-hour electrical maintenance and testing, as well as special projects and tenant improvement services. Valley was founded in 1982 by the Ward family, who held the company until the end of 2012.

On December 31, 2012, we acquired 96.3% of the outstanding shares of Valley. On June 24, 2014, Prospect and management of Valley formed Valley Electric and contributed their shares of Valley stock to Valley Electric. Valley management made an additional equity investment in Valley Electric, reducing our ownership to 94.99%.

Due to increased project margins partially offset by the softening of the energy markets, the Board of Directors determined the fair value of our investment in Valley Electric to be \$40,931 as of December 31, 2017, a discount of \$22,427 from its amortized cost, compared to the \$29,749 unrealized depreciation recorded at June 30, 2017.

Our controlled investments, other than those discussed above, have seen steady or improved operating performance and are valued at \$26,096 above cost. Overall, combined with those portfolio companies impacted by the energy markets and discussed above, our controlled investments at December 31, 2017 are valued at \$116,562 above their amortized cost.





With the non-control/non-affiliate investments, generally, there is less volatility related to our total investments because our equity positions tend to be smaller than with our control/affiliate investments, and debt investments are generally not as susceptible to large swings in value as equity investments. For debt investments, the fair value is generally limited on the high side to each loan's par value, plus any prepayment premium that could be imposed. Many of the debt investments in this category have not experienced a significant change in value, as they were previously valued at or near par value. Non-control/non-affiliate investments did not experience significant changes and are generally performing as expected or better. However, as of December 31, 2017, 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 \$29,589, and \$84,785, respectively. As of December 31, 2017, our CLO investment portfolio is valued at a \$127,095 discount to amortized cost. Excluding these investments, non-control/non-affiliate investments at December 31, 2017 are valued \$11,596 below their amortized cost.

#### Capitalization

Our investment activities are capital intensive and the availability and cost of capital is a critical component of our business. We capitalize our business with a combination of debt and equity. Our debt as of December 31, 2017 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 August 2012, 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 December 31, 2017.

	Principal Outstanding	Unamortized Discount & Debt Issuance Costs	Net Carrying Value	Fair Value (1)	Effective Interest Rate	
Revolving Credit Facility(2)	\$ —	\$ 3,394	\$ —	(3)\$ —	1ML+2.25%	(6)
2018 Notes	85,419	117	85,302	85,937	(4)6.42	%(7)
2019 Notes	200,000	1,266	198,734	205,474	(4)6.51	%(7)
2020 Notes	392,000	5,379	386,621	393,831	(4)5.38	%(7)
2022 Notes	225,000	6,424	218,576	225,621	(4)5.63	%(7)
Convertible Notes	902,419	13,186	889,233	910,863		
5.00% 2019 Notes	300,000	1,303	298,697	307,974	(4)5.29	%(7)
2023 Notes	250,000	3,782	246,218	259,015	(4)6.09	%(7)
2024 Notes	199,281	4,878	194,403	206,455	(4)6.74	%(7)
Public Notes	749,281	9,963	739,318	773,444		
Prospect Capital InterNotes®	837,497	13,114	824,383	880,065	(5)5.55	%(8)
Total	\$ 2,489,197	\$ 39,657	\$ 2,452,934	\$ 2,564,372		

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 December 31, 2017.

(2)The maximum draw amount of the Revolving Credit facility as of December 31, 2017 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.

S-35

---

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 December 31, 2017.

	Payments Due by Period				
	Total	Less than 1 Year	1 – 3 Years	3 – 5 Years	After 5 Years
Revolving Credit Facility	\$—	\$—	\$—	\$—	\$—
Convertible Notes	902,419	85,419	592,000	225,000	—
Public Notes	749,281	—	300,000	—	449,281
Prospect Capital InterNotes®	837,497	28,197	294,936	281,595	232,769
Total Contractual Obligations	\$2,489,197	\$113,616	\$1,186,936	\$506,595	\$682,050

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 December 31, 2017, we can issue up to \$4,639,035 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 December 31, 2017. 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.

S-36

---

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 December 31, 2017, 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 December 31, 2017 and June 30, 2017, we had \$508,851 and \$665,409, respectively, available to us for borrowing under the Revolving Credit Facility, of which nothing was outstanding at either date. 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 December 31, 2017, the investments, including cash and money market funds, used as collateral for the Revolving Credit Facility had an aggregate fair value of \$1,305,210, which represents 22.1% of our total investments, including cash and money market funds. These assets are held and owned by PCF, a bankruptcy remote special purpose entity, and as such, these investments are not available to our general creditors. The release of any assets from PCF requires the approval of the facility agent.

In connection with the origination and amendments of the Revolving Credit Facility, we incurred \$12,405 of new fees and \$3,539 were carried over for continuing participants from the previous facility, all of which are being amortized over the term of the facility in accordance with ASC 470-50. As of December 31, 2017, \$3,394 remains to be amortized and is reflected as deferred financing costs on the Consolidated Statements of Assets and Liabilities.

During the three months ended December 31, 2017 and December 31, 2016, we recorded \$3,387 and \$3,066, respectively, of interest costs, unused fees and amortization of financing costs on the Revolving Credit Facility as interest expense. During the six months ended December 31, 2017 and December 31, 2016, we recorded \$6,341 and \$6,029, 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 mature on March 15, 2018 (the "2018 Notes"), unless previously converted or repurchased in accordance with their terms. The 2018 Notes bear 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 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.

S-37

---

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 2018 Notes, the 2019 Notes, the 2020 Notes and the 2022 Notes (collectively, the “Convertible Notes”) are listed below.

	2018 Notes	2019 Notes	2020 Notes	2022 Notes
Initial conversion rate(1)	82.3451	79.7766	80.6647	100.2305
Initial conversion price	\$12.14	\$12.54	\$12.40	\$9.98
Conversion rate at December 31, 2017(1)(2)	84.1497	79.8360	80.6670	100.2305
Conversion price at December 31, 2017(2)(3)	\$11.88	\$12.53	\$12.40	\$9.98
Last conversion price calculation date	8/14/2017	12/21/2017	4/11/2017	4/11/2017
Dividend threshold amount (per share)(4)	\$0.101600	\$0.110025	\$0.110525	\$0.083330

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

(2) Represents conversion rate and conversion price, as applicable, taking into account certain de minimis adjustments that will be made on the conversion date.

(3) The conversion price will increase only if the current monthly dividends (per share) exceed the dividend threshold amount (per share).

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

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

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

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

In connection with the issuance of the Convertible Notes, we incurred \$32,147 of fees which are being amortized over the terms of the notes, of which \$13,186 remains to be amortized and is included as a reduction within Convertible Notes on the Consolidated Statement of Assets and Liabilities as of December 31, 2017.

S-38

---



During the three months ended December 31, 2017 and December 31, 2016, we recorded \$13,003 and \$13,477, respectively, of interest costs and amortization of financing costs on the Convertible Notes as interest expense. During the six months ended December 31, 2017 and December 31, 2016, we recorded \$26,659 and \$28,190, 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 December 31, 2017, we issued \$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 incurred \$13,613 of fees which are being amortized over the term of the notes, of which \$8,214 remains to be amortized and is included as a reduction within Public Notes on the Consolidated Statement of Assets and Liabilities as of December 31, 2017.

During the three months ended December 31, 2017 and December 31, 2016, we recorded \$11,048 and \$11,058, respectively, of interest costs and amortization of financing costs on the Public Notes as interest expense. During the six months ended December 31, 2017 and December 31, 2016, we recorded \$22,089 and \$21,838, 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 six months ended December 31, 2017, we issued \$52,177 aggregate principal amount of Prospect Capital InterNotes® for net proceeds of \$51,398. These notes were issued with stated interest rates ranging from 4.00% to 5.00% with a weighted average interest rate of 4.39%. These notes mature between July 15, 2022 and December 15, 2025. The following table summarizes the Prospect Capital InterNotes® issued during the six months ended December 31, 2017.

Tenor at Origination (in years)	Principal Amount	Interest Rate Range	Weighted Average Interest Rate	Maturity Date Range
5	\$ 31,950	4.00%–4.75%	4.23 %	July 15, 2022 – December 15, 2022
7	\$ 2,825	4.75%–5.00%	4.94 %	July 15, 2024
8	\$ 17,402	4.50%–5.00%	4.61 %	August 15, 2025 – December 15, 2025
	\$ 52,177			

During the six months ended December 31, 2016, we issued \$64,731 aggregate principal amount of our Prospect Capital InterNotes® for net proceeds of \$63,926. These notes were issued with stated interest rates ranging from 4.75% to 5.50% with a weighted average interest rate of 5.25%. These notes mature between July 15, 2021 and December 15, 2021. The following table summarizes the Prospect Capital InterNotes® issued during the six months ended December 31, 2016.

Tenor at Origination (in years)	Principal Amount	Interest Rate Range	Weighted Average Interest Rate	Maturity Date Range
5	\$ 64,731	4.75%–5.50%	5.25 %	July 15, 2021 – December 15, 2021

During the six months ended December 31, 2017, we redeemed \$181,538 aggregate principal amount of Prospect Capital InterNotes® at par with a weighted average interest rate of 4.85% in order to replace shorter maturity debt with longer-term debt. During the six months ended December 31, 2017, we repaid \$3,793 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 six months ended December 31, 2017 was \$932. The following table summarizes the Prospect Capital InterNotes® outstanding as of December 31, 2017.

Tenor at Origination (in years)	Principal Amount	Interest Rate Range	Weighted Average Interest Rate	Maturity Date Range
4	\$9,750	4.00	% 4.00 %	January 15, 2018
5	266,923	4.00%–5.50%	4.96 %	July 15, 2018 – December 15, 2022
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
5.4	5,000	4.75	% 4.75 %	August 15, 2019
5.5	104,790	4.25%–4.75%	4.63 %	May 15, 2020 – November 15, 2020
6	2,182	4.88	% 4.88 %	April 15, 2021 – May 15, 2021
6.5	40,652	5.10%–5.50%	5.24 %	February 15, 2020 – May 15, 2022
7	155,298	4.00%–5.75%	5.09 %	January 15, 2020 – July 15, 2024
7.5	1,996	5.75	% 5.75 %	February 15, 2021
8	17,402	4.50%–5.00%	4.61 %	August 15, 2025
10	37,434	4.32%–7.00%	6.15 %	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	21,098	4.13%–6.25%	5.54 %	December 15, 2030 – August 15, 2031
20	4,187	5.75%–6.00%	5.90 %	November 15, 2032 – October 15, 2033
25	33,711	6.25%–6.50%	6.39 %	August 15, 2038 – May 15, 2039
30	109,843	5.50%–6.75%	6.24 %	November 15, 2042 – October 15, 2043
	\$837,497			



During the six months ended December 31, 2016, we repaid \$5,730 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 six months ended December 31, 2016 was \$185.

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
5	354,805	4.25%-5.50%	5.00 %	July 15, 2018
5.2	4,440	5	% 4.63 %	August 15, 2020
5.3	2,686	5	% 4.63 %	September 15, 2020
5.4	5,000	5	% 4.75 %	August 15, 2019
5.5	109,068	4.25%-5.00%	4.67 %	February 15, 2019
6	2,182	5	% 4.88 %	April 15, 2021
6.5	40,702	5.10%-5.50%	5.24 %	February 15, 2020
7	191,356	4.00%-6.55%	5.38 %	June 15, 2019
7.5	1,996	6	% 5.75 %	February 15, 2021
10	37,509	4.27%-7.00%	6.20 %	March 15, 2022
12	2,978	6	% 6.00 %	November 15, 2025
15	17,245	5.25%-6.00%	5.36 %	May 15, 2028
18	21,532	4.13%-6.25%	5.47 %	December 15, 2030
20	4,248	5.63%-6.00%	5.84 %	November 15, 2032
25	34,218	6.25%-6.50%	6.39 %	August 15, 2038
30	111,491	5.50%-6.75%	6.22 %	November 15, 2042
	\$980,494			

In connection with the issuance of Prospect Capital InterNotes®, we incurred \$24,485 of fees which are being amortized over the term of the notes, of which \$13,114 remains to be amortized and is included as a reduction within Prospect Capital InterNotes® on the Consolidated Statement of Assets and Liabilities as of December 31, 2017. During the three months ended December 31, 2017 and December 31, 2016, we recorded \$11,910 and \$13,247, respectively, of interest costs and amortization of financing costs on the Prospect Capital InterNotes® as interest expense. During the six months ended December 31, 2017 and December 31, 2016, we recorded \$25,294 and \$26,460, respectively, of interest costs and amortization of financing costs on the Prospect Capital InterNotes® as interest expense.

#### Net Asset Value

During the six months ended December 31, 2017 our net asset value decreased by \$0.04 per share. This decrease is primarily from dividends exceeding net investment income by \$9,634, or \$0.03 per share. Our net investment income decreased primarily from a decrease 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.

The following table shows the calculation of net asset value per share as of December 31, 2017 and June 30, 2017.

	December 31, 2017	June 30, 2017
Net assets	\$3,348,412	\$3,354,952
Shares of common stock issued and outstanding	360,980,752	360,076,933
Net asset value per share	\$9.28	\$9.32



### Results of Operations

Net increase in net assets resulting from operations for the three months ended December 31, 2017 and December 31, 2016 was \$121,727 and \$100,880, respectively. During the three months ended December 31, 2017, the \$20,847 increase is primarily due to an increase in net change in unrealized gains on investments of \$54,695 recognized for three months ended December 31, 2017 compared to a \$16,681 increase in net change in unrealized gains recognized for the three months ended December 31, 2016. This increase was partially offset by a \$21,410, or \$0.06 per share, decline in 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 six months ended December 31, 2017 and December 31, 2016 was \$133,700 and \$182,246, respectively. The \$48,546 decrease is primarily due to a \$44,975, or \$0.12 per share, 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.

While we seek to maximize gains and minimize losses, our investments in portfolio companies can expose our capital to risks greater than those we may anticipate. These companies typically do not issue securities rated investment grade, and have limited resources, limited operating history, and concentrated product lines or customers. These are generally private companies with limited operating information available and are likely to depend on a small core of management talents. Changes in any of these factors can have a significant impact on the value of the portfolio company.

### Investment Income

We generate revenue in the form of interest income on the debt securities that we own, dividend income on any common or preferred stock that we own, and fees generated from the structuring of new deals. Our investments, if in the form of debt securities, will typically have a term of one to ten years and bear interest at a fixed or floating rate. To the extent achievable, we will seek to collateralize our investments by obtaining security interests in our portfolio companies' assets. We also may acquire minority or majority equity interests in our portfolio companies, which may pay cash or in-kind dividends on a recurring or otherwise negotiated basis. In addition, we may generate revenue in other forms including prepayment penalties and possibly consulting fees. Any such fees generated in connection with our investments are recognized as earned.

Investment income, which consists of interest income, including accretion of loan origination fees and prepayment penalty fees, dividend income and other income, including settlement of net profits interests, overriding royalty interests and structuring fees, was \$162,400 and \$183,480 for the three months ended December 31, 2017 and December 31, 2016, respectively. Investment income was \$320,979 and \$363,312 for the six months ended December 31, 2017 and December 31, 2016, 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 lower interest earning assets outstanding.

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

	Three Months Ended		Six Months Ended		
	December 31,		December 31,		
	2017	2016	2017	2016	
Interest income	\$ 153,382	\$ 174,791	\$ 301,467	\$ 346,441	
Dividend income	326	1,379	870	3,763	
Other income	8,692	7,310	18,642	13,108	
Total investment income	\$ 162,400	\$ 183,480	\$ 320,979	\$ 363,312	
Average debt principal of performing interest bearing investments <sup>(1)</sup>	\$ 5,541,686	\$ 5,679,706	\$ 5,482,245	\$ 5,683,930	
Weighted average interest rate earned on performing interest bearing investments <sup>(1)</sup>	10.83	% 12.04	% 10.88	% 12.06	%
Average debt principal of all interest bearing investments <sup>(2)</sup>	\$ 5,838,576	\$ 5,936,577	\$ 5,804,372	\$ 5,936,915	

Weighted average interest rate earned on all interest bearing investments <sup>(2)</sup>	10.28	% 11.52	% 10.27	% 11.54	%
--	-------	---------	---------	---------	---

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

S-42

---

(2) Excludes equity investments.

Average interest income producing assets decreased from \$5,679,706 for the three months ended December 31, 2016 to \$5,541,686 for the three months ended December 31, 2017. We have not been fully invested, which along with non-performing assets, contributed to the decline. The average interest earned on interest bearing performing assets decreased from 12.04% for the three months ended December 31, 2016 to 10.83% for the three months ended December 31, 2017. 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 \$5,683,930 for the six months ended December 31, 2016 to \$5,482,245 for the six months ended December 31, 2017. The average interest earned on interest bearing performing assets decreased from 12.06% for the six months ended December 31, 2016 to 10.88% for the six months ended December 31, 2017. 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 decreased from \$1,379 for the three months ended December 31, 2016 to \$325 for the three months ended December 31, 2017. The \$1,054 decrease in dividend income is primarily attributable to a \$739 dividend received from our investment in Nationwide Loan Company LLC (“NAC”) and a \$468 dividend received from our investment in MITY, Inc. (“Mity”) during the three months ended December 31, 2016. No such dividend was received from NAC or Mity during the three months ended December 31, 2017. Dividend income decreased from \$3,763 for the six months ended December 31, 2016 to \$870 for the six months ended December 31, 2017. The \$2,893 decrease in dividend income is primarily attributable to a \$2,580 dividend received from our investment in NAC, a \$468 dividend received from our investment in Mity and a \$123 dividend received from our investment in CCPI, Inc. (“CCPI”) during the six months ended December 31, 2016. No such dividend was received from NAC, Mity or CCPI during the six months ended December 31, 2017.

Other income has come primarily from structuring fees, royalty interests, and settlement of net profits interests. Income from other sources increased to \$8,692 for the three months ended December 31, 2017 from \$7,310 for the three months ended December 31, 2016. The \$1,382 increase is primarily attributable to an increase 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 \$18,642 and \$13,108 for the six months ended December 31, 2017 and December 31, 2016, respectively. Included within other income is \$11,197 and \$10,273 of structuring fees for the six months ended December 31, 2017 and December 31, 2016. The increase in structuring fees is due to an increased level of originations in non-control, broadly syndicated portfolio investments during the six months ended December 31, 2017.

#### 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 \$89,208 and \$99,075 for the three months ended December 31, 2017 and December 31, 2016, respectively. Operating expenses were \$184,055 and \$199,988 for the six months ended December 31, 2017 and December 31, 2016, respectively.

Total gross base management fee was \$29,742 and \$31,095 for the three months ended December 31, 2017 and December 31, 2016, respectively. The decrease in total gross base management fee is directly related a decrease in average total assets. The Investment Adviser has entered into a servicing agreement with certain institutions who



purchased loans with us, where we serve as the agent and collect a servicing fee on behalf of the Investment Adviser. We received payments of \$183 and \$209 from these institutions for the three months ended December 31, 2017 and December 31, 2016, respectively, on behalf of the Investment Adviser, for providing such services under the servicing agreement. We were given a credit for these payments as a reduction of base management fee payable by us to the Investment Adviser resulting in net base management fees of \$29,559 and \$30,886 for the three months ended December 31, 2017 and December 31, 2016, respectively.

Total gross base management fee was \$60,121 and \$62,435 for the six months ended December 31, 2017 and December 31, 2016, respectively. The decrease in total gross base management fee is directly related a decrease in average total assets. The Investment Adviser has entered into a servicing agreement with certain institutions who purchased loans with us, where we serve as the agent

S-43

---

and collect a servicing fee on behalf of the Investment Adviser. We received payments of \$399 and \$757 from these institutions for the six months ended December 31, 2017 and December 31, 2016, respectively, on behalf of the Investment Adviser, for providing such services under the servicing agreement. We were given a credit for these payments as a reduction of base management fee payable by us to the Investment Adviser resulting in net base management fees of \$59,722 and \$61,678 for the six months ended December 31, 2017 and December 31, 2016, respectively.

For the three months ended December 31, 2017 and December 31, 2016, we incurred \$18,298 and \$21,101 of income incentive fees, respectively (\$0.05 and \$0.06 per weighted average share, respectively). This decrease was driven by a corresponding decrease in pre-incentive fee net investment income from \$105,506 for the three months ended December 31, 2016 to \$91,940 for the three months ended December 31, 2017, primarily from decreases in interest income due to reduced returns from our structured credit investments due to lower future expected cash flows and repayments on investments. No capital gains incentive fee has yet been incurred pursuant to the Investment Advisory Agreement.

For the six months ended December 31, 2017 and December 31, 2016, we incurred \$34,231 and \$40,831 of income incentive fees, respectively (\$0.10 and \$0.11 per weighted average share, respectively). This decrease was driven by a corresponding decrease in pre-incentive fee net investment income from \$204,155 for the six months ended December 31, 2016 to \$171,155 for the six months ended December 31, 2017, primarily from decreases in interest income due to reduced returns from our structured credit investments due to lower future expected cash flows and repayments on investments. No capital gains incentive fee has yet been incurred pursuant to the Investment Advisory Agreement.

During the three months ended December 31, 2017 and December 31, 2016, we incurred \$39,347 and \$40,848 respectively, of interest expenses related to our Revolving Credit Facility, Convertible Notes, Public Notes and Prospect Capital InterNotes® (collectively, our “Notes”). During the six months ended December 31, 2017 and December 31, 2016, we incurred \$80,382 and \$82,517 respectively, of interest expenses related to our Notes. These expenses are related directly to the leveraging capacity put into place for each of those periods and the levels of indebtedness actually undertaken in those periods.

The table below describes the various expenses of our Notes and the related indicators of leveraging capacity and indebtedness during these years.

	Three Months Ended December 31,		Six Months Ended December 31,		
	2017	2016	2017	2016	
Interest on borrowings	\$34,130	\$35,454	\$69,668	\$71,168	
Amortization of deferred financing costs	3,053	3,127	6,219	6,758	
Accretion of discount on Public Notes	72	68	141	132	
Facility commitment fees	2,092	2,199	4,354	4,459	
Total interest and credit facility expenses	\$39,347	\$40,848	\$80,382	\$82,517	
Average principal debt outstanding	\$2,588,997	\$2,649,321	\$2,627,534	\$2,658,370	
Annualized weighted average stated interest rate on borrowings <sup>(1)</sup>	5.27	% 5.35	% 5.30	% 5.35	%
Annualized weighted average interest rate on borrowings <sup>(2)</sup>	6.08	% 6.17	% 6.12	% 6.21	%

(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 is relatively stable for the three months ended December 31, 2017 as compared to three months ended December 31, 2016. The weighted average stated interest rate on borrowings (excluding amortization, accretion and undrawn facility fees) decreased from 5.35% for the three months ended December 31, 2016 to 5.30% for the three months ended December 31, 2017. This decrease is primarily due to the repurchases and maturities of our Convertible Notes and Prospect Capital InterNotes® which yielded higher rates than the remaining debt.

Interest expense is relatively stable for the six months ended December 31, 2017 as compared to six months ended December 31, 2016. The weighted average stated interest rate on borrowings (excluding amortization, accretion and

undrawn facility fees) decreased from 5.35% for the six months ended December 31, 2016 to 5.27% for the six months ended December 31, 2017. This

S-44

---

decrease is primarily due to the repurchases and maturities of our Convertible Notes and Prospect Capital InterNotes® which yielded higher rates than the remaining debt.

The allocation of gross overhead expense from Prospect Administration was \$3,827 and \$3,566 for the three months ended December 31, 2017 and December 31, 2016, respectively. Prospect Administration received estimated payments of \$4,651 and \$909 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 three months ended December 31, 2017 and December 31, 2016, 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 December 31, 2017 and December 31, 2016 totaled \$(824) and \$2,657, respectively.

The allocation of gross overhead expense from Prospect Administration was \$8,496 and \$8,437 for the six months ended December 31, 2017 and December 31, 2016, respectively. Prospect Administration received estimated payments of \$5,792 and \$2,247 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 six months ended December 31, 2017 and December 31, 2016, 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 six months ended December 31, 2017 and December 31, 2016 totaled \$2,704 and \$6,190, 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 at \$7,016 and \$7,088 for the six months ended December 31, 2017 and December 31, 2016, respectively.

#### Net Investment Income

Net investment income represents the difference between investment income and operating expenses. Net investment income was \$73,192 and \$84,405 for the three months ended December 31, 2017 and December 31, 2016, respectively. Net investment income for the three months ended December 31, 2017 and December 31, 2016 was \$0.20 and \$0.24 per weighted average share, respectively. During the three months ended December 31, 2017, the decrease of \$11,213, or \$0.04 per weighted average share, is primarily due to the decrease in interest income by \$21,410, or \$0.06 per weighted average share, which is due to reduced returns from our structured credit investments due to lower future expected cash flows, an increase in foregone interest from our non-accrual investments, and a decrease in interest income due to lower levels of performing investments. This decrease was offset by a \$4,131, or \$0.01 per weighted average share, decrease in investment advisory fees.

Net investment income was \$136,924 and \$163,324 for the six months ended December 31, 2017 and December 31, 2016, respectively. Net investment income for the six months ended December 31, 2017 and December 31, 2016 was \$0.38 and \$0.46 per weighted average share, respectively. During the six months ended December 31, 2017, the decrease of \$26,400, or \$0.08 per weighted average share, is primarily due to the decrease in interest income by \$44,975, or \$0.13 per weighted average share, which is due to reduced returns from our structured credit investments due to lower future expected cash flows, an increase in foregone interest from our non-accrual investments, and a decrease in interest income due to lower levels of performing investments. This decrease was offset by a \$8,557, or \$0.02 per weighted average share, decrease in investment advisory fees.

#### Net Realized (Losses) Gains

During the three months ended December 31, 2017, we recognized a net realized loss of \$5,673, an unfavorable increase in losses of \$5,591 compared to the \$82 net realized loss recognized during the three months ended December 31, 2016. During the six months ended December 31, 2017, we recognized a net realized loss of \$4,236, an unfavorable increase in losses of \$4,868 compared to the \$632 net realized gain recognized during the six months ended December 31, 2016. The net realized losses in 2017 were primarily related to the repayment of our investment in Primesport, for which we agreed to a payment to satisfy the loan less than the par amount and realized a loss of \$3,019. Additionally, during the three months ended December 31, 2017, we recognized realized losses of \$2,494 and \$826 from our call of investments in Apidos IX CLO and Madison IX CLO, respectively.

Change in Unrealized Gains (Losses), Net

During the three months ended December 31, 2017, net unrealized losses decreased by \$54,695 primarily due to positive trends in the broader market. Improvements in the consumer finance industry and energy sector resulted in increased net unrealized gains of \$30,945 and reduced unrealized losses of \$24,168, respectively, related to our investments in Credit Central, First Tower, Nationwide and Arctic Energy and Spartan Energy. Our investment in NPRC contributed \$11,236 of net unrealized gains, driven

S-45

---

by a \$23,292 increase in fair value due to improved operating results and favorable market conditions for the underlying real estate portfolio, partially offset by a \$12,056 decline in NPRC's online lending portfolio resulting from an increase in delinquent loans. The remaining net unrealized gain was primarily due to a reduction of the unrealized losses for our investment in PrimeSport. Our investment in PrimeSport repaid and the previously recorded unrealized loss was reversed. These favorable changes were partially offset by a \$12,047 unrealized loss related to our CLO portfolio, primarily due to an increase in defaults and ratings migration in the underlying collateral and an increase in the LIBOR rate. Additionally, the value of our investment in USC decreased by \$13,757 due to both a decline in operating performance and the overall decline in demand for firearms and ammunition.

During the three months ended December 31, 2016, net unrealized losses decreased by \$16,681 primarily due to positive trends in the broader market. Reductions in unrealized losses on our CLO equity investments comprised \$39,591 of the total net change in unrealized losses, consistent with positive trends in the broader market, and we also increased the value of our investment in NMMB by \$5,404 due to improved operating performance. These favorable changes were partially offset by unrealized losses on our energy-related investments of \$3,349 and a decline in our online lending portfolio of \$11,894 resulting from an increase in delinquent loans. The remaining \$13,071 increase in unrealized losses is primarily a result of declined operating performance in Pacific World.

Net change in unrealized gains (losses) was \$1,944 and \$18,475 for the six months ended December 31, 2017 and December 31, 2016, respectively. For the six months ended December 31, 2017, the \$1,944 net change in unrealized gains was primarily the result of \$56,802 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 decreased by \$27,164 due to both a decline in operating performance and the overall decline in demand for firearms and ammunition. These unrealized losses were offset by unrealized gains primarily in our investments in consumer financing - Credit Central and First Tower -comprising \$51,121 and energy - Arctic Energy, CP Energy and Spartan Energy - comprising \$39,742.

During the six months ended December 31, 2016, net unrealized losses decreased by \$18,475 due to positive trends in the broader market. Unrealized gains on our CLO equity investments comprised \$16,027 of the total net change in unrealized gains, consistent with positive trends in the broader market, and unrealized gains on our REIT investment comprised \$36,001 of total net change in unrealized gains for the six months ended December 31, 2016 primarily due to improved operating performance at the property level. These gains were partially offset by unrealized losses on our energy-related investments of \$27,827. Additionally, the value of our investment in Pacific World decreased by \$10,830 due to a decline in operating performance, and our online lending portfolio declined in value by \$14,189 due to an increase in delinquent loans. The remaining \$19,292 increase in net unrealized gains was due to operating improvements across multiple investments and industries.

#### Financial Condition, Liquidity and Capital Resources

For the six months ended December 31, 2017 and December 31, 2016, our operating activities provided \$500,148 and \$128,165 of cash, respectively. There were no investing activities for the six months ended December 31, 2017 and December 31, 2016. Financing activities used \$343,755 and \$242,052 of cash during the six months ended December 31, 2017 and December 31, 2016, respectively, which included dividend payments of \$148,587 and \$163,409, 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 six months ended December 31, 2017, we borrowed \$341,000 and we made repayments totaling \$341,000 under the Revolving Credit Facility. As of December 31, 2017, we had, net of unamortized discount and debt issuance costs, \$889,233 outstanding on the Convertible Notes, \$739,318 outstanding on the Public Notes and \$824,383 outstanding on the

Prospect Capital InterNotes®, and no 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 4.00%. As of December 31, 2017 and June 30, 2017, we had \$20,017 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 December 31, 2017 and June 30, 2017.

Our shareholders’ equity accounts as of December 31, 2017 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

S-46

---

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 six months ended December 31, 2017 or December 31, 2016.

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 December 31, 2017, we have the ability to issue up to \$4,639,035 in securities under the registration statement.

#### Off-Balance Sheet Arrangements

As of December 31, 2017, 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 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.

On January 23, 2018, we made a \$12,500 Senior Secured Term Loan A and \$12,500 Senior Secured Term Loan B investment in Luminex Home Decor & Fragrance Company, LLC, a manufacturer and designer of decorative candles.

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.

On January 12, 2018, we called, with settlement on February 15, 2018, \$37,210 of our Prospect Capital InterNotes® at par maturing between February 15, 2019 and August 15, 2020, with a weighted average rate of 4.80%.

During the period from January 1, 2018 through February 7, 2018 we issued \$7,922 aggregate principal amount of Prospect

Capital InterNotes® for net proceeds of \$7,813.

On February 7, 2018, we announced the declaration of monthly dividends in the following amounts and with the following dates:

\$0.06 per share for February 2018 to holders of record on February 28, 2018 with a payment date of March 22, 2018.

\$0.06 per share for March 2018 to holders of record on March 30, 2018 with a payment date of April 19, 2018.

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



S-47

---

## 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 six months ended December 31, 2017.

### 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 December 31, 2017 and June 30, 2017, our qualifying assets as a percentage of total assets, stood at 72.16% and 71.75%, respectively.

### Investment Transactions

Investments are recognized when we assume an obligation to acquire a financial instrument and assume the risks for gains or losses related to that instrument. Specifically, we record all security transactions on a trade date basis. Investments are derecognized when we assume an obligation to sell a financial instrument and forego the risks for gains or losses related to that instrument. In accordance with ASC 325-40, Beneficial Interest in Securitized Financial Assets, investments in CLOs are periodically assessed for other-than-temporary impairment ("OTTI"). When the Company determines that a CLO has OTTI, the amortized cost basis of the CLO is written down to its fair value as of the date of the determination based on events and information evaluated and that write-down is recognized as a realized loss. Amounts for investments traded but not yet settled are reported in Due to Broker or Due from Broker, in the Consolidated Statements of Assets and Liabilities.

### Foreign Currency

Foreign currency amounts are translated into US Dollars (USD) on the following basis:

- i. fair value of investment securities, other assets and liabilities—at the spot exchange rate on the last business day of the period; and
- ii. purchases and sales of investment securities, income and expenses—at the rates of exchange prevailing on the respective dates of such investment transactions, income or expenses.

We do not isolate that portion of the results of operations resulting from changes in foreign exchange rates on investments from the fluctuations arising from changes in fair values of investments held or disposed of during the period. Such fluctuations are included within the net realized and net change in unrealized gains or losses from investments in the Consolidated Statements of Operations.

### Investment Risks

Our investments are subject to a variety of risks. Those risks include the following:

#### Market Risk

Market risk represents the potential loss that can be caused by a change in the fair value of the financial instrument.



#### Credit Risk

Credit risk represents the risk that we would incur if the counterparties failed to perform pursuant to the terms of their agreements with us.

#### Liquidity Risk

Liquidity risk represents the possibility that we may not be able to rapidly adjust the size of our investment positions in times of high volatility and financial stress at a reasonable price.

#### Interest Rate Risk

Interest rate risk represents a change in interest rates, which could result in an adverse change in the fair value of an interest-bearing financial instrument.

#### Prepayment Risk

Many of our debt investments allow for prepayment of principal without penalty. Downward changes in interest rates may cause prepayments to occur at a faster than expected rate, thereby effectively shortening the maturity of the security and making us less likely to fully earn all of the expected income of that security and reinvesting in a lower yielding instrument.

#### Structured Credit Related Risk

CLO investments may be riskier and less transparent to us than direct investments in underlying companies. CLOs typically will have no significant assets other than their underlying senior secured loans. Therefore, payments on CLO investments are and will be payable solely from the cash flows from such senior secured loans.

#### Online Small-and-Medium-Sized Business Lending Risk

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

#### Foreign Currency

Investments denominated in foreign currencies and foreign currency transactions may involve certain considerations and risks not typically associated with those of domestic origin. These risks include, but are not limited to, currency fluctuations and revaluations and future adverse political, social and economic developments, which could cause investments in foreign markets to be less liquid and prices more volatile than those of comparable U.S. companies or U.S. government securities.

#### Investment Valuation

To value our investments, we follow the guidance of ASC 820, Fair Value Measurement ("ASC 820"), that defines fair value, establishes a framework for measuring fair value in conformity with 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.

Valuation of Other Financial Assets and Financial Liabilities

S-50

---

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 December 31, 2017, approximately 1.2% of our total assets at fair value are in non-accrual status.

Some of our loans and other investments may have contractual payment-in-kind ("PIK") interest or dividends. PIK income computed at the contractual rate is accrued into income and reflected as receivable up to the capitalization date. PIK investments offer issuers the option at each payment date of making payments in cash or in additional securities. When additional securities are received, they typically have the same terms, including maturity dates and interest rates as the original securities issued. On these payment dates, we capitalize the accrued interest (reflecting such amounts in the basis as additional securities received). PIK generally becomes due at maturity of the investment or upon the investment being called by the issuer. At the point that we believe PIK is not fully expected to be realized, the PIK investment will be placed on non-accrual status. When a PIK investment is placed on non-accrual status, the accrued, uncapitalized interest or dividends are reversed from the related receivable through interest or dividend income, respectively. We do not reverse previously capitalized PIK interest or dividends. Upon capitalization, PIK is subject to the fair value estimates associated with their related investments. PIK investments on non-accrual status are restored to accrual status if we believe that PIK is expected to be realized.

Interest income from investments in the "equity" class of security of CLO funds (typically preferred shares, income notes or subordinated notes) and "equity" class of security of securitized trust is recorded based upon an estimation of an effective yield to expected maturity utilizing assumed cash flows in accordance with ASC 325-40, Beneficial Interests in Securitized Financial Assets. We monitor the expected cash inflows from our CLO and securitized trust equity investments, including the expected residual payments, and the effective yield is determined and updated periodically. Dividend income is recorded on the ex-dividend date.

Other income generally includes amendment fees, commitment fees, administrative agent fees and structuring fees which are recorded when earned. Excess deal deposits, net profits interests and overriding royalty interests are included in other income. See Note 10 in the accompanying Consolidated Financial Statements for further discussion. Federal and State Income Taxes

We have elected to be treated as a RIC and intend to continue to comply with the requirements of the Code applicable to regulated investment companies. We are required to distribute at least 90% of our investment company taxable income and intend to distribute (or retain through a deemed distribution) all of our investment company taxable

income and net capital gain to stockholders; therefore, we have made no provision for income taxes. The character of income and gains that we will distribute is determined

S-51

---



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 December 31, 2017, we do not expect to have any excise tax due for the 2017 calendar year. Thus, we have not accrued any excise tax for this period.

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

We follow ASC 740, Income Taxes (“ASC 740”). ASC 740 provides guidance for how uncertain tax positions should be recognized, measured, presented, and disclosed in the consolidated financial statements. ASC 740 requires the evaluation of tax positions taken or expected to be taken in the course of preparing our tax returns to determine whether the tax positions are “more-likely-than-not” of being sustained by the applicable tax authority. Tax positions not deemed to meet the more-likely-than-not threshold are recorded as a tax benefit or expense in the current year. As of December 31, 2017 and for the three and six 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 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 December 31, 2017 and June 30, 2017, there are no prepaid expenses related to registration expenses and all amounts incurred have been expensed.

S-52

---

#### 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.

## QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We are subject to financial market risks, including changes in interest rates and equity price risk. Interest rate sensitivity refers to the change in our earnings that may result from changes in the level of interest rates impacting some of the loans in our portfolio which have floating interest rates. Additionally, because we fund a portion of our investments with borrowings, our net investment income is affected by the difference between the rate at which we invest and the rate at which we borrow. As a result, there can be no assurance that a significant change in market interest rates will not have a material adverse effect on our net investment income. See “Risk Factors - Risks Relating to Our Business - Changes in interest rates may affect our cost of capital and net investment income.”

Our debt investments may be based on floating rates or fixed rates. For our floating rate loans the rates are determined from the LIBOR, EURO Interbank Offer Rate, the Federal Funds Rate or the Prime Rate. The floating interest rate loans may be subject to a LIBOR floor. Our loans typically have durations of one to three months after which they reset to current market interest rates. As of December 31, 2017, 89.3% 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 no outstanding balance as of December 31, 2017. 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 December 31, 2017, assuming no changes in our investment and borrowing structure:

(in thousands) Basis Point Change	Interest Income	Interest Expense	Net Investment Income	Net Investment Income (1)
Up 300 basis points	\$96,350	\$ 43	\$ 96,307	\$ 77,046
Up 200 basis points	63,644	29	63,615	50,892
Up 100 basis points	31,271	14	31,257	25,006
Down 100 basis points	(12,187 )	(24 )	(12,163 )	(9,730 )

(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 December 31, 2017, one and three month LIBOR was 1.56% and 1.69%, 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 December 31, 2017, we did not engage in hedging activities.

## REGISTRATION AND SETTLEMENT

### The Depository Trust Company

All of the notes we offer will be issued in book-entry only form. This means that we will not issue certificates for notes, except in the limited case described below. Instead, we will issue global notes in registered form. Each 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. Each note represented by a global note evidences a beneficial interest in that global note.

Beneficial interests in a 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 a note, 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 a 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.

Each global note representing 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 notes 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 notes 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. Generally, one fully registered global note will be issued for all of the principal amount of 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 2 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues and money market instruments from over 85 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 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 each note 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.

S-55

---

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 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 such notes, on DTC's records, to the trustee. The requirement for physical delivery of notes in connection with a demand for repayment will be deemed satisfied when the ownership rights in the global note representing such 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 Purchasing Agent nor any agent takes any responsibility for its accuracy.

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

S-56

---



American Stock Transfer & Trust Company, LLC 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.

## 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 notes that acquires the notes pursuant to this offering at their “issue price” within the meaning of the applicable provisions of the Code 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) owns 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 our notes, including tax reporting requirements, the applicability of U.S. federal, state or local and foreign tax laws, eligibility for the benefits of any applicable tax treaty and the effect of any possible changes in the tax laws.

### 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.

### Stated interest and OID on the notes

Except as discussed below, a U.S. noteholder generally will be required to recognize stated interest as ordinary income at the time it is paid or accrued on the notes in accordance with its regular method of accounting for U.S.

federal income tax purposes. In addition, if the notes' "issue price" (the first price at which a substantial amount of the notes is sold to investors) is less than their "stated redemption price at maturity" (the sum of all payments to be made on the notes other than "qualified stated interest") by more than a statutorily defined de minimis threshold, the notes will be issued with original issue discount

S-58

---

("OID") for U.S. federal income tax purposes. The term "qualified stated interest" generally means stated interest that is unconditionally payable at least annually at a single fixed rate or, if certain requirements are met (as described below), certain variable rates.

If the notes are issued with OID, a U.S. noteholder generally will be required to include the OID in gross income as ordinary interest income in advance of the receipt of cash attributable to that income and regardless of such holder's regular method of tax accounting. Such OID will be included in gross income for each day during each taxable year in which the note is held using a constant yield-to-maturity method that reflects the compounding of interest. This means that the holder will have to include in income increasingly greater amounts of OID over time. Notice will be given in the applicable pricing supplement if we determine that a particular note will be issued with OID. We are required to provide information returns stating the amount of OID accrued on the notes held by persons of record other than certain exempt holders.

If the notes are "step-up notes" (i.e., notes with a fixed interest rate that increases at pre-determined intervals), the tax treatment described in the first sentence under "—Consequences to U.S. Noteholders—Stated interest and OID on the notes" assumes that we will have the right to call the notes at par (plus accrued but unpaid interest) on each date that the interest rate increases. If this is not the case, interest that exceeds the lowest rate payable under the step-up note may not be treated as qualified stated interest and, depending on the amount of such excess, may thus cause the step-up note to be treated as issued with OID, in which case the notes generally would be subject to the OID rules discussed above. Prospective investors are urged to consult their own tax advisors regarding the treatment of step-up notes or similar notes.

If you own a note issued with de minimis OID (i.e., discount that is not OID), you generally must include the de minimis OID in income at the time principal payments on the notes are made in proportion to the amount paid. Any amount of de minimis OID that you have included in income will be treated as capital gain.

#### Short-term notes

Notes that have a fixed maturity of one year or less ("short-term notes") will be subject to the following special rules. All of the interest on a short-term note is treated as part of the short-term note's stated redemption price at maturity, thereby giving rise to OID. Thus, all short-term notes will be OID debt securities. OID will be treated as accruing on a short-term debt instrument ratably or, at the election of a U.S. noteholder, under a constant yield method.

A U.S. noteholder that uses the cash method of tax accounting (with certain exceptions) will generally not be required to include OID in respect of the short-term note in income on a current basis, though they may be required to include stated interest in income as the income is received. Such a U.S. noteholder may not be allowed to deduct all of the interest paid or accrued on any indebtedness incurred or maintained to purchase or carry such a short-term note until the maturity of the note or its earlier disposition in a taxable transaction. In addition, such a U.S. noteholder will be required to treat any gain realized on a disposition of the note as ordinary income to the extent of the holder's accrued OID on the note, and short-term capital gain to the extent the gain exceeds accrued OID. A U.S. noteholder that uses the cash method of tax accounting may, however, elect to include OID on a short-term note in income on a current basis. In such case, the limitation on the deductibility of interest described above will not apply. A U.S. noteholder that uses the accrual method of tax accounting and certain cash method holders generally will be required to include OID on a short-term note in income on a current basis.

#### Floating rate notes

In the case of a note that is a floating rate note (including a note based on LIBOR), special rules apply. In general, if a note qualifies for treatment as a "variable rate debt instrument" under Treasury Regulations and provides for stated interest that is unconditionally payable at least annually at a variable rate that, subject to certain exceptions, is a single "qualified floating rate" or "objective rate," each as defined below, all stated interest on the note is treated as qualified stated interest. In that case, both the note's "yield to maturity" and "qualified stated interest" will be determined, for purposes of calculating the accrual of OID, if any, as though the note will bear interest in all periods throughout its term at a fixed rate generally equal to the rate that would be applicable to interest payments on the note on its issue date or, in the case of an objective rate (other than a "qualified inverse floating rate"), the rate that reflects the yield to maturity that is reasonably expected for the note. A U.S. noteholder of a variable rate debt instrument would then recognize OID, if any, that is calculated based on the note's assumed yield to maturity. If the interest actually accrued or paid during an accrual period exceeds or is less than the assumed fixed interest, the qualified stated interest

allocable to that period is increased or decreased under rules set forth in Treasury Regulations. Special rules apply for determining the amount of OID for other variable rate debt instruments, such as instruments with more than one qualified floating rate or instruments with a single fixed rate and one or more qualified floating rates. U.S. noteholders should consult their own tax advisors with respect to the specific U.S. federal income tax considerations regarding any investment in a note that qualifies a “variable rate debt instrument.”

S-59

---

A note will generally qualify as a variable rate debt instrument if (a) the note's issue price does not exceed the total noncontingent principal payments by more than the lesser of: (i) .015 multiplied by the product of the total noncontingent principal payments and the number of complete years to maturity from the issue date, or (ii) 15% of the total noncontingent principal payments; (b) the note provides for stated interest, compounded or paid at least annually, only at one or more qualified floating rates, a single fixed rate and one or more qualified floating rates, a single objective rate, or a single fixed rate and a single objective rate that is a qualified inverse floating rate; and (c) the value of the rate on any date during the term of the note is set no earlier than three months prior to the first day on which that value is in effect or no later than one year following that first day.

Generally, a rate is a qualified floating rate if variations in the rate can reasonably be expected to measure contemporaneous fluctuations in the cost of newly borrowed funds in the currency in which the debt instrument is denominated. A rate that equals LIBOR or LIBOR plus or minus a fixed spread is, in general, a qualified floating rate. However, a rate (including a rate based on LIBOR) will generally not be a qualified floating rate if, among other circumstances:

the rate is subject to one or more minimum or maximum rate floors or ceilings or one or more governors limiting the amount of increase or decrease in each case which are not fixed throughout the term of the note and which are reasonably expected as of the issue date to cause the rate in some accrual periods to be significantly higher or lower than the overall expected return on the note determined without the floor, ceiling, or governor; or

the rate is a multiple of a qualified floating rate unless the multiple is a fixed multiple that is greater than 0.65 but not more than 1.35 (provided, however, that if a multiple of a qualified floating rate is not within such limits and thus is not itself a qualified floating rate, it may nevertheless qualify as an "objective rate").

If a note provides for two or more qualified floating rates that are within 0.25 percentage points of each other on the issue date or can reasonably be expected to have approximately the same values throughout the term of the note, the qualified floating rates together constitute a single qualified floating rate.

Generally, an objective rate is a rate that is determined using a single fixed formula that is based on objective financial or economic information such as one or more qualified floating rates. An objective rate is a qualified inverse floating rate if that rate is equal to a fixed rate minus a qualified floating rate and variations in the rate can reasonably be expected to inversely reflect contemporaneous variations in the qualified floating rate. A variable rate will generally not qualify as an objective rate if, among other circumstances, it is reasonably expected that the average value of the variable rate during the first half of the term of the note will be either significantly less than or significantly greater than the average value of the rate during the final half of the term of the note.

If a floating rate note does not qualify as a "variable rate debt instrument," the note generally will be subject to taxation under special rules applicable to contingent payment debt instruments. U.S. noteholders should consult their own tax advisors with respect to the specific U.S. federal income tax considerations regarding such notes.

Sale, exchange, redemption or other taxable disposition of the notes

Subject to the special rules for short-term notes discussed above, upon the sale, exchange, redemption or other taxable disposition of a note, a U.S. noteholder generally will recognize capital gain or loss in an amount equal to the difference between (1) the sum of cash plus the fair market value of all other property received on such disposition (except to the extent such cash or property is attributable to accrued but unpaid interest, which, to the extent not previously included in income, generally will be taxable as ordinary income) and (2) its adjusted tax basis in the note. A U.S. noteholder's adjusted tax basis in a note generally will equal the price the U.S. noteholder paid for the note increased by OID (including with respect to a short-term note), if any, previously included in income with respect to that note, and reduced by any cash payments on the note other than qualified stated interest. Such capital gain or loss will be long-term capital gain or loss if, at the time of such taxable disposition, the U.S. noteholder has held the note for more than one year. The deductibility of capital losses is subject to limitations.

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.

Information reporting and backup withholding

In general, information reporting requirements will apply to certain payments of principal and interest (including OID) and to the proceeds of sale of a note paid to a U.S. noteholder (unless such noteholder is an exempt recipient). A backup

S-60

---

withholding tax may apply to such payments if a U.S. noteholder fails to provide a taxpayer identification number or certification of exempt status, or if it is otherwise subject to backup withholding.

Any amounts withheld under the backup withholding rules will be allowed as a refund or credit against a U.S. noteholder's United States federal income tax liability provided the required information is timely furnished to the IRS.

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 (including any entity or arrangement otherwise treated as a partnership for U.S. federal income tax purposes) or a U.S. noteholder is referred to herein as a "non-U.S. noteholder."

Stated interest and OID on the notes

Stated interest and OID, if any, paid or accrued to a non-U.S. noteholder will generally not be subject to U.S. federal income or withholding tax if the interest or OID is not effectively connected with its conduct of a trade or business within the United States and is not considered contingent interest within the meaning of Section 871(h)(4)(A) of the Code (generally relating to interest payments that are determined by reference to the income, profits, receipts, cash flow, changes in the value of non-publicly-traded property or other attributes of, or distributions or similar payments paid by, the debtor or a related party), 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 its 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 and OID, if any, from the notes may be subject to withholding tax at the rate of 30% (or lower applicable treaty rate). Stated interest and OID, if any, 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 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 stated interest and OID, if any, 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 stated interest or OID, 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

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—Stated interest and OID on the notes" above) generally will not be subject to U.S. federal income tax unless:

- the gain is effectively connected with its conduct of a U.S. trade or business (and, if required by 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

S-61

---

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.

#### Information Reporting and Backup Withholding

Generally, we must report to the IRS and to a non-U.S. noteholder the amount of interest (including OID) on the notes paid to a non-U.S. noteholder and the amount of tax, if any, withheld with respect to those payments if the notes are in registered form. Copies of the information returns reporting such interest payments and any withholding may also be made available to the tax authorities in the country in which a non-U.S. noteholder resides under the provisions of an applicable income tax treaty.

In general, a non-U.S. noteholder will not be subject to backup withholding with respect to payments on the notes that we make to such noteholder provided that we do not have actual knowledge or reason to know that such noteholder is a U.S. person as defined under the Code, and we have received from you the statement described above under the fourth bullet point under “Consequences to Non-U.S. Noteholders—Stated interest and OID on the notes.”

In addition, no information reporting requirements or backup withholding will be required regarding the proceeds of the sale of a note made within the United States or conducted through certain United States-related financial intermediaries, if the payor receives the statement described above and does not have actual knowledge or reason to know that the non-U.S. noteholder is a U.S. person as defined under the Code, or the non-U.S. noteholder otherwise establishes an exemption.

Any amounts withheld under the backup withholding rules will be allowed as a refund or credit against a non-U.S. noteholder’s United States federal income tax liability provided the required information is timely furnished to the IRS. 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, 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 shares in, and accounts maintained by, the institution to the extent such shares or accounts are held by certain United States 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 notes are held will affect the determination of whether such withholding is required. An intergovernmental agreement between the United States and an applicable foreign country, or future guidance, may modify these requirements. Similarly, interest in respect of, and after December 31, 2018, gross proceeds from the sale of, 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 us that such entity does not have any “substantial United States owners” or (ii) provides certain information regarding the entity’s “substantial United States owners,” which we will in turn provide to the Secretary of the Treasury. Non-U.S. noteholders are encouraged to consult with their tax advisors regarding the possible implications of these requirements on their investment in notes.

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.

**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 under ERISA in the context of the particular circumstances of such plan before authorizing an investment in the notes. Such fiduciary should consider 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 (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. The purchase and holding of notes by an ERISA plan may be subject to one or more statutory or administrative exemptions from the prohibited transaction rules under ERISA and the Code. Even if the conditions for relief under such exemptions were satisfied, however, there can be no assurance that such exemptions would apply to all of the prohibited transactions that may be deemed to arise in connection with a plan’s investment in the notes.

By purchasing and holding the notes, the person 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 prohibited transaction under ERISA or the Code. Therefore, an ERISA plan should not invest in the notes unless the plan fiduciary or other person acquiring securities on behalf of the ERISA plan determines that neither we nor an affiliate is a party in interest or a disqualified person 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.

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, 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 applicable to such plan that is similar to the prohibited transaction provisions of ERISA or the Code. If you are the fiduciary of an employee benefit plan, whether or not subject to ERISA, and you propose to invest in the notes with the assets of such employee benefit plan, you should consult your own legal counsel for further guidance. The sale of notes to an employee benefit plan is in no respect a representation by us, the Purchasing Agent or any other person that 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 for employee benefit plans generally or any particular plan.

#### USE OF PROCEEDS

Unless otherwise indicated in a pricing supplement for the notes, we expect to use the net proceeds from the sale of the notes initially to maintain balance sheet liquidity, involving repayment of debt under our credit facility, if any, and redemption of outstanding Prospect Capital InterNotes® and other debt, 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. We anticipate that substantially all of the net proceeds from each offering will be used for the above purposes within six months, depending on the availability of appropriate investment opportunities consistent with our investment objective and market conditions.

As of February 8, 2018, our credit facility was undrawn and, based on the assets currently pledged as collateral on the facility, a total of approximately \$495.4 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.

S-64

---

## 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 December 31, 2017. (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</b>				
Fiscal 2018 (as of December 31, 2017, unaudited)	\$ —	\$—	—	—
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(5)</b>				
Fiscal 2018 (as of December 31, 2017, unaudited)	\$ —	N/A	—	—
Fiscal 2017 (as of June 30, 2017)	—	N/A	—	—
Fiscal 2016 (as of June 30, 2016)	—	N/A	—	—
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(6)</b>				
Fiscal 2018 (as of December 31, 2017, unaudited)	\$ —	N/A	—	—
Fiscal 2017 (as of June 30, 2017)	—	N/A	—	—
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(7)</b>				
Fiscal 2018 (as of December 31, 2017, unaudited)	\$ —	N/A	—	—
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	—	—

2018 Notes

Fiscal 2018 (as of December 31, 2017, unaudited)	\$ 85,419	\$ 68,325	—	—
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-65

---

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</b>				
Fiscal 2018 (as of December 31, 2017, unaudited)	\$ 200,000	\$ 29,181	—	—
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 December 31, 2017, unaudited)	\$ 300,000	\$ 19,454	—	—
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 December 31, 2017, unaudited)	\$ 392,000	\$ 14,888	—	—
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(8)</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</b>				
Fiscal 2018 (as of December 31, 2017, unaudited)	\$ 225,000	\$ 25,939	—	—
Fiscal 2017 (as of June 30, 2017)	225,000	26,828	—	—
<b>2023 Notes(9)</b>				
Fiscal 2018 (as of December 31, 2017, unaudited)	\$ 248,619	\$ 23,475	—	—
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 December 31, 2017, unaudited)	\$ 199,281	\$ 29,286	—	\$ 1,038
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

Edgar Filing: PROSPECT CAPITAL CORP - Form 497

Prospect Capital InterNotes®(11)

Fiscal 2018 (as of December 31, 2017, unaudited)	\$ 837,497	\$ 6,969	—	—
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-66

---



	Total Amount Outstanding(1)	Asset Coverage per Unit(2)	Involuntary Liquidating Preference per Unit(3)	Average Market Value per Unit(4)
All Senior Securities(9)(10)(11)				
Fiscal 2018 (as of December 31, 2017, unaudited)	\$ 2,487,816	\$ 2,346	—	—
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).

(2) The asset coverage ratio for a class of senior securities representing indebtedness is calculated as our consolidated total assets, less all liabilities and indebtedness not represented by senior securities, divided by senior securities representing indebtedness. This asset coverage ratio is multiplied by \$1,000 to determine the Asset Coverage Per Unit.

(3) This column is inapplicable.

(4) 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.

(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 redeemed the 6.95% 2022 Notes on May 15, 2015.

(9) For the quarter ended December 31, 2017 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 \$20,017 as of December 31, 2017, as Senior Securities for purposes of Section 18 of the 1940 Act, our asset coverage per unit would be \$2,335.

(11) On December 12, 2017, we called \$50,627 of our Prospect Capital InterNotes® at par maturing between July 15, 2018 and July 15, 2020, with a weighted average rate of 5.10%. On January 12, 2018, we called, with settlement on February 15, 2018, \$37,210 of our Prospect Capital InterNotes® at par maturing between February 15, 2019 and August 15, 2020, with a weighted average rate of 4.80%. If we were to consider additional issuance and repurchases subsequent to December 31, 2017, our asset coverage per unit would be \$2,396, or \$2,385 including the effects of unfunded commitments.

## RATIO OF EARNINGS TO FIXED CHARGES

For the three and six months ended December 31, 2017 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 December 31, 2017	For the six months ended December 31, 2017	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 <sup>(1)</sup>	4.09	2.66	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 2.70 for the three months ended December 31, 2017, (1) 2.64 for the six months ended December 31, 2017, 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.

## PLAN OF DISTRIBUTION

Under the terms of the Sixth Amended and Restated Selling Agent Agreement dated November 10, 2016, which we refer to as the “Selling Agent Agreement,” the notes will be offered from time to time by us to the Purchasing Agent for subsequent resale to agents, including Citigroup Global Markets Inc. and RBC Capital Markets, LLC and other dealers who are broker-dealers and securities firms. The agents, including the Purchasing Agent, and the additional agents named from time to time pursuant to the Selling Agent Agreement, are, or will be, parties to the Selling Agent Agreement. The notes will be offered for sale in the United States only. Dealers who are members of the selling group have executed a Master Selected Dealer Agreement with the Purchasing Agent. We also may appoint additional agents to sell the notes. Any sale of the notes through those additional agents, however, will be on the same terms and conditions to which the original agents have agreed. The Purchasing Agent will purchase the notes at a discount ranging from 0.4% to 3.8% of the non-discounted price for each note sold. However, we also may sell the notes to the Purchasing Agent at a discount greater than or less than the range specified above. The discount at which we sell the notes to the Purchasing Agent will be set forth in the applicable pricing supplement. The Purchasing Agent also may sell notes to dealers at a concession not in excess of the discount it received from us. In certain cases, the Purchasing Agent and the other agents and dealers may agree that the Purchasing Agent will retain the entire discount. We will disclose any particular arrangements in the applicable pricing supplement.

Following the solicitation of orders, each of the agents, severally and not jointly, may purchase notes as principal for its own account from the Purchasing Agent. Unless otherwise set forth in the applicable pricing supplement, these notes will be purchased by the agents and resold by them to one or more investors at a fixed public offering price. After the initial public offering of notes, the public offering price (in the case of notes to be resold at a fixed public offering price), discount and concession may be changed.

Except for notes sold to level-fee accounts, notes offered to the public will be offered at the public offering price set forth in the applicable pricing supplement. Agents purchasing notes on an agency basis for client accounts shall purchase notes at the public offering price. Notes sold by the Agents for their own account may be sold at the public offering price less a discount specified in the applicable pricing supplement. Notes purchased by the Agents on behalf of level-fee accounts may be sold to such accounts at the discount to the public offering price specified in the applicable pricing supplement, in which case, such Agents will not retain any portion of the sales price as compensation.

We have the sole right to accept offers to purchase notes and may reject any proposed offer to purchase notes in whole or in part. Each agent also has the right, in its discretion reasonably exercised, to reject any proposed offer to purchase notes in whole or in part. We reserve the right to withdraw, cancel or modify any offer without notice. We also may change the terms, including the interest rate we will pay on the notes, at any time prior to our acceptance of an offer to purchase.

Each agent, including the Purchasing Agent, may be deemed to be an “underwriter” within the meaning of the Securities Act. We have agreed to indemnify the agents against certain liabilities, including liabilities under the Securities Act, or to contribute to any payments they may be required to make in respect of such liabilities. We also have agreed to reimburse the agents for certain expenses.

No note will have an established trading market when issued. We do not intend to apply for the listing of the notes on any securities exchange. However, we have been advised by the agents that they may purchase and sell notes in the secondary market as permitted by applicable laws and regulations. The agents are not obligated to make a market in the notes, and they may discontinue making a market in the notes at any time without notice. Neither we nor the agents can provide any assurance regarding the development, liquidity or maintenance of any trading market for any notes. All secondary trading in the notes will settle in same-day funds. See “Registration and Settlement.”

In connection with certain offerings of notes, the rules of the SEC permit the Purchasing Agent to engage in transactions that may stabilize the price of the notes. The Purchasing Agent will conduct these activities for the agents. These transactions may consist of short sales, stabilizing transactions and purchases to cover positions created by short sales. A short sale is the sale by the Purchasing Agent of a greater amount of notes than the amount the Purchasing Agent has agreed to purchase in connection with a specific offering of notes. Stabilizing transactions consist of certain bids or purchases made by the Purchasing Agent to prevent or retard a decline in the price of the notes while an offering of notes is in process. In general, these purchases or bids for the notes for the purpose of stabilization or to

reduce a syndicate short position could cause the price of the notes to be higher than it might otherwise be in the absence of those purchases or bids. Neither we nor the Purchasing Agent makes any representation or prediction as to the direction or magnitude of any effect that these transactions may have on the price of any notes. In addition, neither we nor the Purchasing Agent makes any representation that, once commenced, these transactions will not be discontinued without notice. The Purchasing Agent is not required to engage in these activities and may end any of these activities at any time.

S-69

---

Some of the agents and their affiliates have engaged in, and may in the future engage in, investment banking and other commercial dealings in the ordinary course of business with us or our affiliates. They have received, or may in the future receive, customary fees and commissions for these transactions.

In addition, in the ordinary course of their business activities, the agents and 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. Such investments and securities activities may involve securities and/or instruments of ours or our affiliates. The agents and their affiliates may also make investment recommendations and/or publish or express independent research views in respect of such securities or financial instruments and may hold, or recommend to clients that they acquire, long and/or short positions in such securities and instruments.

S-70

---

## LEGAL MATTERS

The legality of the notes 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 agents. 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 Purchasing Agent or any agent. 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 December 31, 2017 (Unaudited) and June 30, 2017 (Audited)</u>	<u>F-2</u>
<u>Consolidated Statements of Operations for the three and six months ended December 31, 2017 and 2016 (Unaudited)</u>	<u>F-3</u>
<u>Consolidated Statements of Changes in Net Assets for the three and six months ended December 31, 2017 and 2016 (Unaudited)</u>	<u>F-4</u>
<u>Consolidated Statements of Cash Flows for the three and six months ended December 31, 2017 and 2016 (Unaudited)</u>	<u>F-5</u>
<u>Consolidated Schedules of Investments as of December 31, 2017 (Unaudited) and June 30, 2017 (Audited)</u>	<u>F-6</u>
<u>Notes to Consolidated Financial Statements (Unaudited)</u>	<u>F-39</u>

F-1

---

PROSPECT CAPITAL CORPORATION AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF ASSETS AND LIABILITIES

(in thousands, except share and per share data)

	December 31, 2017 (Unaudited)	June 30, 2017 (Audited)
Assets		
Investments at fair value:		
Control investments (amortized cost of \$1,895,360 and \$1,840,731, respectively)	\$2,011,922	\$1,911,775
Affiliate investments (amortized cost of \$24,075 and \$22,957, respectively)	19,272	11,429
Non-control/non-affiliate investments (amortized cost of \$3,643,003 and \$4,117,868, respectively)	3,389,938	3,915,101
Total investments at fair value (amortized cost of \$5,562,438 and \$5,981,556, respectively)	5,421,132	5,838,305
Cash	474,476	318,083
Receivables for:		
Interest, net	14,432	9,559
Other	763	924
Prepaid expenses	546	1,125
Due from Broker	600	—
Due from Prospect Administration (Note 13)	2,082	—
Due from Affiliate (Note 13)	88	14
Deferred financing costs on Revolving Credit Facility (Note 4)	3,394	4,779
Total Assets	5,917,513	6,172,789
Liabilities		
Revolving Credit Facility (Notes 4 and 8)	—	—
Prospect Capital InterNotes® (less unamortized debt issuance costs of \$13,114 and \$14,240, respectively) (Notes 7 and 8)	824,383	966,254
Convertible Notes (less unamortized debt issuance costs of \$13,186 and \$15,512, respectively) (Notes 5 and 8)	889,233	937,641
Public Notes (less unamortized discount and debt issuance costs of \$9,963 and \$10,981, respectively) (Notes 6 and 8)	739,318	738,300
Due to Prospect Capital Management (Note 13)	47,629	48,249
Interest payable	39,180	38,630
Dividends payable	21,659	30,005
Due to Prospect Administration (Note 13)	1,935	1,910
Accrued expenses	3,615	4,380
Other liabilities	2,149	2,097
Due to Broker	—	50,371
Total Liabilities	2,569,101	2,817,837
Commitments and Contingencies (Note 3)	—	—
Net Assets	\$3,348,412	\$3,354,952
Components of Net Assets		
Common stock, par value \$0.001 per share (1,000,000,000 common shares authorized; 360,980,752 and 360,076,933 issued and outstanding, respectively) (Note 9)	\$361	\$360
Paid-in capital in excess of par (Note 9)	3,998,406	3,991,317
Accumulated overdistributed net investment income	(64,446)	(54,039)



Edgar Filing: PROSPECT CAPITAL CORP - Form 497

Accumulated net realized loss	(444,603 )	(439,435 )
Net unrealized loss	(141,306 )	(143,251 )
Net Assets	\$3,348,412	\$3,354,952
Net Asset Value Per Share (Note 16)	\$9.28	\$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 December 31,		Six Months Ended December 31,	
	2017	2016	2017	2016
Investment Income				
Interest income:				
Control investments	\$47,418	\$48,281	\$93,448	\$94,190
Affiliate investments	—	—	205	—
Non-control/non-affiliate investments	75,833	87,465	148,263	174,125
Structured credit securities	30,131	39,045	59,551	78,126
Total interest income	153,382	174,791	301,467	346,441
Dividend income:				
Control investments	—	1,282	—	3,522
Non-control/non-affiliate investments	326	97	870	241
Total dividend income	326	1,379	870	3,763
Other income:				
Control investments	4,038	3,856	6,129	6,796
Non-control/non-affiliate investments	4,654	3,454	12,513	6,312
Total other income (Note 10)	8,692	7,310	18,642	13,108
Total Investment Income	162,400	183,480	320,979	363,312
Operating Expenses				
Base management fee (Note 13)	29,559	30,886	59,722	61,678
Income incentive fee (Note 13)	18,298	21,101	34,231	40,831
Interest and credit facility expenses	39,347	40,848	80,382	82,517
Allocation of overhead from Prospect Administration (Note 13)	(824)	) 2,657	2,704	6,190
Audit, compliance and tax related fees	1,866	1,058	2,954	2,453
Directors' fees	112	112	225	225
Other general and administrative expenses	850	2,413	3,837	6,094
Total Operating Expenses	89,208	99,075	184,055	199,988
Net Investment Income	73,192	84,405	136,924	163,324
Net Realized and Change in Unrealized Gains (Losses) from Investments				
Net realized gains (losses)				
Control investments	2	178	11	183
Affiliate investments	—	—	846	137
Non-control/non-affiliate investments	(5,675)	) (260)	) (5,093)	) 312
Net realized (losses) gains	(5,673)	) (82)	) (4,236)	) 632
Net change in unrealized gains (losses)				
Control investments	44,425	(11,068)	) 45,518	2,298
Affiliate investments	1,533	853	6,726	(1,273)
Non-control/non-affiliate investments	8,737	26,896	(50,300)	) 17,450
Net change in unrealized gains (losses)	54,695	16,681	1,944	18,475
Net Realized and Net Change in Unrealized Gains (Losses) from Investments	49,022	16,599	(2,292)	) 19,107
Net realized losses on extinguishment of debt	(487)	) (124)	) (932)	) (185)
Net Increase in Net Assets Resulting from Operations	\$121,727	\$100,880	\$133,700	\$182,246

Edgar Filing: PROSPECT CAPITAL CORP - Form 497

Net increase in net assets resulting from operations per share	\$0.34	\$0.28	\$0.37	\$0.51
Dividends declared per share	\$(0.18)	\$(0.25)	\$(0.41)	\$(0.50)

See notes to consolidated financial statements.

F-3

---

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

(in thousands, except share data)

(Unaudited)

	Six Months Ended December 31,	
	2017	2016
<b>Operations</b>		
Net investment income	\$ 136,924	\$ 163,324
Net realized (losses) gains	(5,168	) 447
Net change in net unrealized losses	1,944	18,475
Net Increase in Net Assets Resulting from Operations	133,700	182,246
<b>Distributions to Shareholders</b>		
Distribution from net investment income	(146,559	) (179,097
Net Decrease in Net Assets Resulting from Distributions to Shareholders	(146,559	) (179,097
<b>Common Stock Transactions</b>		
Value of shares issued through reinvestment of dividends	6,319	15,530
Net Increase in Net Assets Resulting from Common Stock Transactions	6,319	15,530
Total (Decrease) Increase in Net Assets	(6,540	) 18,679
Net assets at beginning of period	3,354,952	3,435,917
Net Assets at End of Period (Accumulated Under (Overdistributed) Net Investment Income of (\$64,446) and (\$16,907), respectively)	\$ 3,348,412	\$ 3,454,596
<b>Common Stock Activity</b>		
Shares issued through reinvestment of dividends	903,819	1,893,049
Net shares issued due to common stock activity	903,819	1,893,049
Shares issued and outstanding at beginning of period	360,076,933	357,107,231
Shares Issued and Outstanding at End of Period	360,980,752	359,000,280

See notes to consolidated financial statements.

F-4

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

	Six Months Ended December 31,	
	2017	2016
<b>Operating Activities</b>		
Net increase in net assets resulting from operations	\$ 133,700	\$ 182,246
Net realized losses on extinguishment of debt	932	185
Net realized losses (gains) on investments	4,236	(632 )
Net change in net unrealized (gains) losses on investments	(1,944 )	(18,475 )
Amortization of discounts and (accretion of premiums), net	22,607	37,178
Accretion of discount on Public Notes (Note 6)	141	132
Amortization of deferred financing costs	6,219	6,758
Payment-in-kind interest	(3,980 )	(9,196 )
Structuring fees	(5,531 )	(5,693 )
Change in operating assets and liabilities:		
Payments for purchases of investments	(951,377 )	(801,798 )
Proceeds from sale of investments and collection of investment principal	1,353,163	759,326
Decrease in due to Broker	(50,371 )	(957 )
Decrease in due to Prospect Capital Management	(620 )	(1,937 )
Increase in interest receivable, net	(4,873 )	(11,816 )
Increase (decrease) in interest payable	550	(2,385 )
(Decrease) increase in accrued expenses	(765 )	626
Increase in due from Broker	(600 )	—
Increase (Decrease) in other liabilities	52	(510 )
Decrease (Increase) in other receivables	161	(6,317 )
Increase in due from Prospect Administration	(2,082 )	—
Increase in due from affiliate	(74 )	—
Decrease in prepaid expenses	579	185
Increase in due to Prospect Administration	25	1,245
<b>Net Cash Provided by Operating Activities</b>	<b>500,148</b>	<b>128,165</b>
<b>Financing Activities</b>		
Borrowings under Revolving Credit Facility (Note 4)	341,000	210,000
Principal payments under Revolving Credit Facility (Note 4)	(341,000 )	(210,000 )
Issuances of Public Notes, net of original issue discount (Note 6)	—	37,466
Redemptions of Convertible Notes (Note 5)	(50,734 )	(167,500 )
Issuances of Prospect Capital InterNotes® (Note 7)	52,177	64,731
Redemptions of Prospect Capital InterNotes®, net (Note 7)	(195,174 )	(11,440 )
Financing costs paid and deferred	(1,437 )	(1,900 )
Dividends paid	(148,587 )	(163,409 )
<b>Net Cash Used in Financing Activities</b>	<b>(343,755 )</b>	<b>(242,052 )</b>
Net Increase (Decrease) in Cash	156,393	(113,887 )
Cash at beginning of period	318,083	317,798
Cash at End of Period	\$ 474,476	\$ 203,911
<b>Supplemental Disclosures</b>		
Cash paid for interest	\$ 73,472	\$ 78,012
<b>Non-Cash Financing Activities</b>		

Edgar Filing: PROSPECT CAPITAL CORP - Form 497

Value of shares issued through reinvestment of dividends	\$6,319	\$15,530
Cost basis of investments written off as worthless	\$5,662	\$1,720

See notes to consolidated financial statements.

F-5

---

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

Portfolio Company	Locale / Industry	Investments(1)(44)(45)	December 31, 2017 (Unaudited)		
			Amortized Cost	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)	—	\$24,158	0.7%
		Class E Units (14.00%, 21,080 units)(16)	—	—	—%
		Class A Units (14.00%, 700 units)(16)	—	—	—%
		Class C Units (10 units)(16)	—	—	—%
			60,876	24,158	0.7%
CCPI Inc.(19)	Ohio / Electronic Equipment, Instruments & Components	Senior Secured Term Loan A (10.00%, due 12/31/2020)(3)	2,909	2,909	0.1%
		Senior Secured Term Loan B (12.00% plus 7.00% PIK, due 12/31/2020)(3)(46)	17,904	17,904	0.5%
		Common Stock (14,857 shares)	—	17,824	0.5%
			27,572	38,637	1.1%
CP Energy Services Inc.(20)	Oklahoma / Energy Equipment & Services	Senior Secured Term Loan (12.34% (LIBOR + 11.00% with 1.00% LIBOR floor), due 12/29/2022)(10)(11)	35,048	35,048	1.0%
		Series B Convertible Preferred Stock (16.00%, 790 shares)(16)	—	63,225	1.5%
		Common Stock (2,924 shares)(16)	—	15,227	—%
			113,500	86,557	2.5%
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	1.4%
		Class A Units (10,640,642 units)(14)(16)	—	13,731	0.6%
		Net Revenues Interest (25% of Net Revenues)(14)	—	2,667	0.1%
			59,926	74,712	2.1%
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)(10)(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)(10)(13)(46)	16,044	16,044	0.5%
		Membership Interest (100%)(16)	—	22,738	0.9%
			69,837	76,577	2.3%
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)	5,092	5,092	0.2%

Edgar Filing: PROSPECT CAPITAL CORP - Form 497

		Unsecured Senior PIK Note (8.50% PIK, due 6/9/2020)(46)	7,208	7,208	0.2%
		Unsecured Junior PIK Note (10.00% PIK, in non-accrual status effective 1/1/2017, due 6/9/2020)	33,828	19,062	0.6%
		Class A Units (370,964 units)(16)	—6,577	—	—%
			42,705	31,362	1.0%
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)	258,772	258,772	7.7%
		Class A Units (93,997,533 units)(14)(16)	—78,481	146,258	4.4%
			337,253	405,030	12.1%
Freedom Marine Solutions, LLC(24)	Louisiana / Energy Equipment & Services	Membership Interest (100%)(16)	—42,812	25,266	0.8%
			42,812	25,266	0.8%

See notes to consolidated financial statements.

F-6

---



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

Portfolio Company	Locale / Industry Investments(1)(44)(45)	December 31, 2017 (Unaudited)					
		Principal Value	Amortized Cost	Fair Value(2)	% of Net Assets		
<b>LEVEL 3 PORTFOLIO INVESTMENTS</b>							
Control Investments (greater than 25.00% voting control)(47)							
MITY, Inc.(25)	Utah / Commercial Services & Supplies	Senior Secured Note A (10.00% (LIBOR + 7.00% with 3.00% LIBOR floor), due 1/30/2020)(3)(10)(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)(10)(11)(46)	24,442	24,442	24,442	0.7%	
		Subordinated Unsecured Note to Broda Enterprises ULC (10.00%, due on demand)(3)(14)	5,782	7,200	5,782	0.2%	
		Common Stock (42,053 shares)(16)	—	6,849	13,008	0.5%	
					64,741	69,482	2.2%
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)(10)(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)(10)(11)(46)	113,240	113,240	113,240	3.4%	
		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)(10)(11)(14)(46)	14,274	14,274	14,274	0.4%	
		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)(10)(11)(14)(46)	132,578	132,578	132,578	4.0%	
		Common Stock (2,351,247 shares)(16)	—	290,564	400,362	12.0%	
		Net Operating Income Interest (5% of Net Operating Income)	—	—	94,718	2.8%	
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)	17,114	17,114	17,114	0.5%	
			—	21,962	13,141	0.4%	

Edgar Filing: PROSPECT CAPITAL CORP - Form 497

		Class A Units (32,456,159 units)(14)(16)		39,076	30,255	0.9%
		Senior Secured Note (14.00%, due 5/6/2021)(3)	3,714	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)(3)	6,900	6,900	6,900	0.2%
		Series A Preferred Stock (7,200 shares)(3)(16)	—	12,869	10,614	0.3%
				23,483	21,228	0.6%
R-V Industries, Inc.	Pennsylvania / Machinery	Senior Subordinated Note (10.69% (LIBOR + 9.00% with 1.00% LIBOR floor), due 3/31/2022)(3)(10)(11)	28,622	28,622	28,622	0.9%
		Common Stock (745,107 shares)(16)	—	6,866	2,786	0.1%
				35,488	31,408	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)	—	—	996	—%
		Common Stock (100 shares)(16)	—	—	—	—%
				—	996	—%

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)(45)	December 31, 2017 (Unaudited)			
			Principal Value	Amortized Cost	Fair Value(2)	% of Net Assets
<b>LEVEL 3 PORTFOLIO INVESTMENTS</b>						
<b>Control Investments (greater than 25.00% voting control)(47)</b>						
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)	\$35,326	\$31,602	\$6,655	0.2%
		Senior Secured Term Loan B (15.50% PIK, in non-accrual status effective 4/1/2016, due 7/22/2020)	44,281	35,568	—	—%
		Common Stock (268,962 shares)(16)	—	—	—	—%
				67,170	6,655	0.2%
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)(10)(11)(46)	10,430	10,430	10,430	0.3%
		Senior Secured Note (10.00% plus 8.50% PIK, due 6/23/2024)(46)	26,724	26,724	26,724	0.8%
		Common Stock (50,000 shares)(16)	—	26,204	3,777	0.1%
				63,358	40,931	1.2%
Wolf Energy, LLC(32)	Kansas / Energy Equipment & Services	Membership Interest (100%)(16)	—	—	—	—%
		Membership Interest in Wolf Energy Services Company, LLC (100%)(16)	—	3,704	283	—%
		Net Profits Interest (8% of Equity Distributions)(4)(16)	—	—	10	—%
				3,704	293	—%
<b>Total Control Investments (Level 3)</b>			<b>\$1,895,360</b>	<b>\$2,011,922</b>	<b>60.1%</b>	
<b>Affiliate Investments (5.00% to 24.99% voting control)(48)</b>						
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)	\$17,472	\$14,197	\$—	—%
		Common Stock (857 units)(16)	—	—	—	—%
					14,197	—
Targus Cayman HoldCo Limited(33)	California / Textiles, Apparel & Luxury Goods	Common Stock (7,383,395 shares)(16)	—	9,878	19,272	0.6%
				9,878	19,272	0.6%
<b>Total Affiliate Investments (Level 3)</b>			<b>\$24,075</b>	<b>\$19,272</b>	<b>0.6%</b>	

See notes to consolidated financial statements.



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

		December 31, 2017 (Unaudited)				
Portfolio Company	Locale / Industry	Investments(1)(44)(45)	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 (9.21% (LIBOR + 7.75% with 1.00% LIBOR floor), due 12/13/2025)(8)(10)(11)	\$ 15,000	\$ 14,926	\$ 14,926	0.4%
				14,926	14,926	0.4%
ACE Cash Express, Inc.	Texas / Consumer Finance	Senior Secured Note (12.00%, due 12/15/2022)(8)(14)	20,000	19,702	20,000	0.6%
				19,702	20,000	0.6%
AgaMatrix, Inc.	New Hampshire / Healthcare Equipment and Supplies	Senior Secured Term Loan (10.44% (LIBOR + 8.75% with 1.25% LIBOR floor), due 9/29/2022)(3)(10)(11)	31,625	31,625	31,625	0.9%
				31,625	31,625	0.9%
Apidos CLO IX	Cayman Islands / Structured Finance	Subordinated Notes (Residual Interest, current yield 0.00%, due 7/15/2023)(5)(14)(17)	23,525	66	66	—%
				66	66	—%
Apidos CLO XI	Cayman Islands / Structured Finance	Subordinated Notes (Residual Interest, current yield 8.89%, due 10/17/28)(5)(14)	40,500	31,379	25,091	0.7%
				31,379	25,091	0.7%
Apidos CLO XII	Cayman Islands / Structured Finance	Subordinated Notes (Residual Interest, current yield 0.00%, due 4/15/2025)(5)(14)(17)	44,063	29,043	17,865	0.5%
				29,043	17,865	0.5%
Apidos CLO XV	Cayman Islands / Structured Finance	Subordinated Notes (Residual Interest, current yield 1.39%, due 10/20/2025)(5)(14)	36,515	28,041	20,984	0.6%
				28,041	20,984	0.6%
Apidos CLO XXII	Cayman Islands / Structured Finance	Subordinated Notes (Residual Interest, current yield 13.57%, due 10/20/2027)(5)(6)(14)	31,350	27,293	24,907	0.7%
				27,293	24,907	0.7%
Ark-La-Tex Wireline Services, LLC	Louisiana / Energy Equipment & Services	Senior Secured Term Loan B (13.19% (LIBOR + 11.50% with 1.00% LIBOR floor), in non-accrual status effective 4/1/2016, due 4/8/2019)(10)(13)	25,595	1,145	743	—%
				1,145	743	—%
			7,000	6,938	7,000	0.2%

Edgar Filing: PROSPECT CAPITAL CORP - Form 497

Armor Holding II LLC	New York / Commercial Services & Supplies	Second Lien Term Loan (10.70% (LIBOR + 9.00% with 1.25% LIBOR floor), due 12/26/2020)(3)(8)(10)(11)		6,938	7,000	0.2%
		Revolving Line of Credit – \$7,000 Commitment (9.69% (LIBOR + 8.00% with 1.50% LIBOR floor), due 8/21/2018)(10)(11)(15)	7,000	7,000	6,779	0.2%
Atlantis Health Care Group (Puerto Rico), Inc.	Puerto Rico / Health Care Providers & Services	Senior Term Loan (9.69% (LIBOR + 8.00% with 1.50% LIBOR floor), due 2/21/2020)(10)(11)	79,153	79,153	76,649	2.3%
				86,153	83,428	2.5%
Autodata, Inc./ Autodata Solutions, Inc.	Canada / Software	Second Lien Term Loan (8.82% (LIBOR + 7.25% with 1.00% LIBOR floor), due 12/14/2025)(8)(10)(11)	6,000	5,970	5,970	0.2%
				5,970	5,970	—%
Babson CLO Ltd. 2014-III	Cayman Islands / Structured Finance	Subordinated Notes (Residual Interest, current yield 12.87%, due 1/15/2026)(5)(6)(14)	52,250	40,909	36,185	1.1%
				40,909	36,185	1.1%
Broder Bros., Co.	Pennsylvania / Textiles, Apparel & Luxury Goods	Senior Secured Note (9.69% (LIBOR + 8.00% with 1.25% LIBOR floor), due 12/02/2022)(10)(11)	459,425	459,425	459,425	13.7%
				459,425	459,425	13.7%

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)(45)	December 31, 2017 (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)						
Brookside Mill CLO Ltd.	Cayman Islands / Structured Finance	Subordinated Notes (Residual Interest, current yield 0.00%, due 4/17/2025)(5)(14)(17)	\$26,000	\$ 15,673	\$ 12,635	0.4%
				15,673	12,635	0.4%
California Street CLO IX Ltd. (f/k/a Symphony CLO IX Ltd.)	Cayman Islands / Structured Finance	Preference Shares (Residual Interest, current yield 14.34%, due 10/16/2028)(5)(14)	58,915	41,046	36,239	1.1%
				41,046	36,239	1.1%
Capstone Logistics Acquisition, Inc.	Georgia / Commercial Services & Supplies	Second Lien Term Loan (9.82% (LIBOR + 8.25% with 1.00% LIBOR floor), due 10/7/2022)(3)(8)(10)(13)	101,517	101,113	97,457	2.9%
				101,113	97,457	2.9%
Carlyle Global Market Strategies CLO 2014-4, Ltd.	Cayman Islands / Structured Finance	Subordinated Notes (Residual Interest, current yield 20.85%, due 10/15/2026)(5)(6)(14)	25,534	19,701	19,766	0.6%
				19,701	19,766	0.6%
Carlyle Global Market Strategies CLO 2016-3, Ltd.	Cayman Islands / Structured Finance	Subordinated Notes (Residual Interest, current yield 16.32%, due 10/20/2029)(5)(6)(14)	32,200	31,624	28,476	0.9%
				31,624	28,476	0.9%
Cent CLO 17 Limited	Cayman Islands / Structured Finance	Subordinated Notes (Residual Interest, current yield 9.20%, due 1/30/2025)(5)(14)	24,870	17,813	17,264	0.5%
				17,813	17,264	0.5%
Cent CLO 20 Limited	Cayman Islands / Structured Finance	Subordinated Notes (Residual Interest, current yield 16.79%, due 1/25/2026)(5)(14)	40,275	31,793	31,008	0.9%
				31,793	31,008	0.9%
Cent CLO 21 Limited	Cayman Islands / Structured Finance	Subordinated Notes (Residual Interest, current yield 17.21%, due 7/27/2026)(5)(6)(14)	48,528	36,174	34,667	1.0%
				36,174	34,667	1.0%
Centerfield Media Holding Company(35)	California / Internet Software and Services	Senior Secured Term Loan A (8.34% (LIBOR + 7.00% with 1.00% LIBOR floor), due 1/17/2022)(3)(8)(10)(11)	66,640	66,640	66,640	2.0%
		Senior Secured Term Loan B (13.84% (LIBOR + 12.50% with 1.00% LIBOR floor), due	68,000	68,000	68,000	2.0%

Edgar Filing: PROSPECT CAPITAL CORP - Form 497

		1/17/2022)(8)(10)(11)					
			134,640	134,640	4.0%		
CIFC Funding 2013-III, Ltd.	Cayman Islands / Structured Finance	Subordinated Notes (Residual Interest, current yield 7.16%, due 10/24/2025)(5)(14)	44,100	29,970	26,242	0.8%	
				29,970	26,242	0.8%	
CIFC Funding 2013-IV, Ltd.	Cayman Islands / Structured Finance	Subordinated Notes (Residual Interest, current yield 9.67%, due 11/27/2024)(5)(14)	45,500	31,970	29,428	0.9%	
				31,970	29,428	0.9%	
CIFC Funding 2014-IV Investor, Ltd.	Cayman Islands / Structured Finance	Income Notes (Residual Interest, current yield 7.43%, due 10/17/2026)(5)(6)(14)	41,500	29,064	24,456	0.7%	
				29,064	24,456	0.7%	
CIFC Funding 2016-I, Ltd.	Cayman Islands / Structured Finance	Income Notes (Residual Interest, current yield 13.43%, due 10/21/2028)(5)(6)(14)	34,000	31,172	27,636	0.8%	
				31,172	27,636	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)(10)(11)(46)	40,210	40,160	40,210	1.2%	
				40,160	40,210	1.2%	

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)(45)	December 31, 2017 (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)						
Coverall North America, Inc.	Florida / Commercial Services & Supplies	Senior Secured Term Loan A (7.34% (LIBOR + 6.00% with 1.00% LIBOR floor), due 11/02/2020)(3)(10)(11)	\$21,720	\$21,720	\$21,720	0.7%
		Senior Secured Term Loan B (12.34% (LIBOR + 11.00% with 1.00% LIBOR floor), due 11/02/2020)(3)(10)(11)	24,875	24,875	24,875	0.7%
CURO Financial Technologies Corp.	Canada / Consumer Finance	Senior Secured Notes (12.00%, due 3/1/2022)(8)(14)	12,500	12,433	12,500	0.4%
				12,433	12,500	0.4%
Dunn Paper, Inc.	Georgia / Paper & Forest Products	Second Lien Term Loan (10.32% (LIBOR + 8.75% with 1.00% LIBOR floor), due 8/26/2023)(8)(10)(13)	11,500	11,312	11,500	0.3%
				11,312	11,500	0.3%
Easy Gardener Products, Inc.	Texas / Household Durables	Senior Secured Term Loan (11.34% (LIBOR + 10.00% with .25% LIBOR floor), due 09/30/2020)(3)(10)(11)	17,106	17,106	16,643	0.5%
				17,106	16,643	0.5%
Engine Group, Inc.(7)	California / Media	Senior Secured Term Loan (6.44% (LIBOR + 4.75% with 1.00% LIBOR floor), due 9/15/2022)(8)(9)(10)(11)	4,938	4,938	4,938	0.1%
		Second Lien Term Loan (10.44% (LIBOR + 8.75% with 1.00% LIBOR floor), due 9/15/2023)(3)(8)(10)(11)	35,000	35,000	35,000	0.1%
			39,938	39,938	1.1%	
EXC Holdings III Corp	Massachusetts / Technology Hardware, Storage & Peripherals	Second Lien Term Loan (9.16% (LIBOR + 7.50% with 1.00% LIBOR floor), due 12/01/2025)(8)(10)(11)	12,500	12,376	12,376	0.4%
				12,376	12,376	—%
Fleetwash, Inc.	New Jersey / Commercial Services & Supplies	Senior Secured Term Loan B (10.34% (LIBOR + 9.00% with 1.00% LIBOR floor), due 4/30/2022)(3)(10)(11)	21,544	21,544	21,544	0.6%
		Delayed Draw Term Loan – \$15,000 Commitment (9.84% (LIBOR + 8.50% with 1.00% LIBOR floor) expires 4/30/2022)(10)(11)(15)	—	—	—	—%

Edgar Filing: PROSPECT CAPITAL CORP - Form 497

				21,544	21,544	0.6%
Galaxy XV CLO, Ltd.	Cayman Islands / Structured Finance	Subordinated Notes (Residual Interest, current yield 11.89%, due 10/15/2030)(5)(14)	50,525	33,831	30,827	0.9%
				33,831	30,827	0.9%
Galaxy XVI CLO, Ltd.	Cayman Islands / Structured Finance	Subordinated Notes (Residual Interest, current yield 6.26%, due 11/16/2025)(5)(14)	24,575	17,077	14,609	0.4%
				17,077	14,609	0.4%
Galaxy XVII CLO, Ltd.	Cayman Islands / Structured Finance	Subordinated Notes (Residual Interest, current yield 6.66%, due 7/15/2026)(5)(6)(14)	39,905	28,497	24,072	0.7%
				28,497	24,072	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	3,987	5,510	0.2%
				3,987	5,510	0.2%
Halcyon Loan Advisors Funding 2013-1 Ltd.	Cayman Islands / Structured Finance	Subordinated Notes (Residual Interest, current yield 2.23%, due 4/15/2025)(5)(14)	40,400	24,295	19,914	0.6%
				24,295	19,914	0.6%
Halcyon Loan Advisors Funding 2014-1 Ltd.	Cayman Islands / Structured Finance	Subordinated Notes (Residual Interest, current yield 5.88%, due 4/18/2026)(5)(14)	24,500	15,129	13,325	0.4%
				15,129	13,325	0.4%

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)(45)	December 31, 2017 (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)						
Halcyon Loan Advisors Funding 2014-2 Ltd.	Cayman Islands / Structured Finance	Subordinated Notes (Residual Interest, current yield 11.61%, due 4/28/2025)(5)(6)(14)	\$41,164	\$ 26,102	\$ 23,051	0.7%
				26,102	23,051	0.7%
Halcyon Loan Advisors Funding 2015-3 Ltd.	Cayman Islands / Structured Finance	Subordinated Notes (Residual Interest, current yield 19.67%, due 10/18/2027)(5)(6)(14)	39,598	34,191	33,690	1.0%
				34,191	33,690	1.0%
Harbortouch Payments, LLC	Pennsylvania / Commercial Services & Supplies	Escrow Receivable	—	—	856	—%
				—	856	—%
HarbourView CLO VII, Ltd.	Cayman Islands / Structured Finance	Subordinated Notes (Residual Interest, current yield 18.00%, due 11/18/2026)(5)(6)(14)	19,025	15,187	13,988	0.4%
				15,187	13,988	0.4%
Harley Marine Services, Inc.	Washington / Marine	Second Lien Term Loan (10.63% (LIBOR + 9.25% with 1.25% LIBOR floor), due 12/20/2019)(3)(8)(10)(11)	9,000	8,935	8,935	0.3%
				8,935	8,935	0.3%
Ingenio, LLC	California / Internet Software and Services	Senior Secured Term Loan (8.88% (LIBOR + 7.50% with 1.25% LIBOR floor), due 9/26/2022)(3)(8)(10)(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 (9.34% (LIBOR + 8.00% with 1.00% LIBOR floor), due 6/8/2021)(3)(10)(11)	24,927	24,927	24,927	0.7%
				24,927	24,927	0.7%
InterDent, Inc.	California / Health Care Providers & Services	Senior Secured Term Loan A (7.07% (LIBOR + 5.50% with 0.75% LIBOR floor), due 12/31/2017)(10)(13)	78,215	78,215	78,215	2.3%
		Senior Secured Term Loan B (12.07% (LIBOR + 10.50% with 0.75% LIBOR floor), due 12/31/2017)(3)(10)(13)	131,125	131,125	131,125	3.9%
				209,340	209,340	6.2%
JD Power and Associates	California / Capital Markets	Second Lien Term Loan (10.19% (LIBOR + 8.50% with 1.00% LIBOR floor), due 9/7/2024)(3)(8)(10)(11)	20,000	19,785	20,000	0.6%

Edgar Filing: PROSPECT CAPITAL CORP - Form 497

			19,785	20,000	0.6%
Jefferson Mill CLO Ltd.	Cayman Islands / Structured Finance	Subordinated Notes (Residual Interest, current yield 7.72%, due 7/20/2027)(5)(6)(14)	19,500	16,244	12,518 0.4%
				16,244	12,518 0.4%
K&N Parent, Inc.	California / Auto Components	Second Lien Term Loan (10.32% (LIBOR + 8.75% with 1.00% LIBOR floor), due 10/21/2024)(3)(8)(10)(13)	13,000	12,778	12,834 0.4%
				12,778	12,834 0.4%
Keystone Acquisition Corp.(36)	Pennsylvania / Health Care Providers & Services	Second Lien Term Loan (10.94% (LIBOR + 9.25% with 1.00% LIBOR floor), due 5/1/2025)(3)(8)(10)(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 (9.07% (LIBOR + 7.50% with 1.25% LIBOR floor), due 11/22/2022)(3)(10)(13)	22,990	22,990	22,990 0.7%
		Senior Secured Term Loan B (9.07% (LIBOR + 7.50% with 1.25% LIBOR floor), due 11/22/2022)(3)(10)(13)	14,124	14,124	14,124 0.4%
				37,114	37,114 1.1%

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)(45)	December 31, 2017 (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)						
LCM XIV Ltd.	Cayman Islands / Structured Finance	Income Notes (Residual Interest, current yield 5.86%, due 7/15/2025)(5)(14)	\$30,500	\$ 20,157	\$ 17,876	0.5%
				20,157	17,876	0.5%
Madison Park Funding IX, Ltd.	Cayman Islands / Structured Finance	Subordinated Notes (Residual Interest, current yield 16.67%, due 8/15/2022)(5)(14)	43,110	2,285	2,329	0.1%
				2,285	2,329	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	555	—%
				—	—	—%
				1,252	555	—%
Memorial MRI & Diagnostic, LLC	Texas / Health Care Providers & Services	Senior Secured Term Loan (10.19% (LIBOR + 8.50% with 1.00% LIBOR floor), due 3/16/2022)(10)(11)	37,430	37,430	37,430	1.1%
				37,430	37,430	1.1%
Mountain View CLO 2013-I Ltd.	Cayman Islands / Structured Finance	Subordinated Notes (Residual Interest, current yield 16.23%, due 10/12/2030)(5)(14)	43,650	27,017	23,861	0.8%
				27,017	23,861	0.8%
Mountain View CLO IX Ltd.	Cayman Islands / Structured Finance	Subordinated Notes (Residual Interest, current yield 14.45%, due 7/15/2027)(5)(6)(14)	47,830	40,544	38,507	1.2%
				40,544	38,507	1.2%
National Home Healthcare Corp.	Michigan / Health Care Providers & Services	Second Lien Term Loan (10.43% (LIBOR + 9.00% with 1.00% LIBOR floor), due 12/8/2022)(3)(8)(10)(13)	15,407	15,219	15,407	0.5%
				15,219	15,407	0.5%
Octagon Investment Partners XV, Ltd.	Cayman Islands / Structured Finance	Income Notes (Residual Interest, current yield 15.04%, due 7/19/2030)(5)(14)	42,064	31,150	26,517	0.8%
				31,150	26,517	0.8%
Octagon Investment Partners XVIII, Ltd.	Cayman Islands / Structured Finance	Income Notes (Residual Interest, current yield 8.98%, due 12/16/2024)(5)(6)(14)	28,200	17,439	15,398	0.5%
				17,439	15,398	0.5%
			19,225	19,225	19,225	0.6%

Edgar Filing: PROSPECT CAPITAL CORP - Form 497

Pacific World Corporation	California / Personal Products	Revolving Line of Credit – \$21,000 Commitment (8.74% (LIBOR + 7.25% with 1.00% LIBOR floor), due 9/26/2020)(10)(13)(15)					
		Senior Secured Term Loan A (6.74% (LIBOR + 5.25% with 1.00% LIBOR floor), due 9/26/2020)(3)(10)(13)	96,750	96,750	94,957	2.9%	
		Senior Secured Term Loan B (10.74% (LIBOR + 9.25% with 1.00% LIBOR floor), due 9/26/2020)(3)(10)(13)	96,750	96,750	68,954	2.1%	
		Common Stock (6,778,414 units)(16)	—	—	—	0.1%	
			212,725	183,136	5.6%		
Pelican Products, Inc.	California / Chemicals	Second Lien Term Loan (9.94% (LIBOR + 8.25% with 1.00% LIBOR floor), due 4/9/2021)(3)(8)(10)(11)	17,500	17,491	17,077	0.5%	
				17,491	17,077	0.5%	
		Revolving Line of Credit – \$1,000 Commitment (11.10% (LIBOR + 9.50% with 1.00% LIBOR floor), due 8/11/2018)(10)(11)(15)	500	500	500	—%	
PeopleConnect Intermediate, LLC (f/k/a Intelius, Inc.)	Washington / Internet Software & Services	Senior Secured Term Loan A (7.84% (LIBOR + 6.50% with 1.00% LIBOR floor), due 7/1/2021)(3)(10)(11)	19,248	19,248	19,248	0.7%	
		Senior Secured Term Loan B (13.84% (LIBOR + 12.50% with 1.00% LIBOR floor), due 7/1/2021)(3)(10)(11)	20,373	20,373	20,373	0.7%	
				40,121	40,121	1.4%	

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)(45)	December 31, 2017 (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)						
PGX Holdings, Inc.(40)	Utah / Diversified Consumer Services	Second Lien Term Loan (10.57% (LIBOR + 9.00% with 1.00% LIBOR floor), due 9/29/2021)(10)(13)	\$ 134,668	\$ 134,668	\$ 134,668	4.0%
				134,668	134,668	4.0%
PharMerica Corporation	Kentucky / Pharmaceuticals	Second Lien Term Loan (9.25% (LIBOR + 7.75% with 1.00% LIBOR floor), due 12/07/2024)(8)(10)(13)	12,000	11,880	12,000	0.4%
				11,880	12,000	0.4%
Photonis Technologies SAS	France / Electronic Equipment, Instruments & Components	First Lien Term Loan (9.19% (LIBOR + 7.50% with 1.00% LIBOR floor), due 9/18/2019)(8)(10)(11)(14)	12,872	12,325	11,283	0.3%
				12,325	11,283	0.3%
PlayPower, Inc.	North Carolina / Leisure Products	Second Lien Term Loan (10.44% (LIBOR + 8.75% with 1.00% LIBOR floor), due 6/23/2022)(3)(8)(10)(11)	11,000	10,892	11,000	0.3%
				10,892	11,000	0.3%
Prince Mineral Holding Corp.	New York / Metals & Mining	Senior Secured Term Loan (11.50%, due 12/15/2019)(8)	10,000	9,963	10,000	0.3%
				9,963	10,000	0.3%
RGIS Services, LLC	Michigan / Commercial Services & Supplies	Senior Secured Term Loan (9.07% (LIBOR + 7.50% with 1.00% LIBOR floor), due 3/31/2023)(3)(8)(10)(11)	30,806	30,162	29,133	1.0%
				30,162	29,133	1.0%
RME Group Holding Company	Florida / Media	Senior Secured Term Loan A (7.69% (LIBOR + 6.00% with 1.00% LIBOR floor), due 5/4/2022)(3)(10)(13) Senior Secured Term Loan B (12.69% (LIBOR + 11.00% with 1.00% LIBOR floor), due 5/4/2022)(3)(10)(11)	37,125	37,125	37,125	1.2%
				62,000	62,000	2.0%
Rocket Software, Inc.	Massachusetts / Software	Second Lien Term Loan (11.13% (LIBOR + 9.50% with 1.00%	50,000	49,157	50,000	1.6%

Edgar Filing: PROSPECT CAPITAL CORP - Form 497

		LIBOR floor), due 10/14/2024)(3)(8)(10)(11)		49,157	50,000	1.6%
SCS Merger Sub, Inc.	Texas / IT Services	Second Lien Term Loan (11.07% (LIBOR + 9.50% with 1.00% LIBOR floor), due 10/30/2023)(3)(8)(10)(13)	20,000	19,568	20,000	0.6%
				19,568	20,000	0.6%
Securus Technologies Holdings, Inc.	Texas / Communications Equipment	Second Lien Term Loan (9.87% (LIBOR + 8.25% with 1.00% LIBOR floor), due 11/01/2025)(8)(10)(11)	40,000	39,851	39,851	1.2%
				39,851	39,851	1.2%
SESAC Holdco II LLC	Tennessee / Media	Second Lien Term Loan (8.73% (LIBOR + 7.25% with 1.00% LIBOR floor), due 2/23/2025)(8)(10)(13)	3,000	2,973	2,973	0.1%
				2,973	2,973	0.1%
Small Business Whole Loan Portfolio(41)	New York / Online Lending	124 Small Business Loans purchased from On Deck Capital, Inc.	1,484	1,484	1,365	—%
				1,484	1,365	—%
Spartan Energy Services, Inc.	Louisiana / Energy Equipment & Services	Senior Secured Term Loan A (7.35% (LIBOR + 6.00% with 1.00% LIBOR floor), due 12/28/2018)(10)(13)	13,156	11,952	12,335	0.4%
		Senior Secured Term Loan B (13.35% PIK (LIBOR + 12.00% with 1.00% LIBOR floor), due 12/28/2018)(3)(10)(13)	17,028	14,510	15,970	0.5%
				26,462	28,305	0.9%

See notes to consolidated financial statements.

F-14



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

Portfolio Company	Locale / Industry	Investments(1)(44)(45)	December 31, 2017 (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)						
Strategic Materials	Texas / Household Durables	Second Lien Term Loan (9.13% (LIBOR + 7.75% with 1.00% LIBOR floor)(11)	\$7,000	\$ 6,931	\$ 6,931	0.2%
				6,931	6,931	0.2%
Sudbury Mill CLO Ltd.	Cayman Islands / Structured Finance	Subordinated Notes (Residual Interest, current yield 8.18%, due 1/17/2026)(5)(14)	28,200	18,803	15,077	0.5%
				18,803	15,077	0.5%
Symphony CLO XIV Ltd.	Cayman Islands / Structured Finance	Subordinated Notes (Residual Interest, current yield 6.82%, due 7/14/2026)(5)(6)(14)	49,250	35,344	30,162	0.9%
				35,344	30,162	0.9%
Symphony CLO XV Ltd.	Cayman Islands / Structured Finance	Subordinated Notes (Residual Interest, current yield 10.51%, due 10/17/2026)(5)(14)	50,250	40,328	34,887	1.0%
				40,328	34,887	1.0%
TouchTunes Interactive Networks, Inc.	New York / Internet Software & Services	Second Lien Term Loan (9.62% (LIBOR + 8.25% with 1.00% LIBOR floor), due 5/29/2022)(3)(8)(10)(11)	14,000	13,916	14,000	0.4%
				13,916	14,000	0.4%
Transplace Holdings, Inc.	Texas / Transportation Infrastructure	Second Lien Term Loan (10.13% (LIBOR + 8.75% with 1.00% LIBOR floor), due 10/6/2025)(8)(10)(13)	27,500	26,830	26,830	0.8%
				26,830	26,830	0.8%
TGP HOLDINGS III LLC	Oregon / Household Durables	Second Lien Term Loan (10.19% (LIBOR + 8.50% with 1.00% LIBOR floor), due 9/25/2025)(8)(10)(11)	3,000	2,956	3,000	0.1%
				2,956	3,000	0.1%
Turning Point Brands, Inc.(42)	Kentucky / Tobacco	Second Lien Term Loan (11.00%, due 8/17/2022)(3)(8)	14,500	\$ 14,380	\$ 14,500	0.4%
				14,380	14,500	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)(10)(13) Common Stock (24,967 shares)(16)	142,994	31,699	46,914	1.4%
				—	—	—%
Universal Fiber Systems, LLC	Virginia / Textiles, Apparel & Luxury	Second Lien Term Loan (10.93% (LIBOR + 9.50% with 1.00% LIBOR	37,000	36,499	37,000	1.1%
				131,699	46,914	1.4%

Edgar Filing: PROSPECT CAPITAL CORP - Form 497

	Goods	floor), due 10/02/2022)(3)(8)(10)(13)	36,499	37,000	1.1%
Universal Turbine Parts, LLC	Alabama / Trading Companies & Distributors	Senior Secured Term Loan A (6.99% (LIBOR + 5.75% with 1.00% LIBOR floor), due 7/22/2021)(3)(10)(13)	31,688	31,688	28,648 0.9%
		Senior Secured Term Loan B (12.99% (LIBOR + 11.75% with 1.00% LIBOR floor), due 7/22/2021)(3)(10)(13)	32,500	32,500	27,321 0.9%
			64,188	55,969	1.8%
		Revolving Line of Credit – \$2,500 Commitment (10.82% (LIBOR + 9.25% with 1.00% LIBOR floor), due 8/24/2018)(3)(10)(13)(15)	2,500	2,500	2,500 0.1%
USG Intermediate, LLC	Texas / Leisure Products	Senior Secured Term Loan A (8.32% (LIBOR + 6.75% with 1.00% LIBOR floor), due 8/24/2022)(3)(10)(13)	14,233	14,233	14,233 0.4%
		Senior Secured Term Loan B (13.32% (LIBOR + 11.75% with 1.00% LIBOR floor), due 8/24/2022)(3)(10)(13)	21,591	21,591	21,591 0.6%
		Equity(16)	1	—	—%
			38,325	38,324	1.1%

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)(45)	December 31, 2017 (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)						
UTZ Quality Foods, LLC	Pennsylvania / Food Products	Second Lien Term Loan (8.76% (LIBOR + 7.25% with 1.00% LIBOR floor, due 11/21/2025)(8)(10)(13)	\$ 10,000	\$ 9,876	\$ 9,876	0.3%
				9,876	9,876	0.3%
VC GB Holdings, Inc.	Illinois / Household Durables	Subordinated Secured Term Loan (9.57% (LIBOR + 8.00% with 1.00% LIBOR floor), due 2/28/2025)(3)(8)(10)(13)	18,667	18,397	18,667	0.6%
				18,397	18,667	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), due 2/19/2020)(10)(11)(46)	20,976	16,287	17,076	0.5%
				16,287	17,076	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	1,067	1,270	—%
				1,067	1,270	—%
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	440	1,288	—%
				440	1,288	—%
Voya CLO 2012-4, Ltd.	Cayman Islands / Structured Finance	Income Notes (Residual Interest, current yield 12.30%, due 10/15/2028)(5)(14)	40,613	30,813	28,802	0.9%
				30,813	28,802	0.9%
Voya CLO 2014-1, Ltd.	Cayman Islands / Structured Finance	Subordinated Notes (Residual Interest, current yield 13.16%, due 4/18/2026)(5)(6)(14)	32,383	23,910	22,775	0.7%
				23,910	22,775	0.7%
Voya CLO 2016-3, Ltd.	Cayman Islands / Structured Finance	Subordinated Notes (Residual Interest, current yield 12.62%, due 10/18/2027)(5)(6)(14)	28,100	27,091	22,321	0.8%
				27,091	22,321	0.8%
Voya CLO 2017-3, Ltd.	Cayman Islands / Structured Finance	Subordinated Notes (Residual Interest, current yield 14.01%, due 7/20/2030)(5)(6)(14)	44,885	47,996	43,114	1.3%
				47,996	43,114	1.3%
			22,600	15,716	11,673	0.3%

Edgar Filing: PROSPECT CAPITAL CORP - Form 497

Washington Mill CLO Ltd.	Cayman Islands / Structured Finance	Subordinated Notes (Residual Interest, current yield 1.82%, due 4/20/2026)(5)(6)(14)		15,716	11,673	0.3%
		Senior Subordinated Secured Note (11.00% (LIBOR + 7.00% with 4.00% LIBOR floor), due	15,300	15,300	15,300	0.5%
Wheel Pros, LLC	Colorado / Auto Components	6/29/2020)(3)(10)(11) Senior Subordinated Secured Note (11.00% (LIBOR + 7.00% with 4.00% LIBOR floor), due	5,460	5,460	5,460	0.2%
		6/29/2020)(3)(10)(11)		20,760	20,760	0.7%
Wink Holdco, Inc.	Texas / Insurance	Second Lien Term Loan (8.24% (LIBOR + 6.75% with 1% LIBOR floor), due 12/1/2025)(8)(10)(11)	3,000	2,985	2,985	0.1%
				2,985	2,985	0.1%
Total Non-Control/Non-Affiliate Investments (Level 3)				\$3,643,003	\$3,389,938	101.2%
Total Portfolio Investments (Level 3)				\$5,562,438	\$5,421,132	161.9%

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)(45)	June 30, 2017		
			Amortized Cost	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)	—	—	—%
			60,876	17,370	0.5%
CCPI Inc.(19)	Ohio / Electronic Equipment, Instruments & Components	Senior Secured Term Loan A (10.00%, due 12/31/2020)(3)	2,966	2,966	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)	55,855	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%
					31,055
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)(10)(13)(46)			
		Senior Secured Term Loan (11.00% (LIBOR + 9.00% with 2.00% LIBOR floor) plus 1.00% PIK, due 12/7/2024)(10)(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)	33,829	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-17

---

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

Portfolio Company	Locale / Industry Investments(1)(44)(45)	June 30, 2017				
		Principal Value	Amortized Cost	Fair Value(2)	% of Net Assets	
<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)(10)(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)(10)(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%	
National Property REIT Corp.(26)	Various / Equity Investment Trusts (REITs) / Online Lending	Senior Secured Term Loan A (6.00% (LIBOR + 4.00% with 2.00% LIBOR floor) plus 5.50% PIK, due 4/1/2019)(10)(11)(46)	291,315	291,315	291,315	8.7%
		Senior Secured Term Loan E (11.00% (LIBOR + 9.00% with 2.00% LIBOR floor) plus 5.00% PIK, due 4/1/2019)(10)(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)(10)(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)(10)(11)(14)(46)	87,130	87,130	87,130	2.6%
			229,815	338,046	10.1%	
			—	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%
		Class A Units (32,456,159 units)(14)		18,183	20,126	0.6%

Edgar Filing: PROSPECT CAPITAL CORP - Form 497

			35,002	36,945	1.1%
		Senior Secured Note (14.00%, due 5/6/2021)	3,714	3,714	0.1%
		Senior Secured Note to Armed Forces Communications, Inc. (14.00%, due 5/6/2021)	6,900	6,900	0.2%
NMMB, Inc.(28)	New York / Media	Series A Preferred Stock (7,200 shares)(16)	7,200	5,713	0.2%
		Series B Preferred Stock (5,669 shares)(16)	5,669	4,498	0.1%
			23,483	20,825	0.6%
		Senior Subordinated Note (10.30% (LIBOR + 9.00% with 1.00% LIBOR floor), due 3/31/2022)(3)(10)(11)	28,622	28,622	0.9%
R-V Industries, Inc.	Pennsylvania / Machinery	Common Stock (745,107 shares)	6,866	4,056	0.1%
			35,488	32,678	1.0%
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-18



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

Portfolio Company	Locale / Industry	Investments(1)(44)(45)	June 30, 2017		Fair Value(2)	% of Net Assets
			Principal Value	Amortized Cost		
<b>LEVEL 3 PORTFOLIO INVESTMENTS</b>						
<b>Control Investments (greater than 25.00% voting control)(49)</b>						
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)	—	—	—	—%
Valley Electric Company, Inc.(31)	Washington / Construction & Engineering	Common Stock (268,962 shares)(16)	—	64,172	12,517	0.4%
		Senior Secured Note to Valley Electric Co. of Mt. Vernon, Inc. (8.00% (LIBOR + 5.00% with 3.00% LIBOR floor) plus 2.50% PIK, due 12/31/2024)(3)(10)(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)	—	26,204	—	—%
Wolf Energy, LLC(32)	Kansas / Energy Equipment & Services	Common Stock (50,000 shares)(16)	—	62,258	32,509	1.0%
		Membership Interest (100%)(16)	—	—	—	—%
		Membership Interest in Wolf Energy Services Company, LLC (100%)(16)	6,801	—	5,662	0.1%
		Net Profits Interest (8% of Equity Distributions)(4)(16)	—	—	15	—%
<b>Total Control Investments (Level 3)</b>			<b>\$1,840,731</b>	<b>\$1,911,775</b>	<b>\$1,911,775</b>	<b>57.0%</b>
<b>Affiliate Investments (5.00% to 24.99% voting control)(50)</b>						
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)	—	—	—	—%
Targus Cayman HoldCo Limited (33)	California / Textiles, Apparel & Luxury Goods	Common Stock (857 units)(16)	—	—	14,197	—%
		Senior Secured Term Loan A (15.00% PIK, due 12/31/2019)(8)(46)	1,532	1,320	1,532	—%
		Senior Secured Term Loan B (15.00% PIK, due 12/31/2019)(8)(46)	4,596	3,961	4,596	0.1%
Common Stock (1,262,737 shares)(16)			—	3,479	5,301	0.1%
<b>Total Affiliate Investments (Level 3)</b>			<b>\$22,957</b>	<b>\$11,429</b>	<b>\$11,429</b>	<b>0.3%</b>

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)	June 30, 2017		
			Amortized Cost	Fair Value	% 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)	<del>25,925</del> 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)	<del>30,590</del> 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)	<del>30,065</del> 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)	<del>30,595</del> 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)	<del>26,990</del> 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)(10)(13)	<del>1,630</del> 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)(10)(11)	<del>7,908</del> 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)(10)(11)(15) Senior Term Loan (9.50% (LIBOR + 8.00% with 1.50% LIBOR floor), due 2/21/2020)(3)(10)(11)	3,850 79,560	3,850 79,560	0.1% 2.4%
Babson CLO Ltd. 2014-III	Cayman Islands / Structured Finance	Subordinated Notes (Residual Interest, current yield 15.01%, due 1/15/2026)(5)(6)(14)	83,410 <del>32,260</del>	83,410	2.5%
Broder Bros., Co.			42,101 110,876	39,001 110,876	1.2% 3%

Edgar Filing: PROSPECT CAPITAL CORP - Form 497

Pennsylvania / Textiles, Apparel & Luxury Goods	Senior Secured Term Loan A (7.05% (LIBOR + 5.75% with 1.25% LIBOR floor), due 6/03/2021)(3)(10)(11) Senior Secured Term Loan B (13.55% (LIBOR + 12.25% with 1.25% LIBOR floor), due 6/03/2021)(10)(11)	114,901 114,900 B.4%	225,777 225,776.7%
Brookside Mill CLO Ltd.	Cayman Islands / Subordinated Notes (Residual Interest, current Structured Finance yield 1.29%, due 4/17/2025)(5)(14)	14,022 0.4%	17,178 14,022 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)	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)						
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)(10)(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)(10)(11) Senior Secured Term Loan B (13.80% (LIBOR + 12.50% with 1.00% LIBOR floor), due 1/17/2022)(8)(10)(11)	67,320	67,320	67,320	2.0%
				68,000	68,000	2.0%
				135,320	135,320	4.0%
CIFC Funding 2013-III, Ltd.	Cayman Islands / Structured Finance	Subordinated Notes (Residual Interest, current yield 15.42%, due	44,100	31,233	30,265	0.9%

Edgar Filing: PROSPECT CAPITAL CORP - Form 497

	Finance	10/24/2025)(5)(14)		31,233	30,265	0.9%
CIFC Funding 2013-IV, Ltd.	Cayman Islands / Structured Finance	Subordinated Notes (Residual Interest, current yield 16.16%, due 11/27/2024)(5)(14)	45,500	32,859	32,708	1.0%
				32,859	32,708	1.0%
CIFC Funding 2014-IV Investor, Ltd.	Cayman Islands / Structured Finance	Income Notes (Residual Interest, current yield 13.85%, due 10/17/2026)(5)(6)(14)	41,500	30,002	29,139	0.9%
				30,002	29,139	0.9%
CIFC Funding 2016-I, Ltd.	Cayman Islands / Structured Finance	Income Notes (Residual Interest, current yield 16.33%, due 10/21/2028)(5)(6)(14)	34,000	31,780	29,513	0.9%
				31,780	29,513	0.9%
Cinedigm DC Holdings, LLC	New York / Media	Senior Secured Term Loan (11.00% (LIBOR + 9.00% with 2.00% LIBOR floor) plus 2.50% PIK, due 3/31/2021)(10)(11)(46)	49,156	49,106	49,156	1.5%
				49,106	49,156	1.5%

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)	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)						
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)(10)(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)(10)(11)	24,938	24,938	24,938	0.7%
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)(10)(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)(10)(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)(10)(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)(10)(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)(10)(13)	15,000	15,000	15,000	0.5%
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)(10)(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)(10)(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)(10)(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-22



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)						
Halcyon Loan Advisors Funding 2014-1 Ltd.	Cayman Islands / Finance	Subordinated Notes (Residual Interest, Structured 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 / Finance	Subordinated Notes (Residual Interest, Structured 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 / Finance	Subordinated Notes (Residual Interest, Structured 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 / Finance	Subordinated Notes (Residual Interest, Structured 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)(10)(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)(10)(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)(10)(11)	120,948	120,948	120,948	3.6%
		Senior Secured Term Loan B (12.30% (LIBOR + 11.00% with 1.00% LIBOR floor), due 3/28/2019)(3)(10)(11)	158,100	158,100	158,100	4.7%
Instant Web, LLC	Minnesota / Media	Senior Secured Term Loan C-1 (13.05% (LIBOR + 11.75% with 1.00% LIBOR floor), due 3/28/2019)(10)(11)	27,000	27,000	27,000	0.8%

Edgar Filing: PROSPECT CAPITAL CORP - Form 497

		Senior Secured Term Loan C-2 (13.80% (LIBOR + 12.50% with 1.00% LIBOR floor), due 3/28/2019)(10)(11)	25,000	25,000	25,000	0.8%
				331,048	331,048	9.9%
InterDent, Inc.	California / Health Care Providers & Services	Senior Secured Term Loan A (6.73% (LIBOR + 5.50% with 0.75% LIBOR floor), due 8/3/2017)(10)(13)	78,656	78,656	78,656	2.3%
		Senior Secured Term Loan B (11.73% (LIBOR + 10.50% with 0.75% LIBOR floor), due 8/3/2017)(3)(10)(13)	131,125	131,125	129,857	3.9%
				209,781	208,513	6.2%
JD Power and Associates	California / Capital Markets	Second Lien Term Loan (9.80% (LIBOR + 8.50% with 1.00% LIBOR floor), due 9/7/2024)(3)(8)(10)(11)	15,000	14,796	15,000	0.4%
				14,796	15,000	0.4%
Jefferson Mill CLO Ltd.	Cayman Islands / Structured Finance	Subordinated Notes (Residual Interest, current yield 10.45%, due 7/20/2027)(5)(6)(14)	19,500	16,501	13,507	0.4%
				16,501	13,507	0.4%
K&N Parent, Inc.	California / Auto Components	Second Lien Term Loan (9.98% (LIBOR + 8.75% with 1.00% LIBOR floor), due 10/20/2024)(3)(8)(10)(13)	13,000	12,762	13,000	0.4%
				12,762	13,000	0.4%

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)	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)(10)(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)(10)(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)(10)(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)(10)(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)(10)(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)(10)(11)	37,810	37,810	37,810	1.1%
				37,810	37,810	1.1%
Mountain View CLO 2013-I Ltd.	Cayman Islands / Structured Finance	Subordinated Notes (Residual Interest, current yield 9.43%, due 4/12/2024)(5)(14)	43,650	28,554	26,314	0.8%

Edgar Filing: PROSPECT CAPITAL CORP - Form 497

			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)(10)(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)(10)(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-24

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)(10)(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)(10)(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)(10)(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)(10)(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)(10)(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)(10)(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)(10)(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)(10)(13)	143,767	143,767	143,767	4.3%
				143,767	143,767	4.3%
Photonis Technologies SAS	France / Electronic Equipment, Instruments & Components	First Lien Term Loan (8.80% (LIBOR + 7.50% with 1.00% LIBOR floor), due 9/18/2019)(8)(10)(11)(14)	9,872	9,755	8,794	0.3%
				9,755	8,794	0.3%
Pinnacle (US) Acquisition Co.	Texas / Software	Second Lien Term Loan (10.55% (LIBOR + 9.25% with 1.25% LIBOR	7,037	6,947	5,150	0.2%

Edgar Filing: PROSPECT CAPITAL CORP - Form 497

Limited		floor), due 8/3/2020)(8)(10)(11)		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)(10)(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)(10)(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)(10)(11)	74,500	74,500	54,585	1.6%
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)(10)(11)	14,963	14,744	14,744	0.4%
				14,744	14,744	0.4%

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)	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)					
		Revolving Line of Credit – \$2,000 Commitment (9.30% (LIBOR + 8.00% with 1.00% LIBOR floor), due 8/4/2017)(10)(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)(10)(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)(10)(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)(10)(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)(10)(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)(10)(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)(10)(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)(10)(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 /	Subordinated Notes (Residual Interest, current Structured Finance 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 /	Subordinated Notes (Residual Interest, current Structured Finance 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)(10)(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)(10)(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)(10)(11)	<del>56,031</del>	56,031	1.6%
			109,125	109,125	3.2%

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	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	Virginia / Diversified	Second Lien Term Loan (9.23%				
Network Services, Inc.	Telecommunication Services	(LIBOR + 8.00% with 1.00% LIBOR floor), due 8/14/2020)(3)(8)(10)(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)(10)(13)	141,559	140,847	83,225	2.5%
		Common Stock (24,967 shares)(16)	—	—	—	—%
				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)(10)(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)(10)(13)	32,013	32,013	32,013	1.0%
		Senior Secured Term Loan B (12.98% (LIBOR + 11.75% with 1.00% LIBOR floor), due 7/22/2021)(3)(10)(13)	32,500	32,500	32,500	0.9%
				64,513	64,513	1.9%
		Revolving Line of Credit – \$2,500 Commitment (10.98% (LIBOR + 9.75% with 1.00% LIBOR floor), due 4/15/2018)(10)(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)(10)(13)	13,307	13,307	13,307	0.4%
		Senior Secured Term Loan B (13.48% (LIBOR + 12.25% with 1.00% LIBOR floor), due 4/15/2020)(3)(10)(13)	18,897	18,897	18,897	0.6%
		Equity(16)		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)(10)(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)(10)(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-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		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)(10)(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)(10)(11)	12,000	12,000	12,000	0.4%
		Senior Subordinated Secured Note (11.00% (LIBOR + 7.00% with 4.00% LIBOR floor), due 6/29/2020)(3)(10)(11)	5,460	5,460	5,460	0.2%
				17,460	17,460	0.6%
Total Non-Control/Non-Affiliate Investments (Level 3)				\$4,117,868	\$3,915,101	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 December 31, 2017 (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 December 31, 2017 and June 30, 2017, all of our investments were classified as Level 3. ASC 820 classifies such unobservable inputs used to measure fair value as Level 3 within the valuation 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 December 31, 2017 and June 30, 2017 were \$1,217,565 and \$1,513,413, respectively, representing 22.5% 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.

Security, or a portion thereof, has a floating interest rate which may be subject to a LIBOR or PRIME floor. The interest rate was in effect at December 31, 2017 and June 30, 2017.

The interest rate on these investments is subject to the base rate of 3-Month LIBOR, which was 1.69% and 1.30% at December 31, 2017 and June 30, 2017, respectively. The current base rate for each investment may be different from the reference rate on December 31, 2017 and June 30, 2017.

The interest rate on these investments is subject to the base rate of 2-Month LIBOR, which was 1.62% and 1.25% at December 31, 2017 and June 30, 2017, respectively. The current base rate for each investment may be different from the reference rate on December 31, 2017 and June 30, 2017.

The interest rate on these investments is subject to the base rate of 1-Month LIBOR, which was 1.56% and 1.23% at December 31, 2017 and June 30, 2017, respectively. The current base rate for each investment may be different from the reference rate on December 31, 2017 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 December 31, 2017 and June 30, 2017, our qualifying assets as a percentage of total assets, stood at 72.16% 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 4.00%. As of December 31, 2017 and June 30, 2017, we had \$20,017 and \$22,925, respectively, of undrawn revolver and delayed draw term loan commitments to our portfolio companies. (16) Represents non-income producing security that has not paid a dividend in the year preceding the reporting date.

See notes to consolidated financial statements.

F-29

---

PROSPECT CAPITAL CORPORATION AND SUBSIDIARIES  
 CONSOLIDATED SCHEDULES OF INVESTMENTS (CONTINUED)

(in thousands, except share data)

Endnote Explanations as of December 31, 2017 (Unaudited) and June 30, 2017 (Continued)

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 (17) 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.

Ellett Brothers, LLC, Evans Sports, Inc., Jerry's Sports, Inc., Simmons Gun Specialties, Inc., Bonitz Brothers, Inc., (18) 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.

CCPI Holdings Inc., a consolidated entity in which we own 100% of the common stock, owns 94.59% of CCPI (19) Inc. ("CCPI"), the operating company, as of December 31, 2017 and June 30, 2017. We report CCPI as a separate controlled company.

CP Holdings of Delaware LLC, a consolidated entity in which we own 100% of the membership interests, owns 82.3% of CP Energy Services Inc. ("CP Energy") as of December 31, 2017 and 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 (20) 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.

Credit Central Holdings of Delaware, LLC, a consolidated entity in which we own 100% of the membership interests, owns 98.26% and 74.93% of Credit Central Loan Company, LLC (f/k/a Credit Central Holdings, LLC ("Credit Central")) as of December 31, 2017 and June 30, 2017, respectively. Credit Central owns 100% of each of (21) 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. On September 28, 2016, we made an additional \$12,523 second lien debt and \$2,098 equity investment in Credit Central, increasing its ownership to 99.91%.

Prospect owns 37.1% of the equity of Edmentum Ultimate Holdings, LLC as of December 31, 2017 and June 30, (22) 2017.

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 (23) Tower, LLC, the operating company as of December 31, 2017 and June 30, 2017. We report First Tower Finance as a separate controlled company.

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, (24) 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.

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 December 31, 2017 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 December 31, 2017 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 three months ended December 31, 2017, 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.

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.), (26) 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

See notes to consolidated financial statements.

F-30

---

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

Endnote Explanations as of December 31, 2017 (Unaudited) and June 30, 2017 (Continued)

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.

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 December 31, 2017 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 (27) 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.

NMMB Holdings, a consolidated entity in which we own 100% of the equity, owns 96.33% of the fully diluted equity of NMMB, Inc. (“NMMB”) as of December 31, 2017 and June 30, 2017. NMMB owns 100% of Refuel (28) Agency, Inc., which owns 100% of Armed Forces Communications, Inc. We report NMMB as a separate controlled company.

On June 3, 2017, Gulf Coast Machine & Supply Company (“Gulf Coast”) sold all of its assets to a third party, for total consideration of \$10,250, including escrowed amounts. The proceeds from the sale were primarily used to repay a \$6,115 third party revolving credit facility, and the remainder was used to pay other legal and (29) administrative costs incurred by Gulf Coast. As no proceeds were allocated to Prospect our debt and equity investment in Gulfco was written-off and we recorded a realized loss of \$66,103. 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 December 31, 2017 and June 30, 2017.

Valley Electric Holdings I, Inc., a consolidated entity in which we own 100% of the common stock, owns 100% of Valley Electric Holdings II, Inc. (“Valley Holdings II”), another consolidated entity. Valley Holdings II owns (31) 94.99% of Valley Electric Company, Inc. (“Valley Electric”). Valley Electric owns 100% of the equity of VE Company, Inc., which owns 100% of the equity of Valley Electric Co. of Mt. Vernon, Inc. We report Valley Electric as a separate controlled company.

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 (32) Term Loan B cost basis, in total equal to \$22,145. The cost basis of the transferred assets is equal to the appraised fair value of assets at the time of transfer. During the three months ended June 30, 2017, Ark-La-Tex Term Loan B was written-off and a loss of \$19,818 was realized. On June 30, 2017, the 18.00% Senior Secured Promissory Note, due April 15, 2018, in Wolf Energy, LLC was contributed to equity of Wolf Energy LLC. There was no impact from the transaction due to the note being on non-accrual status and having zero cost basis.

(33) Prospect owns 16.04% and 12.63% of the equity in Targus Cayman HoldCo Limited, the parent company of Targus International LLC (“Targus”) as of December 31, 2017 and June 30, 2017, respectively. On September 25, 2017, Prospect exchanged \$1,600 of Senior Secured Term Loan A and \$4,799 of Senior Secured Term Loan B investments in Targus into 6,120,658 of common shares, and recorded a realized gain of \$846, as a result of this



transaction.

As of December 31, 2017 and June 30, 2017, we own 99.9999% of AGC/PEP, LLC (“AGC/PEP”). As of 9/30/16, 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 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.

(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.

See notes to consolidated financial statements.

F-31

---

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

Endnote Explanations as of December 31, 2017 (Unaudited) and June 30, 2017 (Continued)

- 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.
- (39) As of December 31, 2017 and June 30, 2017, Prospect owns 8.57% of the equity in Nixon Holdco, LLC, the parent company of Nixon, Inc.
- (40) As of December 31, 2017 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 by type of investment as of December 31, 2017 and June 30, 2017:

Type of Investment	December 31, 2017			June 30, 2017		
	Cost	Fair Value	% of Net Assets	Cost	Fair Value	% of Net Assets
Revolving Line of Credit	\$34,317	\$34,096	1.0 %	\$27,409	\$27,409	0.8 %
Senior Secured Debt	2,497,404	2,381,739	71.1 %	2,940,163	2,798,796	83.4 %
Subordinated Secured Debt	1,233,051	1,153,876	34.5 %	1,160,019	1,107,040	33.0 %
Subordinated Unsecured Debt	38,236	32,052	1.0 %	37,934	44,434	1.3 %
Small Business Loans	1,484	1,365	— %	8,434	7,964	0.2 %
CLO Residual Interest	1,067,371	940,276	28.1 %	1,150,006	1,079,712	32.2 %
Preferred Stock	77,346	62,678	1.9 %	112,394	83,209	2.5 %
Common Stock	362,348	458,025	13.7 %	295,200	391,374	11.7 %
Membership Interest	250,881	258,774	7.7 %	249,997	206,012	6.2 %
Participating Interest(A)	—	97,395	2.9 %	—	91,491	2.7 %
Escrow Receivable	—	856	— %	—	864	— %
<b>Total Investments</b>	<b>\$5,562,438</b>	<b>\$5,421,132</b>	<b>161.9 %</b>	<b>\$5,981,556</b>	<b>\$5,838,305</b>	<b>174.0 %</b>

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

See notes to consolidated financial statements.

F-32

---

PROSPECT CAPITAL CORPORATION AND SUBSIDIARIES  
CONSOLIDATED SCHEDULES OF INVESTMENTS (CONTINUED)

(in thousands, except share data)

Endnote Explanations as of December 31, 2017 (Unaudited) and June 30, 2017 (Continued)

(45) The following shows the composition of our investment portfolio by industry as of December 31, 2017 and June 30, 2017:

Industry	December 31, 2017			June 30, 2017		
	Cost	Fair Value	% of Net Assets	Cost	Fair Value	% of Net Assets
Aerospace & Defense	\$69,837	\$76,577	2.3 %	\$69,837	\$71,318	2.1 %
Air Freight & Logistics	37,114	37,114	1.1 %	51,952	51,952	1.5 %
Auto Components	33,538	33,594	1.0 %	30,222	30,460	0.9 %
Capital Markets	19,785	20,000	0.6 %	14,796	15,000	0.4 %
Chemicals	17,491	17,077	0.5 %	17,489	16,699	0.5 %
Commercial Services & Supplies	338,263	278,723	8.3 %	354,185	312,634	9.3 %
Communications Equipment	39,851	39,851	1.2 %	—	—	— %
Construction & Engineering	63,358	40,930	1.2 %	62,258	32,509	1.0 %
Consumer Finance	468,390	542,497	16.2 %	469,869	502,941	15.0 %
Distributors	591,124	506,339	15.1 %	140,847	83,225	2.5 %
Diversified Consumer Services	187,373	176,030	5.3 %	188,912	190,662	5.7 %
Diversified Telecommunication Services	—	—	— %	4,395	4,410	0.1 %
Electronic Equipment, Instruments & Components	39,897	49,920	1.5 %	37,696	51,846	1.5 %
Energy Equipment & Services	248,499	166,318	5.0 %	251,019	131,660	3.9 %
Equity Real Estate						
Investment Trusts (REITs)	437,063	718,356	21.5 %	374,380	624,337	18.6 %
Food Products	9,876	9,876	0.3 %	—	—	— %
Health Care Providers & Services	455,946	452,712	13.5 %	422,919	421,389	12.6 %
Health Care Technology	14,926	14,926	0.4 %	—	—	— %
Hotels, Restaurants & Leisure	—	—	— %	127,638	103,897	3.1 %
Household Durables	45,390	45,241	1.4 %	146,031	146,183	4.4 %
Insurance	2,985	2,985	0.1 %	—	—	— %
Internet Software & Services	228,615	228,699	6.8 %	219,348	219,348	6.6 %
IT Services	19,568	20,000	0.6 %	19,531	20,000	0.6 %
Leisure Products	49,217	49,324	1.5 %	44,085	44,204	1.3 %
Machinery	35,488	31,408	0.9 %	35,488	32,678	1.0 %
Marine (A)	8,935	8,935	0.3 %	8,919	8,800	0.3 %
Media	128,616	126,411	3.8 %	469,108	466,500	13.9 %
Metals & Mining	9,963	10,000	0.3 %	9,953	10,000	0.3 %
Online Lending	408,280	331,384	9.7 %	424,350	370,931	11.1 %
Paper & Forest Products	11,312	11,500	0.3 %	11,295	11,500	0.3 %
Personal Products	212,725	183,136	5.5 %	222,698	192,748	5.8 %
Pharmaceuticals	11,880	12,000	0.4 %	117,989	117,989	3.5 %
Professional Services	16,287	17,076	0.5 %	64,242	64,473	1.9 %
Software	55,127	55,970	1.7 %	56,041	55,150	1.6 %
Technology Hardware, Storage & Peripherals	12,376	12,376	0.4 %	—	—	— %

Edgar Filing: PROSPECT CAPITAL CORP - Form 497

Textiles, Apparel & Luxury Goods	60,574	56,272	1.7	%	285,180	274,206	8.2	%
Tobacco	14,380	14,500	0.4	%	14,365	14,431	0.4	%

See notes to consolidated financial statements.

F-33

---

PROSPECT CAPITAL CORPORATION AND SUBSIDIARIES  
CONSOLIDATED SCHEDULES OF INVESTMENTS (CONTINUED)

(in thousands, except share data)

Endnote Explanations as of December 31, 2017 (Unaudited) and June 30, 2017 (Continued)

Trading Companies & Distributors	64,188	55,969	1.7 %	64,513	64,513	1.9 %
Transportation Infrastructure	26,830	26,830	0.8 %	—	—	— %
Subtotal	\$4,495,067	\$4,480,856	133.8 %	\$4,831,550	\$4,758,593	141.8 %
Structured Finance (B)	\$1,067,371	\$940,276	28.1 %	\$1,150,006	\$1,079,712	32.2 %
Total Investments	\$5,562,438	\$5,421,132	161.9 %	\$5,981,556	\$5,838,305	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 December 31, 2017 and June 30, 2017 is \$175,253 and \$140,460, respectively.

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

(46) The interest rate on these investments, excluding those on non-accrual, contains a paid in kind (“PIK”) provision, whereby the issuer has either the option or the obligation to make interest payments with the issuance of additional securities. The interest rate in the schedule represents the current interest rate in effect for these investments.

The following table provides additional details on these PIK investments, including the maximum annual PIK interest rate allowed under the existing credit agreements, as of and for three months ended December 31, 2017:

Security Name	PIK Rate - Capitalized	PIK Rate - Maximum Paid as cash	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	—%	2.25%	2.25%	
Echelon Aviation LLC	—%	1.00%	1.00%	
Edmentum Ultimate Holdings, LLC - Unsecured Senior PIK Note	8.50%	—%	8.50%	
First Tower Finance Company LLC	—%	7.00%	7.00%	
MITY, Inc.	—%	10.00%	10.00%	
National Property REIT Corp. - Senior Secured Term Loan A	1.05%	9.45%	10.50%	
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	3.50%	6.50%	10.00%	
Spartan Energy Services, Inc.	13.35%	—%	13.35%	
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 January 2, 2018.

See notes to consolidated financial statements.  
F-34

---

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

Endnote Explanations as of December 31, 2017 (Unaudited) and June 30, 2017 (Continued)

The following table provides additional details on these PIK investments, including the maximum annual PIK interest rate allowed under the existing credit agreements, as of and for three months ended June 30, 2017:

Security Name	PIK Rate - Capitalized	PIK Rate - Paid as cash	Maximum Current PIK Rate	
CCPI Inc.	—%	7.00%	7.00%	
Cinedigm DC Holdings, LLC	—%	2.50%	2.50%	
Credit Central Loan Company	—%	10.00%	10.00%	
Echelon Aviation LLC	N/A	N/A	2.25%	(B)
Echelon Aviation LLC	N/A	N/A	1.00%	(C)
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%	

(B) Next PIK payment/capitalization date was July 31, 2017. The company paid 2.25% PIK in cash.

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

See notes to consolidated financial statements.

F-35



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

Endnote Explanations as of December 31, 2017 (Unaudited) and June 30, 2017 (Continued)

As defined in the 1940 Act, we are deemed to “Control” these portfolio companies because we own more than 25% (47) of the portfolio company’s outstanding voting securities. Transactions during the six months ended December 31, 2017 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 December 31, 2017	Interest income	Dividend income	Other income	Net realized gains (losses)
Arctic Energy Services, LLC	\$17,370	\$—	\$—	\$6,788	\$24,158	\$—	\$—	\$—	\$—
CCPI Inc.	43,052	—	(369)	(4,046)	38,637	1,863	—	—	—
CP Energy Services Inc.	72,216	—	—	14,341	86,557	1,105	—	228	—
Credit Central Loan Company, LLC	64,435	940	—	9,337	74,712	6,241	—	317	—
Echelon Aviation LLC	71,318	—	—	5,259	76,577	3,206	—	—	—
Edmentum Ultimate Holdings, LLC	46,895	5,394	(7,834)	(13,093)	31,362	415	—	—	—
First Tower Finance Company LLC	365,588	869	(3,211)	41,784	405,030	22,603	—	—	—
Freedom Marine Solutions, LLC	23,994	200	—	1,072	25,266	—	—	—	—
MITY, Inc.	76,512	—	—	(7,030)	69,482	4,139	—	1,094	11
National Property REIT Corp.	987,304	92,272	(38,709)	7,508	1,048,375	46,945	—	4,490	—
Nationwide Loan Company LLC	36,945	4,074	—	(10,764)	30,255	1,737	—	—	—
NMMB, Inc.	20,825	—	—	403	21,228	759	—	—	—
R-V Industries, Inc.	32,678	—	—	(1,270)	31,408	1,479	—	—	—
SB Forging Company II, Inc. (f/k/a Gulf Coast Machine & Supply Company)	1,940	—	—	(944)	996	—	—	—	—
USES Corp.	12,517	3,000	(3)	(8,859)	6,655	—	—	—	—
Valley Electric Company, Inc.	32,509	1,103	—	7,319	40,931	2,956	—	—	—
Wolf Energy, LLC	5,677	—	(3,097)	(2,287)	293	—	—	—	—
Total	\$1,911,775	\$107,852	\$(53,223)	\$45,518	\$2,011,922	\$93,448	\$—	-\$6,129	\$11

\* 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 and impairments.

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 December 31, 2017 (Unaudited) and June 30, 2017 (Continued)

As defined in the 1940 Act, we are deemed to be an “Affiliated company” of these portfolio companies because we (48) own more than 5% of the portfolio company’s outstanding voting securities. Transactions during the six months ended December 31, 2017 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 December 31, 2017	Interest income	Dividend income	Other income	Net realized gains (losses)
Nixon, Inc.	\$—	\$—	\$—	—	\$—	\$—	\$—	\$—	\$—
Targus Cayman HoldCo Limited	11,429	1,117	—	6,726	19,272	205	—	—	846
<b>Total</b>	<b>\$11,429</b>	<b>\$1,117</b>	<b>\$—</b>	<b>—</b>	<b>\$19,272</b>	<b>\$205</b>	<b>\$—</b>	<b>\$—</b>	<b>—</b>

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

\*\* Gross reductions include decreases in the cost basis of investments resulting from principal collections related to investments repayments or sales and impairments.

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
	7,312	8,750	(69,125)	55,003	1,940	—	—	—	(66,103)

SB Forging Company  
II, Inc. (f/k/a Gulf  
Coast Machine &  
Supply Company)

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 and PIK interest.

\*\* Gross reductions include decreases in the cost basis of investments resulting from principal collections related to investments repayments or sales and impairments.

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 December 31, 2017 (Unaudited) and June 30, 2017 (Continued)

As defined in the 1940 Act, we are deemed to be an “Affiliated company” of these portfolio companies because we (50)own more than 5% of the portfolio company’s outstanding voting securities. Transactions during the year ended June 30, 2017 with these affiliated investments were as follows:

Portfolio Company	Fair Value at June 30, 2016	Gross Additions (Cost)*	Gross Reductions (Cost)**	Net unrealized gains (losses)	Fair Value at June 30, 2017	Interest income	Dividend income	Other income	Net realized gains (losses)
BNN Holdings Corp.	\$2,842	\$ —	\$ (2,227 )	\$ (615 )	\$—	\$ —	\$ —	—\$	—\$ 137
Nixon, Inc.***	—	1,552	—	(1,552 )	—	—	—	—	—
Targus 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 and PIK interest.

\*\* Gross reductions include decreases in the cost basis of investments resulting from principal collections related to investments repayments or sales and impairments.

\*\*\*Investment was transferred at fair market value at the beginning of the three month period ended June 30, 2017.

See notes to consolidated financial statements.

F-38

---

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; Credit Central Holdings of Delaware, LLC; Energy Solutions Holdings Inc.; First Tower Holdings of Delaware LLC; Harbortouch Holdings of Delaware Inc.; MITY Holdings of Delaware Inc.; Nationwide Acceptance Holdings LLC; NMMB Holdings, Inc.; NPH Property Holdings, LLC (“NPH”); STI Holding, Inc.; UPH Property Holdings, LLC (“UPH”); Valley Electric Holdings I, Inc.; Valley Electric Holdings II, Inc.; and Wolf Energy Holdings Inc. (“Wolf Energy Holdings”). On October 10, 2014, concurrent with the sale of the operating company, our ownership increased to 100% of the outstanding equity of ARRM Services, Inc. (“ARRM”) which was renamed SB Forging Company, Inc. (“SB Forging”). As such, we began consolidating SB Forging on October 11, 2014. Effective May 23, 2016, in connection with the merger of American Property REIT Corp. (“APRC”) and United Property REIT Corp. (“UPRC”) with and into National Property REIT Corp. (“NPRC”), APH and UPH merged with and into NPH, and were dissolved. 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-39

---

## 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 six months ended December 31, 2017.

### 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 December 31, 2017 and June 30, 2017, our qualifying assets as a percentage of total assets, stood at 72.16% 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-42

---

#### 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 December 31, 2017, approximately 1.2% 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-43

---

(or retain through a deemed distribution) all of our investment company taxable income and net capital gain 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 December 31, 2017, we do not expect to have any excise tax due for the 2017 calendar year. Thus, we have not accrued any excise tax for this period.

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

We follow ASC 740, Income Taxes (“ASC 740”). ASC 740 provides guidance for how uncertain tax positions should be recognized, measured, presented, and disclosed in the consolidated financial statements. ASC 740 requires the evaluation of tax positions taken or expected to be taken in the course of preparing our tax returns to determine whether the tax positions are “more-likely-than-not” of being sustained by the applicable tax authority. Tax positions not deemed to meet the more-likely-than-not threshold are recorded as a tax benefit or expense in the current year. As of December 31, 2017 and for the three and six 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).

F-44

---

We may record registration expenses related to shelf filings as prepaid expenses. These expenses consist principally of the Securities and Exchange Commission (“SEC”) registration fees, legal fees and accounting fees incurred. These prepaid expenses are charged to capital upon the receipt of proceeds from an equity offering or charged to expense if no offering is completed. As of December 31, 2017 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.

#### Note 3. Portfolio Investments

At December 31, 2017, we had investments in 122 long-term portfolio investments, which had an amortized cost of \$5,562,438 and a fair value of \$5,421,132. 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 \$960,888 and \$816,687 during the six months ended December 31, 2017 and December 31, 2016, respectively. Debt repayments and considerations from sales of equity securities of approximately \$1,353,163 and \$759,326 were received during the six months ended December 31, 2017 and December 31, 2016, respectively.

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



	December 31, 2017		June 30, 2017	
	Cost	Fair Value	Cost	Fair Value
Revolving Line of Credit	\$34,317	\$34,096	\$27,409	\$27,409
Senior Secured Debt	2,497,404	2,381,739	2,940,163	2,798,796
Subordinated Secured Debt	1,233,051	1,153,876	1,160,019	1,107,040
Subordinated Unsecured Debt	38,236	32,052	37,934	44,434
Small Business Loans	1,484	1,365	8,434	7,964
CLO Residual Interest	1,067,371	940,276	1,150,006	1,079,712
Equity	690,575	877,728	657,591	772,950
Total Investments	\$5,562,438	\$5,421,132	\$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 December 31, 2017.

	Level 1	Level 2	Level 3	Total
Revolving Line of Credit	\$ —	—\$ —	—\$34,096	\$34,096
Senior Secured Debt	—	—	2,381,739	2,381,739
Subordinated Secured Debt	—	—	1,153,876	1,153,876
Subordinated Unsecured Debt	—	—	32,052	32,052
Small Business Loans	—	—	1,365	1,365
CLO Residual Interest	—	—	940,276	940,276
Equity	—	—	877,728	877,728
Total Investments	\$ —	—\$ —	—\$5,421,132	\$5,421,132

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 six months ended December 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, 2017	\$ 1,911,775	\$ 11,429	\$ 3,915,101	\$ 5,838,305
Net realized gains (losses) on investments	11	846	(5,774 )	(4,917 )
Net change in unrealized gains (losses)	45,518	6,726	(50,300 )	1,944
Net realized and unrealized gains (losses)	45,529	7,572	(56,074 )	(2,973 )
Purchases of portfolio investments	103,567	846	852,495	956,908
Payment-in-kind interest	3,345	271	364	3,980
Accretion (amortization) of discounts and premiums, net	940	—	(23,547 )	(22,607 )
Repayments and sales of portfolio investments	(53,234 )	(846 )	(1,298,401 )	(1,352,481 )
Transfers within Level 3(1)	—	—	—	—
Transfers in (out) of Level 3(1)	—	—	—	—
Fair value as of December 31, 2017	\$ 2,011,922	\$ 19,272	\$ 3,389,938	\$ 5,421,132

Edgar Filing: PROSPECT CAPITAL CORP - Form 497

	Revolving Senior Line of Secured Credit Debt	Subordinated Secured Debt	Subordinated 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	—	(2,174 )	—	10	(297 )	(2,494 )	38	(4,917 )
Net change in unrealized gains (losses)	(221 )	25,703	(26,197 )	(12,685 )	351	(56,802 )	71,795	1,944
Net realized and unrealized gains (losses)	(221 )	23,529	(26,197 )	(12,675 )	54	(59,296 )	71,833	(2,973 )
Purchases of portfolio investments	14,967	710,078	177,830	—	7,551	—	46,482	956,908
Payment-in-kind interest	—	2,511	1,166	303	—	—	—	3,980
Accretion (amortization) of discounts and premiums, net	—	1,312	2,718	—	—	(26,637 )	—	(22,607 )
Repayments and sales of portfolio investments	(8,059 )	(1,148,359 )	(108,681 )	(10 )	(14,204)	(53,503 )	(19,665 )	(1,352,481 )
Transfers within Level 3(1)	—	(6,128 )	—	—	—	—	6,128	—
Transfers in (out) of Level 3(1)	—	—	—	—	—	—	—	—
Fair value as of December 31, 2017	\$34,096	\$2,381,739	\$1,153,876	\$32,052	\$1,365	\$940,276	\$877,728	\$5,421,132

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

The following tables show the aggregate changes in the fair value of our Level 3 investments during the six months ended December 31, 2016.

	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	183	137	(678 )	(358 )
Net change in unrealized gains (losses)	2,298	(1,273 )	17,450	18,475
Net realized and unrealized gains (losses)	2,481	(1,136 )	16,772	18,117
Purchases of portfolio investments	213,029	—	594,462	807,491
Payment-in-kind interest	7,837	—	1,359	9,196
Accretion (amortization) of discounts and premiums, net	264	—	(37,442 )	(37,178 )
Repayments and sales of portfolio investments	(108,650 )	(2,365 )	(647,320 )	(758,335 )
Transfers within Level 3(1)	—	—	—	—

Edgar Filing: PROSPECT CAPITAL CORP - Form 497

	Revolving Senior Line of Credit	Senior Secured Debt	Subordinated Secured Debt	Subordinated Unsecured Debt	Small Business Loans	CLO Residual Interest	Equity	Total
Transfers in (out) of Level 3(1)				—	—	—	—	—
Fair value as of December 31, 2016				\$ 1,867,410	\$ 7,819	\$ 4,061,770		\$ 5,936,999
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	—	239	145	5	(1,618 )	—	871	(358 )
Net change in unrealized gains (losses)	—	(13,411 )	18,375	5,518	(248 )	16,027	(7,786 )	18,475
Net realized and unrealized gains (losses)	—	(13,172 )	18,520	5,523	(1,866 )	16,027	(6,915 )	18,117
Purchases of portfolio investments	5,500	326,042	289,126	—	30,642	102,320	53,861	807,491
Payment-in-kind interest	—	1,885	5,541	1,770	—	—	—	9,196
Accretion (amortization) of discounts and premiums, net	—	473	1,360	—	—	(39,011 )	—	(37,178 )
Repayments and sales of portfolio investments	(7,424 )	(543,811 )	(125,266 )	(25,005 )	(28,699 )	—	(28,130 )	(758,335 )
Transfers within Level 3(1)	—	—	—	—	—	—	—	—
Transfers in (out) of Level 3(1)	—	—	—	—	—	—	—	—
Fair value as of December 31, 2016	\$ 11,350	\$ 2,713,139	\$ 1,398,885	\$ 50,646	\$ 14,292	\$ 1,089,032	\$ 659,655	\$ 5,936,999

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

The net change in unrealized (losses) gains on the investments that use Level 3 inputs was (\$23,809) and \$17,737 for investments still held as of December 31, 2017 and December 31, 2016, 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 December 31, 2017 were as follows:

Asset Category	Fair Value	Primary Valuation Approach or Technique	Unobservable Input		Weighted Average
			Input	Range	
Senior Secured Debt	\$1,522,368	Discounted Cash Flow (Yield analysis)	Market Yield	6.5%-27.8%	11.8%
Senior Secured Debt	257,370	Enterprise Value Waterfall (Market approach)	EBITDA Multiple	4.0x-9.5x	7.2x
Senior Secured Debt	34,960	Enterprise Value Waterfall (Market approach)	Revenue Multiple	0.3x-1.1x	0.4x
Senior Secured Debt	47,099	Enterprise Value Waterfall (Discounted cash flow)	Discount Rate	7.9%-16.5%	12.2%
Senior Secured Debt	743	Liquidation Analysis	N/A	N/A	N/A
Senior Secured Debt (1)	260,092	Enterprise Value Waterfall	Loss-adjusted discount rate	3.0%-14.5%	11.5%
Senior Secured Debt (2)	293,203	Enterprise Value Waterfall (NAV Analysis)	Capitalization Rate	3.8%-7.6%	5.7%
Senior Secured Debt (2)		Discounted Cash Flow	Discount Rate	6.5%-7.5%	7.0%
Subordinated Secured Debt	750,599	Discounted Cash Flow (Yield analysis)	Market Yield	6.4%-25.5%	11.7%
Subordinated Secured Debt	28,622	Enterprise Value Waterfall (Market approach)	EBITDA Multiple	6.8x-7.8x	7.3x
Subordinated Secured Debt	46,914	Enterprise Value Waterfall (Market approach)	Revenue Multiple	0.3x-0.4x	0.3x
Subordinated Secured Debt (3)	327,741	Enterprise Value Waterfall (Market approach)	Book Value Multiple	0.8x-3.1x	2.5x
Subordinated Secured Debt (3)		Enterprise Value Waterfall (Market approach)	Earnings Multiple	8.0x-12.5x	9.3x
Subordinated Unsecured Debt	32,052	Enterprise Value Waterfall (Market approach)	EBITDA Multiple	5.8x-10.8x	9.7x
Small Business Loans (4)	1,365	Discounted Cash Flow	Loss-adjusted Discount Rate	13.8%-28.6%	16.2%
CLO Residual Interest (5)	940,276	Discounted Cash Flow	Discount Rate	1.4%-21.7%	16.1%
Preferred Equity	11,169	Enterprise Value Waterfall (Market approach)	EBITDA Multiple	4.0x-8.0x	4.6x
Preferred Equity	51,509	Enterprise Value Waterfall (Market approach)	Revenue Multiple	2.5x-3.0x	2.7x
Common Equity/Interests/Warrants	37,395	Enterprise Value Waterfall (Market approach)	EBITDA Multiple	5.0x-7.8x	5.8x
Common Equity/Interests/Warrants	43,430	Enterprise Value Waterfall (Market approach)	Revenue Multiple	0.4x-3.0x	0.9x
Common Equity/Interests/Warrants (1)	69,927	Enterprise Value Waterfall	Loss-adjusted discount rate	3.0%-14.5%	11.5%
Common Equity/Interests/Warrants (2)	330,435	Enterprise Value Waterfall (NAV analysis)	Capitalization Rate	3.8%-7.6%	5.7%
Common Equity/Interests/Warrants		Discounted Cash Flow	Discount Rate	6.5%-7.5%	7.0%

(2) Common Equity/Interests/Warrants	179,589	Enterprise Value Waterfall (Market approach)	Book Value Multiple	0.8x-3.1x	2.4x
(3) Common Equity/Interests/Warrants		Enterprise Value Waterfall (Market approach)	Earnings Multiple	8.0x-12.5x	8.8x
(3) Common Equity/Interests/Warrants	94,718	Discounted Cash Flow	Discount Rate	6.5%-7.5%	7.0%
(6) Common Equity/Interests/Warrants	32,145	Discounted Cash Flow	Discount Rate	7.9%-16.5%	12.3%
Common Equity/Interests/Warrants	26,555	Liquidation Analysis	N/A	N/A	N/A
Escrow Receivable	856	Discounted Cash Flow	Discount Rate	6.9%-8.0%	7.5%
Total Level 3 Investments	\$5,421,132				

- 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 0.01-22.7%, with a weighted average of 7.82%.
  - (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.
  - (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 13.5% to 16.5% with a weighted average of 14.7%.
  - (4) Includes our investments in small business whole loans purchased from OnDeck. Valuation also used projected loss rates as an unobservable input ranging from 0.00%-0.82%, with a weighted average of 0.13%.
  - (5) Discount rate range and weighted average calculations exclude investments called for redemption.
  - (6) Represents net operating income interests in our REIT investments.

F-50

---



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%

Edgar Filing: PROSPECT CAPITAL CORP - Form 497

(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
(6) Common Equity/Interests/Warrants	88,777	Discounted Cash Flow	Discount Rate	6.5%-7.5%	7.0%
Common Equity/Interests/Warrants	28,858	Discounted Cash Flow	Discount Rate	6.4%-18.0%	11.8%
Common Equity/Interests/Warrants	29,672	Liquidation Analysis	N/A	N/A	N/A
Escrow Receivable	864	Discounted Cash Flow	Discount Rate	6.4%-7.5%	7.0%
Total Level 3 Investments	\$5,838,305				

F-51

---

- 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 use 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-52

---

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 PFICs 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-53

---

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 six months ended December 31, 2017, 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 \$24,158 as of December 31, 2017, a discount of \$36,718 from its amortized cost, compared to the \$43,506 unrealized depreciation recorded at June 30, 2017.

During the six months ended December 31, 2017, 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 \$28,305 as of December 31, 2017, a premium of \$1,843 from its amortized cost, compared to the \$16,769 unrealized depreciation recorded at June 30, 2017.

During the six months ended December 31, 2017, 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 our amortized cost exceeded fair value as of the respective determination dates.

During the six months ended December 31, 2017, we provided \$52,914 of equity financing to NPRC for the acquisition of real estate properties and \$1,112 of debt and \$7,881 of equity financing to NPRC to fund capital expenditures for existing real estate properties.

During the six months ended December 31, 2017, we provided \$19,233 and \$10,356 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 six months ended December 31, 2017, we received partial repayments of \$28,307 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 December 31, 2017, the outstanding investment in online consumer loans by certain of NPRC’s wholly-owned subsidiaries was comprised of 105,315 individual loans and one securitization equity residual, and had an aggregate fair value of \$629,837. The average outstanding individual loan balance was approximately \$6 and the loans mature on dates ranging from January 1, 2018 to January 3, 2025 with a weighted-average outstanding term of 29 months as of December 31, 2017. Fixed interest rates range from 4.0% to 36.0% with a weighted-average current interest rate of 24.8%. As of December 31, 2017, our investment in NPRC and its wholly-owned subsidiaries relating to online consumer lending had a fair value of \$330,019.

As of December 31, 2017, based on outstanding principal balance, 4.5% of the portfolio was invested in super prime loans (borrowers with a Fair Isaac Corporation (“FICO”) score, of 720 or greater), 14.1% of the portfolio in prime loans (borrowers with a FICO score of 660 to 719) and 81.4% 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		Weighted Average Interest Rate*
	Principal Balance	Fair Value	
Super Prime	\$ 28,643	\$27,730	13.3%
Prime	90,104	85,268	16.0%

Near Prime\*\* 521,139 483,150 26.9%

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

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

F-54

---



As of December 31, 2017, our investment in NPRC and its wholly-owned subsidiaries had an amortized cost of \$843,859 and a fair value of \$1,048,375, including our investment in online consumer lending as discussed above. The fair value of \$718,356 related to NPRC's real estate portfolio was comprised of forty 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 December 31, 2017.

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	46,700
3	Lofton Place, LLC	Tampa, FL	4/30/2013	26,000	20,324
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	177,455
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	19,918
13	City West Apartments II, LLC	Orlando, FL	11/19/2013	23,562	23,264
14	Vinings Corner II, LLC	Smyrna, GA	11/19/2013	35,691	32,901
15	Uptown Park Apartments II, LLC	Altamonte Springs, FL	11/19/2013	36,590	29,793
16	St. Marin Apartments II, LLC	Coppell, TX	11/19/2013	73,078	62,383
17	Atlanta Eastwood Village LLC	Stockbridge, GA	12/12/2013	25,957	22,729
18	Atlanta Monterey Village LLC	Jonesboro, GA	12/12/2013	11,501	11,059
19	Atlanta Hidden Creek LLC	Morrow, GA	12/12/2013	5,098	4,734
20	Atlanta Meadow Springs LLC	College Park, GA	12/12/2013	13,116	13,019
21	Atlanta Meadow View LLC	College Park, GA	12/12/2013	14,354	13,074
22	Atlanta Peachtree Landing LLC	Fairburn, GA	12/12/2013	17,224	15,486
23	NPH Carroll Bartram Park, LLC	Jacksonville, FL	12/31/2013	38,000	27,402
24	Crestview at Cordova, LLC	Pensacola, FL	1/17/2014	8,500	7,874
25	NPH Carroll Atlantic Beach, LLC	Atlantic Beach, FL	1/31/2014	13,025	8,527
26	Taco Bell, OK	Yukon, OK	6/4/2014	1,719	—
27	Taco Bell, MO	Marshall, MO	6/4/2014	1,405	—
28	23 Mile Road Self Storage, LLC	Chesterfield, MI	8/19/2014	5,804	4,350
29	36th Street Self Storage, LLC	Wyoming, MI	8/19/2014	4,800	3,600
30	Ball Avenue Self Storage, LLC	Grand Rapids, MI	8/19/2014	7,281	5,460
31	Ford Road Self Storage, LLC	Westland, MI	8/29/2014	4,642	3,480
32	Ann Arbor Kalamazoo Self Storage, LLC	Ann Arbor, MI	8/29/2014	4,458	3,345
33	Ann Arbor Kalamazoo Self Storage, LLC	Ann Arbor, MI	8/29/2014	8,927	6,695
34	Ann Arbor Kalamazoo Self Storage, LLC	Kalamazoo, MI	8/29/2014	2,363	1,775
35	Canterbury Green Apartments Holdings LLC	Fort Wayne, IN	9/29/2014	85,500	74,109
36	Abbie Lakes OH Partners, LLC	Canal Winchester, OH	9/30/2014	12,600	13,055
37	Kengary Way OH Partners, LLC	Reynoldsburg, OH	9/30/2014	11,500	13,502
38	Lakeview Trail OH Partners, LLC	Canal Winchester, OH	9/30/2014	26,500	23,256
39	Lakepoint OH Partners, LLC	Pickerington, OH	9/30/2014	11,000	14,480
40	Sunbury OH Partners, LLC	Columbus, OH	9/30/2014	13,000	14,115



No.	Property Name	City	Acquisition Date	Purchase Price	Mortgage Outstanding
41	Heatherbridge OH Partners, LLC	Blacklick, OH	9/30/2014	18,416	18,328
42	Jefferson Chase OH Partners, LLC	Blacklick, OH	9/30/2014	13,551	17,200
43	Goldenstrand OH Partners, LLC	Hilliard, OH	10/29/2014	7,810	9,600
44	Jolly Road Self Storage, LLC	Okemos, MI	1/16/2015	7,492	5,620
45	Eaton Rapids Road Self Storage, LLC	Lansing West, MI	1/16/2015	1,741	1,305
46	Haggerty Road Self Storage, LLC	Novi, MI	1/16/2015	6,700	5,025
47	Waldon Road Self Storage, LLC	Lake Orion, MI	1/16/2015	6,965	5,225
48	Tyler Road Self Storage, LLC	Ypsilanti, MI	1/16/2015	3,507	2,630
49	SSIL I, LLC	Aurora, IL	11/5/2015	34,500	26,450
50	Vesper Tuscaloosa, LLC	Tuscaloosa, AL	9/28/2016	54,500	41,250
51	Vesper Iowa City, LLC	Iowa City, IA	9/28/2016	32,750	24,825
52	Vesper Corpus Christi, LLC	Corpus Christi, TX	9/28/2016	14,250	10,800
53	Vesper Campus Quarters, LLC	Corpus Christi, TX	9/28/2016	18,350	14,175
54	Vesper College Station, LLC	College Station, TX	9/28/2016	41,500	32,058
55	Vesper Kennesaw, LLC	Kennesaw, GA	9/28/2016	57,900	44,727
56	Vesper Statesboro, LLC	Statesboro, GA	9/28/2016	7,500	5,548
57	Vesper Manhattan KS, LLC	Manhattan, KS	9/28/2016	23,250	17,487
58	JSIP Union Place, LLC	Franklin, MA	12/7/2016	64,750	51,800
59	9220 Old Lantern Way, LLC	Laurel, MD	1/30/2017	187,250	153,580
60	7915 Baymeadows Circle Owner, LLC	Jacksonville, FL	10/31/2017	95,700	76,560
61	8025 Baymeadows Circle Owner, LLC	Jacksonville, FL	10/31/2017	15,300	12,240
62	23275 Riverside Drive Owner, LLC	Southfield, MI	11/8/2017	52,000	44,044
63	23741 Pond Road Owner, LLC	Southfield, MI	11/8/2017	16,500	14,185
				\$1,773,290	\$1,453,943

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 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.

As of December 31, 2017, \$3,115,072 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 December 31, 2017, \$486,691 of our loans to portfolio companies, at fair value, bear interest at fixed rates ranging from 4.0% 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 4.0% to 20.0%.

At December 31, 2017, five loan investments were on non-accrual status: Ark-La-Tex Wireline Services, LLC (“Ark-La-Tex”), Edmentum Ultimate Holdings, LLC Unsecured Junior PIK Note, Nixon, Inc. (“Nixon”), 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 Ultimate Holdings, LLC Unsecured Junior PIK Note, Nixon, Spartan, USC, USES, and Venio. Cost balances of these loans amounted to \$238,039 and \$286,388 as of December 31, 2017 and June 30, 2017, respectively. The fair value of these loans amounted to \$73,375 and \$154,417 as of December 31, 2017 and June 30, 2017, respectively. The fair values of these investments represent approximately 1.2% and 2.5% of our total assets at fair value as of December 31, 2017 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 4.00%. As of December 31, 2017 and June 30, 2017, we had \$20,017 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 December 31, 2017 and June 30, 2017.

During the six months ended December 31, 2017 and the six months ended December 31, 2016, 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 six months ended, December 31, 2017 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%
Six Months Ended December 31, 2017	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 among several investments. After performing the income analysis for the six months ended December 31, 2017, 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 six months ended December 31, 2017. 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 December 31, 2017 and year ended June 30, 2017.

F-57

---

The following tables show summarized financial information for First Tower Finance, which met the 20% income test for the six months ended December 31, 2017:

	December 31, 2017	June 30, 2017
Balance Sheet Data		
Cash and cash equivalents	\$ 73,895	\$ 77,058
Accounts receivable, net	487,322	432,278
Property, plant and equipment, net	27,126	24,919
Intangibles, including goodwill	83,285	90,897
Other assets	5,434	2,404
Notes payable, due to Prospect or Affiliate	337,254	339,595
Other liabilities	393,205	341,553
Total equity	(53,397 )	(53,592 )

	Three Months Ended December 31,		Six Months Ended December 31,	
	2017	2016	2017	2016

Summary of Operations				
Total revenue	\$ 59,659	\$ 58,157	117,202	\$ 114,735
Total expenses	60,238	63,047	118,366	123,579
Net loss	\$(579 )	\$(4,890 )	\$(1,164 )	\$(8,844 )

The following tables show summarized financial information for NPRC, which met the 20% income test for the six months ended December 31, 2017:

	December 31, 2017	June 30, 2017
Balance Sheet Data		
Cash and cash equivalents	\$ 98,235	\$ 94,394
Real estate, net	1,602,128	1,452,424
Unsecured consumer loans, at fair value	631,102	648,277
Other assets	44,149	40,386
Mortgages payable	1,450,235	1,310,462
Revolving credit facilities and other secured financing	351,329	341,878
Notes payable, due to Prospect or Affiliate	552,753	559,464
Other liabilities	38,840	37,339
Total equity	(17,543 )	(13,662 )

	Three Months Ended December 31,		Six Months Ended December 31,	
	2017	2016	2017	2016
Summary of Operations				
Total revenue	\$ 99,458	\$ 109,099	\$ 198,343	\$ 193,838
Total expenses	85,292	84,289	167,470	155,309
Operating income	14,166	24,810	30,873	38,529
Depreciation and amortization	(16,502 )	(20,275 )	(35,602 )	(33,296 )
Fair value adjustment	(29,441 )	(28,207 )	(60,255 )	(46,914 )
Net loss	\$(31,777 )	\$(23,672 )	\$(64,984 )	\$(41,681 )

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 December 31, 2017. 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 December 31, 2017, 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 December 31, 2017 and June 30, 2017, we had \$508,851 and \$665,409, respectively, available to us for borrowing under the Revolving Credit Facility, of which nothing was outstanding at either date. 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 December 31, 2017, the investments, including cash and money market funds, used as collateral for the Revolving Credit Facility had an aggregate fair value of \$1,305,210, which represents 22.1% of our total investments, including cash and money market funds. These assets are held and owned by PCF, a bankruptcy remote special purpose entity, and as such, these investments are not available to our general creditors. The release of any assets from PCF requires the approval of the facility agent. In connection with the origination and amendments of the Revolving Credit Facility, we incurred \$12,405 of new fees and \$3,539 were carried over for continuing participants from the previous facility, all of which are being amortized over the term of the facility in accordance with ASC 470-50. As of December 31, 2017, \$3,394 remains to be amortized and is reflected as deferred financing costs on the Consolidated Statements of Assets and Liabilities. During the three months ended December 31, 2017 and December 31, 2016, we recorded \$3,387 and \$3,066, respectively, of interest costs, unused fees and amortization of financing costs on the Revolving Credit Facility as interest expense. During the six months ended December 31, 2017 and December 31, 2016, we recorded \$6,341 and \$6,029, 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.

F-59

---



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 mature on March 15, 2018 (the “2018 Notes”), unless previously converted or repurchased in accordance with their terms. The 2018 Notes bear 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 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 2018 Notes, the 2019 Notes, the 2020 Notes and the 2022 Notes (collectively, the “Convertible Notes”) are listed below.

	2018 Notes	2019 Notes	2020 Notes	2022 Notes
Initial conversion rate(1)	82.3451	79.7766	80.6647	100.2305
Initial conversion price	\$12.14	\$12.54	\$12.40	\$9.98
Conversion rate at December 31, 2017(1)(2)	84.1497	79.8360	80.6670	100.2305
Conversion price at December 31, 2017(2)(3)	\$11.88	\$12.53	\$12.40	\$9.98
Last conversion price calculation date	8/14/2017	12/21/2017	4/11/2017	4/11/2017
Dividend threshold amount (per share)(4)	\$0.101600	\$0.110025	\$0.110525	\$0.083330

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

(2) Represents conversion rate and conversion price, as applicable, taking into account certain de minimis adjustments that will be made on the conversion date.

(3) The conversion price will increase only if the current monthly dividends (per share) exceed the dividend threshold amount (per share).

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

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

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

F-60

---

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 \$32,147 of fees which are being amortized over the terms of the notes, of which \$13,186 remains to be amortized and is included as a reduction within Convertible Notes on the Consolidated Statement of Assets and Liabilities as of December 31, 2017.

During the three months ended December 31, 2017 and December 31, 2016, we recorded \$13,003 and 13,477, respectively, of interest costs and amortization of financing costs on the Convertible Notes as interest expense. During the six months ended December 31, 2017 and December 31, 2016, we recorded \$26,659 and \$28,190, 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 December 31, 2017, we issued \$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 incurred \$13,613 of fees which are being amortized over the term of the notes, of which \$8,214 remains to be amortized and is included as a reduction within Public Notes on the Consolidated Statement of Assets and Liabilities as of December 31, 2017.

During the three months ended December 31, 2017 and December 31, 2016, we recorded \$11,048 and \$11,058, respectively, of interest costs and amortization of financing costs on the Public Notes as interest expense. During the six months ended December 31, 2017 and December 31, 2016, we recorded \$22,089 and \$21,838, 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 six months ended December 31, 2017, we issued \$52,177 aggregate principal amount of Prospect Capital InterNotes® for net proceeds of \$51,398. These notes were issued with stated interest rates ranging from 4.00% to 5.00% with a weighted average interest rate of 4.39%. These notes mature between July 15, 2022 and December 15, 2025. The following table summarizes the Prospect Capital InterNotes® issued during the six months ended December 31, 2017.

Tenor at Origination (in years)	Principal Amount	Interest Rate Range	Weighted Average Interest Rate	Maturity Date Range
5	\$ 31,950	4.00%–4.75%	4.23 %	July 15, 2022 – December 15, 2022
7	2,825	4.75%–5.00%	4.94 %	July 15, 2024
8	17,402	4.50%–5.00%	4.61 %	August 15, 2025 – December 15, 2025
	\$ 52,177			

During the six months ended December 31, 2016, we issued \$64,731 aggregate principal amount of our Prospect Capital InterNotes® for net proceeds of \$63,926. These notes were issued with stated interest rates ranging from 4.75% to 5.50% with a weighted average interest rate of 5.25%. These notes mature between July 15, 2021 and December 15, 2021. The following table summarizes the Prospect Capital InterNotes® issued during the six months ended December 31, 2016.

Tenor at Origination (in years)	Principal Amount	Interest Rate Range	Weighted Average Interest Rate	Maturity Date Range
5	\$ 64,731	4.75%–5.50%	5.25 %	July 15, 2021 – December 15, 2021

During the six months ended December 31, 2017, we redeemed \$181,538 aggregate principal amount of Prospect Capital InterNotes® at par with a weighted average interest rate of 4.85% in order to replace shorter maturity debt with longer-term debt. During the six months ended December 31, 2017, we repaid \$3,793 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 six months ended December 31, 2017 was \$932. The following table summarizes the Prospect Capital InterNotes® outstanding as of December 31, 2017.

Tenor at Origination (in years)	Principal Amount	Interest Rate Range	Weighted Average Interest Rate	Maturity Date Range
4	\$9,750	4.00	% 4.00 %	January 15, 2018
5	266,923	4.00%-5.50%	4.96 %	July 15, 2018 – December 15, 2022
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
5.4	5,000	4.75	% 4.75 %	August 15, 2019
5.5	104,790	4.25%-4.75%	4.63 %	May 15, 2020 – November 15, 2020
6	2,182	4.88	% 4.88 %	April 15, 2021 – May 15, 2021
6.5	40,652	5.10%-5.50%	5.24 %	February 15, 2020 – May 15, 2022
7	155,298	4.00%-5.75%	5.09 %	January 15, 2020 – July 15, 2024
7.5	1,996	5.75	% 5.75 %	February 15, 2021
8	17,402	4.50%-5.00%	4.61 %	August 15, 2025
10	37,434	4.32%-7.00%	6.15 %	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	21,098	4.13%-6.25%	5.54 %	December 15, 2030 – August 15, 2031
20	4,187	5.75%-6.00%	5.90 %	November 15, 2032 – October 15, 2033
25	33,711	6.25%-6.50%	6.39 %	August 15, 2038 – May 15, 2039
30	109,843	5.50%-6.75%	6.24 %	November 15, 2042 – October 15, 2043
	\$837,497			

During the six months ended December 31, 2016, we repaid \$5,730 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 six months ended December 31, 2016 was \$185.

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
5	354,805	4.25%-5.50%	5.00 %	July 15, 2018
5.2	4,440	5	% 4.63 %	August 15, 2020
5.3	2,686	5	% 4.63 %	September 15, 2020
5.4	5,000	5	% 4.75 %	August 15, 2019
5.5	109,068	4.25%-5.00%	4.67 %	February 15, 2019
6	2,182	5	% 4.88 %	April 15, 2021
6.5	40,702	5.10%-5.50%	5.24 %	February 15, 2020
7	191,356	4.00%-6.55%	5.38 %	June 15, 2019
7.5	1,996	6	% 5.75 %	February 15, 2021
10	37,509	4.27%-7.00%	6.20 %	March 15, 2022
12	2,978	6	% 6.00 %	November 15, 2025
15	17,245	5.25%-6.00%	5.36 %	May 15, 2028
18	21,532	4.13%-6.25%	5.47 %	December 15, 2030
20	4,248	5.63%-6.00%	5.84 %	November 15, 2032
25	34,218	6.25%-6.50%	6.39 %	August 15, 2038

30      111,491   5.50%-6.75%   6.22 %   November 15, 2042  
\$980,494

F-63

---

In connection with the issuance of Prospect Capital InterNotes®, we incurred \$24,485 of fees which are being amortized over the term of the notes, of which \$13,114 remains to be amortized and is included as a reduction within Prospect Capital InterNotes® on the Consolidated Statement of Assets and Liabilities as of December 31, 2017. During the three months ended December 31, 2017 and December 31, 2016, we recorded \$11,910 and \$13,247, respectively, of interest costs and amortization of financing costs on the Prospect Capital InterNotes® as interest expense. During the six months ended December 31, 2017 and December 31, 2016, we recorded \$25,294 and \$26,460, respectively, of interest costs and amortization of financing costs on the Prospect Capital InterNotes® as interest expense.

F-64

---



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

The following table shows our outstanding debt as of December 31, 2017.

	Principal Outstanding	Unamortized Discount & Debt Issuance Costs	Net Carrying Value	Fair Value (1)	Effective Interest Rate	
Revolving Credit Facility(2)	\$ —	\$ 3,394	\$ —	(3)\$ —	1ML+2.25%	(6)
2018 Notes	85,419	117	85,302	85,937	(4)6.42	%(7)
2019 Notes	200,000	1,266	198,734	205,474	(4)6.51	%(7)
2020 Notes	392,000	5,379	386,621	393,831	(4)5.38	%(7)
2022 Notes	225,000	6,424	218,576	225,621	(4)5.63	%(7)
Convertible Notes	902,419	13,186	889,233	910,863		
5.00% 2019 Notes	300,000	1,303	298,697	307,974	(4)5.29	%(7)
2023 Notes	250,000	3,782	246,218	259,015	(4)6.09	%(7)
2024 Notes	199,281	4,878	194,403	206,455	(4)6.74	%(7)
Public Notes	749,281	9,963	739,318	773,444		
Prospect Capital InterNotes®	837,497	13,114	824,383	880,065	(5)5.55	%(8)
Total	\$ 2,489,197	\$ 39,657	\$ 2,452,934	\$ 2,564,372		

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 December 31, 2017.

(2)The maximum draw amount of the Revolving Credit facility as of December 31, 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 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 December 31, 2017.

	Payments Due by Period				
	Total	Less than 1 Year	1 – 3 Years	3 – 5 Years	After 5 Years
Revolving Credit Facility	\$—	\$—	\$—	\$—	\$—
Convertible Notes	902,419	85,419	592,000	225,000	—
Public Notes	749,281	—	300,000	—	449,281
Prospect Capital InterNotes®	837,497	28,197	294,936	281,595	232,769
Total Contractual Obligations	\$ 2,489,197	\$ 113,616	\$ 1,186,936	\$ 506,595	\$ 682,050

F-66

---

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 six months ended December 31, 2017 and December 31, 2016. As of December 31, 2017, the approximate dollar value of shares that may yet be purchased under the plan is \$65,860.

Excluding dividend reinvestments, during the six months ended December 31, 2017 and December 31, 2016, 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 December 31, 2017, we have the ability to issue up to \$4,639,035 in securities under the registration statement.

During the six months ended December 31, 2017 and December 31, 2016, we distributed approximately \$146,559 and \$179,097, respectively, to our stockholders. The following table summarizes our distributions declared and payable for the six months ended December 31, 2016 and December 31, 2017.

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
Total declared and payable for the six months ended December 31, 2016				\$ 179,097
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

Edgar Filing: PROSPECT CAPITAL CORP - Form 497

11/8/2017	12/29/2017	1/18/2018	0.060000	21,659
Total declared and payable for the six months ended December 31, 2017				\$ 146,559

F-67

---

Dividends and distributions to common stockholders are recorded on the ex-dividend date. As such, the table above includes distributions with record dates during six months ended December 31, 2017 and December 31, 2016. 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 December 31, 2017:

\$0.06 per share for January 2018 to holders of record on January 31, 2018 with a payment date of February 15, 2018. During the six months ended December 31, 2017 and December 31, 2016, we issued 903,819 and 1,893,049 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 six months ended December 31, 2017, Prospect officers purchased 9,093,856 shares of our stock, or 2.52% of total outstanding shares as of December 31, 2017, both through the open market transactions and shares issued in connection with our dividend reinvestment plan.

As of December 31, 2017, we have reserved 77,328,527 shares of our common stock for issuance upon conversion of the Convertible Notes (see Note 5).

#### Note 10. Other Income

Other income consists of structuring fees, overriding royalty interests, revenue receipts related to net profit interests, deal deposits, administrative agent fees, and other miscellaneous and sundry cash receipts. The following table shows income from such sources during the three and six months ended December 31, 2017 and December 31, 2016.

	Three Months Ended December 31,		Six Months Ended December 31,	
	2017	2016	2017	2016
Structuring and amendment fees	\$6,751	\$5,797	\$14,958	\$10,273
Royalty and Net Revenue interests	1,872	1,333	3,450	2,503
Administrative agent fees	69	180	234	332
Total Other Income	\$8,692	\$7,310	\$18,642	\$13,108

#### 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 six months ended December 31, 2017 and December 31, 2016.

	Three Months Ended December 31,		Six Months Ended December 31,	
	2017	2016	2017	2016
Net increase in net assets resulting from operations	121,727	\$ 100,880	133,700	\$ 182,246
Weighted average common shares outstanding	360,473,705	358,494,783	360,322,770	358,011,031
Net increase in net assets resulting from operations per share	0.34	\$ 0.28	0.37	\$ 0.51

#### 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 final 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 2017 calendar year, 49.94% of our distributions as of December 31, 2017 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 December 31, 2017 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	(27,112 )	(56,036 )	98,289
Permanent differences	(772 )	2,489	2,436
Taxable income before deductions for distributions	\$265,708	\$305,131	\$467,782

Capital losses in excess of capital gains earned in a tax year may generally be carried forward and used to offset capital gains, subject to certain limitations. The Regulated Investment Company Modernization Act (the “RIC Modernization Act”) was enacted on December 22, 2010. Under the RIC Modernization Act, capital losses incurred by taxpayers in taxable years beginning after the date of enactment will be allowed to be carried forward indefinitely and are allowed to retain their character as either short-term or long-term losses. As such, the capital loss carryforwards generated by us after the August 31, 2011 tax year will not be subject to expiration. Any losses incurred in post-enactment tax years will be required to be utilized prior to the losses incurred in pre-enactment tax years. As of August 31, 2017, we had capital loss carryforwards of approximately \$302,590 available for use in later tax years. Of the amount available as of August 31, 2017, \$46,156 will expire on August 31, 2018, and \$256,434 is not subject to expiration. The unused balance each year will be carried forward and utilized as gains are realized, subject to limitations. While our ability to utilize losses in the future depends upon a variety of factors that cannot be known in advance, some of our capital loss carryforwards may become permanently unavailable due to limitations by the Code. For the tax year ended August 31, 2017, we had no cumulative taxable income in excess of cumulative distributions. As of December 31, 2017, the cost basis of investments for tax purposes was \$5,647,330 resulting in estimated gross unrealized gains and losses of \$408,072 and \$634,270, 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 December 31, 2017 and June 30, 2017 was calculated based on the book cost of investments as of December 31, 2017 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

F-69

---

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 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 \$29,742 and \$31,095 during the three months ended December 31, 2017 and December 31, 2016, respectively. The total gross base management fee incurred to the favor of the Investment Adviser was \$60,121 and \$62,435 during the six months ended December 31, 2017 and December 31, 2016, respectively.

The Investment Adviser has entered into a servicing agreement with certain institutions that purchased loans with us, where we serve as the agent and collect a servicing fee on behalf of the Investment Adviser. During the three months ended December 31, 2017 and December 31, 2016, we received payments of \$183 and \$209, 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 \$29,559 and \$30,886 for the three months ended December 31, 2017 and December 31, 2016, respectively. During the six months ended December 31, 2017 and December 31, 2016, we received payments of \$399 and \$757, 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 \$59,722 and \$61,678 for the six months ended December 31, 2017 and December 31, 2016, respectively.

The incentive fee has two parts. The first part, the income incentive fee, is calculated and payable quarterly in arrears based on our pre-incentive fee net investment income for the immediately preceding calendar quarter. For this purpose, pre-incentive fee net investment income means interest income, dividend income and any other income (including any other fees (other than fees for providing managerial assistance), such as commitment, origination, structuring, diligence and consulting fees and other fees that we receive from portfolio companies) accrued during the calendar quarter, minus our operating expenses for the quarter (including the base management fee, expenses payable under the Administration Agreement described below, and any interest expense and dividends paid on any issued and outstanding preferred stock, but excluding the incentive fee). Pre-incentive fee net investment income includes, in the case of investments with a deferred interest feature (such as original issue discount, debt instruments with payment-in-kind interest and zero coupon securities), accrued income that we have not yet received in cash. Pre-incentive fee net investment income does not include any realized capital gains, realized capital losses or unrealized capital gains or losses. Pre-incentive fee net investment income, expressed as a rate of return on the value of our net assets at the end of the immediately preceding calendar quarter, is compared to a “hurdle rate” of 1.75% per quarter (7.00% annualized).

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

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

F-70

---

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 \$18,298 and \$21,101 during the three months ended December 31, 2017 and December 31, 2016, respectively. The fees incurred for the six months ended December 31, 2017 and December 31, 2016 were \$34,231 and \$40,831, respectively. No capital gains incentive fee was incurred during the three or six months ended December 31, 2017 and December 31, 2016.

#### Administration Agreement

We have also entered into an administration agreement (the “Administration Agreement”) with Prospect Administration under which Prospect Administration, among other things, provides (or arranges for the provision of) administrative services and facilities for us. For providing these services, we reimburse Prospect Administration for our allocable portion of overhead incurred by Prospect Administration in performing its obligations under the Administration Agreement, including rent and our allocable portion of the costs of our Chief Financial Officer and Chief Compliance Officer and his 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 \$3,827 and \$3,566 for the three months ended December 31, 2017 and December 31, 2016, respectively. Prospect Administration received estimated payments of \$4,651 and

F-71

---

\$909 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 three months ended December 31, 2017 and December 31, 2016, 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 December 31, 2017 and December 31, 2016 totaled \$(824) and \$2,657, respectively. The allocation of gross overhead expense from Prospect Administration was \$8,496 and \$8,437 for the six months ended December 31, 2017 and December 31, 2016, respectively. Prospect Administration received estimated payments of \$5,792 and \$2,247 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 six months ended December 31, 2017 and December 31, 2016, 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 six months ended December 31, 2017 and December 31, 2016 totaled \$2,704 and \$6,190, respectively.

As of December 31, 2017, we accrued a receivable from Prospect Administration of \$2,170 that will be reimbursed to us.

#### 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 December 31, 2017 and December 31, 2016, we received payments of \$493 and \$1,179, respectively, from our portfolio companies for managerial assistance and subsequently remitted these amounts to Prospect Administration. During the six months ended December 31, 2017 and December 31, 2016, we received payments of \$1,586 and \$2,898, 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,

F-72

---

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

We reimburse CLO investment valuation services fees initially incurred by Priority Income Fund, Inc. During the three months ended December 31, 2017 and December 31, 2016, we recognized expenses that were reimbursed for valuation services of \$50 and \$28, respectively. During the six months ended December 31, 2017 and December 31, 2016, we recognized expenses that were reimbursed for valuation services of \$102 and \$52, respectively. Conversely, Priority Income Fund, Inc. and Pathway Energy Infrastructure Fund, Inc. reimburse us for software fees, expenses which were initially incurred by Prospect. As of December 31, 2017 and June 30, 2017 we accrued a receivable from Priority Income Fund, Inc. and Pathway Energy Infrastructure Fund, Inc. for software fees of \$88 and \$14, respectively, which will be reimbursed to us.

As of December 31, 2017, 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, CIFC Funding 2014-IV Investor, Ltd., CIFC 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 XVIII, Ltd., Symphony CLO XIV Ltd., Voya IM CLO 2014-1 Ltd., Voya CLO 2016-3, Ltd., Voya CLO 2017-3, Ltd. and Washington Mill CLO Ltd; however HarbourView CLO VII, Ltd. and Octagon Investment Partners XVIII, Ltd. are not considered co-investments pursuant to the Order as they were purchased on the secondary market.

As of December 31, 2017, we had a co-investment with Pathway Energy Infrastructure 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.

#### 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
December 31, 2017	175





## CCPI Inc.

Prospect owns 100% of the equity of CCPI Holdings Inc. (“CCPI Holdings”), a Consolidated Holding Company. CCPI Holdings owns 94.95% of the equity of CCPI Inc. (“CCPI”), with CCPI management owning the remaining 5.05% 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.

As of June 30, 2016, after the departure of a former CCPI executive, Prospect’s ownership of CCPI increased to 94.59%.

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 December 31, 2016 \$ 113

Three Months Ended December 31, 2017 112

Six Months Ended December 31, 2016 225

Six Months Ended December 31, 2017 225

During the six months ended December 31, 2016, 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 December 31, 2016 \$ 748

Three Months Ended December 31, 2017 928

Six Months Ended December 31, 2016 1,498

Six Months Ended December 31, 2017 1,863

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 December 31, 2016 \$ 60

Three Months Ended December 31, 2017 60

Six Months Ended December 31, 2016 120

Six Months Ended December 31, 2017 120

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

December 31, 2017 60

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

Three Months Ended December 31, 2016 \$ —

Three Months Ended December 31, 2017 —

Six Months Ended December 31, 2016 —

Six Months Ended December 31, 2017 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

December 31, 2017 23

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 82.3% of the equity of CP Energy Services Inc. (“CP Energy”), and the remaining 17.7% 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. During the six months ended December 31, 2017, we received \$228 of an advisory fee related to the above transaction, which we recognized as other income.

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

Three Months Ended December 31, 2016 \$ —

Three Months Ended December 31, 2017 1,105

Six Months Ended December 31, 2016 —

Six Months Ended December 31, 2017 1,105

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 \$ —

December 31, 2017 12

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

December 31, 2017 100

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 74.93% 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 25.07% 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 99.91%.

During the six months ended December 31, 2017, \$940 of the aforementioned original issue discount of \$7,521 accreted.



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

Three Months Ended December 31, 2016	\$2,868
Three Months Ended December 31, 2017	3,161
Six Months Ended December 31, 2016	4,988
Six Months Ended December 31, 2017	6,241

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

Three Months Ended December 31, 2016	\$ 859
Three Months Ended December 31, 2017	—
Six Months Ended December 31, 2016	1,916
Six Months Ended December 31, 2017	—

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
December 31, 2017	—

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

Three Months Ended December 31, 2016	\$ —
Three Months Ended December 31, 2017	317
Six Months Ended December 31, 2016	—
Six Months Ended December 31, 2017	317

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 December 31, 2016	\$175
Three Months Ended December 31, 2017	175
Six Months Ended December 31, 2016	350
Six Months Ended December 31, 2017	350

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
December 31, 2017	175

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

June 30, 2017	\$—
December 31, 2017	8

Echelon Aviation LLC

Prospect owns 100% of the membership interests of Echelon Aviation 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 six months ended December 31, 2016, Echelon issued 36,275 Class B shares to the company's President, decreasing Prospect's ownership to 98.56%.

On December 9, 2016, Prospect made a follow-on \$16,044 first lien senior secured debt and \$2,830 equity investment in Echelon to support an asset acquisition, increasing Prospect's ownership to 98.71%. Prospect also recognized \$1,121 in structuring fee income as a result of the transaction.

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

Three Months Ended December 31, 2016	\$ —
Three Months Ended December 31, 2017	—
Six Months Ended December 31, 2016	200
Six Months Ended December 31, 2017	—

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 December 31, 2016	\$ 1,234
Three Months Ended December 31, 2017	1,603
Six Months Ended December 31, 2016	2,580
Six Months Ended December 31, 2017	3,206

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
December 31, 2017	2,683

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 December 31, 2016	\$63
Three Months Ended December 31, 2017	63
Six Months Ended December 31, 2016	125
Six Months Ended December 31, 2017	125

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
December 31, 2017	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 given credit for these payments as a reduction of the administrative services costs payable by Prospect to Prospect Administration):

Three Months Ended December 31, 2016	\$ —
Three Months Ended December 31, 2017	—
Six Months Ended December 31, 2016	120
Six Months Ended December 31, 2017	—

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

June 30, 2017 \$ —

December 31, 2017 39

Edmentum Ultimate Holdings, LLC

Prospect owns 37.1% of the equity of Edmentum Ultimate Holdings, LLC (“Edmentum Holdings”). Edmentum Holdings owns 100% of the equity of Edmentum, Inc. (“Edmentum”). 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, 2016, Prospect funded an additional \$6,424 in the second lien revolving credit facility. During the year ended June 30, 2017, Prospect funded an additional \$7,835 in the second lien revolving credit facility. During the six months ended ended December 31, 2017, Prospect funded an additional \$5,394 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 December 31, 2016 \$ —

Three Months Ended December 31, 2017 —

Six Months Ended December 31, 2016 6,424

Six Months Ended December 31, 2017 7,834

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

Three Months Ended December 31, 2016 \$ 895

Three Months Ended December 31, 2017 203

Six Months Ended December 31, 2016 1,830

Six Months Ended December 31, 2017 415

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

Three Months Ended December 31, 2016 \$ 896

Three Months Ended December 31, 2017 153

Six Months Ended December 31, 2016 1,771

Six Months Ended December 31, 2017 302

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

December 31, 2017 144

## 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.

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

Three Months Ended December 31, 2016	\$	—
Three Months Ended December 31, 2017		1,301
Six Months Ended December 31, 2016		936
Six Months Ended December 31, 2017		3,211

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

Three Months Ended December 31, 2016	\$	14,476
Three Months Ended December 31, 2017		11,261
Six Months Ended December 31, 2016		28,900
Six Months Ended December 31, 2017		22,603

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

Three Months Ended December 31, 2016	\$	1,632
Three Months Ended December 31, 2017		—
Six Months Ended December 31, 2016		3,384
Six Months Ended December 31, 2017		869

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
December 31, 2017		3,910

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 December 31, 2016 \$ 600

Three Months Ended December 31, 2017 —

Six Months Ended December 31, 2016 1,200

Six Months Ended December 31, 2017 —

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

December 31, 2017 —

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 \$ —

December 31, 2017 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

December 31, 2017 11

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 six months ended December 31, 2017, Prospect purchased an additional \$200 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

December 31, 2017 675

MITY, Inc.

Prospect owns 100% of the equity of MITY Holdings of Delaware Inc. (“MITY Delaware”), a Consolidated Holding Company. MITY Delaware holds 94.99% of the equity of MITY, Inc. (f/k/a MITY Enterprises, Inc.) (“MITY”), with management of MITY owning the remaining 5.01% of the equity of MITY. MITY owns 100% of each of MITY-Lite, Inc. (“MITY-Lite”); Broda USA, Inc. (f/k/a Broda Enterprises USA, Inc.) (“Broda USA”); and Broda Enterprises ULC (“Broda Canada”). MITY is a designer, manufacturer and seller of multipurpose room furniture and specialty healthcare seating products.

During the three months ended December 31, 2016, Prospect formed a separate legal entity, MITY FSC, Inc., (“MITY FSC”) in which Prospect owns 96.88% of the equity, and MITY-Lite management owns the remaining portion. MITY FSC does not have material operations. This entity earns commission payments from MITY-Lite based on its sales to foreign customers, and distribute it to its shareholders based on pro-rata ownership. During the six months ended December 31, 2017, we received \$1,094 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 interest payments were accrued and paid from MITY to Prospect and recognized by Prospect as interest income:

Three Months Ended December 31, 2016	\$1,307
Three Months Ended December 31, 2017	1,920
Six Months Ended December 31, 2016	2,613
Six Months Ended December 31, 2017	3,840

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
December 31, 2017	—

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

Three Months Ended December 31, 2016	\$141
Three Months Ended December 31, 2017	148
Six Months Ended December 31, 2016	286
Six Months Ended December 31, 2017	299

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
December 31, 2017	—

During the six months ended December 31, 2016, there was a favorable fluctuation in the foreign currency exchange rate and Prospect recognized \$5 of realized gain related to its investment in Broda Canada. During the six months ended December 31, 2017, there was a favorable fluctuation in the foreign currency exchange rate and Prospect recognized \$11 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 December 31, 2016	\$75
Three Months Ended December 31, 2017	75
Six Months Ended December 31, 2016	150
Six Months Ended December 31, 2017	150

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
December 31, 2017	75

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	\$—
December 31, 2017	2

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 United Property REIT Corp. UPRC with and into NPRC, APH and UPH merged with and into NPH.

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 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

F-82

---

services provided by attorneys at Prospect Administration. The minority interest holder also contributed \$87 of additional capital in the JV entities. The proceeds were utilized by the JV entities to fund \$4,178 of capital expenditures.

On October 31, 2017, Prospect purchased additional common equity of NPRC through NPH for \$27,004. The proceeds were utilized by NPRC to purchase a 92.5% ownership interest in Baymeadows Holdings LLC for \$26,974 and to pay \$30 for tax and legal services provided by professionals at Prospect Administration. The minority interest holder purchased ownership interest in the JV for \$2,187. The JV utilized the total proceeds, which included debt financing of \$88,800, to acquire \$111,000 of multi-family real estate assets. The remaining proceeds were used by the JV to pay \$539 of structuring fees to Prospect (which was recognized by Prospect as structuring fee income), \$802 of third party expenses, \$546 of pre-funded capital expenditures, \$3,016 of prepaid assets, and \$2,058 was retained by the JV as working capital.

On November 8, 2017, Prospect purchased additional common equity of NPRC through NPH for \$15,911. The proceeds were utilized by NPRC to purchase a 92.5% ownership interest in Southfield Holdings LLC for \$15,849, pay \$10 for tax and legal services provided by professionals at Prospect Administration, and \$52 was retained as working capital. The minority interest holder purchased ownership interest in the JV for \$1,285. The JV utilized the total proceeds, which included debt financing of \$58,229, to acquire \$68,500 of multi-family real estate assets. The remaining proceeds were used by the JV to pay \$317 of structuring fees to Prospect (which was recognized by Prospect as structuring fee income), \$263 of third party expenses, \$3,138 of pre-funded capital expenditures, \$2,860 of prepaid assets, and \$285 was retained by the JV as working capital.

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 \$1,603 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. The remaining \$8,397 of proceeds were retained by NPRC to acquire a controlling interest in the JV real estate transaction.

During the six months ended December 31, 2017, we provided \$19,233 and \$10,356 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 six months ended December 31, 2017, we received partial repayments of \$28,307 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 following interest payments were accrued and paid by NPRC to Prospect and recognized by Prospect as interest income:

Three Months Ended December 31, 2016	\$ 18,736
Three Months Ended December 31, 2017	17,598
Six Months Ended December 31, 2016	34,780
Six Months Ended December 31, 2017	34,936

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

Three Months Ended December 31, 2016	\$ —
Three Months Ended December 31, 2017	776
Six Months Ended December 31, 2016	—
Six Months Ended December 31, 2017	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
December 31, 2017	554



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

Three Months Ended December 31, 2016	\$3,152
Three Months Ended December 31, 2017	816
Six Months Ended December 31, 2016	8,421
Six Months Ended December 31, 2017	2,618

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
December 31, 2017	19

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

Three Months Ended December 31, 2016	\$1,365
Three Months Ended December 31, 2017	5,188
Six Months Ended December 31, 2016	1,600
Six Months Ended December 31, 2017	9,391

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
December 31, 2017	177

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

Three Months Ended December 31, 2016	\$1,318
Three Months Ended December 31, 2017	1,554
Six Months Ended December 31, 2016	2,489
Six Months Ended December 31, 2017	3,132

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

Three Months Ended December 31, 2016	\$261
Three Months Ended December 31, 2017	768
Six Months Ended December 31, 2016	1,320
Six Months Ended December 31, 2017	781

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

Three Months Ended December 31, 2016	\$625
Three Months Ended December 31, 2017	—
Six Months Ended December 31, 2016	1,336
Six Months Ended December 31, 2017	288

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 December 31, 2016	\$325
Three Months Ended December 31, 2017	325
Six Months Ended December 31, 2016	650
Six Months Ended December 31, 2017	650

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  
 December 31, 2017 325

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

Three Months Ended December 31, 2016 \$ 500  
 Three Months Ended December 31, 2017 314  
 Six Months Ended December 31, 2016 1,436  
 Six Months Ended December 31, 2017 1,151

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  
 December 31, 2017 17

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  
 December 31, 2017 3

#### 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 December 31, 2016 \$ 739  
 Three Months Ended December 31, 2017 —  
 Six Months Ended December 31, 2016 2,581  
 Six Months Ended December 31, 2017 —

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 December 31, 2016	\$ 860
Three Months Ended December 31, 2017	875
Six Months Ended December 31, 2016	1,715
Six Months Ended December 31, 2017	1,737

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

Three Months Ended December 31, 2016	\$ —
Three Months Ended December 31, 2017	151
Six Months Ended December 31, 2016	—
Six Months Ended December 31, 2017	295

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
December 31, 2017	147

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 December 31, 2016	\$ 100
Three Months Ended December 31, 2017	100
Six Months Ended December 31, 2016	200
Six Months Ended December 31, 2017	200

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
December 31, 2017	100

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

Three Months Ended December 31, 2016	\$ —
Three Months Ended December 31, 2017	—
Six Months Ended December 31, 2016	—
Six Months Ended December 31, 2017	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	\$—
December 31, 2017	4

NMMB, Inc.

Prospect owns 100% of the equity of NMMB Holdings, Inc. (“NMMB Holdings”), a Consolidated Holding Company. NMMB Holdings owns 96.33% of the fully-diluted equity of NMMB, Inc. (f/k/a NMMB Acquisition, Inc.) (“NMMB”), with NMMB management owning the remaining 3.67% 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 December 31, 2016	\$133
Three Months Ended December 31, 2017	133
Six Months Ended December 31, 2016	266
Six Months Ended December 31, 2017	266

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
December 31, 2017	4

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

Three Months Ended December 31, 2016	\$250
Three Months Ended December 31, 2017	247
Six Months Ended December 31, 2016	501
Six Months Ended December 31, 2017	493

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
December 31, 2017	8

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 December 31, 2016	\$38
Three Months Ended December 31, 2017	100
Six Months Ended December 31, 2016	75
Six Months Ended December 31, 2017	200

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
December 31, 2017	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
December 31, 2017	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	\$—
December 31, 2017	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 December 31, 2016	\$75
Three Months Ended December 31, 2017	—
Six Months Ended December 31, 2016	150
Six Months Ended December 31, 2017	—

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 December 31, 2016	\$716
Three Months Ended December 31, 2017	742
Six Months Ended December 31, 2016	1,431
Six Months Ended December 31, 2017	1,479

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 December 31, 2016	\$30
Three Months Ended December 31, 2017	45
Six Months Ended December 31, 2016	75
Six Months Ended December 31, 2017	90

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
December 31, 2017	45

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

Three Months Ended December 31, 2016	\$—
Three Months Ended December 31, 2017	—
Six Months Ended December 31, 2016	—
Six Months Ended December 31, 2017	2

F-88

## 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 June 30, 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 given credit for these payments as a reduction of the administrative services costs payable by Prospect to Prospect Administration):

Three Months Ended December 31, 2016	\$	—
Three Months Ended December 31, 2017		—
Six Months Ended December 31, 2016		545
Six Months Ended December 31, 2017		—

## SB Forging Company II, Inc. (f/k/a Gulf Coast Machine &amp; 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 December 31, 2016	\$	—
Three Months Ended December 31, 2017		—
Six Months Ended December 31, 2016		3,022
Six Months Ended December 31, 2017		—

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

Three Months Ended December 31, 2016	\$	—
Three Months Ended December 31, 2017		1,202
Six Months Ended December 31, 2016		—
Six Months Ended December 31, 2017		1,202

During the three months ended December 31, 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.

F-89

---

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 six months ended December 31, 2017, Prospect provided additional \$3,000 debt financing to USES and its subsidiaries in the form of additional Term Loan A debt.

During the six months ended December 31, 2017, 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

December 31, 2017 475

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 December 31, 2016 \$1,119

Three Months Ended December 31, 2017 1,211

Six Months Ended December 31, 2016 2,220

Six Months Ended December 31, 2017 2,396

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

Three Months Ended December 31, 2016 \$370

Three Months Ended December 31, 2017 556

Six Months Ended December 31, 2016 766

Six Months Ended December 31, 2017 1,103

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

December 31, 2017 14

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

Three Months Ended December 31, 2016	\$280
Three Months Ended December 31, 2017	280
Six Months Ended December 31, 2016	561
Six Months Ended December 31, 2017	560

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
December 31, 2017	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 December 31, 2016	\$75
Three Months Ended December 31, 2017	75
Six Months Ended December 31, 2016	150
Six Months Ended December 31, 2017	150

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
December 31, 2017	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
December 31, 2017	1

#### 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 six months ended December 31, 2017 Wolf Energy Services received \$2,772 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 \$18,467). We expect the liquidation fee agreement to result in a fee, net of third-party transaction costs, of \$1,180 in early 2018,

which, if received, will be reflected as other income on our accompanying Consolidated Statement of Operations. As of December 31, 2017, the valuation of our investment in Wolf decreased by the same amount as a result of the related liability.

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

December 31, 2017 14

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 December 31, 2017.

F-92

---



## Note 16. Financial Highlights

The following is a schedule of financial highlights for the three and six months ended December 31, 2017 and December 31, 2016:

	Three Months Ended December 31,		Six Months Ended December 31,	
	2017	2016	2017	2016
<b>Per Share Data</b>				
Net asset value at beginning of period	\$9.12	\$9.60	\$9.32	\$9.62
Net investment income(1)	0.20	0.24	0.38	0.46
Net realized and change in unrealized gains (losses) (1)	0.14	0.04	(0.01 )	0.05
Net increase from operations	0.34	0.28	0.37	0.51
Distributions of net investment income	(0.18 )	(0.25 )	(0.41 )	(0.50 )
Common stock transactions(2)	—	(0.01 )	—	(0.01 )
Net asset value at end of period	\$9.28	\$9.62	\$9.28	\$9.62
<b>Per share market value at end of period</b>				
Per share market value at end of period	\$6.74	\$8.35	\$6.74	\$8.35
Total return based on market value(3)	3.01 %	6.29 %	(11.82 %)	13.45 %
Total return based on net asset value(3)	4.51 %	3.33 %	5.78 %	6.25 %
Shares of common stock outstanding at end of period	360,980,752	359,000,280	360,980,752	359,000,280
Weighted average shares of common stock outstanding	360,473,705	358,494,783	360,322,770	358,011,031
<b>Ratios/Supplemental Data</b>				
Net assets at end of period	\$3,348,412	\$3,454,596	\$3,348,412	\$3,454,596
Portfolio turnover rate	13.30 %	7.80 %	17.01 %	12.69 %
Annualized ratio of operating expenses to average net assets	10.76 %	11.50 %	11.06 %	11.62 %
Annualized ratio of net investment income to average net assets	8.83 %	9.80 %	8.23 %	9.49 %

F-93

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(1)	0.85	1.04	1.03	1.19	1.57
Net realized and change in unrealized (losses) gains(1)	(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(2)	—	(4)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(3)	16.80 %	21.84 %	(20.84 %)	10.88 %	6.24 %
Total return based on net asset value(3)	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.

(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

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 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.

On January 23, 2018, we made a \$12,500 Senior Secured Term Loan A and \$12,500 Senior Secured Term Loan B investment in Luminex Home Decor & Fragrance Company, LLC, a manufacturer and designer of decorative candles. We have provided notice to call on January 12, 2018 with settlement on February 15, 2018, \$37,210 of our Prospect Capital InterNotes® at par maturing between February 15, 2019 and August 15, 2020, with a weighted average rate of 4.80%.

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.

During the period from January 1, 2018 through February 7, 2018 we issued \$7,922 aggregate principal amount of Prospect Capital InterNotes® for net proceeds of \$7,813.

On February 7, 2018, we announced the declaration of monthly dividends in the following amounts and with the following dates:

\$0.06 per share for February 2018 to holders of record on February 28, 2018 with a payment date of March 22, 2018.

\$0.06 per share for March 2018 to holders of record on March 30, 2018 with a payment date of April 19, 2018.

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

\$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:

- 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