

PROSPECT CAPITAL CORP

Form 10-Q

February 07, 2018

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended December 31, 2017

OR

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

Commission File Number: 814-00659

PROSPECT CAPITAL CORPORATION

(Exact name of Registrant as specified in its charter)

Maryland 43-2048643

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

incorporation or organization) Identification No.)

10 East 40th Street, 42nd Floor

New York, New York 10016

(Address of principal executive offices) (Zip Code)

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

448-0702

---

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark whether the Registrant has submitted electronically and posted on its corporate Website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the Registrant was required to submit and post such files). Yes  No

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

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

(Do not check if a smaller reporting company)

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock as of the latest practicable date.

Class of Common Stock Outstanding at February 7, 2018

\$0.001 par value 361,527,348

---

---

## Table of Contents

	Page
<u>Forward-Looking Statements</u>	<u>3</u>
PART I FINANCIAL INFORMATION	
<u>Item 1. Financial Statements</u>	
<u>Consolidated Statements of Assets and Liabilities as of December 31, 2017 (unaudited) and June 30, 2017</u>	<u>4</u>
<u>Consolidated Statements of Operations for the three and six months ended December 31, 2017 and December 31, 2016 (unaudited)</u>	<u>5</u>
<u>Consolidated Statements of Changes in Net Assets for the six months ended December 31, 2017 and December 31, 2016 (unaudited)</u>	<u>6</u>
<u>Consolidated Statements of Cash Flows for the six months ended December 31, 2017 and December 31, 2016 (unaudited)</u>	<u>7</u>
<u>Consolidated Schedules of Investments as of December 31, 2017 (unaudited) and June 30, 2017</u>	<u>8</u>
<u>Notes to Consolidated Financial Statements</u>	<u>41</u>
<u>Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>96</u>
<u>Item 3. Quantitative and Qualitative Disclosures About Market Risk</u>	<u>128</u>
<u>Item 4. Controls and Procedures</u>	<u>130</u>
PART II OTHER INFORMATION	
<u>Item 1. Legal Proceedings</u>	<u>131</u>
<u>Item 1A. Risk Factors</u>	<u>131</u>
<u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</u>	<u>131</u>
<u>Item 3. Defaults Upon Senior Securities</u>	<u>131</u>
<u>Item 4. Mine Safety Disclosures</u>	<u>131</u>
<u>Item 5. Other Information</u>	<u>131</u>
<u>Item 6. Exhibits</u>	<u>131</u>
<u>Signatures</u>	

---

#### FORWARD-LOOKING STATEMENTS

This report contains information that may constitute “forward-looking statements.” Generally, the words “believe,” “expect,” “intend,” “estimate,” “anticipate,” “project,” “will” and similar expressions identify forward-looking statements, which generally are not historical in nature. However, the absence of these words or similar expressions does not mean that a statement is not forward-looking. All statements that address operating performance, events or developments that we expect or anticipate will occur in the future—including statements relating to volume growth, share of sales and earnings per share growth, and statements expressing general views about future operating results—are forward-looking statements. Management believes that these forward-looking statements are reasonable as and when made. However, caution should be taken not to place undue reliance on any such forward-looking statements because such statements speak only as of the date when made. We undertake no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, except as required by law. In addition, forward-looking statements are subject to certain risks and uncertainties that could cause actual results to differ materially from our historical experience and our present expectations or projections. These risks and uncertainties include, but are not limited to, those described in Part II, “Item 1A. Risk Factors” and elsewhere in this report and in our Annual Report on Form 10-K for the year ended June 30, 2017, and those described from time to time in our future reports filed with the Securities and Exchange Commission.

## PART I

## Item 1. Financial Statements

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		
	\$ 361	\$ 360

Edgar Filing: PROSPECT CAPITAL CORP - Form 10-Q

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)		
Paid-in capital in excess of par (Note 9)	3,998,406	3,991,317
Accumulated overdistributed net investment income	(64,446 )	(54,039 )
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.

4

---

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
Net increase in net assets resulting from operations per share	\$0.34	\$0.28	\$0.37	\$0.51



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
Operations		
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
Distributions to Shareholders		
Distribution from net investment income	(146,559	) (179,097
Net Decrease in Net Assets Resulting from Distributions to Shareholders	(146,559	) (179,097
Common Stock Transactions		
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
Common Stock Activity		
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.

6



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

	Six Months Ended	
	December 31,	
	2017	2016
Operating Activities		
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
Net Cash Provided by Operating Activities	500,148	128,165
Financing Activities		
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 )
Net Cash Used in Financing Activities	(343,755 )	(242,052 )
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
Supplemental Disclosures		
Cash paid for interest	\$ 73,472	\$ 78,012
Non-Cash Financing Activities		

Edgar Filing: PROSPECT CAPITAL CORP - Form 10-Q

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.

7

---

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 10-Q

		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)	<del>33,828</del>	19,062	0.6%
		Class A Units (370,964 units)(16)	<del>6,577</del>	—	—%
			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)	<del>78,481</del>	146,258	4.4%
			337,253	405,030	12.1%
Freedom Marine Solutions, LLC(24)	Louisiana / Energy Equipment & Services	Membership Interest (100%)(16)	<del>42,812</del>	25,266	0.8%
			42,812	25,266	0.8%

See notes to consolidated financial statements.

8

---

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 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%
Nationwide Loan Company LLC(27)	Illinois / Consumer Finance	Net Operating Income Interest (5% of Net Operating Income)	—	—	94,718	2.8%
		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%	
			843,859	1,048,375	31.4%	

Edgar Filing: PROSPECT CAPITAL CORP - Form 10-Q

		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.

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
<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.





Edgar Filing: PROSPECT CAPITAL CORP - Form 10-Q

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)						
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 10-Q

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.

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)						
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 10-Q

		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.

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)						
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 10-Q

				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.

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)						
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 10-Q

			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.

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)						
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 10-Q

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.

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)						
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)	37,125	37,125	37,125	1.2%
		Senior Secured Term Loan B (12.69% (LIBOR + 11.00% with 1.00% LIBOR floor), due 5/4/2022)(3)(10)(11)	24,875	24,875	24,875	0.8%
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%
				62,000	62,000	2.0%

Edgar Filing: PROSPECT CAPITAL CORP - Form 10-Q

		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.

16

Edgar Filing: PROSPECT CAPITAL CORP - Form 10-Q

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 10-Q

	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.

17

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 10-Q

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.

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		
			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%
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 (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 10-Q

		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.

19

---

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 10-Q

			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.

20

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)	—	—	—	—%
			64,172	12,517	0.4%	
Valley Electric Company, Inc.(31)	Washington / Construction & Engineering	Senior Secured Note to Valley Electric Co. of Mt. Vernon, Inc. (8.00% (LIBOR + 5.00% with 3.00% LIBOR floor) plus 2.50% PIK, due 12/31/2024)(3)(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	—	—%
			62,258	32,509	1.0%	
Wolf Energy, LLC(32)	Kansas / Energy Equipment & Services	Membership Interest (100%)(16)	—	—	—	—%
		Membership Interest in Wolf Energy Services Company, LLC (100%)(16)	6,801	5,662	5,662	0.1%
		Net Profits Interest (8% of Equity Distributions)(4)(16)	—	—	15	—%
			6,801	5,677	0.1%	
<b>Total Control Investments (Level 3)</b>			<b>\$1,840,731</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)	—	—	—	—%
			—	14,197	—	—%
Targus Cayman HoldCo Limited (33)	California / Textiles, Apparel & Luxury Goods	Senior Secured Term Loan A (15.00% PIK, due 12/31/2019)(8)(46)	1,532	1,320	1,532	—%
		Senior Secured Term Loan B (15.00% PIK, due 12/31/2019)(8)(46)	4,596	3,961	4,596	0.1%
		Common Stock (1,262,737 shares)(16)	—	3,479	5,301	0.1%
<b>Total Affiliate Investments (Level 3)</b>			<b>\$22,957</b>	<b>\$11,429</b>	<b>0.3%</b>	

See notes to consolidated financial statements.

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		
			Carrying Amount	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>30,490</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>30,495</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>7,900</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)	<del>83,410</del> 42,101	83,410	2.5%
Broder Bros., Co.			110,876	110,876	3.3%

Edgar Filing: PROSPECT CAPITAL CORP - Form 10-Q

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)	114,901 114,901 B.4% 225,777 225,777 6.7%
Brookside Mill CLO Ltd.	Cayman Islands / Subordinated Notes (Residual Interest, current Structured Finance yield 1.29%, due 4/17/2025)(5)(14)	<del>18,000</del> 14,022 0.4% 17,178 14,022 0.4%

See notes to consolidated financial statements.

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)						
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 10-Q

	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.

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				
		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			29,963	29,963	0.9%
		Senior Secured Term Loan B (10.30% (LIBOR + 9.00% with 1.00% LIBOR floor), due 4/30/2022)(3)(10)(11) 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	21,544	0.6%
			—	—	—	—%
				21,544	21,544	0.6%

Edgar Filing: PROSPECT CAPITAL CORP - Form 10-Q

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.

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)						
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 10-Q

		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.

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			% 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 10-Q

			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.

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			% 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 10-Q

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.

27

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

Portfolio Company	Locale / Industry	Investments(1)	June 30, 2017		
			Principal Value	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 10-Q

			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>42,668</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>50,283</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.

28

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

Portfolio Company	Locale / Industry	Investments(1)	June 30, 2017			
			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)						
Network Services, Inc.	Virginia / Diversified Telecommunication Services	Second Lien Term Loan (9.23% (LIBOR + 8.00% with 1.00% LIBOR floor), due 8/14/2020)(3)(8)(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 10-Q

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.

29

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

Portfolio Company	Locale / Industry	Investments(1)	June 30, 2017		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%
			5,460	5,460	5,460	0.2%
Total Non-Control/Non-Affiliate Investments (Level 3)			17,460	17,460	17,460	0.6%
Total Portfolio Investments (Level 3)			\$4,117,868	\$3,915,101	\$3,915,101	116.7%

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 (1) were exempt from registration under the Securities Act of 1933, as amended (the “Securities Act”). These securities may be resold only in transactions that are exempt from registration under the Securities Act.

Fair value is determined by or under the direction of our Board of Directors. As of December 31, 2017 and (2) 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 (3) 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 (4) the interests.

This investment is in the equity class of the collateralized loan obligation (“CLO”) security. The CLO equity (5) 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 (6) 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 (7) and the second lien term loans.

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

(9) Autodata, Inc. and Autodata Solutions, Inc. are joint borrowers.

(10) 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% (11) 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% (12) 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% (13) 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 (14) 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.

(15)



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.  
(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.

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)

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 (23) First 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.

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)

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.

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, (33) 2017, Prospect exchanged \$1,600 of Senior Secured Term Loan A and \$4,799 of Senior Secured Term Loan B investments in Targus into 6,120,658 of common shares, and recorded a realized gain of \$846, as a result of this transaction.

Edgar Filing: PROSPECT CAPITAL CORP - Form 10-Q

- (34) 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.
- (36) Keystone Acquisition Corp. is the parent borrower on the second lien term loan. Other joint borrowers on this 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.

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)

- 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.

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)

(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 10-Q

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.

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)

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.

36

---

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.

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
Total	\$11,429	\$1,117	\$—	—\$ 6,726	\$19,272	\$205	\$—	\$—	—\$ 846

\* 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.

39

---

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.



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

Note 1. Organization

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

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

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

We consolidate certain of our wholly-owned and substantially wholly-owned holding companies formed by us in order to facilitate our investment strategy. The following companies are included in our consolidated financial statements: 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.

## 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.

#### 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 (or retain through a deemed distribution) all of our investment company taxable income and net capital gain to stockholders;

45

---

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).

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 accretable 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 10-Q

	Revolving Senior Line of Credit	Secured Debt	Subordinated Secured Debt	Subordinate Unsecured Debt	Small Business Loans	CLO Residual Interest	Equity	Total
Fair value as of June 30, 2017	\$27,409	\$2,798,796	\$1,107,040	\$44,434	\$7,964	\$1,079,712	\$772,950	\$5,838,305
Net realized gains (losses) on investments	—	(2,174 )	—	10	(297 )	(2,494 )	38	(4,917 )
Net change in unrealized (losses) gains	(221 )	25,703	(26,197 )	(12,685 )	351	(56,802 )	71,795	1,944
Net realized and unrealized (losses) gains	(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 10-Q

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
	Revolving Senior	Subordinated	Subordinated	Small	CLO			
	Line of Credit	Secured Debt	Secured Debt	Unsecured Debt	Business Loans	Residual Interest	Equity	Total
Fair value as of June 30, 2016	\$ 13,274	\$ 2,941,722	\$ 1,209,604	\$ 68,358	\$ 14,215	\$ 1,009,696	\$ 640,839	\$ 5,897,708
Net realized gains (losses) on investments	—	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 10-Q

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%

Edgar Filing: PROSPECT CAPITAL CORP - Form 10-Q

(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.



Edgar Filing: PROSPECT CAPITAL CORP - Form 10-Q

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 (2)		Discounted Cash Flow	Discount Rate	6.5%-7.5%	7.0%

Edgar Filing: PROSPECT CAPITAL CORP - Form 10-Q

Common Equity/Interests/Warrants (3)	134,481	Enterprise Value Waterfall (Market approach)	Book Value Multiple	1.2x-2.8x	2.3x
Common Equity/Interests/Warrants (3)		Enterprise Value Waterfall (Market approach)	Earnings Multiple	7.5x-12.0x	10.8x
Common Equity/Interests/Warrants (6)	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				

- 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 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.

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.

Edgar Filing: PROSPECT CAPITAL CORP - Form 10-Q

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



Edgar Filing: PROSPECT CAPITAL CORP - Form 10-Q

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.

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, June 30, 2017 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, 2017 2016		Six Months Ended December 31, 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, June 30, 2017 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, 2017 2016		Six Months Ended December 31, 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.

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

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.



Edgar Filing: PROSPECT CAPITAL CORP - Form 10-Q

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 – December 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

Edgar Filing: PROSPECT CAPITAL CORP - Form 10-Q

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				

64

---

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 – May 15, 2018
5	354,805	4.25%-5.50%	5.00 %	July 15, 2018 – June 15, 2022
5.2	4,440	4.63%	4.63 %	August 15, 2020 – September 15, 2020
5.3	2,686	4.63%	4.63 %	September 15, 2020
5.4	5,000	4.75%	4.75 %	August 15, 2019
5.5	109,068	4.25%-5.00%	4.67 %	February 15, 2019 – November 15, 2020
6	2,182	4.88%	4.88 %	April 15, 2021 – May 15, 2021
6.5	40,702	5.10%-5.50%	5.24 %	February 15, 2020 – May 15, 2022
7	191,356	4.00%-6.55%	5.38 %	June 15, 2019 – December 15, 2022
7.5	1,996	5.75%	5.75 %	February 15, 2021
10	37,509	4.27%-7.00%	6.20 %	March 15, 2022 – December 15, 2025
12	2,978	6.00%	6.00 %	November 15, 2025 – December 15, 2025
15	17,245	5.25%-6.00%	5.36 %	May 15, 2028 – November 15, 2028
18	21,532	4.13%-6.25%	5.47 %	December 15, 2030 – August 15, 2031
20	4,248	5.63%-6.00%	5.84 %	November 15, 2032 – October 15, 2033
25	34,218	6.25%-6.50%	6.39 %	August 15, 2038 – May 15, 2039
30	111,491	5.50%-6.75%	6.22 %	November 15, 2042 – October 15, 2043
	\$980,494			

In connection with the issuance of Prospect Capital InterNotes®, we incurred \$24,485 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.

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.

Edgar Filing: PROSPECT CAPITAL CORP - Form 10-Q

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



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 10-Q

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

68

---



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

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;

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



\$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,

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 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

83

---

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

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 & 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.

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.

## 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

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.

## Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

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

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

### Overview

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

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

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

We consolidate certain of our wholly-owned and substantially wholly-owned holding companies formed by us in order to facilitate our investment strategy. The following companies are included in our consolidated financial statements: 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.

**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 %
Escrow Receivable	—	— %	856	— %	—	— %	864	— %

Total Investments            \$5,562,438 100.0 % \$5,421,132 100.0 % \$5,981,556 100.0 % \$5,838,305 100.0 %

99

---

(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 10-Q

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 10-Q

Transportation Infrastructure	26,830	0.5	%	26,830	0.5	%	\$—	—	%	\$—	—	%
Subtotal	\$4,495,067,809.9		%	\$4,480,856,826.6		%	\$4,831,550,808.8		%	\$4,758,593,815.5		%
Structured Finance (2)	\$1,067,371,191.1		%	\$940,276,174.4		%	\$1,150,006,192.2		%	\$1,079,712,185.5		%
Total Investments	\$5,562,438,100.0		%	\$5,421,132,100.0		%	\$5,981,556,100.0		%	\$5,838,305,100.0		%

101

---

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 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.





Edgar Filing: PROSPECT CAPITAL CORP - Form 10-Q

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
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



Edgar Filing: PROSPECT CAPITAL CORP - Form 10-Q

No.	Property Name	City	Acquisition Date	Purchase Price	Mortgage Outstanding
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

109

---

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.

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. 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.

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).

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

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

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

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

In connection with the issuance of the Convertible Notes, we incurred \$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.



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 – December 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 – May 15, 2018
5	354,805	4.25%-5.50%	5.00 %	July 15, 2018 – June 15, 2022
5.2	4,440	4.63%	4.63 %	August 15, 2020 – September 15, 2020
5.3	2,686	4.63%	4.63 %	September 15, 2020
5.4	5,000	4.75%	4.75 %	August 15, 2019
5.5	109,068	4.25%-5.00%	4.67 %	February 15, 2019 – November 15, 2020
6	2,182	4.88%	4.88 %	April 15, 2021 – May 15, 2021
6.5	40,702	5.10%-5.50%	5.24 %	February 15, 2020 – May 15, 2022
7	191,356	4.00%-6.55%	5.38 %	June 15, 2019 – December 15, 2022
7.5	1,996	5.75%	5.75 %	February 15, 2021
10	37,509	4.27%-7.00%	6.20 %	March 15, 2022 – December 15, 2025
12	2,978	6.00%	6.00 %	November 15, 2025 – December 15, 2025
15	17,245	5.25%-6.00%	5.36 %	May 15, 2028 – November 15, 2028
18	21,532	4.13%-6.25%	5.47 %	December 15, 2030 – August 15, 2031
20	4,248	5.63%-6.00%	5.84 %	November 15, 2032 – October 15, 2033
25	34,218	6.25%-6.50%	6.39 %	August 15, 2038 – May 15, 2039
30	111,491	5.50%-6.75%	6.22 %	November 15, 2042 – October 15, 2043
	\$980,494			

In connection with the issuance of Prospect Capital InterNotes®, we incurred \$24,485 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

116

---

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 December 31,		Six Months Ended 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	%

- (1) Excludes equity investments and non-accrual loans.
- (2) Excludes equity investments.

117

---

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 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 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 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 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.

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%.

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.

##### 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.

122

---

#### 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.
4. 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

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.

125

---

#### 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 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

126

---

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.

December 2017As 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.

127

---

#### 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.

#### Item 3. 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)	Interest	Interest	Net	Net
Basis Point Change	Income	Expense	Investment	Investment
			Income	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 year ended December 31, 2017, we did not engage in hedging activities.

#### Item 4. Controls and Procedures

##### Evaluation of Disclosure Controls and Procedures

As of December 31, 2017, we evaluated the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rule 13a-15(e) of the 1934 Act). Based on that evaluation, our management, including the Chief Executive Officer and Chief Financial Officer, concluded that our disclosure controls and procedures were effective and provided reasonable assurance that information required to be disclosed in our periodic SEC filings is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure. However, in evaluating the disclosure controls and procedures, management recognized that any controls and procedures, no matter how well designed and operated can provide only reasonable assurance of achieving the desired control objectives, and management necessarily was required to apply its judgment in evaluating the cost-benefit relationship of such possible controls and procedures.

##### Changes in Internal Control Over Financial Reporting

There have been no changes in our internal control over financial reporting during the quarter ended December 31, 2017, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

## PART II

### Item 1. Legal Proceedings

From time to time, we may become involved in various investigations, claims and legal proceedings that arise in the ordinary course of our business. These matters may relate to intellectual property, employment, tax, regulation, contract or other matters. The resolution of such matters as may arise will be subject to various uncertainties and, even if such claims are without merit, could result in the expenditure of significant financial and managerial resources. We are not aware of any material legal proceedings as of December 31, 2017.

### Item 1A. Risk Factors

In addition to the other information set forth in this report, you should carefully consider the factors discussed in Part I, "Item 1A. Risk Factors" in our Annual Report on Form 10-K for the year ended June 30, 2017, which could materially affect our business, financial condition or future results. The risks described in this report and in our Annual Report on Form 10-K are not the only risks facing our Company. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially adversely affect our business, financial condition or future results.

### Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

Not applicable.

### Item 3. Defaults Upon Senior Securities

Not applicable.

### Item 4. Mine Safety Disclosures

Not applicable.

### Item 5. Other Information

Not applicable.

### Item 6. Exhibits

The following exhibits are filed as part of this report or hereby incorporated by reference to exhibits previously filed with the SEC (according to the number assigned to them in Item 601 of Regulation S-K):

Exhibit No.

3.1 Articles of Amendment and Restatement(1)

3.2 Amended and Restated Bylaws(2)

4.1 Five Hundredth Supplemental Indenture dated as of October 5, 2017, to the U.S. Bank Indenture, and Form of 4.000% Prospect Capital InterNote® due 2022(3)

4.2 Five Hundred First Supplemental Indenture dated as of October 5, 2017, to the U.S. Bank Indenture, and Form of 4.500% Prospect Capital InterNote® due 2025(3)

4.3 Five Hundred Second Supplemental Indenture dated as of October 13, 2017, to the U.S. Bank Indenture, and Form of 4.000% Prospect Capital InterNote® due 2022(4)

4.4 Five Hundred Third Supplemental Indenture dated as of October 13, 2017, to the U.S. Bank Indenture, and Form of 4.500% Prospect Capital InterNote® due 2025(4)

4.5 Five Hundred Fourth Supplemental Indenture dated as of October 19, 2017, to the U.S. Bank Indenture, and Form of 4.000% Prospect Capital InterNote® due 2022(5)

4.6 Five Hundred Fifth Supplemental Indenture dated as of October 19, 2017, to the U.S. Bank Indenture, and Form of 4.500% Prospect Capital InterNote® due 2025(5)

4.7 Five Hundred Sixth Supplemental Indenture dated as of October 26, 2017, to the U.S. Bank Indenture, and Form of 4.000% Prospect Capital InterNote® due 2022(6)

4.8 Five Hundred Seventh Supplemental Indenture dated as of October 26, 2017, to the U.S. Bank Indenture, and Form of 4.500% Prospect Capital InterNote® due 2025(6)

Exhibit No.

- 4.9 Five Hundred Eighth Supplemental Indenture dated as of November 2, 2017, to the U.S. Bank Indenture, and Form of 4.000% Prospect Capital InterNote® due 2022(7)
- 4.10 Five Hundred Ninth Supplemental Indenture dated as of November 2, 2017, to the U.S. Bank Indenture, and Form of 4.500% Prospect Capital InterNote® due 2025(7)
- 4.11 Five Hundred Tenth Supplemental Indenture dated as of November 24, 2017, to the U.S. Bank Indenture, and Form of 4.000% Prospect Capital InterNote® due 2022(8)
- 4.12 Five Hundred Eleventh Supplemental Indenture dated as of November 24, 2017, to the U.S. Bank Indenture, and Form of 4.500% Prospect Capital InterNote® due 2025(8)
- 4.13 Five Hundred Twelfth Supplemental Indenture dated as of November 30, 2017, to the U.S. Bank Indenture, and Form of 4.000% Prospect Capital InterNote® due 2022(9)
- 4.14 Five Hundred Thirteenth Supplemental Indenture dated as of November 30, 2017, to the U.S. Bank Indenture, and Form of 4.500% Prospect Capital InterNote® due 2025(9)
- 4.15 Five Hundred Fourteenth Supplemental Indenture dated as of December 7, 2017, to the U.S. Bank Indenture, and Form of 4.000% Prospect Capital InterNote® due 2022(10)
- 4.16 Five Hundred Fifteenth Supplemental Indenture dated as of December 7, 2017, to the U.S. Bank Indenture, and Form of 4.500% Prospect Capital InterNote® due 2025(10)
- 4.17 Five Hundred Sixteenth Supplemental Indenture dated as of December 14, 2017, to the U.S. Bank Indenture, and Form of 4.000% Prospect Capital InterNote® due 2022(11)
- 4.18 Five Hundred Seventeenth Supplemental Indenture dated as of December 14, 2017, to the U.S. Bank Indenture, and Form of 4.500% Prospect Capital InterNote® due 2025(11)
- 4.19 Five Hundred Eighteenth Supplemental Indenture dated as of December 21, 2017, to the U.S. Bank Indenture, and Form of 4.000% Prospect Capital InterNote® due 2022(12)
- 4.20 Five Hundred Nineteenth Supplemental Indenture dated as of December 21, 2017, to the U.S. Bank Indenture, and Form of 4.500% Prospect Capital InterNote® due 2025(12)
- 4.21 Five Hundred Twentieth Supplemental Indenture dated as of December 29, 2017, to the U.S. Bank Indenture, and Form of 4.000% Prospect Capital InterNote® due 2022(13)
- 4.22 Five Hundred Twenty-First Supplemental Indenture dated as of December 29, 2017, to the U.S. Bank Indenture, and Form of 4.500% Prospect Capital InterNote® due 2025(13)
- 11 Computation of Per Share Earnings (included in the notes to the financial statements contained in this report)
- 12 Computation of Ratios (included in the notes to the financial statements contained in this report)
- 31.1 Certification of Chief Executive Officer pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934, as amended\*
- 31.2 Certification of Chief Financial Officer pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934, as amended\*
- 32.1 Certification of Chief Executive Officer pursuant to Section 906 of The Sarbanes-Oxley Act of 2002 (18 U.S.C. 1350)\*
- 32.2 Certification of Chief Financial Officer pursuant to Section 906 of The Sarbanes-Oxley Act of 2002 (18 U.S.C. 1350)\*

---

\* Filed herewith.

- (1) Incorporated by reference to Exhibit 3.1 of the Registrant's form 8-K, filed on May 9, 2014.
- (2) Incorporated by reference to Exhibit 3.1 of the Registrant's Form 8-K, filed on December 11, 2015.
- (3) Incorporated by reference from the Registrant's Post-Effective Amendment No. 45 to the Registration Statement on Form N-2, filed on October 5, 2017.
- (4) Incorporated by reference from the Registrant's Post-Effective Amendment No. 46 to the Registration Statement on Form N-2, filed on October 13, 2017.
- (5) Incorporated by reference from the Registrant's Post-Effective Amendment No. 47 to the Registration Statement on Form N-2, filed on October 19, 2017.
- (6)

Edgar Filing: PROSPECT CAPITAL CORP - Form 10-Q

Incorporated by reference from the Registrant's Post-Effective Amendment No. 49 to the Registration Statement on Form N-2, filed on October 26, 2017.

(7) Incorporated by reference from the Registrant's Post-Effective Amendment No. 51 to the Registration Statement on Form N-2, filed on November 2, 2017.

(8) Incorporated by reference from the Registrant's Post-Effective Amendment No. 52 to the Registration Statement on Form N-2, filed on November 24, 2017.

132

---

- (9) Incorporated by reference from the Registrant's Post-Effective Amendment No. 53 to the Registration Statement on Form N-2, filed on November 30, 2017.
- (10) Incorporated by reference from the Registrant's Post-Effective Amendment No. 54 to the Registration Statement on Form N-2, filed on December 7, 2017.
- (11) Incorporated by reference from the Registrant's Post-Effective Amendment No. 55 to the Registration Statement on Form N-2, filed on December 14, 2017.
- (12) Incorporated by reference from the Registrant's Post-Effective Amendment No. 56 to the Registration Statement on Form N-2, filed on December 21, 2017.
- (13) Incorporated by reference from the Registrant's Post-Effective Amendment No. 57 to the Registration Statement on Form N-2, filed on December 29, 2017.

**SIGNATURES**

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized on February 7, 2018  
PROSPECT CAPITAL CORPORATION

By: /s/ JOHN F. BARRY III

John F. Barry III

Chairman of the Board and Chief Executive Officer

By: /s/ BRIAN H. OSWALD

Brian H. Oswald

Chief Financial Officer