

COORS ADOLPH CO  
Form S-8  
March 04, 2003

As filed with the Securities and Exchange Commission on March 4, 2003

Registration No. 333-

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# SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

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## FORM S-8

### REGISTRATION STATEMENT

### UNDER THE SECURITIES ACT OF 1933

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# ADOLPH COORS COMPANY

(Exact name of registrant as specified in its charter)

**Colorado**  
(State or other jurisdiction of  
incorporation or organization)

**84-0178360**  
(IRS Employer  
Identification Number)

**311 10<sup>th</sup> Street**

**P.O. Box 4030**

**Golden, Colorado 80401-0030**

**(303) 279-6565**

(Address, including zip code, and telephone number,  
including area code, of Registrant's principal executive offices)

**Adolph Coors Company 1990 Equity Incentive Plan**

(Full title of the plan(s))

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**Robert M. Reese**

**Chief Legal Officer**

**Adolph Coors Company**

**311 10<sup>th</sup> Street**

**P.O. Box 4030**

**Golden, Colorado 80401-0030**

**(303) 279-6565**

(Name, address, and telephone number, including area code, of agent for service)

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*Copy to:*

**W. Dean Salter, Esq.**

**Holme Roberts & Owen LLP**

**1700 Lincoln Street, Suite 4100**

**Denver, Colorado 80203**

**(303) 861-7000**

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**CALCULATION OF REGISTRATION FEE**

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<b>Title of Securities to be Registered</b>	<b>Maximum Amount to be Registered(1)</b>	<b>Proposed Maximum Offering Price Per Share(2)</b>	<b>Proposed Maximum Aggregate Offering Price</b>	<b>Amount of Registration Fee</b>
Class B Common Stock	250,000 Shares	\$48.375	\$12,093,750	\$978.39

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- (1) This Registration Statement shall also cover any additional shares of Class B Common Stock which become issuable by reason of any stock dividend, stock split, recapitalization or other similar transaction effected without the receipt of consideration which results in an increase in the number of the Registrant's outstanding shares of Class B Common Stock.
- (2) Estimated solely for the purpose of computing the amount of the registration fee pursuant to Rule 457(h) under the Securities Act of 1933, as amended. The above calculation is based on the average of the high and low sale prices of the Class B Common Stock reported on the New York Stock Exchange on February 28, 2003.



Form S-8 Pursuant to General Instruction E

This Form S-8 is filed with the Securities and Exchange Commission (the Commission) pursuant to General Instruction E to Form S-8. The Form S-8 filed with the Commission on May 24, 1990, by Adolph Coors Company (the Registrant), File Number 33-35035, the Form S-8 filed with the Commission on June 1, 2000, File Number 333-38378, and the Form S-8 filed with the Commission on April 25, 2001, File Number 333-59516 are hereby incorporated by reference into this Form S-8. All capitalized terms not defined herein shall have the same meaning as set forth in the May 24, 1990 Form S-8.

PART II

INFORMATION REQUIRED IN REGISTRATION STATEMENT

ITEM 3. INCORPORATION OF DOCUMENTS BY REFERENCE

The Registrant hereby incorporates by reference in this Registration Statement the following documents:

- (a) The Registrant's Annual Report on Form 10-K for the year ended December 30, 2001;
- (b) The Registrant's Quarterly Reports on Form 10-Q for the quarters ended March 31, 2002, June 30, 2002 and September 29, 2002.

All documents subsequently filed by the Registrant pursuant to Section 13(a), 13(c), 14 and 15(d) of the Securities Exchange Act of 1934, prior to the filing of a post-effective amendment which indicates that all securities offered have been sold or which deregisters all securities then remaining unsold, shall be deemed to be incorporated by reference in this Registration Statement and to be a part hereof from the date of filing of such documents unless all or a portion of such documents are deemed not to be filed.

ITEM 8. EXHIBITS

<u>Exhibit No.</u>	<u>Description</u>
5.1	Opinion of Annita M. Menogan
23.1	Consent of PricewaterhouseCoopers LLP
23.2	Consent of Annita M. Menogan (included in Exhibit 5.1)
24.1	Powers of Attorney (included in the signature pages)

ITEM 9. UNDERTAKINGS

(a) The undersigned registrant hereby undertakes:

(1) To file, during any period in which offers or sales are being made, a post-effective amendment to this Registration Statement:

(i) To include any prospectus required by Section 10(a)(3) of the Securities Act;

(ii) To reflect in the prospectus any facts or events arising after the effective date of the Registration Statement (or the most recent post-effective amendment thereof) which, individually or in the aggregate, represent a fundamental change in the information set forth in the Registration Statement; and

(iii) To include any material information with respect to the plan of distribution not previously disclosed in the Registration Statement or any material change to such information in the Registration Statement;

Provided, however, that paragraphs (a)(1)(i) and (a)(1)(ii) do not apply if the information required to be included in a post-effective amendment by those paragraphs is contained in periodic reports filed by the registrant pursuant to Section 13 or Section 15(d) of the Exchange Act that are incorporated by reference in the Registration Statement;

(2) That, for the purpose of determining any liability under the Securities Act, each such post-effective amendment shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof; and

(3) To remove from registration by means of a post-effective amendment any of the securities being registered which remain unsold at the termination of the offering.

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(b) The undersigned registrant hereby undertakes that, for purposes of determining any liability under the Securities Act, each filing of the registrant's annual report pursuant to Section 13(a) or Section 15(d) of the Exchange Act (and, where applicable, each filing of an employee benefit plan's annual report pursuant to Section 15(d) of the Exchange Act) that is incorporated by reference in the Registration Statement shall be deemed to be a new registration

statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof.

(c) Insofar as indemnification for liabilities arising under the Securities Act may be permitted to directors, executive officers and controlling persons of the registrant, the registrant has been advised that in the opinion of the Commission such indemnification is against public policy as expressed in the Securities Act and is, therefore, unenforceable. In the event that a claim for indemnification against such liabilities (other than the payment by the registrant of expenses incurred or paid by a director, officer or controlling person of the registrant in the successful defense of any action, suit or proceeding) is asserted by such director, officer or controlling person in connection with the securities being registered, the registrant will, unless in the opinion of its counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question whether such indemnification by it is against public policy as expressed in the Securities Act and will be governed by the final adjudication of such issue.

**SIGNATURES**

Pursuant to the requirements of the Securities Act of 1933, the Registrant certifies that it has reasonable grounds to believe that it meets all of the requirements for filing on Form S-8 and has duly caused this registration statement to be signed on its behalf by the undersigned, thereunto duly authorized, in Golden, Colorado, on the 28th day of February, 2003.

ADOLPH COORS COMPANY

By:           /s/ W. Leo Kiely          

W. Leo Kiely III

Title: Chief  
Executive Officer

KNOW ALL MEN BY THESE PRESENTS, that each person whose signature appears below constitutes and appoints Peter H. Coors, W. Leo Kiely III and Robert M. Reese, and each of them, his or her true and lawful attorneys-in-fact and agents, with full power of substitution and revocation, for him or her and in his or her name, place and stead, in any and all capacities, to sign any and all amendments (including post-effective amendments) to this Registration Statement and any and all additional registration statements pursuant to Rule 462(b) relating to this Registration Statement, and to file the same with all exhibits thereto, and other documents in connection therewith, with the Securities and Exchange Commission, granting unto said attorneys-in-fact and agents, and each of them, full power and authority to do and perform each and every act and things requisite and necessary to be done as fully to all intents and purposes as he or she might or could do in person, hereby ratifying and confirming all that said attorneys-in-fact and agents or any of them, or their or his or her substitute or substitutes, may lawfully do or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities Act of 1933, this Registration Statement has been signed by the following persons in the capacities and on the dates indicated.



<b>Signatures</b>	<b>Title</b>	<b>Date</b>
/s/ W. Leo Kiely	Principal Executive Officer and Director	2/28/03
W. Leo Kiely III		
/s/ Timothy V. Wolf	Principal Financial Officer	2/28/03
Timothy V. Wolf		
/s/ Ronald A. Tryggestad	Controller and Principal Accounting Officer	3/03/03
Ronald A. Tryggestad		
/s/ William K. Coors	Director	2/26/03
William K. Coors		
/s/ Peter H. Coors	Director	2/28/03
Peter H. Coors		
<b>Signatures</b>	<b>Title</b>	<b>Date</b>
	Director	
Charles M. Herington		
/s/ Franklin W. Hobbs	Director	2/26/03
Franklin W. Hobbs		
	Director	
Pamela H. Patsley		
	Director	
Wayne R. Sanders		
/s/ Albert C. Yates	Director	2/26/03
Albert C. Yates		

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2019 Notes

Fiscal 2015 (as of March 31, 2015, unaudited)

\$  
200,000

\$  
33,393

—

—

Fiscal 2014 (as of June 30, 2014)

200,000

31,956

—

—

Fiscal 2013 (as of June 30, 2013)

200,000

21,697

—

—

5.00% 2019 Notes

Fiscal 2015 (as of March 31, 2015, unaudited)

\$  
300,000

\$  
22,262

—

—

Fiscal 2014 (as of June 30, 2014)

300,000

21,304

—

—

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	Total Amount Outstanding(1)	Asset Coverage per Unit(2)	Involuntary Liquidating Preference per Unit(3)	Average Market Value per Unit(4)
<b>2020 Notes</b>				
Fiscal 2015 (as of March 31, 2015, unaudited)	\$392,000	\$17,037	—	—
Fiscal 2014 (as of June 30, 2014)	400,000	15,978	—	—
<b>2022 Notes(5)</b>				
Fiscal 2015 (as of March 31, 2015, unaudited)	\$100,000	\$66,875	—	\$101,840
Fiscal 2014 (as of June 30, 2014)	100,000	63,912	—	103,920
Fiscal 2013 (as of June 30, 2013)	100,000	43,395	—	101,800
Fiscal 2012 (as of June 30, 2012)	100,000	21,761	—	99,560
<b>2023 Notes</b>				
Fiscal 2015 (as of March 31, 2015, unaudited)	\$248,045	\$26,925	—	—
Fiscal 2014 (as of June 30, 2014)	247,881	25,783	—	—
Fiscal 2013 (as of June 30, 2013)	247,725	17,517	—	—
<b>Prospect Capital InterNotes®</b>				
Fiscal 2015 (as of March 31, 2015, unaudited)	\$778,718	\$8,576	—	—
Fiscal 2014 (as of June 30, 2014)	785,670	8,135	—	—
Fiscal 2013 (as of June 30, 2013)	363,777	11,929	—	—
Fiscal 2012 (as of June 30, 2012)	20,638	105,442	—	—
<b>All Senior Securities</b>				
Fiscal 2015 (as of March 31, 2015, unaudited)	\$2,983,963	\$2,238	—	—
Fiscal 2014 (as of June 30, 2014)	2,773,051	2,305	—	—
Fiscal 2013 (as of June 30, 2013)	1,683,002	2,578	—	—
Fiscal 2012 (as of June 30, 2012)	664,138	3,277	—	—
Fiscal 2011 (as of June 30, 2011)	406,700	3,740	—	—

(1) Total amount of each class of senior securities outstanding at the end of the year/period presented (in 000's).

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

(2) This column is inapplicable.

(3) This column is inapplicable, except for the 2022 Notes. The average market value per unit is presented in thousands.

(4) We have provided notice of our intent to redeem the 2022 Notes on May 15, 2015.

## RATIO OF EARNINGS TO FIXED CHARGES

For the three and nine months ended March 31, 2015 and the years ended June 30, 2014, 2013, 2012, 2011 and 2010, the ratios of earnings to fixed charges of the Company, computed as set forth below, were as follows:

	For the Three Months Ended March 31, 2015	For the Nine Months Ended March 31, 2015	For the Year Ended June 30, 2014	For the Year Ended June 30, 2013	For the Year Ended June 30, 2012	For the Year Ended June 30, 2011	For the Year Ended June 30, 2010
Earnings to Fixed Charges(1)	2.91	2.98	3.45	3.89	5.95	7.72	3.34

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

Earnings include the net change in unrealized appreciation or depreciation. Net change in unrealized appreciation or depreciation can vary substantially from year to year. Excluding the net change in unrealized appreciation or depreciation, the earnings to fixed charges ratio would be 3.14 for the three months ended March 31, 2015, 1.96 for (1) the nine months ended March 31, 2015, 3.72 for the year ended June 30, 2014, 4.91 for the year ended June 30, 2013, 6.79 for the year ended June 30, 2012, 7.29 for the year ended June 30, 2011, and 2.87 for the year ended June 30, 2010.

## PLAN OF DISTRIBUTION

Under the terms of the Fourth Amended and Restated Selling Agent Agreement dated November 7, 2014, which we refer to as the “Selling Agent Agreement,” the notes will be offered from time to time by us to the Purchasing Agent for subsequent resale to agents, including Citigroup Global Markets Inc., Merrill Lynch, Pierce, Fenner & Smith Incorporated, and RBC Capital Markets, LLC and other dealers who are broker-dealers and securities firms. The agents, including the Purchasing Agent, and the additional agents named from time to time pursuant to the Selling Agent Agreement, are, or will be, parties to the Selling Agent Agreement. The notes will be offered for sale in the United States only. Dealers who are members of the selling group have executed a Master Selected Dealer Agreement with the Purchasing Agent. We also may appoint additional agents to sell the notes. Any sale of the notes through those additional agents, however, will be on the same terms and conditions to which the original agents have agreed. The Purchasing Agent will purchase the notes at a discount ranging from 0.4% to 3.8% of the non-discounted price for each note sold. However, we also may sell the notes to the Purchasing Agent at a discount greater than or less than the range specified above. The discount at which we sell the notes to the Purchasing Agent will be set forth in the applicable pricing supplement. The Purchasing Agent also may sell notes to dealers at a concession not in excess of the discount it received from us. In certain cases, the Purchasing Agent and the other agents and dealers may agree that the Purchasing Agent will retain the entire discount. We will disclose any particular arrangements in the applicable pricing supplement.

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

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

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

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

In connection with certain offerings of notes, the rules of the SEC permit the Purchasing Agent to engage in transactions that may stabilize the price of the notes. The Purchasing Agent will conduct these activities for the agents. These transactions may consist of short sales, stabilizing transactions and purchases to cover positions created by short sales. A short sale is the sale by the Purchasing Agent of a greater amount of notes than the amount the Purchasing Agent has agreed to purchase in connection with a specific offering of notes. Stabilizing transactions consist of certain bids or purchases made by the Purchasing Agent to prevent or retard a decline in the price of the notes while an offering of notes is in process. In general, these purchases or bids for the notes for the purpose of stabilization or to reduce a syndicate short position could cause the price of the notes to be higher than it might otherwise be in the absence of those purchases or bids. Neither we nor the Purchasing Agent makes any representation or prediction as to the direction or magnitude of any effect that these transactions may have on the price of any notes. In addition, neither we nor the Purchasing Agent makes any representation that, once commenced, these transactions will not be discontinued without notice. The Purchasing Agent is not required to engage in these activities and may end any of

these activities at any time.

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

In addition, in the ordinary course of their business activities, the agents and their affiliates may make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (including bank loans) for their own account and for the accounts of their customers. Such investments and securities activities

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

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## LEGAL MATTERS

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

## INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

BDO USA, LLP is the independent registered public accounting firm for the Company.

## AVAILABLE INFORMATION

We have filed with the SEC a registration statement on Form N-2, together with all amendments and related exhibits, under the Securities Act, with respect to the notes offered by this prospectus supplement and accompanying prospectus. The registration statement contains additional information about us and the notes being registered by this prospectus supplement and accompanying prospectus. We file with or submit to the SEC annual, quarterly and current periodic reports, proxy statements and other information meeting the informational requirements of the Exchange Act. This information and the information specifically regarding how we voted proxies relating to portfolio securities for the period ended June 30, 2014, are available free of charge by contacting us at 10 East 40th Street, 42nd floor, New York, NY 10016 or by telephone at toll-free (888) 748-0702. You may inspect and copy these reports, proxy statements and other information, as well as the registration statement and related exhibits and schedules, at the Public Reference Room of the SEC at 100 F Street NE, Washington, D.C. 20549. You may obtain information on the operation of the Public Reference Room by calling the SEC at (202) 551-8090. The SEC maintains an Internet site that contains reports, proxy and information statements and other information filed electronically by us with the SEC which are available on the SEC’s Internet site at <http://www.sec.gov>. Copies of these reports, proxy and information statements and other information may be obtained, after paying a duplicating fee, by electronic request at the following E-mail address: [publicinfo@sec.gov](mailto:publicinfo@sec.gov), or by writing the SEC’s Public Reference Section, Washington, D.C. 20549-0102.

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

INDEX TO FINANCIAL STATEMENTS

Financial Statements

<u>Consolidated Statements of Assets and Liabilities as of March 31, 2015 (unaudited) and June 30, 2014</u>	<u>F-2</u>
<u>Consolidated Statements of Operations for the three and nine months ended March 31, 2015 and March 31, 2014 (unaudited)</u>	<u>F-3</u>
<u>Consolidated Statements of Changes in Net Assets for the nine months ended March 31, 2015 and March 31, 2014 (unaudited)</u>	<u>F-4</u>
<u>Consolidated Statements of Cash Flows for the nine months ended March 31, 2015 and March 31, 2014 (unaudited)</u>	<u>F-5</u>
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PROSPECT CAPITAL CORPORATION AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF ASSETS AND LIABILITIES

(in thousands, except share and per share data)

	March 31, 2015 (Unaudited)	June 30, 2014 (Audited)
Assets		
Investments at fair value:		
Control investments (amortized cost of \$1,792,504 and \$1,719,242, respectively)	\$ 1,828,211	\$ 1,640,454
Affiliate investments (amortized cost of \$45,370 and \$31,829, respectively)	46,273	32,121
Non-control/non-affiliate investments (amortized cost of \$4,752,152 and \$4,620,451, respectively)	4,728,287	4,581,164
Total investments at fair value (amortized cost of \$6,590,026 and \$6,371,522, respectively)	6,602,771	6,253,739
Cash and cash equivalents	63,624	134,225
Receivables for:		
Interest, net	24,369	21,997
Other	1,604	2,587
Prepaid expenses	1,860	2,828
Deferred financing costs	60,918	61,893
Total Assets	6,755,146	6,477,269
Liabilities		
Revolving Credit Facility (Notes 4 and 8)	317,700	92,000
Convertible Notes (Notes 5 and 8)	1,239,500	1,247,500
Public Notes (Notes 6 and 8)	648,045	647,881
Prospect Capital InterNotes® (Notes 7 and 8)	778,718	785,670
Dividends payable	29,887	37,843
Due to Prospect Administration (Note 13)	2,544	2,208
Due to Prospect Capital Management (Note 13)	1,391	3
Accrued expenses	3,335	4,790
Interest payable	35,386	37,459
Other liabilities	4,052	3,733
Total Liabilities	3,060,558	2,859,087
Net Assets	\$ 3,694,588	\$ 3,618,182
Components of Net Assets		
Common stock, par value \$0.001 per share (1,000,000,000 common shares authorized; 358,661,441 and 342,626,637 issued and outstanding, respectively) (Note 9)	\$ 359	\$ 343
Paid-in capital in excess of par (Note 9)	3,972,249	3,814,634
Accumulated (overdistributed) underdistributed net investment income	(20,864	) 42,086
Accumulated net realized loss on investments and extinguishment of debt	(269,901	) (121,098 )
Net unrealized appreciation (depreciation) on investments	12,745	(117,783 )
Net Assets	\$ 3,694,588	\$ 3,618,182
Net Asset Value Per Share (Note 16)	\$ 10.30	\$ 10.56

See notes to consolidated financial statements.



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

	Three Months Ended March 31,		Nine Months Ended March 31,		
	2015	2014	2015	2014	
Investment Income					
Interest income:					
Control investments	\$ 50,418	\$ 38,129	\$ 146,230	\$ 107,848	
Affiliate investments	973	727	2,814	3,622	
Non-control/non-affiliate investments	94,556	85,811	290,665	243,343	
CLO fund securities	39,046	31,709	118,238	87,087	
Total interest income	184,993	156,376	557,947	441,900	
Dividend income:					
Control investments	1,346	7,575	4,756	23,527	
Affiliate investments	—	—	778	—	
Non-control/non-affiliate investments	24	—	46	12	
Money market funds	1	15	27	32	
Total dividend income	1,371	7,590	5,607	23,571	
Other income:					
Control investments	1,620	12,431	10,352	39,580	
Affiliate investments	—	5	226	12	
Non-control/non-affiliate investments	3,366	13,925	18,122	24,388	
Total other income (Note 10)	4,986	26,361	28,700	63,980	
Total Investment Income	191,350	190,327	592,254	529,451	
Operating Expenses					
Investment advisory fees:					
Base management fee (Note 13)	33,679	28,709	100,878	76,829	
Income incentive fee (Note 13)	21,860	24,631	68,307	68,269	
Total investment advisory fees	55,539	53,340	169,185	145,098	
Interest and credit facility expenses	42,213	31,747	127,371	88,410	
Legal fees	(4	) 306	1,554	483	
Valuation services	401	490	1,310	1,378	
Audit, compliance and tax related fees	648	336	2,239	1,704	
Allocation of overhead from Prospect Administration (Note 13)	2,984	3,986	8,414	11,958	
Insurance expense	121	90	373	273	
Directors' fees	94	81	282	231	
Excise tax	(793	) 1,000	982	3,000	
Other general and administrative expenses	2,706	428	7,315	3,841	
Total Operating Expenses	103,909	91,804	319,025	256,376	
Net Investment Income	87,441	98,523	273,229	273,075	
Net realized gains (losses) on investments	4,704	(1,600	) (150,973	) (3,482	)
Net change in unrealized (depreciation) appreciation on investments	(9,775	) (14,822	) 130,528	(22,230	)
Net realized and unrealized losses on investments	(5,071	) (16,422	) (20,445	) (25,712	)
Net realized losses on extinguishment of debt	(878	) —	(1,214	) —	
Net Increase in Net Assets Resulting from Operations	\$ 81,492	\$ 82,101	\$ 251,570	\$ 247,363	
Net increase in net assets resulting from operations per share	\$ 0.23	\$ 0.26	\$ 0.71	\$ 0.86	



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

(in thousands, except share data)

(Unaudited)

	Nine Months Ended March 31,	
	2015	2014
<b>Operations</b>		
Net investment income	\$ 273,229	\$ 273,075
Net realized losses on investments	(150,973	) (3,482
Net change in unrealized appreciation (depreciation) on investments	130,528	(22,230
Net realized losses on extinguishment of debt	(1,214	) —
Net Increase in Net Assets Resulting from Operations	251,570	247,363
<b>Distributions to Shareholders</b>		
Distribution from net investment income	(331,863	) (289,875
Distribution of return of capital	—	—
Net Decrease in Net Assets Resulting from Distributions to Shareholders	(331,863	) (289,875
<b>Common Stock Transactions</b>		
Issuance of common stock, net of underwriting costs	146,085	890,331
Less: Offering costs from issuance of common stock	(585	) (1,187
Value of shares issued to acquire controlled investments	—	45,914
Value of shares issued through reinvestment of dividends	11,199	12,336
Net Increase in Net Assets Resulting from Common Stock Transactions	156,699	947,394
Total Increase in Net Assets	76,406	904,882
Net assets at beginning of period	3,618,182	2,656,494
Net Assets at End of Period	\$ 3,694,588	\$ 3,561,376
<b>Common Stock Activity</b>		
Shares sold	14,845,556	80,343,264
Shares issued to acquire controlled investments	—	4,224,636
Shares issued through reinvestment of dividends	1,189,248	1,094,996
Total shares issued due to common stock activity	16,034,804	85,662,896
Shares issued and outstanding at beginning of period	342,626,637	247,836,965
Shares Issued and Outstanding at End of Period	358,661,441	333,499,861

See notes to consolidated financial statements.

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

	Nine Months Ended March 31,	
	2015	2014
<b>Operating Activities</b>		
Net increase in net assets resulting from operations	\$251,570	\$247,363
Net realized losses on extinguishment of debt	1,214	—
Net realized losses on investments	150,973	3,482
Net change in unrealized (appreciation) depreciation on investments	(130,528)	) 22,230
Amortization of discounts and premiums, net	64,200	31,837
Accretion of discount on Public Notes (Note 6)	164	133
Amortization of deferred financing costs	9,601	7,810
Payment-in-kind interest	(16,485)	) (13,043)
Structuring fees	(18,055)	) (40,064)
Change in operating assets and liabilities:		
Payments for purchases of investments	(1,594,481)	) (2,409,231)
Proceeds from sale of investments and collection of investment principal	1,195,344	617,352
(Increase) decrease in interest receivable, net	(2,372)	) 1,771
Decrease in other receivables	983	1,433
Decrease (increase) in prepaid expenses	968	(153)
Decrease in due to broker	—	(43,588)
Increase in due to Prospect Administration	336	509
Increase in due to Prospect Capital Management	1,388	21,412
(Decrease) increase in accrued expenses	(1,455)	) 1,291
Decrease in interest payable	(2,073)	) (1,612)
Increase in other liabilities	319	3,240
Net Cash Used in Operating Activities	(88,389)	) (1,547,828)
<b>Financing Activities</b>		
Borrowings under Revolving Credit Facility (Note 4)	1,187,000	986,500
Principal payments under Revolving Credit Facility (Note 4)	(961,300)	) (381,500)
Repurchase of Convertible Notes, net (Note 5)	(7,658)	) —
Issuance of Prospect Capital InterNotes® (Note 7)	74,967	407,208
Redemptions of Prospect Capital InterNotes®, net (Note 7)	(83,475)	) (3,341)
Financing costs paid and deferred	(8,626)	) (10,423)
Proceeds from issuance of common stock, net of underwriting costs	146,085	890,331
Offering costs from issuance of common stock	(585)	) (1,187)
Dividends paid	(328,620)	) (268,028)
Net Cash Provided by Financing Activities	17,788	1,619,560
Total (Decrease) Increase in Cash and Cash Equivalents	(70,601)	) 71,732
Cash and cash equivalents at beginning of period	134,225	203,236
Cash and Cash Equivalents at End of Period	\$63,624	\$274,968
<b>Supplemental Disclosures</b>		
Cash paid for interest	\$119,679	\$78,344

Non-Cash Financing Activities

Value of shares issued through reinvestment of dividends	\$11,199	\$12,336
Value of shares issued to acquire controlled investments	\$—	\$45,914

See notes to consolidated financial statements.

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

Portfolio Company	Locale / Industry	Investments(1)	March 31, 2015 (Unaudited)			% of Net Assets
			Principal Value	Cost	Fair Value(2)	
<b>LEVEL 3 PORTFOLIO INVESTMENTS</b>						
Control Investments (greater than 25.00% voting control)(47)						
American Property REIT Corp.(32)	Various / Real Estate	Senior Secured Term Loan (6.00% (LIBOR + 4.00% with 2.00% LIBOR floor) plus 5.50% PIK, due 4/1/2019)(4)	\$ 106,686	\$ 106,686	\$ 106,686	2.9%
		Common Stock (272,116 shares)		24,769	26,236	0.7%
		Net Operating Income Interest (5% of Net Operating Income)		—	10,594	0.3%
				131,455	143,516	3.9%
Arctic Energy Services, LLC(30)	Wyoming / Oil & Gas Production	Senior Secured Term Loan (12.00% (LIBOR + 9.00% with 3.00% LIBOR floor), due 5/5/2019)(3)(4)	31,640	31,640	31,640	0.9%
		Senior Subordinated Term Loan (14.00% (LIBOR + 11.00% with 3.00% LIBOR floor), due 5/5/2019)(3)(4)	20,230	20,230	20,230	0.5%
		Class A Units (700 units)		9,006	10,046	0.3%
				60,876	61,916	1.7%
CCPI Inc.(33)	Ohio / Manufacturing	Senior Secured Term Loan A (10.00%, due 12/31/2017)(3)	16,875	16,875	16,875	0.5%
		Senior Secured Term Loan B (12.00% plus 7.00% PIK, due 12/31/2017)	8,691	8,691	8,691	0.2%
		Common Stock (14,857 shares)		8,553	11,308	0.3%
				34,119	36,874	1.0%
CP Energy Services Inc.(38)	Oklahoma / Oil & Gas Production	Senior Secured Term Loan A to CP Well Testing, LLC (7.00% (LIBOR + 5.00% with 2.00% LIBOR floor), due 4/1/2019)(4)	11,035	11,035	11,035	0.3%
		Senior Secured Term Loan B to CP Well Testing, LLC (10.00% (LIBOR + 8.00% with 2.00% LIBOR floor) plus 7.50% PIK, due 4/1/2019)(3)(4)	73,099	73,099	73,099	2.0%
		Second Lien Term Loan to CP Well Testing, LLC (9.00% (LIBOR + 7.00% with 2.00% LIBOR floor) plus 9.00% PIK, due 4/1/2019)(4)	15,214	15,214	15,214	0.4%
		Common Stock (2,924 shares)		15,227	2,290	0.1%
			114,575	101,638	2.8%	
Credit Central Loan Company, LLC(34)	Ohio / Consumer	Subordinated Term Loan (10.00% plus 10.00% PIK, due 6/26/2019)(22)	36,333	36,333	36,333	1.0%

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	Finance	Class A Shares (7,500,000 shares)(22)		11,633	10,766	0.3%
		Net Revenues Interest (25% of Net Revenues)(22)		—	4,443	0.1%
				47,966	51,542	1.4%
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)(4)	40,808	40,808	40,808	1.1%
		Class A Shares (11,335,318 shares)		19,907	28,133	0.8%
				60,715	68,941	1.9%
First Tower Finance Company LLC(29)	Mississippi / Consumer Finance	Subordinated Term Loan to First Tower, LLC (10.00% plus 12.00% PIK, 251,246 due 6/24/2019)(22)		251,246	251,246	6.8%
		Class A Shares (83,729,323 shares)(22)		66,473	103,884	2.8%
				317,719	355,130	9.6%
		Senior Secured Note to Vessel Company, LLC (18.00%, due 12/12/2016)	3,500	3,500	3,500	0.1%
Freedom Marine Solutions, LLC(8)	Louisiana / Energy	Senior Secured Note to Vessel Company II, LLC (13.00%, due 11/25/2018)	13,000	12,504	9,499	0.3%
		Senior Secured Note to Vessel Company III, LLC (13.00%, due 12/3/2018)	16,000	16,000	14,342	0.4%
		Membership Interest (100%)		7,807	1,260	—%
				39,811	28,601	0.8%

See notes to consolidated financial statements.

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

Portfolio Company	Locale / Industry	Investments(1)	March 31, 2015 (Unaudited)			
			Principal Value	Cost	Fair Value(2)	% of Net Assets
<b>LEVEL 3 PORTFOLIO INVESTMENTS</b>						
Control Investments (greater than 25.00% voting control)(47)						
Gulf Coast Machine & Supply Company	Texas / Manufacturing	Senior Secured Term Loan (10.50% (LIBOR + 8.50% with 2.00% LIBOR floor), in non-accrual status effective 1/1/2015, due 10/12/2017)(4)	\$23,196	\$23,000	\$8,199	0.2%
		Series A Convertible Preferred Stock (99,900 shares)		25,950	—	—%
				48,950	8,199	0.2%
		Senior Secured Term Loan A (9.00% (LIBOR + 7.00% with 2.00% LIBOR floor), due 9/30/2017)(3)(4)	129,663	129,663	129,663	3.5%
Harbortouch Payments, LLC(43)	Pennsylvania / Business Services	Senior Secured Term Loan B (5.50% (LIBOR + 4.00% with 1.50% LIBOR floor) plus 5.50% PIK, due 3/31/2018)(4)	137,226	137,226	137,226	3.7%
		Senior Secured Term Loan C (13.00% (LIBOR + 9.00% with 4.00% LIBOR floor), due 9/29/2018)(4)	24,011	24,011	24,011	0.6%
		Class C Shares (535 shares)		8,739	39,372	1.1%
				299,639	330,272	8.9%
MITY, Inc.(17)	Utah / Durable Consumer Products	Senior Secured Note A (10.00% (LIBOR + 7.00% with 3.00% LIBOR floor), due 3/19/2019)(3)(4)	18,250	18,250	18,250	0.5%
		Senior Secured Note B (10.00% (LIBOR + 7.00% with 3.00% LIBOR floor) plus 10.00% PIK, due 3/19/2019)(4)	15,896	15,896	15,896	0.4%
		Subordinated Unsecured Note to Broda Enterprises ULC (10.00%, due on demand)(22)	7,200	7,200	7,200	0.2%
		Common Stock (42,053 shares)		6,849	13,685	0.4%
				48,195	55,031	1.5%
National Property REIT Corp.(40)	Various / Real Estate	Senior Secured Term Loan A (6.00% (LIBOR + 4.00% with 2.00% LIBOR floor) plus 5.50% PIK, due 4/1/2019)(4)	172,403	172,403	172,403	4.7%
		Senior Secured Term Loan A to ACL Loan Holdings, Inc. (6.00% (LIBOR + 4.00% with 2.00% LIBOR floor) plus 5.50% PIK, due 4/1/2019)(4)	79,462	79,462	79,462	2.1%
			47,050	47,050	47,050	1.3%

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		Senior Secured Term Loan B to ACL Loan Holdings, Inc. (14.00% (LIBOR + 12.00% with 2.00% LIBOR floor) plus 3.00% PIK, due 4/1/2019)(4)					
		Common Stock (84,567 shares)		68,757	70,665		1.9%
		Net Operating Income Interest (5% of Net Operating Income)		—	20,221		0.5%
				367,672	389,801		10.5%
Nationwide Acceptance LLC(36)	Illinois / Consumer Finance	Subordinated Term Loan (10.00% plus 10.00% PIK, due 6/18/2019)(22)	14,820	14,820	14,820		0.4%
		Class A Shares (24,029,326 shares)(22)		12,919	15,304		0.4%
				27,739	30,124		0.8%
		Senior Secured Note (14.00%, due 5/6/2016)	3,714	3,714	3,147		0.1%
NMMB, Inc.(24)	New York / Media	Senior Secured Note to Armed Forces Communications, Inc. (14.00%, due 5/6/2016)	7,000	7,000	5,931		0.2%
		Series A Preferred Stock (7,200 shares)		7,200	—		—%
		Series B Preferred Stock (5,669 shares)		5,669	—		—%
				23,583	9,078		0.3%
		Senior Subordinated Note (10.00% (LIBOR + 9.00% with 1.00% LIBOR floor), due 6/12/2018)(3)(4)	30,411	30,411	30,411		0.8%
R-V Industries, Inc.	Pennsylvania / Manufacturing	Common Stock (545,107 shares)		5,087	8,287		0.2%
		Warrant (to purchase 200,000 shares of Common Stock, expires 6/30/2017)		1,682	3,041		0.1%
				37,180	41,739		1.1%

See notes to consolidated financial statements.

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

Portfolio Company	Locale / Industry	Investments(1)	March 31, 2015 (Unaudited)			% of Net Assets
			Principal Value	Cost	Fair Value(2)	
<b>LEVEL 3 PORTFOLIO INVESTMENTS</b>						
<b>Control Investments (greater than 25.00% voting control)(47)</b>						
United Property REIT Corp.(41)	Various / Real Estate	Senior Term Loan (6.00% (LIBOR + 4.00% with 2.00% LIBOR floor) plus 5.50% PIK, due 4/1/2019)(4)	\$58,219	\$58,219	\$58,219	1.6%
		Common Stock (70,689 shares)		11,946	12,783	0.3%
		Net Operating Income Interest (5% of Net Operating Income)		—	10,916	0.3%
				70,165	81,918	2.2%
Valley Electric Company, Inc.(35)	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 12/31/2017)(3)(4)	10,275	10,275	10,275	0.3%
		Senior Secured Note (10.00% plus 8.50% PIK, due 12/31/2018)	21,835	21,835	21,835	0.6%
		Common Stock (50,000 shares)		26,204	—	—%
				58,314	32,110	0.9%
Vets Securing America, Inc.(9)	North Carolina / Contracting	Secured Promissory Notes to The Healing Staff, Inc. and Vets Securing America, Inc. (15.00%, in non-accrual status effective 12/22/2010, past due)	1,688	1,686	—	—%
		Senior Demand Note to The Healing Staff, Inc. (15.00%, in non-accrual status effective 11/1/2010, past due)	1,170	1,170	—	—%
		Common Stock of The Healing Staff, Inc. (1,000 shares)		—	—	—%
		Common Stock of Vets Securing America, Inc. (1 share)		975	—	—%
Wolf Energy, LLC(12)	Kansas / Oil & Gas Production	Senior Secured Promissory Note secured by assets formerly owned by H&M (18.00%, in non-accrual status effective 4/15/2013, due 4/15/2018)(37)	29,434	—	1,759	—%
		Membership Interest (100%)		—	—	—%
		Net Profits Interest (8% of Equity Distributions)(7)		—	22	—%
				—	1,781	—%
<b>Total Control Investments</b>			<b>\$1,792,504</b>	<b>\$1,828,211</b>	<b>49.5%</b>	

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

		Senior Term Loan A (6.50% (LIBOR + 5.50% with 1.00% LIBOR floor), due 8/29/2019)(3)(4)	\$21,348	\$21,348	\$21,348	0.6%
BNN Holdings Corp.	Michigan / Healthcare	Senior Term Loan B (11.50% (LIBOR + 10.50% with 1.00% LIBOR floor), due 8/29/2019)(3)(4)	21,795	21,795	21,795	0.6%
		Series A Preferred Stock (9,925.455 shares)(13)		1,779	2,582	—%
		Series B Preferred Stock (1,753.636 shares)(13)		448	548	—%
				45,370	46,273	1.2%
		Total Affiliate Investments		\$45,370	\$46,273	1.2%

See notes to consolidated financial statements.

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

Portfolio Company	Locale / Industry	Investments(1)	March 31, 2015 (Unaudited)			
			Principal Value	Cost	Fair Value(2)	% of Net Assets
<b>LEVEL 3 PORTFOLIO INVESTMENTS</b>						
Non-Control/Non-Affiliate Investments (less than 5.00% voting control)						
Aderant North America, Inc.	Georgia / Software & Computer Services	Second Lien Term Loan (10.00% (LIBOR + 8.75% with 1.25% LIBOR floor), due 6/20/2019)(4)(16)	\$7,000	\$6,924	\$7,000	0.2%
				6,924	7,000	0.2%
AFI Shareholder, LLC (f/k/a Aircraft Fasteners International, LLC)	California / Machinery	Class A Units (32,500 units)		396	498	—%
				396	498	—%
Airmall Inc.(27)	Pennsylvania / Property Management	Escrow Receivable		5,880	3,752	0.1%
				5,880	3,752	0.1%
Ajax Rolled Ring & Machine, LLC(42)	South Carolina / Manufacturing	Escrow Receivable		—	1,731	—%
				—	1,731	—%
ALG USA Holdings, LLC	Pennsylvania / Hotels, Restaurants & Leisure	Second Lien Term Loan (10.25% (LIBOR + 9.00% with 1.25% LIBOR floor), due 2/28/2020)(4)(16)	12,000	11,814	12,000	0.3%
				11,814	12,000	0.3%
American Broadband Holding Company and Cameron Holdings of NC, Inc.	North Carolina / Telecommunication Services	Senior Secured Term Loan B (11.00% (LIBOR + 9.75% with 1.25% LIBOR floor), due 9/30/2018)(3)(4)	74,654	74,654	74,654	2.0%
				74,654	74,654	2.0%
American Gilsonite Company	Utah / Metal Services & Minerals	Second Lien Term Loan (11.50%, due 9/1/2017)(16)	38,500	38,500	34,133	0.9%
		Membership Interest (99.9999%)(15)		—	3,976	0.1%
				38,500	38,109	1.0%
Apidos CLO IX	Cayman Islands / Diversified Financial Services	Subordinated Notes (Residual Interest, current yield 21.95%)(11)(22)	23,525	20,540	22,521	0.6%
				20,540	22,521	0.6%
Apidos CLO XI	Cayman Islands / Diversified Financial Services	Subordinated Notes (Residual Interest, current yield 15.67%)(11)(22)	38,340	32,222	33,143	0.9%

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				32,222	33,143	0.9%
Apidos CLO XII	Cayman Islands / Diversified Financial Services	Subordinated Notes (Residual Interest, current yield 17.54%)(11)(22)	44,063	38,864	40,105	1.1%
				38,864	40,105	1.1%
Apidos CLO XV	Cayman Islands / Diversified Financial Services	Subordinated Notes (Residual Interest, current yield 14.97%)(11)(22)	36,515	34,883	31,891	0.9%
				34,883	31,891	0.9%
Arctic Glacier U.S.A., Inc.	Minnesota / Food Products	Second Lien Term Loan (10.50% (LIBOR + 9.25% with 1.25% LIBOR floor), due 11/10/2019)(3)(4)	150,000	150,000	148,436	4.0%
				150,000	148,436	4.0%
Ark-La-Tex Wireline Services, LLC	Louisiana / Oil and Gas Production	Senior Secured Term Loan A (6.50% (LIBOR + 5.50% with 1.00% LIBOR floor), due 4/8/2019)(4) Senior Secured Term Loan B (10.50% (LIBOR + 9.50% with 1.00% LIBOR floor), due 4/8/2019)(4)	26,325	26,325	24,497	0.7%
			26,325	26,325	23,762	0.6%
Armor Holding II LLC	New York / Diversified Financial Services	Second Lien Term Loan (10.25% (LIBOR + 9.00% with 1.25% LIBOR floor), due 12/26/2020)(3)(4)(16)		52,650	48,259	1.3%
			6,884	6,884	6,538	0.2%
				6,884	6,538	0.2%

See notes to consolidated financial statements.

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

Portfolio Company	Locale / Industry	Investments(1)	March 31, 2015 (Unaudited)			
			Principal Value	Cost	Fair Value(2)	% of Net Assets
<b>LEVEL 3 PORTFOLIO INVESTMENTS</b>						
Non-Control/Non-Affiliate Investments (less than 5.00% voting control)						
Atlantis Health Care Group (Puerto Rico), Inc.	Puerto Rico / Healthcare	Revolving Line of Credit – \$4,000 Commitment (13.00% (LIBOR + 11.00% with 2.00% LIBOR floor), due 8/21/2016)(4)(25)(26)	\$2,350	\$2,350	\$2,350	0.1%
		Senior Term Loan (10.00% (LIBOR + 8.00% with 2.00% LIBOR floor), due 2/21/2018)(3)(4)	38,660	38,660	35,340	0.9%
				41,010	37,690	1.0%
Babson CLO Ltd. 2014-III	Cayman Islands / Diversified Financial Services	Subordinated Notes (Residual Interest, current yield 13.47%)(11)(22)	52,250	51,465	49,927	1.3%
				51,465	49,927	1.3%
Blue Coat Systems, Inc.	Massachusetts / Software & Computer Services	Second Lien Term Loan (9.50% (LIBOR + 8.50% with 1.00% LIBOR floor), due 6/28/2020)(3)(4)(16)	11,000	10,911	11,000	0.3%
				10,911	11,000	0.3%
Broder Bros., Co.	Pennsylvania / Textiles, Apparel & Luxury Goods	Senior Secured Notes (10.25% (LIBOR + 9.00% with 1.25% LIBOR floor), due 4/8/2019)(3)(4)(46)	253,675	253,675	253,675	6.9%
				253,675	253,675	6.9%
Brookside Mill CLO Ltd.	Cayman Islands / Diversified Financial Services	Subordinated Notes (Residual Interest, current yield 19.42%)(11)(22)	26,000	21,956	24,131	0.7%
				21,956	24,131	0.7%
Caleel + Hayden, LLC	Colorado / Personal & Nondurable Consumer Products	Membership Interest(31)	—	—	237	—%
				—	237	—%
Capstone Logistics Acquisition, Inc.	Georgia / Business Services	Second Lien Term Loan (8.75% (LIBOR + 7.75% with 1.00% LIBOR floor), due 10/7/2022)(3)(4)	65,000	64,377	64,377	1.7%
				64,377	64,377	1.7%

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Cent CLO 17 Limited	Cayman Islands	/ Diversified Financial Services	Subordinated Notes (Residual Interest, current yield 13.90%)(11)(22)	24,870	20,642	21,432	0.6%
					20,642	21,432	0.6%
Cent CLO 20 Limited	Cayman Islands	/ Diversified Financial Services	Subordinated Notes (Residual Interest, current yield 11.98%)(11)(22)	40,275	36,541	36,505	1.0%
					36,541	36,505	1.0%
Cent CLO 21 Limited	Cayman Islands	/ Diversified Financial Services	Subordinated Notes (Residual Interest, current yield 12.80%)(11)(22)	48,528	44,488	42,781	1.2%
					44,488	42,781	1.2%
CIFC Funding 2011-I, Ltd.	Cayman Islands	/ Diversified Financial Services	Class D Senior Secured Notes (5.25% (LIBOR + 5.00%, due 1/19/2023)(4)(22) Class E Subordinated Notes (7.25% (LIBOR + 7.00%, due 1/19/2023)(4)(22)	19,000	15,526	18,538	0.5%
					15,400	12,959	14,420
					28,485	32,958	0.9%
CIFC Funding 2013-III, Ltd.	Cayman Islands	/ Diversified Financial Services	Subordinated Notes (Residual Interest, current yield 15.47%)(11)(22)	44,100	36,654	39,473	1.1%
						36,654	39,473
CIFC Funding 2013-IV, Ltd.	Cayman Islands	/ Diversified Financial Services	Subordinated Notes (Residual Interest, current yield 14.38%)(11)(22)	45,500	37,174	39,114	1.1%
						37,174	39,114

See notes to consolidated financial statements.

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

Portfolio Company	Locale / Industry	Investments(1)	March 31, 2015 (Unaudited)			
			Principal Value	Cost	Fair Value(2)	% of Net Assets
<b>LEVEL 3 PORTFOLIO INVESTMENTS</b>						
Non-Control/Non-Affiliate Investments (less than 5.00% voting control)						
CIFC Funding 2014-IV Investor, Ltd.	Cayman Islands / Diversified Financial Services	Income Notes (Residual Interest, current yield 13.30%)(11)(22)	\$41,500	\$36,256	\$37,237	1.0%
				36,256	37,237	1.0%
Cinedigm DC Holdings, LLC	New York / Software & Computer Services	Senior Secured Term Loan (11.00% (LIBOR + 9.00% with 2.00% LIBOR floor) plus 2.50% PIK, due 3/31/2021)(4)	67,967	67,917	67,967	1.8%
				67,917	67,967	1.8%
The Copernicus Group, Inc.	North Carolina / Healthcare	Escrow Receivable	—	—	121	—%
				—	121	—%
Coverall North America, Inc.	Florida / Commercial Services	Senior Secured Term Loan (11.50% (LIBOR + 8.50% with 3.00% LIBOR floor), due 12/17/2017)(3)(4)	50,244	50,244	50,244	1.4%
				50,244	50,244	1.4%
Crosman Corporation	New York / Manufacturing	Second Lien Term Loan (12.00% (LIBOR + 10.50% with 1.50% LIBOR floor), due 12/30/2019)(3)(4)	40,000	40,000	38,166	1.0%
				40,000	38,166	1.0%
Deltek, Inc.	Virginia / Software & Computer Services	Second Lien Term Loan (10.00% (LIBOR + 8.75% with 1.25% LIBOR floor), due 10/10/2019)(3)(4)(16)	12,000	11,868	11,868	0.3%
				11,868	11,868	0.3%
Diamondback Operating, LP	Oklahoma / Oil & Gas Production	Net Profits Interest (15% of Equity Distributions)(7)	—	—	—	—%
				—	—	—%
Edmentum, Inc.	Minnesota / Consumer Services	Second Lien Term Loan (12.00% (PRIME + 8.75%), in non-accrual status effective 1/1/2015, due 5/17/2019)(3)(4)(16)	50,000	48,623	25,329	0.7%
				48,623	25,329	0.7%
Empire Today, LLC	Illinois / Durable Consumer	Senior Secured Note (11.375%, due 2/1/2017)(16)	15,700	15,492	13,491	0.4%

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	Products		15,492	13,491	0.4%	
Fischbein, LLC	North Carolina / Machinery	Escrow Receivable	—	123	—%	
			—	123	—%	
		Senior Secured Term Loan A (6.50% (LIBOR + 5.50% with 1.00% LIBOR floor), due 4/30/2019)(4)	24,625	24,625	24,625	0.6%
Fleetwash, Inc.	New Jersey / Business Services	Senior Secured Term Loan B (10.50% (LIBOR + 9.50% with 1.00% LIBOR floor), due 4/30/2019)(3)(4)	25,000	25,000	25,000	0.7%
		Delayed Draw Term Loan – \$15,000 Commitment (expires 4/30/2019)(25)	—	—	—	—%
			49,625	49,625	1.3%	
Focus Brands, Inc.	Georgia / Consumer Services	Second Lien Term Loan (10.25% (LIBOR + 9.00% with 1.25% LIBOR floor), due 8/21/2018)(4)(16)	18,000	17,810	18,000	0.5%
			17,810	18,000	0.5%	
Galaxy XV CLO, Ltd.	Cayman Islands / Diversified Financial Services	Subordinated Notes (Residual Interest, current yield 15.33%)(11)(22)	35,025	28,142	30,191	0.8%
			28,142	30,191	0.8%	
Galaxy XVI CLO, Ltd.	Cayman Islands / Diversified Financial Services	Subordinated Notes (Residual Interest, current yield 13.35%)(11)(22)	22,575	19,360	19,523	0.5%
			19,360	19,523	0.5%	

See notes to consolidated financial statements.

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

Portfolio Company	Locale / Industry	Investments(1)	March 31, 2015 (Unaudited)			
			Principal Value	Cost	Fair Value(2)	% of Net Assets
<b>LEVEL 3 PORTFOLIO INVESTMENTS</b>						
Non-Control/Non-Affiliate Investments (less than 5.00% voting control)						
Galaxy XVII CLO, Ltd.	Cayman Islands / Diversified Financial Services	Subordinated Notes (Residual Interest, current yield 12.87%)(11)(22)	\$ 39,905	\$ 34,322	\$ 34,222	0.9%
				34,322	34,222	0.9%
Global Employment Solutions, Inc.	Colorado / Business Services	Senior Secured Term Loan (10.00% (LIBOR + 9.00% with 1.00% LIBOR floor), due 3/25/2019)(3)(4)	28,393	28,393	28,393	0.8%
				28,393	28,393	0.8%
GTP Operations, LLC(10)	Texas / Software & Computer Services	Senior Secured Term Loan (10.00% (LIBOR + 5.00% with 5.00% LIBOR floor), due 12/11/2018)(3)(4)	119,683	119,683	119,683	3.2%
				119,683	119,683	3.2%
Halcyon Loan Advisors Funding 2012-1 Ltd.	Cayman Islands / Diversified Financial Services	Subordinated Notes (Residual Interest, current yield 28.96%)(11)(22)	23,188	20,086	22,303	0.6%
				20,086	22,303	0.6%
Halcyon Loan Advisors Funding 2013-1 Ltd.	Cayman Islands / Diversified Financial Services	Subordinated Notes (Residual Interest, current yield 20.69%)(11)(22)	40,400	35,921	39,889	1.1%
				35,921	39,889	1.1%
Halcyon Loan Advisors Funding 2014-1 Ltd.	Cayman Islands / Diversified Financial Services	Subordinated Notes (Residual Interest, current yield 16.99%)(11)(22)	24,500	21,408	22,578	0.6%
				21,408	22,578	0.6%
Halcyon Loan Advisors Funding 2014-2 Ltd.	Cayman Islands / Diversified Financial Services	Subordinated Notes (Residual Interest, current yield 18.24%)(11)(22)	41,164	36,035	38,777	1.0%
				36,035	38,777	1.0%
Harley Marine Services, Inc.	Washington / Transportation	Second Lien Term Loan (10.50% (LIBOR + 9.25% with 1.25% LIBOR floor), due 12/20/2019)(3)(4)(16)	9,000	8,848	8,517	0.2%
				8,848	8,517	0.2%

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Hollander Sleep Products, LLC	Florida / Durable Consumer Products	Senior Secured Term Loan (9.00% (LIBOR + 8.00% with 1.00% LIBOR floor), due 10/21/2020)(3)(4)	22,500	22,500	22,500	0.6%
				22,500	22,500	0.6%
ICON Health & Fitness, Inc.	Utah / Durable Consumer Products	Senior Secured Note (11.875%, due 10/15/2016)(16)	21,850	21,945	21,632	0.6%
				21,945	21,632	0.6%
ICV-CSI Holdings, LLC	New York / Transportation	Membership Units (1.6 units)		1,639	2,539	0.1%
				1,639	2,539	0.1%
IDQ Holdings, Inc.	Texas / Automobile	Senior Secured Note (11.50%, due 4/1/2017)(16)	12,500	12,381	12,500	0.3%
				12,381	12,500	0.3%
Ikaria, Inc.	New Jersey / Healthcare	Second Lien Term Loan (8.75% (LIBOR + 7.75% with 1.00% LIBOR floor), due 2/12/2022)(4)(16)	20,000	19,470	20,008	0.5%
				19,470	20,008	0.5%
Instant Web, LLC	Minnesota / Media	Senior Secured Term Loan A (5.50% (LIBOR + 4.50% with 1.00% LIBOR floor), due 3/28/2019)(4)	146,978	146,978	146,978	4.0%
		Senior Secured Term Loan B (12.00% (LIBOR + 11.00% with 1.00% LIBOR floor), due 3/28/2019)(3)(4)	150,100	150,100	150,100	4.1%
		Senior Secured Term Loan C (12.75% (LIBOR + 11.75% with 1.00% LIBOR floor), due 3/28/2019)(4)	27,000	27,000	27,000	0.7%
		Delayed Draw Term Loan – \$16,000 Commitment (expires 5/29/2016)(25)	—	—	—	—%
				324,078	324,078	8.8%

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

Portfolio Company	Locale / Industry	Investments(1)	March 31, 2015 (Unaudited)			
			Principal Value	Cost	Fair Value(2)	% of Net Assets
<b>LEVEL 3 PORTFOLIO INVESTMENTS</b>						
Non-Control/Non-Affiliate Investments (less than 5.00% voting control)						
InterDent, Inc.	California / Healthcare	Senior Secured Term Loan A (6.25% (LIBOR + 5.25% with 1.00% LIBOR floor), due 8/3/2017)(4)	\$ 125,694	\$ 125,694	\$ 125,694	3.4%
		Senior Secured Term Loan B (11.25% (LIBOR + 10.25% with 1.00% LIBOR floor), due 8/3/2017)(3)(4)	131,125	131,125	131,125	3.5%
JAC Holding Corporation	Michigan / Transportation	Senior Secured Note (11.50%, due 10/1/2019)(16)	3,000	3,000	3,000	0.1%
				3,000	3,000	0.1%
JHH Holdings, Inc.	Texas / Healthcare	Second Lien Term Loan (11.25% (LIBOR + 10.00% with 1.25% LIBOR floor) plus 0.50% PIK, due 3/30/2019)(3)(4)	35,252	35,252	35,252	1.0%
				35,252	35,252	1.0%
LaserShip, Inc.	Virginia / Transportation	Senior Secured Term Loan A (10.25% (LIBOR + 8.25% with 2.00% LIBOR floor), due 3/18/2019)(3)(4)	35,391	35,391	33,110	0.9%
		Senior Secured Term Loan B (10.25% (LIBOR + 8.25% with 2.00% LIBOR floor), due 3/18/2019)(3)(4)	21,694	21,694	20,294	0.5%
		Delayed Draw Term Loan – \$6,000 Commitment (expires 12/31/2016)(25)	—	—	—	—%
LCM XIV Ltd.	Cayman Islands / Diversified Financial Services	Income Notes (Residual Interest, current yield 16.33%)(11)(22)	26,500	23,232	23,722	0.6%
				23,232	23,722	0.6%
LHC Holdings Corp.	Florida / Healthcare	Revolving Line of Credit – \$750 Commitment (9.50% (LIBOR + 8.00% with 1.50% LIBOR floor), due 12/31/2015)(4)(25)(26)	—	—	—	—%
		Senior Subordinated Debt (12.50% (LIBOR + 11.00% with 1.50% LIBOR floor), due 12/31/2015)(3)(4)	1,265	1,265	1,265	—%
		Membership Interest (125 units)		216	193	—%
			1,481	1,458	—%	

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Madison Park Funding IX, Ltd.	Cayman Islands / Diversified Financial Services	Subordinated Notes (Residual Interest, current yield 17.86%)(11)(22)	31,110	23,606	25,083	0.7%
				23,606	25,083	0.7%
Matrixx Initiatives, Inc.	New Jersey / Pharmaceuticals	Senior Secured Term Loan A (7.50% (LIBOR + 6.00% with 1.50% LIBOR floor) plus 2.00% PIK, due 8/9/2018)(3)(4)	36,232	36,232	36,032	1.0%
		Senior Secured Term Loan B (12.50% (LIBOR + 11.00% with 1.50% LIBOR floor) plus 2.00% PIK, due 8/9/2018)(3)(4)	40,562	40,562	40,562	1.1%
Maverick Healthcare Equity, LLC	Arizona / Healthcare	Preferred Units (1,250,000 units) Class A Common Units (1,250,000 units)		76,794	76,594	2.1%
				1,252	1,997	0.1%
				—	—	—%
			1,252	1,997	0.1%	
Mountain View CLO 2013-I Ltd.	Cayman Islands / Diversified Financial Services	Subordinated Notes (Residual Interest, current yield 18.13%)(11)(22)	43,650	38,274	41,698	1.1%
				38,274	41,698	1.1%
Nathan's Famous, Inc.	New York / Food Products	Senior Secured Notes (10.00%, due 3/15/2020)(16)	3,000	3,000	3,000	0.1%
				3,000	3,000	0.1%
NCP Finance Limited Partnership(23)	Ohio / Consumer Finance	Subordinated Secured Term Loan (11.00% (LIBOR + 9.75% with 1.25% LIBOR floor), due 9/30/2018)(3)(4)(16)(22)	16,346	16,098	16,346	0.4%
				16,098	16,346	0.4%

See notes to consolidated financial statements.

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

Portfolio Company	Locale / Industry	Investments(1)	March 31, 2015 (Unaudited)			
			Principal Value	Cost	Fair Value(2)	% of Net Assets
<b>LEVEL 3 PORTFOLIO INVESTMENTS</b>						
Non-Control/Non-Affiliate Investments (less than 5.00% voting control)						
New Century Transportation, Inc.	New Jersey / Transportation	Senior Subordinated Term Loan (12.00% (LIBOR + 10.00% with 2.00% LIBOR floor) plus 4.00% PIK, in non-accrual status effective 4/1/2014, due 2/3/2018)(4)	\$980	\$980	\$—	—%
				980	—	—%
Nixon, Inc.	California / Durable Consumer Products	Senior Secured Term Loan (8.75% plus 2.75% PIK, due 4/16/2018)(3)(16)	13,828	13,641	13,641	0.4%
				13,641	13,641	0.4%
Octagon Investment Partners XV, Ltd.	Cayman Islands / Diversified Financial Services	Income Notes (Residual Interest, current yield 22.03%)(11)(22)	26,901	23,438	24,764	0.7%
				23,438	24,764	0.7%
Onyx Payments(44)	Texas / Diversified Financial Services	Revolving Line of Credit – \$5,000 Commitment (9.00% (LIBOR + 8.00% with 1.00% LIBOR floor), due 9/10/2015)(4)(25)(26)	2,000	2,000	2,000	0.1%
		Senior Secured Term Loan A (6.50% (LIBOR + 5.50% with 1.00% LIBOR floor), due 9/10/2019)(3)(4)	53,617	53,617	53,617	1.4%
		Senior Secured Term Loan B (13.50% (LIBOR + 12.50% with 1.00% LIBOR floor), due 9/10/2019)(4)	59,389	59,389	59,389	1.6%
			115,006	115,006	3.1%	
		Revolving Line of Credit – \$15,000 Commitment (8.00% (LIBOR + 7.00% with 1.00% LIBOR floor), due 9/26/2020)(4)(25)(26)	2,500	2,500	2,500	0.1%
Pacific World Corporation	California / Personal & Nondurable Consumer Products	Senior Secured Term Loan A (6.00% (LIBOR + 5.00% with 1.00% LIBOR floor), due 9/26/2020)(4)	99,500	99,500	98,192	2.6%
		Senior Secured Term Loan B (10.00% (LIBOR + 9.00% with 1.00% LIBOR floor), due 9/26/2020)(3)(4)	99,500	99,500	96,423	2.6%
			201,500	197,115	5.3%	

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Pelican Products, Inc.	California / Durable Consumer Products	Second Lien Term Loan (9.25% (LIBOR + 8.25% with 1.00% LIBOR floor), due 4/9/2021)(4)(16)	17,500	17,483	17,399	0.5%	
				17,483	17,399	0.5%	
PGX Holdings, Inc.(28)	Utah / Consumer Services	Second Lien Term Loan (10.00% (LIBOR + 9.00% with 1.00% LIBOR floor), due 9/29/2021)(3)(4)	135,000	135,000	135,000	3.7%	
				135,000	135,000	3.7%	
Photonis Technologies SAS	France / Aerospace & Defense	First Lien Term Loan (8.50% (LIBOR + 7.50% with 1.00% LIBOR floor), due 9/18/2019)(4)(16)(22)	10,369	10,131	10,145	0.3%	
				10,131	10,145	0.3%	
Pinnacle (US) Acquisition Co. Limited	Texas / Software & Computer Services	Second Lien Term Loan (10.50% (LIBOR + 9.25% with 1.25% LIBOR floor), due 8/3/2020)(4)(16)	7,037	6,885	6,321	0.2%	
				6,885	6,321	0.2%	
PrimeSport, Inc.	Georgia / Hotels, Restaurants & Leisure	Revolving Line of Credit – \$15,000 Commitment (9.50% (LIBOR + 8.50% with 1.00% LIBOR floor), due 7/31/2015)(4)(25)(26)	5,000	5,000	5,000	0.1%	
			Senior Secured Term Loan A (7.00% (LIBOR + 6.00% with 1.00% LIBOR floor), due 2/11/2021)(3)(4)	74,313	74,313	74,313	2.0%
				Senior Secured Term Loan B (12.00% (LIBOR + 11.00% with 1.00% LIBOR floor), due 2/11/2021)(3)(4)	74,500	74,500	74,500
					153,813	153,813	4.1%
Prince Mineral Holding Corp.	New York / Metal Services & Minerals	Senior Secured Term Loan (11.50%, due 12/15/2019)(16)	10,000	9,912	9,700	0.3%	
				9,912	9,700	0.3%	

See notes to consolidated financial statements.

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

Portfolio Company	Locale / Industry	Investments(1)	March 31, 2015 (Unaudited)			
			Principal Value	Cost	Fair Value(2)	% of Net Assets
<b>LEVEL 3 PORTFOLIO INVESTMENTS</b>						
Non-Control/Non-Affiliate Investments (less than 5.00% voting control)						
Rocket Software, Inc.	Massachusetts / Software & Computer Services	Second Lien Term Loan (10.25% (LIBOR + 8.75% with 1.50% LIBOR floor), due 2/8/2019)(3)(4)(16)	\$20,000	\$19,790	\$20,000	0.5%
				19,790	20,000	0.5%
Royal Adhesives & Sealants, LLC	Indiana / Chemicals	Second Lien Term Loan (9.75% (LIBOR + 8.50% with 1.25% LIBOR floor), due 1/31/2019)(4)(16)	20,000	19,695	20,000	0.5%
				19,695	20,000	0.5%
Ryan, LLC	Texas / Business Services	Subordinated Unsecured Notes (12.00% (LIBOR + 9.00% with 3.00% LIBOR floor) plus 3.00% PIK, due 6/30/2018)(4)	72,153	72,153	72,153	2.0%
				72,153	72,153	2.0%
Sadow Media, LLC	Florida / Media	Senior Secured Term Loan (12.00%, due 5/8/2018)	24,425	24,425	24,913	0.7%
				24,425	24,913	0.7%
Security Alarm Financing Enterprises, L.P.(45)	California / Consumer Services	Senior Subordinated Note (11.50% (LIBOR + 9.50% with 2.00% LIBOR floor), due 12/19/2020)(4)	25,000	25,000	25,000	0.7%
				25,000	25,000	0.7%
Small Business Whole Loan Portfolio(19)	New York / Diversified Financial Services	92 small business loans purchased from Direct Capital Corporation 1,100 small business loans purchased from On Deck Capital, Inc.	1,057	1,057	658	—%
				40,320	38,290	1.0%
Spartan Energy Services, Inc.	Louisiana / Energy	Senior Secured Term Loan A (7.00% (LIBOR + 6.00% with 1.00% LIBOR floor), due 12/28/2017)(3)(4) Senior Secured Term Loan B (11.00% (LIBOR + 10.00% with 1.00% LIBOR floor), due 12/28/2017)(3)(4)	14,024	14,024	13,929	0.4%
				28,048	27,953	0.8%
Speedy Group Holdings Corp.	Canada / Consumer Finance	Senior Unsecured Notes (12.00%, due 11/15/2017)(16)(22)	15,000	15,000	15,000	0.4%
				15,000	15,000	0.4%
			11,082	11,082	11,082	0.3%

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Stauber Performance Ingredients, Inc.	California / Food Products	Senior Secured Term Loan A (7.50% (LIBOR + 6.50% with 1.00% LIBOR floor), due 11/25/2019)(3)(4)				
		Senior Secured Term Loan B (10.50% (LIBOR + 9.50% with 1.00% LIBOR floor), due 11/25/2019)(3)(4)	11,138	11,138	11,138	0.3%
				22,220	22,220	0.6%
Stryker Energy, LLC	Ohio / Oil & Gas Production	Overriding Royalty Interests(18)		—	—	—%
				—	—	—%
Sudbury Mill CLO Ltd.	Cayman Islands / Diversified Financial Services	Subordinated Notes (Residual Interest, current yield 15.59%)(11)(22)	28,200	22,954	24,839	0.7%
				22,954	24,839	0.7%
Symphony CLO IX Ltd.	Cayman Islands / Diversified Financial Services	Preference Shares (Residual Interest, current yield 20.72%)(11)(22)	45,500	35,659	41,533	1.1%
				35,659	41,533	1.1%
Symphony CLO XIV Ltd.	Cayman Islands / Diversified Financial Services	Subordinated Notes (Residual Interest, current yield 11.07%)(11)(22)	49,250	46,274	46,491	1.3%
				46,274	46,491	1.3%
Symphony CLO XV, Ltd.	Cayman Islands / Diversified Financial Services	Subordinated Notes (Residual Interest, current yield 11.13%)(11)(22)	50,250	49,066	47,883	1.3%
				49,066	47,883	1.3%

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

Portfolio Company	Locale / Industry	Investments(1)	March 31, 2015 (Unaudited)			
			Principal Value	Cost	Fair Value(2)	% of Net Assets
<b>LEVEL 3 PORTFOLIO INVESTMENTS</b>						
Non-Control/Non-Affiliate Investments (less than 5.00% voting control)						
System One Holdings, LLC	Pennsylvania / Business Services	Senior Secured Term Loan (10.50% (LIBOR + 9.50% with 1.00% LIBOR floor), due 11/17/2020)(3)(4)	\$68,146	\$68,146	\$68,146	1.8%
		Delayed Draw Term Loan – \$11,500 Commitment (expires 12/31/2015)(25)	—	—	—	—%
Targus Group International, Inc.	California / Durable Consumer Products	First Lien Term Loan (11.75% (PRIME + 8.50%) plus 1.00% PIK and 2.00% default interest, due 5/24/2016)(3)(4)(16)	21,434	21,296	16,722	0.5%
				21,296	16,722	0.5%
TB Corp.	Texas / Hotels, Restaurants & Leisure	Senior Subordinated Note (12.00% plus 1.50% PIK, due 12/19/2018)(3)	23,628	23,628	23,628	0.6%
				23,628	23,628	0.6%
Therakos, Inc.	New Jersey / Healthcare	Second Lien Term Loan (10.75% (LIBOR + 9.50% with 1.25% LIBOR floor), due 6/27/2018)(4)(16)	13,000	12,796	13,000	0.4%
				12,796	13,000	0.4%
Tolt Solutions, Inc.	South Carolina / Business Services	Senior Secured Term Loan A (7.00% (LIBOR + 6.00% with 1.00% LIBOR floor), due 3/7/2019)(3)(4)	47,971	47,971	47,416	1.3%
		Senior Secured Term Loan B (12.00% (LIBOR + 11.00% with 1.00% LIBOR floor), due 3/7/2019)(3)(4)	48,900	48,900	48,107	1.3%
				96,871	95,523	2.6%
Traeger Pellet Grills LLC	Oregon / Durable Consumer Products	Senior Secured Term Loan A (6.50% (LIBOR + 4.50% with 2.00% LIBOR floor), due 6/18/2018)(3)(4)	28,425	28,425	28,425	0.8%
		Senior Secured Term Loan B (11.50% (LIBOR + 9.50% with 2.00% LIBOR floor), due 6/18/2018)(3)(4)	29,475	29,475	29,475	0.8%
Transaction Network Services,	Virginia / Telecommunication	Second Lien Term Loan (9.00% (LIBOR + 8.00% with 1.00% LIBOR	4,595	4,572	4,595	0.1%

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Inc.	Services	floor), due 8/14/2020)(4)(16)		4,572	4,595	0.1%
		Revolving Line of Credit – \$10,000 Commitment (9.00% (LIBOR + 8.00% with 1.00% LIBOR floor), due 4/13/2015)(4)(25)(26)	—	—	—	—%
Trinity Services Group, Inc.(14)	Florida / Food Products	Senior Secured Term Loan A (6.50% (LIBOR + 5.50% with 1.00% LIBOR floor), due 8/13/2019)(4)	98,755	98,755	98,755	2.7%
		Senior Secured Term Loan B (11.50% (LIBOR + 10.50% with 1.00% LIBOR floor), due 8/13/2019)(3)(4)	100,000	100,000	100,000	2.7%
				198,755	198,755	5.4%
United Sporting Companies, Inc.(5)	South Carolina / Durable Consumer Products	Second Lien Term Loan (12.75% (LIBOR + 11.00% with 1.75% LIBOR floor), due 5/16/2018)(3)(4)	160,000	160,000	154,758	4.2%
				160,000	154,758	4.2%
United States Environmental Services, LLC	Texas / Commercial Services	Senior Secured Term Loan A (6.50% (LIBOR + 5.50% with 1.00% LIBOR floor) plus 2.00% default interest, due 3/31/2019)(3)(4)	23,550	23,550	20,627	0.5%
		Senior Secured Term Loan B (11.50% (LIBOR + 10.50% with 1.00% LIBOR floor) plus 2.00% default interest, due 3/31/2019)(3)(4)	36,000	36,000	27,762	0.8%
				59,550	48,389	1.3%
Venio LLC	Pennsylvania / Business Services	Second Lien Term Loan (12.00% (LIBOR + 9.50% with 2.50% LIBOR floor), due 2/19/2020)(3)(4)	17,000	17,000	16,708	0.5%
				17,000	16,708	0.5%
Voya CLO 2012-2, Ltd.	Cayman Islands / Diversified Financial Services	Income Notes (Residual Interest, current yield 19.11%)(11)(22)	38,070	29,906	33,168	0.9%
				29,906	33,168	0.9%

See notes to consolidated financial statements.

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

Portfolio Company	Locale / Industry	Investments(1)	March 31, 2015 (Unaudited)			% of Net Assets
			Principal Value	Cost	Fair Value(2)	
<b>LEVEL 3 PORTFOLIO INVESTMENTS</b>						
Non-Control/Non-Affiliate Investments (less than 5.00% voting control)						
Voya CLO 2012-3, Ltd.	Cayman Islands / Diversified Financial Services	Income Notes (Residual Interest, current yield 16.46%)(11)(22)	\$46,632	\$37,329	\$40,246	1.1%
				37,329	40,246	1.1%
Voya CLO 2012-4, Ltd.	Cayman Islands / Diversified Financial Services	Income Notes (Residual Interest, current yield 18.90%)(11)(22)	40,613	33,301	36,097	1.0%
				33,301	36,097	1.0%
Voya CLO 2014-1, Ltd.	Cayman Islands / Diversified Financial Services	Subordinated Notes (Residual Interest, current yield 14.70%)(11)(22)	32,383	29,652	29,657	0.8%
				29,652	29,657	0.8%
Washington Mill CLO Ltd.	Cayman Islands / Diversified Financial Services	Subordinated Notes (Residual Interest, current yield 14.02%)(11)(22)	22,600	19,682	21,068	0.6%
				19,682	21,068	0.6%
Water Pik, Inc.	Colorado / Personal & Nondurable Consumer Products	Second Lien Term Loan (9.75% (LIBOR + 8.75% with 1.00% LIBOR floor), due 1/8/2021)(4)(16)	9,147	8,784	8,784	0.2%
				8,784	8,784	0.2%
Wheel Pros, LLC	Colorado / Business Services	Senior Subordinated Secured Note (11.00% (LIBOR + 7.00% with 4.00% LIBOR floor), due 6/29/2020)(3)(4)	12,000	12,000	12,000	0.3%
		Delayed Draw Term Loan – \$3,000 Commitment (expires 12/30/2015)(25)	—	—	—	—%
			3,000	12,000	12,000	0.3%
			3,000	3,000	—	—%

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Wind River Resources Corporation(39)	Utah / Oil & Gas Production	Senior Secured Note (13.00% (LIBOR + 7.50% with 5.50% LIBOR floor) plus 3.00% default interest on principal and 16.00% default interest on past due interest, in non-accrual status effective 12/1/2008, past due)(4)			
		Net Profits Interest (5% of Equity Distributions)(7)	—	—	—%
			3,000	—	—%
Total Non-Control/Non-Affiliate Investments (Level 3)			\$4,752,089	\$4,728,137	128.0%
Total Level 3 Portfolio Investments			\$6,589,963	\$6,602,621	178.7%
LEVEL 1 PORTFOLIO INVESTMENTS					
Non-Control/Non-Affiliate Investments (less than 5.00% voting control)					
Dover Saddlery, Inc.	Massachusetts / Retail	Common Stock (30,974 shares)	\$63	\$150	—%
			63	150	—%
Total Non-Control/Non-Affiliate Investments (Level 1)			\$63	\$150	—%
Total Non-Control/Non-Affiliate Investments			\$4,752,152	\$4,728,287	128.0%
Total Portfolio Investments			\$6,590,026	\$6,602,771	178.7%

See notes to consolidated financial statements.

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

Portfolio Company	Locale / Industry	Investments(1)	June 30, 2014 (Audited)			% of Net Assets
			Principal Value	Cost	Fair Value(2)	
<b>LEVEL 3 PORTFOLIO INVESTMENTS</b>						
<b>Control Investments (greater than 25.00% voting control)(49)</b>						
AMU Holdings Inc.(27)	Pennsylvania / Property Management	Senior Secured Term Loan A to Airmall Inc. (12.00% (LIBOR + 9.00% with 3.00% LIBOR floor), due 6/30/2015)(3)(4)	\$27,587	\$27,587	\$27,587	0.8%
		Senior Secured Term Loan B to Airmall Inc. (12.00% plus 6.00% PIK, due 12/31/2015)	19,993	19,993	17,697	0.5%
		Series A Preferred Stock of AMU Holdings Inc. (9,919.684 shares)		9,920	—	—%
		Common Stock of AMU Holdings Inc. (100 shares)		—	—	—%
APH Property Holdings, LLC(32)	Florida / Real Estate	Senior Term Loan to American Property REIT Corp. (6.00% (LIBOR + 4.00% with 2.00% LIBOR floor) plus 5.50% PIK, due 4/1/2019)(4)	167,743	167,743	167,743	4.6%
		Membership Interest in APH Property Holdings, LLC		35,024	38,416	1.1%
				202,767	206,159	5.7%
Arctic Oilfield Equipment USA, Inc.(30)	Wyoming / Oil & Gas Production	Senior Secured Term Loan to Arctic Energy Services, LLC (12.00% (LIBOR + 9.00% with 3.00% LIBOR floor), due 5/5/2019)(4)	31,640	31,640	31,640	0.9%
		Senior Subordinated Term Loan to Arctic Energy Services, LLC (14.00% (LIBOR + 11.00% with 3.00% LIBOR floor), due 5/5/2019)(4)	20,230	20,230	20,230	0.6%
		Common Stock of Arctic Oilfield Equipment USA, Inc. (100 shares)		9,006	9,244	0.2%
				60,876	61,114	1.7%
ARRM Services, Inc.(42)	South Carolina / Manufacturing	Senior Secured Note to Ajax Rolled Ring & Machine, LLC (10.50% (LIBOR + 7.50% with 3.00% LIBOR floor), due 3/30/2018)(4)	19,337	19,337	19,337	0.5%
		Series B Preferred Stock of ARRM Services, Inc. (25,000 shares)		21,156	6,199	0.2%
		Series A Convertible Preferred Stock of ARRM Services, Inc. (6,142.60 shares)		6,057	—	—%

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	Common Stock of ARRM Services, Inc. (6.00 shares)	—	—	—%	
		46,550	25,536	0.7%	
	Senior Secured Term Loan A to Boxercraft Incorporated (10.00% plus 1.00% PIK, in non-accrual status effective 1/1/2014, due 9/15/2015)	1,629	1,621	1,629	0.1%
	Senior Secured Term Loan B to Boxercraft Incorporated (10.00% plus 1.00% PIK, in non-accrual status effective 1/1/2014, due 9/15/2015)	4,942	4,917	486	—%
	Senior Secured Term Loan C to Boxercraft Incorporated (10.00% plus 1.00% PIK, in non-accrual status effective 1/1/2014, due 9/15/2015)	2,395	2,383	—	—%
BXC Company, Inc. (f/k/a BXC Holding Company)(20)	Georgia / Textiles, Apparel & Luxury Goods Senior Secured Term Loan D to Boxercraft Incorporated (10.00% plus 1.00% PIK, in non-accrual status effective 4/18/2014, due 9/15/2015)	301	300	—	—%
	Senior Secured Term Loan to Boxercraft Incorporated (10.00% plus 1.00% PIK, in non-accrual status effective 1/1/2014, due 9/15/2015)	8,410	8,227	—	—%
	Series A Preferred Stock of BXC Company, Inc. (12,520,000 shares)	—	—	—%	
	Series B Preferred Stock of BXC Company, Inc. (2,400,000 shares)	—	—	—%	
	Common Stock of BXC Company, Inc. (138,250 shares)	—	—	—%	
	Warrant (to purchase 15% of all classes of equity of BXC Company, Inc., expires 8/31/2022)	—	—	—%	
		17,448	2,115	0.1%	

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

Portfolio Company	Locale / Industry	Investments(1)	June 30, 2014 (Audited)			% of Net Assets
			Principal Value	Cost	Fair Value(2)	
<b>LEVEL 3 PORTFOLIO INVESTMENTS</b>						
Control Investments (greater than 25.00% voting control)(49)						
CCPI Holdings Inc.(33)	Ohio / Manufacturing	Senior Secured Term Loan A to CCPI Inc. (10.00%, due 12/31/2017)(3)	\$17,213	\$17,213	\$17,213	0.5%
		Senior Secured Term Loan B to CCPI Inc. (12.00% plus 7.00% PIK, due 12/31/2017)	8,245	8,245	8,245	0.2%
		Common Stock of CCPI Holdings Inc. (100 shares)		8,579	7,136	0.2%
				34,037	32,594	0.9%
CP Holdings of Delaware LLC(38)	Oklahoma / Oil & Gas Production	Senior Secured Term Loan A to CP Well Testing, LLC (7.00% (LIBOR + 5.00% with 2.00% LIBOR floor), due 4/1/2019)(4)	11,035	11,035	11,035	0.3%
		Senior Secured Term Loan B to CP Well Testing, LLC (10.00% (LIBOR + 8.00% with 2.00% LIBOR floor) plus 7.50% PIK, due 4/1/2019)(4)	72,238	72,238	72,238	2.0%
		Second Lien Term Loan to CP Well Testing, LLC (9.00% (LIBOR + 7.00% with 2.00% LIBOR floor) plus 9.00% PIK, due 4/1/2019)(4)	15,000	15,000	15,000	0.4%
		Membership Interest in CP Holdings of Delaware LLC		15,228	31,846	0.9%
Credit Central Holdings of Delaware, LLC(34)	Ohio / Consumer Finance	Subordinated Term Loan to Credit Central Loan Company, LLC (10.00% plus 10.00% PIK, due 6/26/2019)(22)	36,333	36,333	36,333	1.0%
		Membership Interest in Credit Central Holdings of Delaware, LLC(22)		13,670	14,099	0.4%
				50,003	50,432	1.4%
Echelon Aviation LLC	New York / Aerospace & Defense	Senior Secured Term Loan to Echelon Aviation LLC (11.75% (LIBOR + 9.75% with 2.00% LIBOR floor) plus 2.25% PIK, due 3/31/2022)(4)	78,521	78,521	78,521	2.2%
		Membership Interest in Echelon Aviation LLC		14,107	14,107	0.4%
				92,628	92,628	2.6%
Energy Solutions Holdings Inc.(8)	Texas / Energy	Senior Secured Note to Vessel Company, LLC (18.00%, due	3,500	3,500	3,500	0.1%

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		12/12/2016)					
		Senior Secured Note to Vessel Company II, LLC (13.00%, due 11/25/2018)	13,000	12,504	12,504	0.4%	
		Senior Secured Note to Vessel Company III, LLC (13.00%, due 12/3/2018)	16,000	16,000	16,000	0.4%	
		Senior Secured Note to Yatesville Coal Company, LLC (in non-accrual status effective 1/1/2009, past due)	1,449	1,449	—	—%	
		Common Stock of Energy Solutions Holdings Inc. (100 shares)		8,293	—	—%	
				41,746	32,004	0.9%	
First Tower Holdings of Delaware LLC(29)	Mississippi / Consumer Finance	Subordinated Term Loan to First Tower, LLC (10.00% plus 7.00% PIK, due 6/24/2019)(22)	251,246	251,246	251,246	6.9%	
		Membership Interest in First Tower Holdings of Delaware LLC(22)		68,405	75,539	2.1%	
				319,651	326,785	9.0%	
Gulf Coast Machine & Supply Company	Texas / Manufacturing	Senior Secured Term Loan to Gulf Coast Machine & Supply Company (10.50% (LIBOR + 8.50% with 2.00% LIBOR floor) plus 2.00% default interest on principal, due 10/12/2017)(4)	17,500	17,500	14,459	0.4%	
		Series A Convertible Preferred Stock of Gulf Coast Machine & Supply Company (99,900 shares)		25,950	—	—%	
				43,450	14,459	0.4%	

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

Portfolio Company	Locale / Industry	Investments(1)	June 30, 2014 (Audited)			% of Net Assets
			Principal Value	Cost	Fair Value(2)	
<b>LEVEL 3 PORTFOLIO INVESTMENTS</b>						
<b>Control Investments (greater than 25.00% voting control)(49)</b>						
		Senior Secured Term Loan A to Harbortouch Payments, LLC (9.00% (LIBOR + 7.00% with 2.00% LIBOR floor), due 9/30/2017)(4)	\$ 130,796	\$ 130,796	\$ 130,796	3.6%
Harbortouch Holdings of Delaware Inc.(43)	Pennsylvania / Business Services	Senior Secured Term Loan B to Harbortouch Payments, LLC (5.50% (LIBOR + 4.00% with 1.50% LIBOR floor) plus 5.50% PIK, due 3/31/2018)(4)	137,226	137,226	137,226	3.8%
		Common Stock of Harbortouch Holdings of Delaware Inc. (100 shares)		10,672	23,292	0.6%
				278,694	291,314	8.0%
		Secured Promissory Notes to The Healing Staff, Inc. and Vets Securing America, Inc. (15.00%, in non-accrual status effective 12/22/2010, past due)	1,688	1,686	—	—%
The Healing Staff, Inc.(9)	North Carolina / Contracting	Senior Demand Note to The Healing Staff, Inc. (15.00%, in non-accrual status effective 11/1/2010, past due)	1,170	1,170	—	—%
		Common Stock of The Healing Staff, Inc. (1,000 shares)		—	—	—%
		Common Stock of Vets Securing America, Inc. (1 share)		975	—	—%
				3,831	—	—%
Manx Energy, Inc.(6)	Kansas / Oil & Gas Production	Senior Secured Note to Manx Energy, Inc. (13.00%, in non-accrual status effective 1/19/2010, past due)	50	50	—	—%
		Series A-1 Preferred Stock of Manx Energy, Inc. (6,635 shares)		—	—	—%
		Common Stock of Manx Energy, Inc. (17,082 shares)		—	—	—%
				50	—	—%
		Revolving Line of Credit to MITY, Inc. — \$7,500 Commitment (9.50% (LIBOR + 7.00% with 2.50% LIBOR floor), due 12/23/2014)(4)(25)(26)	—	—	—	—%
MITY Holdings of Delaware Inc.(17)	Utah / Durable Consumer Products	Senior Secured Note A to MITY, Inc. (10.00% (LIBOR + 7.00% with 3.00%	18,250	18,250	18,250	0.5%

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		LIBOR floor), due 3/19/2019)(3)(4) Senior Secured Note B to MITY, Inc. (10.00% (LIBOR + 7.00% with 3.00% LIBOR floor) plus 10.00% PIK, due 3/19/2019)(4)	15,769	15,769	15,769	0.4%
		Common Stock of MITY Holdings of Delaware Inc. (100 shares)		14,143	15,270	0.4%
				48,162	49,289	1.3%
Nationwide Acceptance Holdings LLC(36)	Illinois / Consumer Finance	Subordinated Term Loan to Nationwide Acceptance LLC (10.00% plus 10.00% PIK, due 6/18/2019)(22)	14,820	14,820	14,820	0.4%
		Membership Interest in Nationwide Acceptance Holdings LLC(22)		14,331	15,103	0.4%
				29,151	29,923	0.8%
		Senior Secured Note to NMMB, Inc. (14.00%, due 5/6/2016)	3,714	3,714	2,183	0.1%
NMMB Holdings, Inc.(24)	New York / Media	Senior Secured Note to Armed Forces Communications, Inc. (14.00%, due 5/6/2016)	7,000	7,000	4,114	0.1%
		Series B Convertible Preferred Stock of NMMB Holdings, Inc. (8,086 shares)		8,086	—	—%
		Series A Preferred Stock of NMMB Holdings, Inc. (4,400 shares)		4,400	—	—%
				23,200	6,297	0.2%
NPH Property Holdings, LLC(40)	Texas / Real Estate	Senior Term Loan to National Property REIT Corp. (6.00% (LIBOR + 4.00% with 2.00% LIBOR floor) plus 5.50% PIK, due 4/1/2019)(4)	105,309	105,309	105,309	2.9%
		Membership Interest in NPH Property Holdings, LLC		21,290	19,202	0.5%
				126,599	124,511	3.4%

See notes to consolidated financial statements.

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

Portfolio Company	Locale / Industry	Investments(1)	June 30, 2014 (Audited)			% of Net Assets
			Principal Value	Cost	Fair Value(2)	
<b>LEVEL 3 PORTFOLIO INVESTMENTS</b>						
Control Investments (greater than 25.00% voting control)(49)						
R-V Industries, Inc.	Pennsylvania / Manufacturing	Senior Subordinated Note to R-V Industries, Inc. (10.00% (LIBOR + 9.00% with 1.00% LIBOR floor), due 6/12/2018)(3)(4)	\$30,411	\$30,411	\$30,411	0.8%
		Common Stock of R-V Industries, Inc. (545,107 shares)		5,087	19,989	0.6%
		Warrant (to purchase 200,000 shares of Common Stock of R-V Industries, expires 6/30/2017)		1,682	7,334	0.2%
				37,180	57,734	1.6%
		Revolving Line of Credit to Borga, Inc. – \$1,150 Commitment (5.00% (PRIME + 1.75%), in non-accrual status effective 3/2/2010, past due)(4)(25)	1,150	1,095	436	—%
STI Holding, Inc.(21)	California / Manufacturing	Senior Secured Term Loan B to Borga, Inc. (8.50% (PRIME + 5.25%), in non-accrual status effective 3/2/2010, past due)(4)	1,612	1,501	—	—%
		Senior Secured Term Loan C to Borga, Inc. (12.00% plus 4.00% PIK, in non-accrual status effective 3/2/2010, past due)	10,016	581	—	—%
		Common Stock of STI Holding, Inc. (100 shares)		—	—	—%
		Warrant (to purchase 33,750 shares of Common Stock of Borga, Inc., expires 5/6/2015)		—	—	—%
				3,177	436	—%
UPH Property Holdings, LLC(41)	Georgia / Real Estate	Senior Term Loan to United Property REIT Corp. (6.00% (LIBOR + 4.00% with 2.00% LIBOR floor) plus 5.50% PIK, due 4/1/2019)(4)	19,027	19,027	19,027	0.5%
		Membership Interest in UPH Property Holdings, LLC		5,113	5,539	0.2%
Valley Electric Holdings I, Inc.(35)	Washington / Construction &	Senior Secured Note to Valley Electric Co. of Mt. Vernon, Inc.	10,081	10,081	10,081	0.3%

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Engineering	(8.00% (LIBOR + 5.00% with 3.00% LIBOR floor) plus 2.50% PIK, due 12/31/2017)(3)(4)						
	Senior Secured Note to Valley Electric Company, Inc. (10.00% plus 8.5% PIK, due 12/31/2018)	20,500	20,500	20,500		0.6%	
	Common Stock of Valley Electric Holdings I, Inc. (100 shares)		26,279	2,975		—%	
			56,860	33,556		0.9%	
	Senior Secured Promissory Note to Wolf Energy, LLC secured by assets formerly owned by H&M (18.00%, in non-accrual status effective 4/15/2013, due 4/15/2018)(37)		—	3,386		0.1%	
	Senior Secured Note to Appalachian Energy LLC (8.00%, in non-accrual status effective 1/19/2010, past due)(6)	2,865	2,000	—		—%	
Wolf Energy Holdings Inc.(12)	Kansas / Oil & Gas Production Senior Secured Note to Appalachian Energy LLC (8.00%, in non-accrual status, past due)(6)	56	50	—		—%	
	Senior Secured Note to Coalbed, LLC (8.00%, in non-accrual status effective 1/19/2010, past due)(6)	8,595	5,991	—		—%	
	Common Stock of Wolf Energy Holdings Inc. (100 shares)		—	—		—%	
	Net Profits Interest in Wolf Energy, LLC (8% of Equity Distributions)(7)		—	213		—%	
			8,041	3,599		0.1%	
Total Control Investments			\$1,719,242	\$1,640,454		45.3%	

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

Portfolio Company	Locale / Industry	Investments(1)	June 30, 2014 (Audited)			% of Net Assets
			Principal Value	Cost	Fair Value(2)	
<b>LEVEL 3 PORTFOLIO INVESTMENTS</b>						
Affiliate Investments (5.00% to 24.99% voting control)(50)						
		Senior Secured Note (10.00% (LIBOR + 8.00% with 2.00% LIBOR floor), due 12/17/2017)(3)(4)	\$28,950	\$28,950	\$28,950	0.8%
BNN Holdings Corp.	Michigan / Healthcare	Series A Preferred Stock (9,925.455 shares)(13)		2,300	2,614	0.1%
		Series B Preferred Stock (1,753.636 shares)(13)		579	557	—%
				31,829	32,121	0.9%
		Total Affiliate Investments		\$31,829	\$32,121	0.9%
Non-Control/Non-Affiliate Investments (less than 5.00% voting control)						
Aderant North America, Inc.	Georgia / Software & Computer Services	Second Lien Term Loan (10.00% (LIBOR + 8.75% with 1.25% LIBOR floor), due 6/20/2019)(4)(16)	\$7,000	\$6,914	\$7,000	0.2%
				6,914	7,000	0.2%
Aircraft Fasteners International, LLC	California / Machinery	Class A Units (32,500 units)		396	505	—%
				396	505	—%
ALG USA Holdings, LLC	Pennsylvania / Hotels, Restaurants & Leisure	Second Lien Term Loan (10.25% (LIBOR + 9.00% with 1.25% LIBOR floor), due 2/28/2020)(4)(16)	12,000	11,792	12,000	0.3%
				11,792	12,000	0.3%
Allied Defense Group, Inc.	Virginia / Aerospace & Defense	Common Stock (10,000 shares)		5	—	—%
				5	—	—%
American Broadband Holding Company and Cameron Holdings of NC, Inc.	North Carolina / Telecommunication Services	Senior Secured Term Loan B (11.00% (LIBOR + 9.75% with 1.25% LIBOR floor), due 9/30/2018)(3)(4)	74,654	74,654	74,654	2.1%
				74,654	74,654	2.1%
American Gilsonite Company	Utah / Metal Services & Minerals	Second Lien Term Loan (11.50%, due 9/1/2017)(16)	38,500	38,500	38,500	1.1%
		Membership Interest (99.9999%)(15)		—	3,477	0.1%
				38,500	41,977	1.2%
Apidos CLO IX	Cayman Islands / Diversified Financial Services	Subordinated Notes (Residual Interest, current yield 18.84%)(11)(22)	20,525	18,444	19,903	0.5%

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			18,444	19,903	0.5%	
Apidos CLO XI	Cayman Islands / Diversified Financial Services	Subordinated Notes (Residual Interest, current yield 15.02%)(11)(22)	38,340	33,937	37,087	1.0%
				33,937	37,087	1.0%
Apidos CLO XII	Cayman Islands / Diversified Financial Services	Subordinated Notes (Residual Interest, current yield 15.82%)(11)(22)	44,063	42,042	42,499	1.2%
				42,042	42,499	1.2%
Apidos CLO XV	Cayman Islands / Diversified Financial Services	Subordinated Notes (Residual Interest, current yield 14.21%)(11)(22)	36,515	37,038	36,715	1.0%
				37,038	36,715	1.0%
Arctic Glacier U.S.A., Inc.	Minnesota / Food Products	Second Lien Term Loan (10.50% (LIBOR + 9.25% with 1.25% LIBOR floor), due 11/10/2019)(3)(4)	150,000	150,000	150,000	4.1%
				150,000	150,000	4.1%

See notes to consolidated financial statements.

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

Portfolio Company	Locale / Industry	Investments(1)	June 30, 2014 (Audited)			% of Net Assets
			Principal Value	Cost	Fair Value(2)	
<b>LEVEL 3 PORTFOLIO INVESTMENTS</b>						
Non-Control/Non-Affiliate Investments (less than 5.00% voting control)						
Ark-La-Tex Wireline Services, LLC	Louisiana / Oil and Gas Production	Senior Secured Term Loan A (6.50% (LIBOR + 5.50% with 1.00% LIBOR floor), due 4/8/2019)(4)	\$26,831	\$26,831	\$26,831	0.7%
		Senior Secured Term Loan B (10.50% (LIBOR + 9.50% with 1.00% LIBOR floor), due 4/8/2019)(4)	26,831	26,831	26,831	0.7%
		Delayed Draw Term Loan – \$5,000 Commitment (expires 10/8/2015)(4)(25)	—	—	—	—%
				53,662	53,662	1.4%
Armor Holding II LLC	New York / Diversified Financial Services	Second Lien Term Loan (10.25% (LIBOR + 9.00% with 1.25% LIBOR floor), due 12/26/2020)(3)(4)(16)	7,000	6,874	6,874	0.2%
				6,874	6,874	0.2%
Atlantis Health Care Group (Puerto Rico), Inc.	Puerto Rico / Healthcare	Revolving Line of Credit – \$3,000 Commitment (13.00% (LIBOR + 11.00% with 2.00% LIBOR floor), due 8/21/2014)(4)(25)(26)	2,350	2,350	2,350	0.1%
		Senior Term Loan (10.00% (LIBOR + 8.00% with 2.00% LIBOR floor), due 2/21/2018)(3)(4)	38,957	38,957	34,102	0.9%
				41,307	36,452	1.0%
Babson CLO Ltd. 2011-I	Cayman Islands / Diversified Financial Services	Subordinated Notes (Residual Interest, current yield 12.44%)(11)(22)	35,000	33,591	33,801	0.9%
				33,591	33,801	0.9%
Babson CLO Ltd. 2012-I	Cayman Islands / Diversified Financial Services	Subordinated Notes (Residual Interest, current yield 13.35%)(11)(22)	29,075	23,471	26,401	0.7%
				23,471	26,401	0.7%
Babson CLO Ltd. 2012-II	Cayman Islands / Diversified Financial Services	Subordinated Notes (Residual Interest, current yield 11.33%)(11)(22)	27,850	26,764	27,230	0.8%
				26,764	27,230	0.8%
			11,000	10,902	11,000	0.3%

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Blue Coat Systems, Inc.	Massachusetts / Software & Computer Services	Second Lien Term Loan (9.50% (LIBOR + 8.50% with 1.00% LIBOR floor), due 6/28/2020)(3)(4)(16)		10,902	11,000	0.3%
Broder Bros., Co.	Pennsylvania / Textiles, Apparel & Luxury Goods	Senior Secured Notes (10.25% (LIBOR + 9.00% with 1.25% LIBOR floor), due 4/8/2019)(3)(4)(46)	257,575	257,575	257,575	7.1%
				257,575	257,575	7.1%
Brookside Mill Ltd.	Cayman Islands / Diversified Financial Services	Subordinated Notes (Residual Interest, current yield 19.62%)(11)(22)	26,000	22,613	25,081	0.7%
				22,613	25,081	0.7%
Byrider Systems Acquisition Corp.	Indiana / Auto Finance	Senior Subordinated Notes (12.00% plus 2.00% PIK, due 11/3/2016)(3)(22)	11,139	11,139	11,139	0.3%
				11,139	11,139	0.3%
Caleel + Hayden, LLC	Colorado / Personal & Nondurable Consumer Products	Membership Interest(31) Escrow Receivable		—	182	—%
				—	300	—%
Capstone Logistics, LLC	Georgia / Commercial Services	Senior Secured Term Loan A (6.50% (LIBOR + 5.00% with 1.50% LIBOR floor), due 9/16/2016)(4) Senior Secured Term Loan B (11.50% (LIBOR + 10.00% with 1.50% LIBOR floor), due 9/16/2016)(3)(4)	92,085 98,465	92,085 98,465	92,085 98,465	2.6% 2.7%
				190,550	190,550	5.3%
Cent CLO 17 Limited	Cayman Islands / Diversified Financial Services	Subordinated Notes (Residual Interest, current yield 10.10%)(11)(22)	\$24,870	\$21,999	\$23,896	0.7%

See notes to consolidated financial statements.

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

Portfolio Company	Locale / Industry	Investments(1)	June 30, 2014 (Audited)			% of Net Assets
			Principal Value	Cost	Fair Value(2)	
<b>LEVEL 3 PORTFOLIO INVESTMENTS</b>						
Non-Control/Non-Affiliate Investments (less than 5.00% voting control)						
				21,999	23,896	0.7%
Cent CLO 20 Limited	Cayman Islands / Diversified Financial Services	Subordinated Notes (Residual Interest, current yield 10.83%)(11)(22)	40,275	40,483	40,259	1.1%
				40,483	40,259	1.1%
Cent CLO 21 Limited	Cayman Islands / Diversified Financial Services	Subordinated Notes (Residual Interest, current yield 15.47%)(11)(22)	48,528	46,597	46,154	1.3%
				46,597	46,154	1.3%
CIFC Funding 2011-I, Ltd.	Cayman Islands / Diversified Financial Services	Class D Senior Secured Notes (5.23% (LIBOR + 5.00%, due 1/19/2023)(4)(22)	19,000	15,304	18,037	0.5%
		Class E Subordinated Notes (7.23% (LIBOR + 7.00%, due 1/19/2023)(4)(22)	15,400	12,814	15,162	0.4%
				28,118	33,199	0.9%
CIFC Funding 2013-III, Ltd.	Cayman Islands / Diversified Financial Services	Subordinated Notes (Residual Interest, current yield 14.01%)(11)(22)	44,100	39,534	43,217	1.2%
				39,534	43,217	1.2%
CIFC Funding 2013-IV, Ltd.	Cayman Islands / Diversified Financial Services	Subordinated Notes (Residual Interest, current yield 12.52%)(11)(22)	45,500	40,255	40,934	1.1%
				40,255	40,934	1.1%
Cinedigm DC Holdings, LLC	New York / Software & Computer Services	Senior Secured Term Loan (11.00% (LIBOR + 9.00% with 2.00% LIBOR floor) plus 2.50% PIK, due 3/31/2021)(4)	68,714	68,664	68,714	1.9%
				68,664	68,714	1.9%
The Copernicus Group, Inc.	North Carolina / Healthcare	Escrow Receivable	—	—	115	—%
				—	115	—%
Correctional Healthcare Holding Company, Inc.	Colorado / Healthcare	Second Lien Term Loan (11.25%, due 1/11/2020)(3)	27,100	27,100	27,642	0.8%
				27,100	27,642	0.8%

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Coverall North America, Inc.	Florida / Commercial Services	Senior Secured Term Loan (11.50% (LIBOR + 8.50% with 3.00% LIBOR floor), due 12/17/2017)(3)(4)	51,210	51,210	51,210	1.4%
				51,210	51,210	1.4%
Crosman Corporation	New York / Manufacturing	Second Lien Term Loan (12.00% (LIBOR + 10.50% with 1.50% LIBOR floor), due 12/30/2019)(3)(4)	40,000	40,000	39,708	1.1%
				40,000	39,708	1.1%
CRT MIDCO, LLC	Wisconsin / Media	Senior Secured Term Loan (10.50% (LIBOR + 7.50% with 3.00% LIBOR floor), due 6/30/2017)(3)(4)	47,504	47,504	47,504	1.3%
				47,504	47,504	1.3%
Deltek, Inc.	Virginia / Software & Computer Services	Second Lien Term Loan (10.00% (LIBOR + 8.75% with 1.25% LIBOR floor), due 10/10/2019)(3)(4)(16)	12,000	11,852	12,000	0.3%
				11,852	12,000	0.3%
Diamondback Operating, LP	Oklahoma / Oil & Gas Production	Net Profits Interest (15% of Equity Distributions)(7)	—	—	—	—%
			—	—	—	—%
Edmentum, Inc.	Minnesota / Consumer Services	Second Lien Term Loan (11.25% (LIBOR + 9.75% with 1.50% LIBOR floor), due 5/17/2019)(3)(4)(16)	50,000	48,439	50,000	1.4%
				48,439	50,000	1.4%
Empire Today, LLC	Illinois / Durable Consumer Products	Senior Secured Note (11.375%, due 2/1/2017)(16)	\$15,700	\$15,419	\$15,700	0.4%

See notes to consolidated financial statements.

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

Portfolio Company	Locale / Industry	Investments(1)	June 30, 2014 (Audited)			% of Net Assets
			Principal Value	Cost	Fair Value(2)	
<b>LEVEL 3 PORTFOLIO INVESTMENTS</b>						
Non-Control/Non-Affiliate Investments (less than 5.00% voting control)						
				15,419	15,700	0.4%
Fischbein, LLC	North Carolina / Machinery	Escrow Receivable	—	—	116	—%
			—	—	116	—%
		Senior Secured Term Loan A (6.50% (LIBOR + 5.50% with 1.00% LIBOR floor), due 4/30/2019)(4)	25,000	25,000	25,000	0.7%
Fleetwash, Inc.	New Jersey / Business Services	Senior Secured Term Loan B (10.50% (LIBOR + 9.50% with 1.00% LIBOR floor), due 4/30/2019)(4)	25,000	25,000	25,000	0.7%
		Delayed Draw Term Loan – \$15,000 Commitment (expires 4/30/2019)(25)	—	—	—	—%
				50,000	50,000	1.4%
Focus Brands, Inc.	Georgia / Consumer Services	Second Lien Term Loan (10.25% (LIBOR + 9.00% with 1.25% LIBOR floor), due 8/21/2018)(4)(16)	18,000	17,776	18,000	0.5%
				17,776	18,000	0.5%
Focus Products Group International, LLC	Illinois / Durable Consumer Products	Senior Secured Term Loan (12.00% (LIBOR + 11.00% with 1.00% LIBOR floor), due 1/20/2017)(3)(4)	20,297	20,297	19,886	0.5%
		Common Stock (5,638 shares)		27	—	—%
				20,324	19,886	0.5%
Galaxy XII CLO, Ltd.	Cayman Islands / Diversified Financial Services	Subordinated Notes (Residual Interest, current yield 13.31%)(11)(22)	22,000	19,498	20,449	0.6%
				19,498	20,449	0.6%
Galaxy XV CLO, Ltd.	Cayman Islands / Diversified Financial Services	Subordinated Notes (Residual Interest, current yield 14.27%)(11)(22)	35,025	29,777	31,824	0.9%
				29,777	31,824	0.9%
Galaxy XVI CLO, Ltd.	Cayman Islands / Diversified Financial Services	Subordinated Notes (Residual Interest, current yield 12.19%)(11)(22)	22,575	20,790	20,573	0.6%
				20,790	20,573	0.6%
			39,905	36,811	36,589	1.0%

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Galaxy XVII CLO, Ltd.	Cayman Islands / Diversified Financial Services	Subordinated Notes (Residual Interest, current yield 14.79%)(11)(22)			36,811	36,589	1.0%
Global Employment Solutions, Inc.	Colorado / Business Services	Senior Secured Term Loan (10.00% (LIBOR + 9.00% with 1.00% LIBOR floor), due 3/25/2019)(3)(4)	28,464	28,464	28,464	0.8%	
				28,464	28,464	0.8%	
Grocery Outlet, Inc.	California / Retail	Second Lien Term Loan (10.50% (LIBOR + 9.25% with 1.25% LIBOR floor), due 6/17/2019)(4)(16)	14,457	14,168	14,457	0.4%	
				14,168	14,457	0.4%	
GTP Operations, LLC(10)	Texas / Software & Computer Services	Senior Secured Term Loan (10.00% (LIBOR + 5.00% with 5.00% LIBOR floor), due 12/11/2018)(3)(4)	112,546	112,546	112,546	3.1%	
				112,546	112,546	3.1%	
Halcyon Loan Advisors Funding 2012-1 Ltd.	Cayman Islands / Diversified Financial Services	Subordinated Notes (Residual Interest, current yield 21.35%)(11)(22)	23,188	20,600	22,570	0.6%	
				20,600	22,570	0.6%	
Halcyon Loan Advisors Funding 2013-1 Ltd.	Cayman Islands / Diversified Financial Services	Subordinated Notes (Residual Interest, current yield 18.49%)(11)(22)	40,400	38,460	41,509	1.1%	
				38,460	41,509	1.1%	
Halcyon Loan Advisors Funding 2014-1 Ltd.	Cayman Islands / Diversified Financial Services	Subordinated Notes (Residual Interest, current yield 15.28%)(11)(22)	\$24,500	\$23,471	\$23,110	0.6%	

See notes to consolidated financial statements.

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

Portfolio Company	Locale / Industry	Investments(1)	June 30, 2014 (Audited)			% of Net Assets
			Principal Value	Cost	Fair Value(2)	
<b>LEVEL 3 PORTFOLIO INVESTMENTS</b>						
Non-Control/Non-Affiliate Investments (less than 5.00% voting control)						
				23,471	23,110	0.6%
Halcyon Loan Advisors Funding 2014-2 Ltd.	Cayman Islands / Diversified Financial Services	Subordinated Notes (Residual Interest, current yield 16.06%)(11)(22)	41,164	38,630	38,066	1.1%
				38,630	38,066	1.1%
Harley Marine Services, Inc.	Washington / Transportation	Second Lien Term Loan (10.50% (LIBOR + 9.25% with 1.25% LIBOR floor), due 12/20/2019)(3)(4)(16)	9,000	8,832	8,832	0.2%
				8,832	8,832	0.2%
ICON Health & Fitness, Inc.	Utah / Durable Consumer Products	Senior Secured Note (11.875%, due 10/15/2016)(16)	21,850	22,005	20,889	0.6%
				22,005	20,889	0.6%
ICV-CSI Holdings, LLC	New York / Transportation	Common Equity (1.6 units)		1,639	2,079	0.1%
				1,639	2,079	0.1%
IDQ Holdings, Inc.	Texas / Automobile	Senior Secured Note (11.50%, due 4/1/2017)(16)	12,500	12,344	12,500	0.3%
				12,344	12,500	0.3%
Ikaria, Inc.	New Jersey / Healthcare	Second Lien Term Loan (8.75% (LIBOR + 7.75% with 1.00% LIBOR floor), due 2/12/2022)(4)(16)	25,000	24,430	25,000	0.7%
				24,430	25,000	0.7%
Injured Workers Pharmacy, LLC	Massachusetts / Healthcare	Second Lien Term Loan (11.50% (LIBOR + 7.00% with 4.50% LIBOR floor) plus 1.00% PIK, due 5/31/2019)(3)(4)	22,678	22,678	22,904	0.6%
				22,678	22,904	0.6%
		Senior Secured Term Loan A (5.50% (LIBOR + 4.50% with 1.00% LIBOR floor), due 3/28/2019)(4)	126,453	126,453	126,453	3.5%
Instant Web, LLC	Minnesota / Media	Senior Secured Term Loan B (12.00% (LIBOR + 11.00% with 1.00% LIBOR floor), due 3/28/2019)(3)(4)	128,000	128,000	128,000	3.6%
		Senior Secured Term Loan C (12.75% (LIBOR + 11.75% with 1.00% LIBOR floor), due 3/28/2019)(4)	12,500	12,500	12,500	0.3%

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			266,953	266,953	7.4%	
InterDent, Inc.	California / Healthcare	Senior Secured Term Loan A (7.25% (LIBOR + 5.75% with 1.50% LIBOR floor), due 8/3/2017)(4)	63,225	63,225	1.7%	
		Senior Secured Term Loan B (12.25% (LIBOR + 9.25% with 3.00% LIBOR floor), due 8/3/2017)(3)(4)	67,625	67,625	1.9%	
JHH Holdings, Inc.	Texas / Healthcare	Second Lien Term Loan (11.25% (LIBOR + 10.00% with 1.25% LIBOR floor) plus 0.50% PIK, due 3/30/2019)(3)(4)	35,119	35,119	1.0%	
			35,119	35,119	1.0%	
LaserShip, Inc.	Virginia / Transportation	Revolving Line of Credit – \$5,000 Commitment (10.25% (LIBOR + 8.25% with 2.00% LIBOR floor), due 12/21/2014)(4)(25)	—	—	—%	
		Senior Secured Term Loan A (10.25% (LIBOR + 8.25% with 2.00% LIBOR floor), due 3/18/2019)(3)(4)	36,094	36,094	1.0%	
		Senior Secured Term Loan B (10.25% (LIBOR + 8.25% with 2.00% LIBOR floor), due 3/18/2019)(3)(4)	22,111	22,111	0.6%	
		Delayed Draw Term Loan – \$6,000 Commitment (expires 12/31/2016)(25)	—	—	—%	
			58,205	58,205	1.6%	
LCM XIV Ltd.	Cayman Islands / Diversified Financial Services	Income Notes (Residual Interest, current yield 16.02%)(11)(22)	\$26,500	\$24,914	\$25,124	0.7%
				24,914	25,124	0.7%

See notes to consolidated financial statements.

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

Portfolio Company	Locale / Industry	Investments(1)	June 30, 2014 (Audited)			% of Net Assets
			Principal Value	Cost	Fair Value(2)	
<b>LEVEL 3 PORTFOLIO INVESTMENTS</b>						
Non-Control/Non-Affiliate Investments (less than 5.00% voting control)						
LHC Holdings Corp.	Florida / Healthcare	Revolving Line of Credit – \$750 Commitment (8.50% (LIBOR + 6.00% with 2.50% LIBOR floor), due 5/31/2015)(4)(25)(26)	—	—	—	—%
		Senior Subordinated Debt (10.50%, due 5/31/2015)(3)	1,865	1,865	1,865	0.1%
		Membership Interest (125 units)		216	253	—%
				2,081	2,118	0.1%
Madison Park Funding IX, Ltd.	Cayman Islands / Diversified Financial Services	Subordinated Notes (Residual Interest, current yield 12.97%)(11)(22)	31,110	24,546	27,266	0.8%
				24,546	27,266	0.8%
Matrixx Initiatives, Inc.	New Jersey / Pharmaceuticals	Senior Secured Term Loan A (7.50% (LIBOR + 6.00% with 1.50% LIBOR floor), due 8/9/2018)(3)(4)	38,319	38,319	36,839	1.0%
		Senior Secured Term Loan B (12.50% (LIBOR + 11.00% with 1.50% LIBOR floor), due 8/9/2018)(3)(4)	39,750	39,750	36,851	1.0%
Maverick Healthcare Equity, LLC	Arizona / Healthcare	Preferred Units (1,250,000 units)		78,069	73,690	2.0%
		Class A Common Units (1,250,000 units)		1,252	821	—%
Mountain View CLO 2013-I Ltd.	Cayman Islands / Diversified Financial Services	Subordinated Notes (Residual Interest, current yield 15.64%)(11)(22)	43,650	40,754	43,555	1.2%
				40,754	43,555	1.2%
NCP Finance Limited Partnership(23)	Ohio / Consumer Finance	Subordinated Secured Term Loan (11.00% (LIBOR + 9.75% with 1.25% LIBOR floor), due 9/30/2018)(3)(4)(16)(22)	11,910	11,692	12,208	0.3%
New Century Transportation, Inc.	New Jersey / Transportation	Senior Subordinated Term Loan (12.00% (LIBOR + 10.00% with 2.00% LIBOR floor) plus 4.00% PIK, in non-accrual status effective	44,000	44,000	—	—%
				11,692	12,208	0.3%

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			4/1/2014, due 2/3/2018)(4)			
			44,000	—	—	—%
Nixon, Inc.	California / Durable Consumer Products	Senior Secured Term Loan (8.75% plus 2.75% PIK, due 4/16/2018)(16)	13,532	13,316	13,316	0.4%
			13,316	13,316		0.4%
NRG Manufacturing, Inc.	Texas / Manufacturing	Escrow Receivable	—	1,110	—	—%
			—	1,110	—	—%
Octagon Investment Partners XV, Ltd.	Cayman Islands / Diversified Financial Services	Income Notes (Residual Interest, current yield 20.60%)(11)(22)	26,901	24,338	26,732	0.7%
			24,338	26,732		0.7%
Onyx Payments(44)	Texas / Diversified Financial Services	Senior Secured Term Loan A (6.75% (LIBOR + 5.50% with 1.25% LIBOR floor), due 4/18/2018)(4)	15,125	15,125	15,125	0.4%
		Senior Secured Term Loan B (13.75% (LIBOR + 12.50% with 1.25% LIBOR floor), due 4/18/2018)(4)	15,938	15,938	15,938	0.4%
			31,063	31,063		0.8%
Pelican Products, Inc.	California / Durable Consumer Products	Second Lien Term Loan (9.25% (LIBOR + 8.25% with 1.00% LIBOR floor), due 4/9/2021)(4)(16)	17,500	17,482	17,500	0.5%
			17,482	17,500		0.5%
PGX Holdings, Inc.(28)	Utah / Consumer Services	Senior Secured Term Loan (10.50% (LIBOR + 8.50% with 2.00% LIBOR floor), due 9/14/2017)(3)(4)	\$436,647	\$436,647	\$436,647	12.1%
			436,647	436,647		12.1%
Photonis Technologies SAS	France / Aerospace & Defense	First Lien Term Loan (8.50% (LIBOR + 7.50% with 1.00% LIBOR floor), due 9/18/2019)(4)(16)(22)	10,448	10,170	10,339	0.3%

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

Portfolio Company	Locale / Industry	Investments(1)	June 30, 2014 (Audited)			% of Net Assets
			Principal Value	Cost	Fair Value(2)	
<b>LEVEL 3 PORTFOLIO INVESTMENTS</b>						
Non-Control/Non-Affiliate Investments (less than 5.00% voting control)						
				10,170	10,339	0.3%
Pinnacle (US) Acquisition Co. Limited	Texas / Software & Computer Services	Second Lien Term Loan (10.50% (LIBOR + 9.25% with 1.25% LIBOR floor), due 8/3/2020)(4)(16)	10,000	9,833	10,000	0.3%
				9,833	10,000	0.3%
		Revolving Line of Credit – \$15,000 Commitment (10.00% (LIBOR + 9.50% with 0.50% LIBOR floor), due 6/30/2015)(4)(25)(26)	—	—	—	—%
PrimeSport, Inc.	Georgia / Hotels, Restaurants & Leisure	Senior Secured Term Loan A (7.50% (LIBOR + 6.50% with 1.00% LIBOR floor), due 12/23/2019)(3)(4)	43,263	43,263	43,263	1.2%
		Senior Secured Term Loan B (11.50% (LIBOR + 10.50% with 1.00% LIBOR floor) plus 1.00% PIK, due 12/23/2019)(3)(4)	43,700	43,700	43,700	1.2%
				86,963	86,963	2.4%
Prince Mineral Holding Corp.	New York / Metal Services & Minerals	Senior Secured Term Loan (11.50%, due 12/15/2019)(16)	10,000	9,902	10,000	0.3%
				9,902	10,000	0.3%
Rocket Software, Inc.	Massachusetts / Software & Computer Services	Second Lien Term Loan (10.25% (LIBOR + 8.75% with 1.50% LIBOR floor), due 2/8/2019)(3)(4)(16)	20,000	19,758	20,000	0.6%
				19,758	20,000	0.6%
Royal Adhesives & Sealants, LLC	Indiana / Chemicals	Second Lien Term Loan (9.75% (LIBOR + 8.50% with 1.25% LIBOR floor), due 1/31/2019)(4)(16)	20,000	19,648	19,713	0.5%
				19,648	19,713	0.5%
Ryan, LLC	Texas / Business Services	Subordinated Unsecured Notes (12.00% (LIBOR + 9.00% with 3.00% LIBOR floor) plus 3.00% PIK, due 6/30/2018)(4)	70,531	70,531	70,531	1.9%
				70,531	70,531	1.9%
Sandow Media, LLC	Florida / Media	Senior Secured Term Loan (12.00%, due 5/8/2018)(3)	25,081	25,081	23,524	0.7%
				25,081	23,524	0.7%

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Small Business Whole Loan Portfolio(19)	New York / Diversified Financial Services	144 small business loans purchased from On Deck Capital, Inc.	4,637	4,637	4,252	0.1%
				4,637	4,252	0.1%
Snacks Parent Corporation	Minnesota / Food Products	Series A Preferred Stock (4,021.45 shares)		—	—	—%
		Series B Preferred Stock (1,866.10 shares)		—	—	—%
		Warrant (to purchase 31,196.52 shares of Common Stock, expires 11/12/2020)	591		1,819	0.1%
Spartan Energy Services, Inc.	Louisiana / Energy	Senior Secured Term Loan (10.50% (LIBOR + 9.00% with 1.50% LIBOR floor), due 12/28/2017)(3)(4)	35,633	35,633	35,633	1.0%
				35,633	35,633	1.0%
Speedy Group Holdings Corp.	Canada / Consumer Finance	Senior Unsecured Notes (12.00%, due 11/15/2017)(16)(22)	15,000	15,000	15,000	0.4%
				15,000	15,000	0.4%
Sport Helmets Holdings, LLC	New York / Personal & Nondurable Consumer Products	Escrow Receivable		\$—	\$ 130	—%
				—	130	—%

See notes to consolidated financial statements.

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

Portfolio Company	Locale / Industry	Investments(1)	June 30, 2014 (Audited)			% of Net Assets
			Principal Value	Cost	Fair Value(2)	
<b>LEVEL 3 PORTFOLIO INVESTMENTS</b>						
Non-Control/Non-Affiliate Investments (less than 5.00% voting control)						
Stauber Performance Ingredients, Inc.	California / Food Products	Senior Secured Term Loan (10.50% (LIBOR + 7.50% with 3.00% LIBOR floor), due 1/21/2016)(3)(4)	\$12,809	12,809	12,809	0.4%
		Senior Secured Term Loan (10.50% (LIBOR + 7.50% with 3.00% LIBOR floor), due 5/21/2017)(3)(4)	9,975	9,975	9,975	0.3%
				22,784	22,784	0.7%
Stryker Energy, LLC	Ohio / Oil & Gas Production	Subordinated Secured Revolving Credit Facility – \$50,300 Commitment (12.25% (LIBOR + 10.75% with 1.50% LIBOR floor) plus 3.75% PIK, in non-accrual status effective 12/1/2011, due 12/1/2015)(4)(25)	36,080	32,710	—	—%
		Overriding Royalty Interests(18)	—	—	—	—%
				32,710	—	—%
Sudbury Mill CLO Ltd.	Cayman Islands / Diversified Financial Services	Subordinated Notes (Residual Interest, current yield 16.25%)(11)(22)	28,200	26,914	26,140	0.7%
				26,914	26,140	0.7%
Symphony CLO IX Ltd.	Cayman Islands / Diversified Financial Services	Preference Shares (Residual Interest, current yield 19.76%)(11)(22)	45,500	37,734	44,294	1.2%
				37,734	44,294	1.2%
Symphony CLO XIV Ltd.	Cayman Islands / Diversified Financial Services	Subordinated Notes (Residual Interest, current yield 14.03%)(11)(22)	49,250	49,858	49,025	1.4%
				49,858	49,025	1.4%
System One Holdings, LLC	Pennsylvania / Business Services	Senior Secured Term Loan (11.00% (LIBOR + 9.50% with 1.50% LIBOR floor), due 12/31/2018)(3)(4)	44,646	44,646	44,646	1.2%
				44,646	44,646	1.2%
Targus Group International, Inc.	California / Durable Consumer Products	First Lien Term Loan (11.00% (LIBOR + 9.50% with 1.50% LIBOR floor) plus 1.0% PIK, due 5/24/2016)(3)(4)(16)	21,911	21,697	19,949	0.6%
				21,697	19,949	0.6%
TB Corp.	Texas / Hotels, Restaurants &	Senior Subordinated Note (12.00% plus 1.50% PIK, due 12/19/2018)(3)	23,628	23,628	23,628	0.7%

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	Leisure			23,628	23,628	0.7%
Tectum Holdings, Inc.	Michigan / Automobile	Second Lien Term Loan (9.00% (LIBOR + 8.00% with 1.00% LIBOR floor), due 3/12/2019)(4)(16)	10,000	9,952	9,952	0.3%
				9,952	9,952	0.3%
Therakos, Inc.	New Jersey / Healthcare	Second Lien Term Loan (11.25% (LIBOR + 10.00% with 1.25% LIBOR floor), due 6/27/2018)(4)(16)	13,000	12,762	13,000	0.4%
				12,762	13,000	0.4%
Tolt Solutions, Inc.	South Carolina / Business Services	Senior Secured Term Loan A (7.00% (LIBOR + 6.00% with 1.00% LIBOR floor), due 3/7/2019)(3)(4)	48,705	48,705	48,705	1.3%
		Senior Secured Term Loan B (12.00% (LIBOR + 11.00% with 1.00% LIBOR floor), due 3/7/2019)(3)(4)	48,900	48,900	48,900	1.4%
				97,605	97,605	2.7%
Traeger Pellet Grills LLC	Oregon / Durable Consumer Products	Senior Secured Term Loan A (6.50% (LIBOR + 4.50% with 2.00% LIBOR floor), due 6/18/2018)(3)(4)	29,100	29,100	29,100	0.8%
		Senior Secured Term Loan B (11.50% (LIBOR + 9.50% with 2.00% LIBOR floor), due 6/18/2018)(3)(4)	29,700	29,700	29,700	0.8%
Transaction Network Services, Inc.	Virginia / Telecommunication Services	Second Lien Term Loan (9.00% (LIBOR + 8.00% with 1.00% LIBOR floor), due 8/14/2020)(4)(16)	\$5,000	\$4,976	\$5,000	0.1%
				4,976	5,000	0.1%

See notes to consolidated financial statements.

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

Portfolio Company	Locale / Industry	Investments(1)	June 30, 2014 (Audited)		% of Net Assets	
			Principal Value	Cost		Fair Value(2)
<b>LEVEL 3 PORTFOLIO INVESTMENTS</b>						
Non-Control/Non-Affiliate Investments (less than 5.00% voting control)						
TriMark USA, LLC	Massachusetts / Hotels, Restaurants & Leisure	Second Lien Term Loan (10.00% (LIBOR + 9.00% with 1.00% LIBOR floor), due 8/11/2019)(4)(16)	10,000	9,810	9,810	0.3%
				9,810	9,810	0.3%
United Sporting Companies, Inc.(5)	South Carolina / Durable Consumer Products	Second Lien Term Loan (12.75% (LIBOR + 11.00% with 1.75% LIBOR floor), due 5/16/2018)(3)(4)	160,000	160,000	160,000	4.4%
				160,000	160,000	4.4%
United States Environmental Services, LLC	Texas / Commercial Services	Senior Secured Term Loan A (6.50% (LIBOR + 5.50% with 1.00% LIBOR floor), due 3/31/2019)(3)(4)	23,850	23,850	23,850	0.7%
		Senior Secured Term Loan B (11.50% (LIBOR + 10.50% with 1.00% LIBOR floor), due 3/31/2019)(3)(4)	36,000	36,000	36,000	1.0%
				59,850	59,850	1.7%
Venio LLC	Pennsylvania / Business Services	Second Lien Term Loan (12.00% (LIBOR + 9.50% with 2.50% LIBOR floor), due 2/19/2020)(3)(4)	17,000	17,000	16,726	0.5%
				17,000	16,726	0.5%
Voya CLO 2012-2, Ltd.	Cayman Islands / Diversified Financial Services	Income Notes (Residual Interest, current yield 14.69%)(11)(22)	38,070	31,058	35,843	1.0%
				31,058	35,843	1.0%
Voya CLO 2012-3, Ltd.	Cayman Islands / Diversified Financial Services	Income Notes (Residual Interest, current yield 12.97%)(11)(22)	46,632	39,368	43,960	1.2%
				39,368	43,960	1.2%
Voya CLO 2012-4, Ltd.	Cayman Islands / Diversified Financial Services	Income Notes (Residual Interest, current yield 15.28%)(11)(22)	40,613	34,941	39,647	1.1%

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			34,941	39,647	1.1%	
Voya CLO 2014-1, Ltd.	Cayman Islands / Diversified Financial Services	Subordinated Notes (Residual Interest, current yield 14.49%)(11)(22)	32,383	33,825	32,949	0.9%
				33,825	32,949	0.9%
Washington Mill CLO Ltd.	Cayman Islands / Diversified Financial Services	Subordinated Notes (Residual Interest, current yield 17.43%)(11)(22)	22,600	21,601	21,583	0.6%
				21,601	21,583	0.6%
Water Pik, Inc.	Colorado / Personal & Nondurable Consumer Products	Second Lien Term Loan (9.75% (LIBOR + 8.75% with 1.00% LIBOR floor), due 1/8/2021)(4)(16)	11,000	10,604	10,604	0.3%
				10,604	10,604	0.3%
Wheel Pros, LLC	Colorado / Business Services	Senior Subordinated Secured Note (11.00% (LIBOR + 7.00% with 4.00% LIBOR floor), due 6/29/2020)(4)	12,000	12,000	12,000	0.3%
		Delayed Draw Term Loan – \$3,000 Commitment (expires 12/30/2015)(25)	—	—	—	—%
				12,000	12,000	0.3%
Wind River Resources Corporation(39)	Utah / Oil & Gas Production	Senior Secured Note (13.00% (LIBOR + 7.50% with 5.50% LIBOR floor) plus 3.00% default interest on principal and 16.00% default interest on past due interest, in non-accrual status effective 12/1/2008, past due)(4)	\$ 15,000	\$ 14,650	\$ —	—%
		Net Profits Interest (5% of Equity Distributions)(7)	—	—	—	—%
				14,650	—	—%
Total Non-Control/Non-Affiliate Investments (Level 3)			\$4,620,388	\$4,580,996		126.6%

See notes to consolidated financial statements.

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

Portfolio Company	Locale / Industry	Investments(1)	June 30, 2014 (Audited)		
			Principal Value	Cost	Fair Value(2)
<b>LEVEL 3 PORTFOLIO INVESTMENTS</b>					
Non-Control/Non-Affiliate Investments (less than 5.00% voting control)					
Total Level 3 Portfolio Investments			\$6,371,459	\$6,253,571	172.8%
<b>LEVEL 1 PORTFOLIO INVESTMENTS</b>					
Non-Control/Non-Affiliate Investments (less than 5.00% voting control)					
Dover Saddlery, Inc.	Massachusetts / Retail	Common Stock (30,974 shares)	\$63	\$168	—%
			63	168	—%
Total Non-Control/Non-Affiliate Investments (Level 1)			\$63	\$168	—%
Total Non-Control/Non-Affiliate Investments			\$4,620,451	\$4,581,164	126.6%
Total Portfolio Investments			\$6,371,522	\$6,253,739	172.8%

See notes to consolidated financial statements.

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

Endnote Explanations as of March 31, 2015 (Unaudited) and June 30, 2014 (Audited)

- 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 March 31, 2015 and June 30, 2014, one of our portfolio investments, Dover Saddlery, Inc., was publicly traded and classified as Level 1 within the valuation hierarchy established by ASC 820, Fair Value Measurement (“ASC 820”). As of March 31, 2015 and
  - (2) June 30, 2014, the fair value of our remaining portfolio investments was determined using significant unobservable inputs. ASC 820 classifies such inputs used to measure fair value as Level 3 within the valuation hierarchy. See Notes 2 and 3 within the accompanying notes to consolidated financial statements for further discussion. Security, or a portion thereof, is held by Prospect Capital Funding LLC (“PCF”), our wholly-owned subsidiary and a bankruptcy remote special purpose entity, and is pledged as collateral for the Revolving Credit Facility and such
  - (3) security is not available as collateral to our general creditors (see Note 4). The fair values of these investments held by PCF at March 31, 2015 and June 30, 2014 were \$1,598,477 and \$1,500,897, respectively; they represent 24.2% and 24.0% of our total investments, respectively.
  - (4) Security, or a portion thereof, has a floating interest rate which may be subject to a LIBOR or PRIME floor. Stated interest rate was in effect at March 31, 2015 and June 30, 2014. Ellett Brothers, LLC, Evans Sports, Inc., Jerry’s Sports, Inc., Simmons Gun Specialties, Inc., Bonitz Brothers, Inc.,
  - (5) 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. On January 19, 2010, we modified the terms of our senior secured debt in Appalachian Energy Holdings, LLC (“AEH”) and Coalbed, LLC (“Coalbed”) in conjunction with the formation of Manx Energy, Inc. (“Manx”), a new entity consisting of the assets of AEH, Coalbed and Kinley Exploration. The assets of the three companies were brought under new common management. We funded \$2,800 at closing to Manx to provide for working capital. As part of the Manx roll-up, our loans to AEH and Coalbed were assigned to Manx and a portion of the debt was exchanged for Manx preferred equity, while our AEH equity interest was converted into Manx common stock. There was no
  - (6) change to fair value at the time of restructuring. On June 30, 2012, Manx returned the investments in Coalbed and AEH to us and we contributed these investments to Wolf Energy Holdings Inc. (“Wolf Energy Holdings”), a newly-formed, separately owned holding company. During the three months ended June 30, 2013, we determined that the impairment of Manx was other-than-temporary and recorded a realized loss of \$9,397 for the amount that the amortized cost exceeded the fair value, reducing the amortized cost to \$500. As of June 30, 2014, Prospect owned 41% of the equity of Manx. During the three months ended December 31, 2014, Manx was dissolved and we recorded a realized loss of \$50, reducing the amortized cost to zero.
  - (7) In addition to the stated returns, the net profits interest held will be realized upon sale of the borrower or a sale of the interests.
  - (8) During the quarter ended December 31, 2011, our ownership of Change Clean Energy Holdings, LLC, Change Clean Energy, LLC, Freedom Marine Services Holdings, LLC (“Freedom Marine”), and Yatesville Coal Holdings, LLC was transferred to Energy Solutions Holdings Inc. (f/k/a Gas Solutions Holdings, Inc.) (“Energy Solutions”) to consolidate all of our energy holdings under one management team. We own 100% of Energy Solutions. On December 28, 2011, we made a \$3,500 debt investment in Vessel Holdings, LLC, a subsidiary of Freedom Marine. On November 25, 2013, we provided \$13,000 in senior secured debt financing for the recapitalization of our investment in Jettco Marine Services, LLC (“Jettco”), a subsidiary of Freedom Marine. The subordinated secured loan to Jettco was replaced with a senior secured note to Vessel Holdings II, LLC, a new subsidiary of Freedom Marine. On December 3, 2013, we made a \$16,000 senior secured investment in Vessel Holdings III, LLC, another new subsidiary of Freedom Marine. On June 4, 2014, Gas Solutions GP LLC and Gas

Solutions LP LLC, two subsidiaries of Energy Solutions, merged with and into Freedom Marine, with Freedom Marine as the surviving entity. In June 2014, Freedom Marine Services Holdings, LLC was renamed Freedom Marine Solutions, LLC; Vessel Holdings, LLC was renamed Vessel Company, LLC; Vessel Holdings II, LLC was renamed Vessel Company II, LLC; Vessel Holdings III, LLC was renamed Vessel Company III, LLC; Yatesville Coal Holdings, LLC was renamed Yatesville Coal Company, LLC; and Change Clean Energy Holdings, LLC was renamed Change Clean Energy Company, LLC. On July 1, 2014, we began consolidating Energy Solutions and as a result, we began reporting our investments in Change Clean Energy Company, LLC, Freedom Marine Solutions, LLC and Yatesville Coal Company, LLC as separate controlled companies. During the three months ended December 31, 2014, we determined that the impairments of Change Clean Energy Company, LLC and Yatesville Coal Company, LLC were other-than-temporary and recorded a realized loss of \$1,449, reducing the amortized cost to zero.

See notes to consolidated financial statements.

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

Endnote Explanations as of December 31, 2014 (Unaudited) and June 30, 2014 (Audited) (Continued)

(9) We own 100% of the equity of Vets Securing America, Inc. (“VSA”) and 100% of the equity of The Healing Staff, Inc. (“THS”), a former wholly-owned subsidiary of ESA Environmental Specialists, Inc. During the nine months ended March 31, 2015, THS ceased operations. As of March 31, 2015, the VSA management team is supervising both the continued operations of VSA and the wind-down of activities at THS.

(10) GTP Operations, LLC, Transplace, LLC, CI (Transplace) International, LLC, Transplace Freight Services, LLC, Transplace Texas, LP, Transplace Stuttgart, LP, Transplace International, Inc., Celtic International, LLC, and Treetop Merger Sub, LLC are joint borrowers on the senior secured term loan.

(11) The CLO equity investments are entitled to recurring distributions which are generally equal to the excess cash flow generated from the underlying investments after payment of the contractual payments to debt holders and fund expenses. The current estimated yield 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.

(12) Wolf Energy Holdings, an entity in which we own 100% of the common stock, owns 100% of the equity of Wolf Energy, LLC (“Wolf Energy”). Effective June 30, 2012, the membership interests and associated operating company debt of AEH and Coalbed, which were previously owned by Manx, were assigned to Wolf Energy Holdings. Effective June 6, 2014, Appalachian Energy Holdings, LLC was renamed Appalachian Energy LLC. On July 1, 2014, we began consolidating Wolf Energy Holdings and as a result, we began reporting our investments in Appalachian Energy LLC, Coalbed, LLC and Wolf Energy, LLC as separate controlled companies. During the three months ended September 30, 2014, we determined that the impairment of Appalachian Energy LLC was other-than-temporary and recorded a realized loss of \$2,050, reducing the amortized cost to zero. On November 21, 2014, Coalbed merged with and into Wolf Energy, with Wolf Energy as the surviving entity. During the three months ended December 31, 2014, we determined that the impairment of the Coalbed debt assumed by Wolf Energy was other-than-temporary and recorded a realized loss of \$5,991, reducing the amortized cost to zero.

(13) On a fully diluted basis represents 10.00% of voting common shares.

(14) Trinity Services Group, Inc. and Trinity Services I, LLC are joint borrowers on the senior secured loan facility.

(15) We own 99.9999% of AGC/PEP, LLC. AGC/PEP, LLC owns 2,037.65 out of a total of 83,818.69 shares (including 5,111 vested and unvested management options) of American Gilsonite Holding Company which owns 100% of American Gilsonite Company.

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

(17) MITY Holdings of Delaware Inc. (“MITY Delaware”), an entity in which we own 100% of the common stock, owns 94.99% of the equity of MITY, Inc. (f/k/a MITY Enterprises, Inc.) (“MITY”). MITY owns 100% of each of MITY-Lite, Inc.; Broda Enterprises USA, Inc.; and Broda Enterprises ULC (“Broda Canada”). On June 23, 2014, Prospect made a new \$15,769 debt investment in MITY and MITY distributed proceeds to MITY Delaware as a return of capital. MITY Delaware used this distribution to pay down the senior secured debt of MITY Delaware to Prospect by the same amount. The remaining amount of the senior secured debt due from MITY Delaware to Prospect, \$7,200, was then contributed to the capital of MITY Delaware. As a result of this transaction, Prospect held the \$15,769 MITY note. Effective June 23, 2014, Mity Enterprises, Inc. was renamed MITY, Inc. and Broda Enterprises USA, Inc. was renamed Broda USA, Inc. On June 23, 2014, Prospect also extended a new \$7,500 senior secured revolving facility to MITY, of which none was funded at closing. On July 1, 2014, we began consolidating MITY Delaware and as a result, we now report MITY, Inc. as a separate controlled company. MITY Delaware has a subordinated unsecured note issued and outstanding to Broda Canada that is denominated in Canadian Dollars (CAD). As of March 31, 2015, the principal balance of this note was CAD 7,371. In



accordance with ASC 830, Foreign Currency Matters (“ASC 830”), this note was remeasured into our functional currency, US Dollars (USD), and is presented on our Consolidated Schedule of Investments in USD.

- (18) The overriding royalty interests held receive payments at the stated rates based upon operations of the borrower. Our wholly-owned subsidiary Prospect Small Business Lending, LLC purchases small business whole loans on a (19) recurring basis from online small business loan originators, including On Deck Capital, Inc. and Direct Capital Corporation.

See notes to consolidated financial statements.

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

Endnote Explanations as of December 31, 2014 (Unaudited) and June 30, 2014 (Audited) (Continued)

- (20) Boxercraft Incorporated (“Boxercraft”) and BXC Company, Inc. (f/k/a BXC Holding Company) (“BXC”) are joint borrowers on our senior secured investments. Effective March 28, 2014, we acquired voting control of BXC pursuant to a voting agreement and irrevocable proxy. Effective May 8, 2014, we acquired control of BXC by transferring shares held by the other equity holders of BXC to us pursuant to an assignment agreement entered into with such other equity holders. As of June 30, 2014, we owned 86.7% of Series A preferred stock, 96.8% of Series B preferred stock, and 83.1% of the fully-diluted common stock of BXC. BXC owned 100% of the common stock of Boxercraft. We owned a warrant to purchase 15% of all classes of equity of BXC, which consisted of 3,755,000 shares of Series A preferred stock, 625,000 shares of Series B preferred stock, and 43,800 shares of voting common stock as of June 30, 2014. On August 25, 2014, we sold Boxercraft, a wholly-owned subsidiary of BXC, for net proceeds of \$750 and realized a net loss of \$16,949 on the sale.
- (21) We owned warrants to purchase 33,750 shares of common stock in Metal Buildings Holding Corporation (“Metal Buildings”), the former holding company of Borga, Inc. (“Borga”). Metal Buildings owned 100% of Borga. On March 8, 2010, we foreclosed on the stock in Borga that was held by Metal Buildings, obtaining 100% ownership of Borga. On January 24, 2014, we contributed our holdings in Borga to STI Holding, Inc. (“STI”), a wholly-owned holding company. On July 1, 2014, we began consolidating STI and as a result, we reported Borga, Inc. as a separate controlled company from July 1, 2014 until its sale on August 20, 2014. On August 20, 2014, we sold the assets of Borga, a wholly-owned subsidiary of STI, for net proceeds of \$382 and realized a loss of \$2,589 on the sale. On December 29, 2014, Borga was dissolved.
- (22) Investment has been designated as an investment not “qualifying” under Section 55(a) of the Investment Company Act of 1940 (the “1940 Act”). Under the 1940 Act, we may not acquire any non-qualifying asset unless, at the time such acquisition is made, qualifying assets represent at least 70% of our total assets. We monitor the status of these assets on an ongoing basis.
- (23) NCP Finance Limited Partnership, NCP Finance Ohio, LLC, and certain affiliates thereof are joint borrowers on the subordinated secured term loan.
- (24) On May 6, 2011, we made a secured first lien \$24,250 debt investment to NMMB, Inc. (f/k/a NMMB Acquisition, Inc.) (“NMMB”), a \$2,800 secured debt and \$4,400 equity investment to NMMB Holdings, Inc. (“NMMB Holdings”). We owned 100% of the Series A Preferred Stock in NMMB Holdings. NMMB Holdings owned 100% of the Convertible Preferred Stock in NMMB. On December 13, 2013, we provided \$8,086 in preferred equity for the recapitalization of NMMB Holdings. After the restructuring, we received repayment of \$2,800 secured debt outstanding. We own 100% of the equity of NMMB Holdings as of March 31, 2015 and June 30, 2014. NMMB Holdings owns 96.33% and 92.93% of the fully diluted equity of NMMB as of March 31, 2015 and June 30, 2014, respectively. NMMB owns 100% of Refuel Agency, Inc. (“Refuel Agency”), which owns 100% of Armed Forces Communications, Inc. (“Armed Forces”). On June 12, 2014, Prospect made a new \$7,000 senior secured term loan to Armed Forces. Armed Forces distributed this amount to Refuel Agency as a return of capital. Refuel Agency distributed this amount to NMMB as a return of capital, which was used to pay down \$7,000 of NMMB’s \$10,714 senior secured term loan to Prospect. On July 1, 2014, we began consolidating NMMB Holdings and as a result, we now report NMMB, Inc. as a separate controlled company.
- (25) Undrawn committed revolvers and delayed draw term loans to our portfolio companies incur commitment and unused fees ranging from 0.00% to 2.00%. As of March 31, 2015 and June 30, 2014, we had \$89,400 and \$72,118, respectively, of undrawn revolver and delayed draw term loan commitments to our portfolio companies. Stated interest rates are based on March 31, 2015 and June 30, 2014 one month or three month LIBOR rates plus
- (26) applicable spreads based on the respective credit agreements. Interest rates are subject to change based on actual elections by the borrower for a LIBOR rate contract or Base Rate contract when drawing on the revolver.
- (27)

On July 30, 2010, we made a \$30,000 senior secured debt investment in Airmall Inc. (“Airmall”), a \$12,500 secured second lien in AMU Holdings Inc. (“AMU”), and acquired 100% of the Series A preferred stock and common stock of AMU. Our preferred stock in AMU had a 12.0% dividend rate which was paid from the dividends received from its operating subsidiary, Airmall. AMU owned 100% of the common stock in Airmall. On December 4, 2013, we sold a \$972 participation in both debt investments, equal to 2% of the outstanding principal amount of loans on that date. On June 13, 2014, Prospect made a new \$19,993 investment as a senior secured loan to Airmall. Airmall then distributed this amount to AMU as a return of capital, which AMU used to pay down the senior subordinated loan in the same amount. The minority interest held by a third party in AMU was exchanged for common stock of Airmall. As of June 30, 2014, we owned 100% of the equity of AMU, which owned 98% of Airmall. On July 1, 2014, we began consolidating AMU and as a result, we reported Airmall Inc. as a separate controlled company from July 1, 2014 until its sale on August 1, 2014. On August 1, 2014, we sold our investments in Airmall for net proceeds of \$51,379 and realized a loss of \$3,473 on the sale. In addition, there is \$6,000 being held in escrow, of which 98% is due to Prospect, which will be recognized as an additional realized loss if it is not received. On October 22, 2014, we received a tax refund of \$665 related to our investment in Airmall for which we realized a gain of the same amount.

See notes to consolidated financial statements.

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

Endnote Explanations as of December 31, 2014 (Unaudited) and June 30, 2014 (Audited) (Continued)

(28) As of June 30, 2014, Progrexion Marketing, Inc., Progrexion Teleservices, Inc., Progrexion ASG, Inc., Progrexion IP, Inc., Creditrepair.com, Inc., and eFolks, LLC were joint borrowers on the senior secured term loan. PGX Holdings, Inc. was the parent guarantor of this debt investment. As of March 31, 2015, PGX Holdings, Inc. is the sole borrower on the second lien term loan.

(29) First Tower Holdings of Delaware LLC (“First Tower Delaware”), an entity in which we own 100% of the membership interests, owns 80.1% of First Tower Finance Company LLC (“First Tower Finance”), which owns 100% of First Tower, LLC (“First Tower”), the operating company. On June 24, 2014, Prospect made a new \$251,246 second lien term loan to First Tower. First Tower distributed this amount to First Tower Finance, which distributed this amount to First Tower Delaware as a return of capital. First Tower Delaware used the distribution to partially pay down the Senior Secured Revolving Credit Facility. The remaining \$23,712 of the Senior Secured Revolving Credit Facility was then converted to additional membership interests held by Prospect in First Tower Delaware. On July 1, 2014, we began consolidating First Tower Delaware and as a result, we now report First Tower Finance Company LLC as a separate controlled company.

(30) Arctic Oilfield Equipment USA, Inc. (“Arctic Equipment”), an entity in which we own 100% of the common equity, owns 70% of the equity of Arctic Energy Services, LLC (“Arctic Energy”), the operating company. On July 1, 2014, we began consolidating Arctic Equipment and as a result, we now report Arctic Energy as a separate controlled company.

(31) We own 2.8% (13,220 shares) of Mineral Fusion Natural, LLC, a subsidiary of Caleel + Hayden, LLC, common and preferred interest.

(32) APH Property Holdings, LLC (“APH”), an entity in which we own 100% of the membership interests, owns 100% of the common equity of American Property REIT Corp. (f/k/a American Property Holdings Corp.) (“APRC”), a qualified REIT which holds investments in several real estate properties. Effective April 1, 2014, Prospect made a new \$167,162 senior term loan to APRC. APRC then distributed this amount to APH as a return of capital which was used to pay down the Senior Term Loan from APH by the same amount. On July 1, 2014, we began consolidating APH and as a result, we now report APRC as a separate controlled company. See Note 3 for further discussion of the properties held by APRC.

(33) CCPI Holdings Inc. (“CCPI Holdings”), an entity in which we own 100% of the common stock, owns 94.77% of CCPI Inc. (“CCPI”), the operating company. On June 13, 2014, Prospect made a new \$8,218 senior secured note to CCPI. CCPI then distributed this amount to CCPI Holdings as a return of capital which was used to pay down the \$8,216 senior secured note from CCPI Holdings to Prospect. The remaining \$2 was distributed to Prospect as a return of capital of Prospect’s equity investment in CCPI Holdings. On July 1, 2014, we began consolidating CCPI Holdings and as a result, we now report CCPI Inc. as a separate controlled company.

(34) Credit Central Holdings of Delaware, LLC (“Credit Central Delaware”), an entity in which we own 100% of the membership interests, owns 74.77% and 74.75% of Credit Central Loan Company, LLC (f/k/a Credit Central Holdings, LLC) (“Credit Central”) as of March 31, 2015 and June 30, 2014, respectively. Credit Central owns 100% of each of Credit Central, LLC; Credit Central South, LLC; Credit Central of Texas, LLC; and Credit Central of Tennessee, LLC, the operating companies. On June 26, 2014, Prospect made a new \$36,333 second lien term loan to Credit Central. Credit Central then distributed this amount to Credit Central Delaware as a return of capital which was used to pay down the Senior Secured Revolving Credit Facility from Credit Central Delaware by the same amount. The remaining amount of the Senior Secured Revolving Credit Facility, \$3,874, was then converted into additional membership interests in Credit Central Delaware. On July 1, 2014, we began consolidating Credit Central Delaware and as a result, we now report Credit Central Loan Company, LLC as a separate controlled company.

(35)

Valley Electric Holdings I, Inc. (“Valley Holdings I”), an entity in which we own 100% of the common stock, owns 100% of Valley Electric Holdings II, Inc. (“Valley Holdings II”). Valley Holdings II owns 94.99% of Valley Electric Company, Inc. (“Valley Electric”). Valley Electric owns 100% of the equity of VE Company, Inc., which owns 100% of the equity of Valley Electric Co. of Mt. Vernon, Inc. (“Valley”). On June 24, 2014, Valley Holdings II and management of Valley formed Valley Electric and contributed their shares of Valley stock to Valley Electric. Prospect made a new \$20,471 senior secured loan to Valley Electric. Valley Electric then distributed this amount to Valley Holdings I, via Valley Holdings II, as a return of capital which was used to pay down the senior secured note of Valley Holdings I by the same amount. The remaining principal amount of the senior secured note, \$16,754, was then contributed to the capital of Valley Holdings I. On July 1, 2014, we began consolidating Valley Holdings I and Valley Holdings II and as a result, we now report Valley Electric Company, Inc. as a separate controlled company.

See notes to consolidated financial statements.

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

Endnote Explanations as of December 31, 2014 (Unaudited) and June 30, 2014 (Audited) (Continued)

(36) Nationwide Acceptance Holdings LLC (“Nationwide Holdings”), an entity in which we own 100% of the membership interests, owns 93.79% of Nationwide Acceptance LLC (“Nationwide”), the operating company. On June 18, 2014, Prospect made a new \$14,820 second lien term loan to Nationwide. Nationwide distributed this amount to Nationwide Holdings as a return of capital. Nationwide Holdings used the distribution to pay down the Senior Secured Revolving Credit Facility. The remaining \$9,888 of the Senior Secured Revolving Credit Facility was then converted into additional membership interests in Nationwide Holdings. On July 1, 2014, we began consolidating Nationwide Holdings and as a result, we now report Nationwide Acceptance LLC as a separate controlled company.

On April 15, 2013, assets previously held by H&M Oil & Gas, LLC (“H&M”) were assigned to Wolf Energy in exchange for a \$66,000 term loan secured by the assets. The cost basis in this loan of \$44,632 was determined in accordance with ASC 310-40, Troubled Debt Restructurings by Creditors, and was equal to the fair value of assets at the time of transfer resulting in a capital loss of \$19,647 in connection with the foreclosure on the assets. (37) On May 17, 2013, Wolf Energy sold the assets located in Martin County, which were previously held by H&M, for \$66,000. Proceeds from the sale were primarily used to repay the loan and net profits interest receivable due to us resulting in a realized capital gain of \$11,826. We received \$3,960 of structuring and advisory fees from Wolf Energy during the year ended June 30, 2013 related to the sale and \$991 under the net profits interest agreement which was recognized as other income during the fiscal year ended June 30, 2013.

CP Holdings of Delaware LLC (“CP Holdings”), an entity in which we own 100% of the membership interests, owns 82.3% and 82.9% of CP Energy Services Inc. (“CP Energy”) as of March 31, 2015 and June 30, 2014, respectively. As of June 30, 2014, CP Energy owned directly or indirectly 100% of each of CP Well Testing Services, LLC (“CP Well Testing”); CP Well Testing, LLC (“CP Well”); Fluid Management Services, Inc.; Fluid Management Services, LLC; Wright Transport, Inc.; Wright Foster Disposals, LLC; Foster Testing Co., Inc.; ProHaul Transports, LLC; Artexoma Logistics, LLC; and Wright Trucking, Inc. On April 1, 2014, Prospect made new loans to CP Well (with ProHaul Transports, LLC; Wright Trucking, Inc.; and Foster Testing Co., Inc. as (38) co-borrowers), comprised of two first lien loans in the amount of \$11,035 and \$72,238 and a second lien loan in the amount of \$15,000. The proceeds of these loans were used to repay CP Well Testing’s senior secured term loan and CP Energy’s senior secured term loan from Prospect. On July 1, 2014, we began consolidating CP Holdings and as a result, we now report CP Energy Services Inc. as a separate controlled company. Effective December 31, 2014, CP Energy underwent a corporate reorganization in order to consolidate certain of its wholly-owned subsidiaries. As of March 31, 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.

(39) Wind River Resources Corporation and Wind River II Corporation are joint borrowers on the senior secured note.

(40) NPH Property Holdings, LLC (“NPH”), an entity in which we own 100% of the membership interests, owns 100% of the common equity of National Property REIT Corp. (f/k/a National Property Holdings Corp.) (“NPRC”), a property REIT which holds investments in several real estate properties. Additionally, through its wholly-owned subsidiaries, NPRC invests in online consumer loans. Effective April 1, 2014, Prospect made a new \$104,460 senior term loan to NPRC. NPRC then distributed this amount to NPH as a return of capital which was used to pay down the Senior Term Loan from NPH by the same amount. On July 1, 2014, we began consolidating NPH and as a result, we now report NPRC as a separate controlled company. See Note 3 for further discussion of the properties held by NPRC. On March 17, 2015, we entered into a new credit agreement, effective June 30, 2014, with ACL Loan Holdings, Inc. (“ACLLH”), a wholly-owned subsidiary of NPRC. The new credit agreement was in the form of two tranches of senior secured term loans, Term Loan A and Term Loan B, with the same terms as the existing NPRC Term Loan A and Term Loan B due to us. On June 30, 2014, ACLLH made a non-cash return of

capital distribution of \$22,390 to NPRC and NPRC transferred and assigned to ACLLH a senior secured Term Loan A due to us.

UPH Property Holdings, LLC (“UPH”), an entity in which we own 100% of the membership interests, owns 100% of the common equity of United Property REIT Corp. (f/k/a United Property Holdings Corp.) (“UPRC”), a property REIT which holds investments in several real estate properties. Effective April 1, 2014, Prospect made a new (41) \$19,027 senior term loan to UPRC. UPRC then distributed this amount to UPH as a return of capital which was used to pay down the Senior Term Loan from UPH by the same amount. On July 1, 2014, we began consolidating UPH and as a result, we now report UPRC as a separate controlled company. See Note 3 for further discussion of the properties held by UPRC.

See notes to consolidated financial statements.

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

Endnote Explanations as of December 31, 2014 (Unaudited) and June 30, 2014 (Audited) (Continued)

- On April 4, 2008, we acquired a controlling equity interest in ARRM Holdings, Inc. (“ARRM”), which owned 100% of Ajax Rolled Ring & Machine, LLC (“Ajax”), the operating company. On April 1, 2013, we refinanced the existing \$19,837 and \$18,635 senior loans to Ajax and ARRM, respectively, increasing the total size of the debt investment to \$38,537. Concurrent with the refinancing, we received repayment of the \$18,635 loans previously outstanding. On October 11, 2013, we provided \$25,000 in preferred equity for the recapitalization of ARRM. After the financing, we received repayment of the \$20,009 subordinated unsecured loan previously outstanding.
- (42) On June 12, 2014, ARRM Holdings, Inc. was renamed ARRM Services, Inc. As of June 30, 2014, we controlled 79.53% of the fully-diluted common, 85.76% of the Series A Preferred and 100% of the Series B Preferred equity of ARRM. On October 10, 2014, ARRM sold Ajax to a third party and repaid the \$19,337 loan receivable to us and we recorded a realized loss of \$23,560 related to the sale. Concurrent with the sale, 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. In addition, there is \$3,000 being held in escrow which will be recognized as additional gain if and when received.
- Harbortouch Holdings of Delaware Inc. (“Harbortouch Delaware”), an entity in which we own 100% of the common stock, owns 100% of the Class C voting units of Harbortouch Payments, LLC (“Harbortouch”), which provide for a 53.5% residual profits allocation. Harbortouch management owns 100% of the Class B and Class D voting units of Harbortouch, which provide for a 46.5% residual profits allocation. Harbortouch owns 100% of Credit Card Processing USA, LLC. On April 1, 2014, Prospect made a new \$137,226 senior secured term loan to
- (43) Harbortouch. Harbortouch then distributed this amount to Harbortouch Delaware as a return of capital which was used to pay down the \$123,000 senior secured note from Harbortouch Delaware to Prospect. The remaining \$14,226 was distributed to Prospect as a return of capital of Prospect’s equity investment in Harbortouch Delaware. On July 1, 2014, we began consolidating Harbortouch Delaware and as a result, we now report Harbortouch Payments, LLC as a separate controlled company.
- Pegasus Business Intelligence, LP, Paycom Acquisition, LLC, and Paycom Acquisition Corp. are joint borrowers
- (44) on the senior secured loan facility. Paycom Intermediate Holdings, Inc. is the parent guarantor of this debt investment. These entities transact business internationally under the trade name Onyx Payments.
- (45) Security Alarm Financing Enterprises, L.P. and California Security Alarms, Inc. are joint borrowers on the senior subordinated note.
- A portion of the senior secured note is denominated in Canadian Dollars (CAD). As of June 30, 2014 and
- (46) March 31, 2015, the principal balance of this note was CAD 37,422 and CAD 37,044, respectively. In accordance with ASC 830, this note was remeasured into our functional currency, US Dollars (USD), and is presented on our Consolidated Schedules of Investments in USD.

See notes to consolidated financial statements.

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

Endnote Explanations as of December 31, 2014 (Unaudited) and June 30, 2014 (Audited) (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 nine months ended March 31, 2015 with these controlled investments were as follows:

Portfolio Company	Purchases*	Redemptions*	Sales	Interest income	Dividend income	Other income	Net realized gains (losses)	Net unrealized gains (losses)
Airmall Inc.	\$—	\$(47,580)	\$(9,920)	\$576	\$—	\$3,000	\$(2,808)	)\$12,216
American Property REIT Corp.	(75,810)	** (8)	—	12,205	—	1,078	—	8,669
Appalachian Energy LLC	—	(2,050)	—	—	—	—	(2,050)	)2,050
Arctic Energy Services, LLC	—	—	—	5,045	—	—	—	802
ARRM Services, Inc.	—	(19,337)	(27,213)	956	—	2,000	(23,560)	)21,014
Borga, Inc.	—	—	(2,589)	—	—	—	(2,589)	)2,741
BXC Company, Inc.	250	(750)	(16,949)	—	—	5	(16,949)	)15,333
CCPI Inc.	—	(338)	—	2,495	—	—	—	4,198
Change Clean Energy Company, LLC	—	—	—	—	—	—	—	—
Coalbed, LLC	—	—	—	—	—	—	—	—
CP Energy Services Inc.	—	—	—	12,273	—	—	—	(29,555)
Credit Central Loan Company, LLC	—	(141)	—	5,538	159	608	—	3,147
Echelon Aviation LLC	5,800	(37,313)	(400)	5,451	—	—	—	8,226
First Tower Finance Company LLC	—	1,929	—	38,921	1,929	—	—	30,277
Freedom Marine Solutions, LLC	—	—	—	3,349	—	—	—	(2,917)
Gulf Coast Machine & Supply Company	5,500	—	—	1,370	—	—	—	(11,760)
Harbortouch Payments, LLC	27,723	(3,595)	—	22,092	—	579	—	18,013
Manx Energy, Inc.	—	(50)	—	—	—	—	(50)	)50
MITY, Inc.	2,500	(2,500)	—	4,360	—	—	(3)	)5,709
National Property REIT Corp.	274,919	** (36,942)	—	18,068	—	1,426	—	24,217
Nationwide Acceptance LLC	938	—	—	2,256	2,444	—	—	1,613
NMMB, Inc.	383	—	—	1,142	—	—	—	2,398
R-V Industries, Inc.	—	—	—	2,281	224	—	—	(15,995)
United Property REIT Corp.	46,311	** (376)	—	4,134	—	1,656	—	11,327
	—	—	—	3,718	—	—	—	(2,900)

Valley Electric Company, Inc.									
Vets Securing America, Inc.***	—	—	—	—	—	—	685	—	
Wolf Energy, LLC	—	(5,991)	)—	—	—	—	(5,818)	)4,173	
Yatesville Coal Company, LLC	—	(1,449)	)—	—	—	—	(1,449)	)1,449	
Total	\$288,514	\$(156,491)	)\$(57,071)	\$146,230	\$4,756	\$10,352	\$(54,591)	)\$114,495	

As defined in the 1940 Act, we are deemed to be an “Affiliated company” of these portfolio companies because we (48) own more than 5% of the portfolio company’s outstanding voting securities. Transactions during the nine months ended March 31, 2015 with these affiliated investments were as follows:

Portfolio Company	Purchases*	Redemptions*	Sales	Interest income	Dividend income	Other income	Net realized gains (losses)	Net unrealized gains (losses)
BNN Holdings Corp.	\$44,000	\$(30,459)	)\$—	\$2,814	\$778	\$226	\$—	\$611
Total	\$44,000	\$(30,459)	)\$—	\$2,814	\$778	\$226	\$—	\$611

\* Purchase amounts do not include payment-in-kind interest. Redemption amounts include impairments. Redemption amounts do not include the cost basis adjustments resulting from consolidation on July 1, 2014.

\*\* These amounts include the cost basis of investments transferred from APRC and UPRC to NPRC. (See Note 3 for details.)

\*\*\* During the nine months ended March 31, 2015, THS ceased operations. As of March 31, 2015, the VSA management team is supervising both the continued operations of VSA and the wind-down of activities at THS.

See notes to consolidated financial statements.

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

Endnote Explanations as of December 31, 2014 (Unaudited) and June 30, 2014 (Audited) (Continued)

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, 2014 with these controlled investments were as follows:

Portfolio Company	Purchases*	Redemptions*	Sales	Interest income	Dividend income	Other income	Net realized gains (losses)	Net unrealized gains (losses)
AMU Holdings Inc.	\$7,600	\$(593 )	\$(972)	\$6,579	\$12,000	\$—	\$—	\$(15,694 )
APH Property Holdings, LLC	163,747	(118,186 )**	—	18,788	—	5,946	—	3,393
Arctic Oilfield Equipment USA, Inc.	60,876	—	—	1,050	—	1,713	—	238
ARRM Services, Inc.	25,000	(24,251 )	—	(733 )	—	148	—	(14,957 )
BXC Company, Inc. (f/k/a BXC Holding Company)***	300	—	—	—	—	—	—	(3,796 )
CCPI Holdings Inc.	—	(450 )	—	3,312	500	71	—	(1,443 )
CP Holdings of Delaware LLC	113,501	—	—	13,858	—	1,864	—	16,618
Credit Central Holdings of Delaware, LLC	2,500	(159 )	—	7,845	4,841	521	—	(2,371 )
Echelon Aviation LLC	92,628	—	—	2,809	—	2,771	—	—
Energy Solutions Holdings Inc.	16,000	(8,525 )	—	8,245	—	2,480	—	(2,168 )
First Tower Holdings of Delaware LLC	10,000	—	—	54,320	—	10,560	—	17,003
Gulf Coast Machine & Supply Company	28,450	(26,213 )	—	1,449	—	—	—	(777 )
Harbortouch Holdings of Delaware Inc.	278,694	—	—	6,879	—	7,536	—	12,620
The Healing Staff, Inc.	—	—	—	—	—	5,825	—	—
Manx Energy, Inc.	—	(450 )	—	—	—	—	—	104
MITY Holdings of Delaware Inc.	47,985	—	—	4,693	—	1,049	—	1,127
Nationwide Acceptance Holdings LLC	4,000	—	—	4,429	5,000	1,854	—	772
NMMB Holdings, Inc.	8,086	(8,086 )	—	2,051	—	—	—	(6,852 )
NPH Property Holdings, LLC	40,425	85,724 **	—	5,973	—	1,029	—	(2,088 )
R-V Industries, Inc.	—	(2,339 )	—	3,188	1,100	—	—	2,005
STI Holding, Inc.	—	(125 )	—	—	3,246	—	—	(25 )
UPH Property Holdings, LLC	1,405	22,562 **	—	1,101	—	156	—	426
	—	(200 )	—	7,471	—	148	—	(23,304 )

Valley Electric Holdings I,  
Inc.

Wolf Energy Holdings Inc.	—	—	—	—	—	—	—	(1,350 )
Total	\$901,197	\$(81,291 )	\$(972)	\$153,307	\$26,687	\$43,671	\$—	\$(20,519 )

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, 2014 with these affiliated investments were as follows:

Portfolio Company	Purchases*	Redemptions*	Sales	Interest income	Dividend income	Other income	Net realized gains (losses)	Net unrealized gains (losses)
BNN Holdings Corp.	\$—	\$(600 )	\$—	\$2,974	\$—	\$—	\$—	\$(194 )
BXC Holding Company***	—	(100 )	—	1,384	—	17	—	(4,163 )
Smart, LLC	—	—	—	—	—	—	—	(143 )
Total	\$—	\$(700 )	\$—	\$4,358	\$—	\$17	\$—	\$(4,500 )

\* Purchase amounts do not include payment-in-kind interest. Redemption amounts include impairments.

\*\* These amounts include the cost basis of investments transferred from APH to NPH and UPH.

\*\*\* During the year ended June 30, 2014, we acquired control of BXC Company, Inc. (f/k/a BXC Holding Company).

As such, this investment was a controlled investment for part of the year and an affiliated investment for part of the year. See Note 14 for further discussion of this transaction.

See notes to consolidated financial statements.

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

Note 1. Organization

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

We were organized on April 13, 2004 and were funded in an initial public offering completed on July 27, 2004. 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 invest primarily in senior and subordinated debt and equity of companies in need of capital for acquisitions, divestitures, growth, development, recapitalizations and other purposes.

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”) and Direct Capital Corporation (“Direct Capital”). 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.

Effective July 1, 2014, we began consolidating certain of our wholly-owned and substantially wholly-owned holding companies formed by us in order to facilitate our investment strategy. The following companies have been included in our consolidated financial statements since July 1, 2014: AMU Holdings Inc.; APH Property Holdings, LLC; 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; STI Holding, Inc.; UPH Property Holdings, LLC; Valley Electric Holdings I, Inc.; Valley Electric Holdings II, Inc.; and Wolf Energy Holdings Inc. 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. We collectively refer to these entities as the “Consolidated Holding Companies.”

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.

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 our portfolio companies and any other parameters

used in determining these estimates could cause actual results to differ, and these differences could be material.

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#### Cash and Cash Equivalents

Cash and cash equivalents include funds deposited with financial institutions and short-term, highly-liquid overnight investments in money market funds. Cash and cash equivalents are carried at cost which approximates fair value.

#### 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.

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. 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. Specifically, we record all security transactions on a trade date basis. Amounts for investments recognized or derecognized but not yet settled are reported as receivables for investments sold and payables for investments purchased, respectively, in the Consolidated Statements of Assets and Liabilities.

#### 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 the security less likely to be an income producing instrument.

##### Investment Valuation

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

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

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

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

Level 3: Unobservable inputs for the asset or liability.

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

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

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

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

1. Each portfolio company or investment is reviewed by our investment professionals with independent valuation firms engaged by our Board of Directors.
2. The independent valuation firms conduct independent valuations and make their own independent assessments.
3. The Audit Committee of our Board of Directors reviews and discusses the preliminary valuation of Prospect Capital Management L.P. (the "Investment Adviser") and that of the independent valuation firms.

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 analysis, enterprise value ("EV") analysis, net asset value analysis, liquidation analysis, discounted cash flow analysis, or a combination of methods, as appropriate. The yield analysis uses loan spreads and other relevant information implied by market data involving identical or comparable assets or liabilities. Under the EV analysis, 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 approach that considers relevant and applicable market trading data of guideline public companies, transaction metrics from precedent M&A transactions and/or a discounted cash flow analysis. The net asset value analysis 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 analysis 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 analysis uses valuation techniques to convert 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 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 fair value pricing 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 ASC 820 Level 3 securities and are valued using a discounted cash flow model. The valuations have been 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. For each CLO security, the most appropriate valuation approach has been chosen from alternative approaches to ensure the most accurate valuation for such security. To value a CLO, both the assets and the liabilities of the CLO capital structure are modeled. We use a waterfall engine to store the collateral data, generate collateral cash flows from the assets based on various assumptions for the risk factors, distribute the cash flows to the liability structure based on the payment



priorities, and discount them back using current market discount rates. The main risk factors are: default risk, interest rate risk, downgrade risk, and credit spread risk.

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#### 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 further discussion of our financial liabilities that are measured using another measurement attribute.

#### Convertible Notes

We have recorded the Convertible Notes at their contractual amounts. The Convertible Notes were analyzed for any features that would require bifurcation and such features were determined to be immaterial. 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.

Origination, closing and/or commitment fees associated with investments in portfolio companies are accreted into interest income over the respective terms of the applicable loans. Accretion of such purchase discounts or amortization of premiums is calculated by the effective interest method as of the purchase date and adjusted only for material amendments or prepayments. Upon the prepayment of a loan or debt security, any prepayment penalties and unamortized loan origination, closing and commitment fees are recorded as interest income. The purchase discount for portfolio investments acquired from Patriot Capital Funding, Inc. ("Patriot") was determined based on the difference between par value and fair value as of December 2, 2009, and continued to accrete until maturity or repayment of the respective loans. As of December 31, 2013, the purchase discount for the assets acquired from Patriot had been fully accreted. See Note 3 for further discussion.

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 may be recognized as income or applied to principal depending upon management's judgment.

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. As of March 31, 2015, approximately 0.5% of our total assets are in non-accrual status.

Interest income from investments in the "equity" class of security of CLO funds (typically income notes or subordinated notes) 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 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.

Structuring fees and similar fees are recognized as income as earned, usually when paid. Structuring fees, 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 regulated investment company 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 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. For the calendar year ended December 31, 2014, we did not incur

an excise tax expense because our distributions exceeded our annual taxable income. As of March 31, 2015, we had a deposit with the IRS of \$1,218 for excise taxes as we had made excise tax payments in excess of our expected excise tax liability through March 31, 2015.

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If we fail to satisfy the annual distribution requirement or otherwise fail to qualify as a RIC in any taxable year, we would be subject to tax on all of our taxable income at regular corporate rates. We would not be able to deduct distributions to stockholders, nor would we be required to make distributions. Distributions would generally be taxable to our individual and other non-corporate taxable stockholders as ordinary dividend income eligible for the reduced maximum rate applicable to qualified dividend income to the extent of our current and accumulated earnings and profits, provided certain holding period and other requirements are met. Subject to certain limitations under the Code, corporate 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 reduced by an interest charge of 50% of such earnings and profits payable by us as an additional tax. In addition, if we failed to qualify as a RIC for a period greater than two taxable years, then, in order to qualify as a RIC in a subsequent year, we would be required to elect to recognize and pay tax on any net built-in gain (the excess of aggregate gain, including items of income, over aggregate loss that would have been realized if we had been liquidated) or, alternatively, be subject to taxation on such built-in gain recognized for a period of ten years. We follow ASC 740, Income Taxes (“ASC 740”). ASC 740 provides guidance for how uncertain tax positions should be recognized, measured, presented, and disclosed in the consolidated financial statements. ASC 740 requires the evaluation of tax positions taken or expected to be taken in the course of preparing our tax returns to determine whether the tax positions are “more-likely-than-not” of being sustained by the applicable tax authority. Tax positions not deemed to meet the more-likely-than-not threshold are recorded as a tax benefit or expense in the current year. As of March 31, 2015 and for the three and nine months then ended, we did not have a liability for any unrecognized tax benefits. 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 tax returns for each of our federal tax years since 2010 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 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 for our Revolving Credit Facility and the effective interest method for our 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.

We record registration expenses related to shelf filings as prepaid assets. These expenses consist principally of SEC registration fees, legal fees and accounting fees incurred. These prepaid assets are charged to capital upon the receipt of proceeds from an equity offering or charged to expense if no offering is completed.

#### 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 August 2014, the FASB issued Accounting Standards Update 2014-15, Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern ("ASU 2014-15"). ASU 2014-15 will explicitly require management to assess an entity's ability to continue as a going concern, and to provide related footnote disclosure in certain circumstances. ASU 2014-15 is effective for annual and interim periods ending after December 15, 2016. Early application is permitted. The adoption of the amended guidance in ASU 2014-15 is not expected to have a significant effect on our consolidated financial statements and disclosures.

In January 2015, the FASB issued Accounting Standards Update 2015-01, Simplifying Income Statement Presentation by Eliminating the Concept of Extraordinary Items ("ASU 2015-01"). ASU 2015-01 simplifies income statement presentation by eliminating the need to determine whether to classify an item as an extraordinary item. ASU 2015-01 is effective for annual and interim periods beginning after December 15, 2015. Early adoption is permitted; however, adoption must occur at the beginning of an annual period. The adoption of the amended guidance in ASU 2015-01 is not expected to have a significant effect on our consolidated financial statements and disclosures.

In February 2015, the FASB issued Accounting Standards Update 2015-02, Amendments to the Consolidation Analysis ("ASU 2015-02"). ASU 2015-02 eliminates the deferral of FAS 167, which allowed reporting entities with interests in certain investment funds to follow the previous consolidation guidance in FIN 46(R), and makes other changes to both the variable interest model and the voting model. ASU 2015-02 is effective for annual and interim periods beginning after December 15, 2015. Early adoption is permitted, including adoption in an interim period. A reporting entity may apply the amendments using a modified retrospective approach by recording a cumulative-effect adjustment to equity as of the beginning of the period of adoption or may apply the amendments retrospectively. We are currently evaluating the effect the adoption of the amended guidance in ASU 2015-02 may have on our consolidated financial statements and disclosures.

In April 2015, the FASB issued Accounting Standards Update 2015-03, Simplifying the Presentation of Debt Issuance Costs ("ASU 2015-03"). ASU 2015-03 requires debt issuance costs related to a recognized debt liability to be presented in the balance sheet as a direct deduction from the debt liability rather than as an asset. The new guidance will make the presentation of debt issuance costs consistent with the presentation of debt discounts or premiums. ASU 2015-03 is effective for financial statements issued for fiscal years beginning after December 15, 2015, and interim periods within those fiscal years. Early adoption is permitted for financial statements that have not been previously issued. The new guidance must be applied on a retrospective basis to all prior periods presented in the financial statements. The adoption of the amended guidance in ASU 2015-03 is not expected to have a significant effect on our consolidated financial statements and disclosures.

### Note 3. Portfolio Investments

At March 31, 2015, we had investments in 132 long-term portfolio investments, which had an amortized cost of \$6,590,026 and a fair value of \$6,602,771. At June 30, 2014, we had investments in 142 long-term portfolio investments, which had an amortized cost of \$6,371,522 and a fair value of \$6,253,739.

The original cost basis of debt placements and equity securities acquired, including follow-on investments for existing portfolio companies, totaled \$1,629,021 and \$2,508,252 during the nine months ended March 31, 2015 and March 31, 2014, respectively. Debt repayments and proceeds from sales of equity securities of approximately \$1,195,344 and \$617,352 were received during the nine months ended March 31, 2015 and March 31, 2014, respectively.

The following table shows the composition of our investment portfolio as of March 31, 2015 and June 30, 2014.

	March 31, 2015		June 30, 2014	
	Cost	Fair Value	Cost	Fair Value
Revolving Line of Credit	\$11,850	\$11,850	\$3,445	\$2,786
Senior Secured Debt	3,718,150	3,657,943	3,578,339	3,514,198
Subordinated Secured Debt	1,320,511	1,283,682	1,272,275	1,200,221
Subordinated Unsecured Debt	94,353	94,353	85,531	85,531
Small Business Loans	40,320	38,290	4,637	4,252
CLO Debt	28,485	32,958	28,118	33,199
CLO Residual Interest	1,019,332	1,061,992	1,044,656	1,093,985
Equity	357,025	421,703	354,521	319,567

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Total Investments	\$6,590,026	\$6,602,771	\$6,371,522	\$6,253,739
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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:

• 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 small business whole loans purchased from OnDeck and Direct Capital.

• CLO Debt includes our investments in the “debt” class of security of CLO funds.

• CLO Residual Interest includes our investments in the “equity” class of security of CLO funds such as income notes, preference shares, and subordinated notes.

Equity 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, unless specifically stated otherwise.

The following table shows the fair value of our investments disaggregated into the three levels of the ASC 820 valuation hierarchy as of March 31, 2015.

	Level 1	Level 2	Level 3	Total
Revolving Line of Credit	\$—	\$—	\$11,850	\$11,850
Senior Secured Debt	—	—	3,657,943	3,657,943
Subordinated Secured Debt	—	—	1,283,682	1,283,682
Subordinated Unsecured Debt	—	—	94,353	94,353
Small Business Loans	—	—	38,290	38,290
CLO Debt	—	—	32,958	32,958
CLO Residual Interest	—	—	1,061,992	1,061,992
Equity	150	—	421,553	421,703
Total Investments	\$150	\$—	\$6,602,621	\$6,602,771

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, 2014.

	Level 1	Level 2	Level 3	Total
Revolving Line of Credit	\$—	\$—	\$2,786	\$2,786
Senior Secured Debt	—	—	3,514,198	3,514,198
Subordinated Secured Debt	—	—	1,200,221	1,200,221
Subordinated Unsecured Debt	—	—	85,531	85,531
Small Business Loans	—	—	4,252	4,252
CLO Debt	—	—	33,199	33,199
CLO Residual Interest	—	—	1,093,985	1,093,985
Equity	168	—	319,399	319,567
Total Investments	\$168	\$—	\$6,253,571	\$6,253,739



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The following tables show the aggregate changes in the fair value of our Level 3 investments during the nine months ended March 31, 2015.

	Fair Value Measurements Using Unobservable Inputs (Level 3)								
	Control Investments	Affiliate Investments	Non-Control/Non-Affiliate Investments	Total					
Fair value as of June 30, 2014	\$ 1,640,454	\$ 32,121	\$ 4,580,996	\$ 6,253,571					
Net realized losses on investments	(54,591 )	—	(96,385 )	(150,976 )					
Net change in unrealized appreciation	114,495	611	15,440	130,546					
Net realized and unrealized gains (losses)	59,904	611	(80,945 )	(20,430 )					
Purchases of portfolio investments	288,514	44,000	1,280,022	1,612,536					
Payment-in-kind interest	11,224	—	5,261	16,485					
Amortization of discounts and premiums	—	—	(64,200 )	(64,200 )					
Repayments and sales of portfolio investments	(171,885 )	(30,459 )	(992,997 )	(1,195,341 )					
Transfers within Level 3(1)	—	—	—	—					
Transfers in (out) of Level 3(1)	—	—	—	—					
Fair value as of March 31, 2015	\$ 1,828,211	\$ 46,273	\$ 4,728,137	\$ 6,602,621					
	Revolving Line of Credit	Senior Secured Debt	Subordinated Secured Debt	Subordinated Unsecured Debt	Small Business Loans	CLO Debt	CLO Residual Interest	Equity	Total
Fair value as of June 30, 2014	\$2,786	\$3,514,198	\$1,200,221	\$85,531	\$4,252	\$33,199	\$1,093,985	\$319,399	\$6,253,571
Net realized losses on investments	(1,094 )	(33,874 )	(75,164 )	(4 )	(708 )	—	(15,562 )	(24,570 )	(150,976 )
Net change in unrealized appreciation (depreciation)	659	3,934	35,223	—	(1,644 )	(608 )	(6,667 )	99,649	130,546
Net realized and unrealized (losses) gains	(435 )	(29,940 )	(39,941 )	(4 )	(2,352 )	(608 )	(22,229 )	75,079	(20,430 )
Purchases of portfolio investments	39,500	1,065,797	237,830	6,593	63,887	—	141,167	57,762	1,612,536
Payment-in-kind interest	—	14,176	686	1,623	—	—	—	—	16,485
Accretion (amortization) of discounts and premiums	—	206	1,084	—	—	367	(65,857 )	—	(64,200 )
Repayments and sales of portfolio investments	(30,001 )	(906,494 )	(116,198 )	610	(27,497 )	—	(85,074 )	(30,687 )	(1,195,341 )
Transfers within Level 3(1)	—	—	—	—	—	—	—	—	—
Transfers in (out) of Level 3(1)	—	—	—	—	—	—	—	—	—

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Fair value as of									
March 31, 2015	\$11,850	\$3,657,943	\$1,283,682	\$94,353	\$38,290	\$32,958	\$1,061,992	\$421,553	\$6,602,621

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

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The following tables show the aggregate changes in the fair value of our Level 3 investments during the nine months ended March 31, 2014.

	Fair Value Measurements Using Unobservable Inputs (Level 3)								
	Control Investments	Affiliate Investments	Non-Control/Non-Affiliate Investments	Total					
Fair value as of June 30, 2013	\$ 811,634	\$ 42,443	\$ 3,318,663	\$ 4,172,740					
Net realized losses on investments	—	—	(3,482)	(3,482)					
Net change in unrealized (depreciation) appreciation	(37,881)	(4,972)	20,565	(22,288)					
Net realized and unrealized (losses) gains	(37,881)	(4,972)	17,083	(25,770)					
Purchases of portfolio investments	825,898	—	1,669,311	2,495,209					
Payment-in-kind interest	8,605	90	4,348	13,043					
Accretion (amortization) of discounts and premiums	—	399	(32,236)	(31,837)					
Repayments and sales of portfolio investments	(67,651)	(550)	(549,151)	(617,352)					
Transfers within Level 3(1)	18,609	(5,611)	(12,998)	—					
Transfers in (out) of Level 3(1)	—	—	—	—					
Fair value as of March 31, 2014	\$ 1,559,214	\$ 31,799	\$ 4,415,020	\$ 6,006,033					
	Revolving Line of Credit	Senior Secured Debt	Subordinated Secured Debt	Subordinated Unsecured Debt	Small Business Loans	CLO Debt	CLO Residual Interest	Equity	Total
Fair value as of June 30, 2013	\$8,729	\$2,207,091	\$1,024,901	\$88,827	\$—	\$28,589	\$658,086	\$156,517	\$4,172,740
Net realized (losses) gains on investments	—	(1,494)	(7,558)	—	—	—	1,184	4,386	(3,482)
Net change in unrealized (depreciation) appreciation	(83)	(13,072)	(255)	(292)	(104)	4,630	47,721	(60,833)	(22,288)
Net realized and unrealized (losses) gains	(83)	(14,566)	(7,813)	(292)	(104)	4,630	48,905	(56,447)	(25,770)
Purchases of portfolio investments	14,850	1,853,544	207,857	—	3,654	—	261,212	154,092	2,495,209
Payment-in-kind interest	—	10,077	2,630	336	—	—	—	—	13,043
Accretion (amortization) of discounts and premiums	—	613	1,237	8	—	335	(34,030)	—	(31,837)
Repayments and sales of portfolio investments	(20,643)	(336,913)	(174,992)	(58,879)	(250)	—	(21,071)	(4,604)	(617,352)
Transfers within Level 3(1)	—	—	(70,000)	70,000	—	—	—	—	—
Transfers in (out) of Level 3(1)	—	—	—	—	—	—	—	—	—

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Fair value as of	\$2,853	\$3,719,846	\$983,820	\$100,000	\$3,300	\$33,554	\$913,102	\$249,558	\$6,006,033
March 31, 2014									

(1) Transfers are assumed to have occurred at the beginning of the quarter during which the asset was transferred. For the nine months ended March 31, 2015 and March 31, 2014, the net change in unrealized appreciation (depreciation) on the investments that use Level 3 inputs was \$42,583 and \$(44,969) for investments still held as of March 31, 2015 and March 31, 2014, respectively.

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The ranges of unobservable inputs used in the fair value measurement of our Level 3 investments as of March 31, 2015 were as follows:

Asset Category	Fair Value	Primary Valuation Technique	Unobservable Input		Weighted Average
			Input	Range	
Senior Secured Debt	\$2,566,807	Yield Analysis	Market Yield	6.2%-21.0%	10.8%
Senior Secured Debt	536,146	EV Analysis	EBITDA Multiple	3.1x-9.5x	7.2x
Senior Secured Debt(1)	79,462	EV Analysis	Loss-Adjusted Discount Rate	4.5%-12.6%	7.4%
Senior Secured Debt(2)	47,050	EV Analysis	Loss-Adjusted Discount Rate	10.5%-14.7%	11.1%
Senior Secured Debt	40,808	EV Analysis	Discount Rate	7.0%-9.0%	8.0%
Senior Secured Debt	27,341	EV Analysis	Appraisal	N/A	N/A
Senior Secured Debt	24,913	EV Analysis	Sum of the Parts	N/A	N/A
Senior Secured Debt	9,958	Liquidation Analysis	N/A	N/A	N/A
Senior Secured Debt	337,308	Net Asset Value Analysis	Capitalization Rate	2.5%-9.7%	6.2%
Subordinated Secured Debt	915,428	Yield Analysis	Market Yield	8.1%-21.0%	12.1%
Subordinated Secured Debt	353,434	EV Analysis	EBITDA Multiple	3.1x-8.7x	7.6x
Subordinated Secured Debt	14,820	EV Analysis	Book Value Multiple	1.2x-1.4x	1.3x
Subordinated Unsecured Debt	87,153	Yield Analysis	Market Yield	6.2%-12.4%	10.8%
Subordinated Unsecured Debt	7,200	EV Analysis	EBITDA Multiple	5.6x-6.5x	6.0x
Small Business Loans(3)	658	Discounted Cash Flow	Loss-Adjusted Discount Rate	17.3%-27.2%	24.8%
Small Business Loans(4)	37,632	Discounted Cash Flow	Loss-Adjusted Discount Rate	20.0%-29.6%	22.6%
CLO Debt	32,958	Discounted Cash Flow	Discount Rate	5.8%-7.7%	6.8%
CLO Residual Interest	1,061,992	Discounted Cash Flow	Discount Rate	10.9%-18.5%	13.5%
Equity	212,119	EV Analysis	EBITDA Multiple	2.0x-9.5x	7.7x
Equity	15,304	EV Analysis	Book Value Multiple	1.2x-1.4x	1.3x
Equity	1,260	EV Analysis	Appraisal	N/A	N/A
Equity	3,130	Yield Analysis	Market Yield	17.6%-21.8%	19.7%
Equity	109,684	Net Asset Value Analysis	Capitalization Rate	2.5%-9.7%	6.2%
Equity	28,133	Discounted Cash Flow	Discount Rate	7.2%-8.0%	7.6%
Participating Interest(5)	46,174	Yield Analysis	Market Yield	10.0%-18.0%	11.1%
Participating Interest(5)	22	Liquidation Analysis	N/A	N/A	N/A
Escrow Receivable	5,727	Discounted Cash Flow	Discount Rate	6.8%-7.9%	7.4%
Total Level 3 Investments	\$6,602,621				

EV analysis is based on the fair value of our investments in consumer loans purchased from Prosper, which are valued using a discounted cash flow valuation technique. The key unobservable input to the discounted cash flow analysis is noted above. In addition, the valuation also used projected loss rates as an unobservable input ranging from 0.7%-27.0%, with a weighted average of 8.1%.

(2)

EV analysis is based on the fair value of our investments in consumer loans purchased from Lending Club, which are valued using a discounted cash flow valuation technique. The key unobservable input to the discounted cash flow analysis is noted above. In addition, the valuation also used projected loss rates as an unobservable input ranging from 15.4%-24.3%, with a weighted average of 18.1%.

- (3) Includes our investments in small business whole loans purchased from Direct Capital. Valuation also used projected loss rates as an unobservable input ranging from 0.3%-60.0%, with a weighted average of 19.6%.
- (4) Includes our investments in small business whole loans purchased from OnDeck. Valuation also used projected loss rates as an unobservable input ranging from 7.7%-9.5%, with a weighted average of 8.6%.
- (5) Participating Interest includes our participating equity investments, such as net profits interests, net operating income interests, net revenue interests, and overriding royalty interests.

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The ranges of unobservable inputs used in the fair value measurement of our Level 3 investments as of June 30, 2014 were as follows:

Asset Category	Fair Value	Primary Valuation Technique	Unobservable Input		Weighted Average
			Input	Range	
Senior Secured Debt	\$2,550,073	Yield Analysis	Market Yield	5.5%-20.3%	11.1%
Senior Secured Debt	560,485	EV Analysis	EBITDA Multiple	3.5x-9.0x	7.1x
Senior Secured Debt	110,525	EV Analysis	Other	N/A	N/A
Senior Secured Debt	3,822	Liquidation Analysis	N/A	N/A	N/A
Senior Secured Debt	292,079	Net Asset Value Analysis	Capitalization Rate	4.5%-10.0%	7.4%
Subordinated Secured Debt	832,181	Yield Analysis	Market Yield	8.7%-14.7%	10.9%
Subordinated Secured Debt	353,220	EV Analysis	EBITDA Multiple	4.5x-8.2x	6.2x
Subordinated Secured Debt	14,820	EV Analysis	Book Value Multiple	1.2x-1.4x	1.3x
Subordinated Unsecured Debt	85,531	Yield Analysis	Market Yield	7.4%-14.4%	12.1%
Small Business Loans	4,252	Yield Analysis	Market Yield	75.5%-79.5%	77.5%
CLO Debt	33,199	Discounted Cash Flow	Discount Rate	4.2%-5.8%	4.9%
CLO Residual Interest	1,093,985	Discounted Cash Flow	Discount Rate	10.4%-23.7%	16.8%
Equity	222,059	EV Analysis	EBITDA Multiple	2.0x-15.3x	5.3x
Equity	15,103	EV Analysis	Book Value Multiple	1.2x-1.4x	1.3x
Equity	3,171	Yield Analysis	Market Yield	13.7%-16.5%	15.1%
Equity	63,157	Net Asset Value Analysis	Capitalization Rate	4.5%-10.0%	7.4%
Equity	14,107	Discounted Cash Flow	Discount Rate	8.0%-10.0%	9.0%
Participating Interest(1)	213	Liquidation Analysis	N/A	N/A	N/A
Escrow Receivable	1,589	Discounted Cash Flow	Discount Rate	6.6%-7.8%	7.2%
Total Level 3 Investments	\$6,253,571				

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

In determining the range of value for debt instruments except CLOs, management and the independent valuation firm generally estimated corporate and security credit ratings and identified corresponding yields to maturity for each loan from relevant market data. A discounted cash flow analysis was then prepared using the appropriate yield to maturity as the discount rate, to determine range of value. For non-traded equity investments, the enterprise value was determined by applying earnings before income tax, depreciation and amortization (“EBITDA”) multiples or book value multiples for similar guideline public companies and/or similar recent investment transactions. For stressed equity investments, a liquidation analysis was prepared. For the private REIT investments, enterprise values were determined based on an average of results from a net asset value analysis of the underlying property investments and a dividend yield analysis utilizing capitalization rates and dividend yields, respectively, for similar guideline companies and/or similar recent investment transactions.

In determining the range of value for our investments in CLOs, management and the independent valuation firm used a discounted 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. For each CLO security, the most appropriate valuation approach was chosen from alternative approaches to ensure the most

accurate valuation for such security. A waterfall engine was used to store the collateral data, generate collateral cash flows from the assets based on various assumptions for the risk factors, distribute the cash flows to the liability structure based on the payment priorities, and discount them back using proper discount rates.

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. Our CLO investments are exposed to leveraged credit risk. If certain minimum collateral value ratios and/or interest coverage ratios are not met by a CLO, primarily due to senior secured loan defaults, then cash flow that otherwise would have been available to pay distributions to us on our CLO investments may instead be used to redeem any senior notes or to purchase additional senior secured loans, until the ratios again exceed the minimum required levels or any senior notes are repaid in full. 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 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.

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The significant unobservable input used to value our investments based on the yield analysis and discounted cash flow analysis 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 firm 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 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 analysis. 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 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 may result in an increase or decrease, respectively, in EV which may increase or decrease the fair value measurement of the debt 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 investments based on the net asset value analysis is the capitalization rate applied to the earnings measure of the underlying property. Increases or decreases in the capitalization rate would result in a decrease or increase, respectively, in the fair value measurement.

Changes in market yields, discount rates, capitalization rates or EBITDA multiples, each in isolation, may change the fair value measurement of certain of our investments. Generally, an increase in market yields, discount rates or capitalization rates, or a decrease in EBITDA 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 nine months ended March 31, 2015, the valuation methodology for American Gilsonite Company ("AGC") changed to incorporate secondary trade data in addition to the yield analysis used in previous periods. As a result of this change, and in recognition of recent company performance and current market conditions, we decreased the fair value of our investment in AGC to \$38,109 as of March 31, 2015, a discount of \$391 from its amortized cost, compared to the \$3,477 unrealized appreciation recorded at June 30, 2014.

During the nine months ended March 31, 2015, the valuation methodology for CCPI Inc. ("CCPI") changed to solely an EV analysis by removing the discounted cash flow used in previous periods. Management adopted this change due to a lack of long-term forecasts for CCPI. As a result of this change, and in recognition of recent company performance and current market conditions, we increased the fair value of our investment in CCPI to \$36,874 as of March 31, 2015, a premium of \$2,755 to its amortized cost, compared to the \$1,443 unrealized depreciation recorded at June 30, 2014.

During the nine months ended March 31, 2015, the valuation methodology for Edmentum, Inc. ("Edmentum") changed to incorporate an EV analysis and weighted broker quotes in addition to the yield analysis used in previous periods.

Management adopted the EV analysis due to a deterioration in operating results and resulting credit impairment. As a result of this change, and in recognition of recent company performance and current market conditions, we decreased the fair value of our investment in Edmentum to \$25,329 as of March 31, 2015, a discount of \$23,294 from its amortized cost, compared to the \$1,561 unrealized appreciation recorded at June 30, 2014.

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During the nine months ended March 31, 2015, the valuation methodology for Empire Today, LLC (“Empire Today”) changed to incorporate secondary trade data in addition to the yield analysis used in previous periods. As a result of this change, and in recognition of recent company performance and current market conditions, we decreased the fair value of our investment in Empire Today to \$13,491 as of March 31, 2015, a discount of \$2,001 from its amortized cost, compared to the \$281 unrealized appreciation recorded at June 30, 2014.

During the nine months ended March 31, 2015, the valuation methodology for Gulf Coast Machine & Supply Company (“Gulf Coast”) changed to a liquidation analysis in place of the EV analysis used in previous periods. Management adopted the liquidation analysis due to a deterioration in operating results, resulting credit impairment, and the unavailability of revised budget figures. As a result of this change, and in recognition of recent company performance and current market conditions, we decreased the fair value of our investment in Gulf Coast to \$8,199 as of March 31, 2015, a discount of \$40,751 from its amortized cost, compared to the \$28,991 unrealized depreciation recorded at June 30, 2014.

During the nine months ended March 31, 2015, the valuation methodology for Ikaria, Inc. (“Ikaria”) changed to incorporate weighted broker quotes and the expected proceeds from a pending transaction in addition to the yield analysis used in previous periods. As a result of this change, and in recognition of the sale value evidenced by a pending transaction, we decreased the fair value of our investment in Ikaria to \$20,008 as of March 31, 2015, a premium of \$538 to its amortized cost, compared to the \$570 unrealized appreciation recorded at June 30, 2014.

During the nine months ended March 31, 2015, the valuation methodology for Prince Mineral Holding Corp. (“Prince”) changed to incorporate secondary trade data in addition to the yield analysis used in previous periods. As a result of this change, and in recognition of recent company performance and current market conditions, we decreased the fair value of our investment in Prince to \$9,700 as of March 31, 2015, a discount of \$212 from its amortized cost, compared to the \$98 unrealized appreciation recorded at June 30, 2014.

During the nine months ended March 31, 2015, the valuation methodology for Sandow Media, LLC (“Sandow”) changed to solely an EV analysis by removing the yield analysis used in previous periods. Management adopted this change due to Prospect exercising certain equity voting rights during the period. As a result of this change, and in recognition of the pending repayment at 102% of par (see Note 18), we increased the fair value of our investment in Sandow to \$24,913 as of March 31, 2015, a premium of \$488 to its amortized cost, compared to the \$1,557 unrealized depreciation recorded at June 30, 2014.

During the nine months ended March 31, 2015, the valuation methodology for Targus Group International, Inc. (“Targus”) changed to an EV analysis in place of the yield analysis and weighted broker quotes and used in previous periods. Management adopted the EV analysis due to a deterioration in operating results and resulting credit impairment. As a result of this change, and in recognition of recent company performance and current market conditions, we decreased the fair value of our investment in Targus to \$16,722 as of March 31, 2015, a discount of \$4,574 from its amortized cost, compared to the \$1,748 unrealized depreciation recorded at June 30, 2014.

During the nine months ended March 31, 2015, the valuation methodology for United States Environmental Services, LLC (“USES”) changed to incorporate an EV analysis in addition to the yield analysis used in previous periods. Management adopted the EV analysis due to a deterioration in operating results and resulting credit impairment. As a result of this change, and in recognition of recent company performance and current market conditions, we decreased the fair value of our investment in USES to \$48,389 as of March 31, 2015, a discount of \$11,161 from its amortized cost, compared to being valued at cost at June 30, 2014.

During the nine months ended March 31, 2015, we did not provide any additional financing to American Property REIT Corp. (“APRC”) for the acquisition of real estate properties. On November 26, 2014, APRC transferred its investment in one property to National Property REIT Corp. (“NPRC”). As a result, our investment in APRC related to this property also transferred to NPRC. The investment transferred consisted of \$10,237 of equity and \$65,586 of debt. There was no gain or loss realized on the transaction. In addition, during the nine months ended March 31, 2015, we received \$8 as a return of capital on the equity investment in APRC. As of March 31, 2015, our investment in APRC had an amortized cost of \$131,455 and a fair value of \$143,516.

As of March 31, 2015, APRC’s real estate portfolio was comprised of thirteen multi-family properties and one commercial property. The following table shows the location, acquisition date, purchase price, and mortgage outstanding due to other parties for each of the properties held by APRC as of March 31, 2015.

No.	Property Name	City	Acquisition Date	Purchase Price	Mortgage Outstanding
1	1557 Terrell Mill Road, LLC	Marietta, GA	12/28/2012	\$ 23,500	\$ 15,229
2	5100 Live Oaks Blvd, LLC	Tampa, FL	1/17/2013	63,400	39,600
3	Lofton Place, LLC	Tampa, FL	4/30/2013	26,000	16,965
4	Vista Palma Sola, LLC	Bradenton, FL	4/30/2013	27,000	17,550
5	Arlington Park Marietta, LLC	Marietta, GA	5/8/2013	14,850	9,650
6	Cordova Regency, LLC	Pensacola, FL	11/15/2013	13,750	9,026
7	Crestview at Oakleigh, LLC	Pensacola, FL	11/15/2013	17,500	11,488
8	Inverness Lakes, LLC	Mobile, AL	11/15/2013	29,600	19,400
9	Kings Mill Pensacola, LLC	Pensacola, FL	11/15/2013	20,750	13,622
10	Plantations at Pine Lake, LLC	Tallahassee, FL	11/15/2013	18,000	11,817
11	Verandas at Rock Ridge, LLC	Birmingham, AL	11/15/2013	15,600	10,205
12	Plantations at Hillcrest, LLC	Mobile, AL	1/17/2014	6,930	4,993
13	Crestview at Cordova, LLC	Pensacola, FL	1/17/2014	8,500	4,972
14	Taco Bell, OK	Yukon, OK	6/4/2014	1,719	—
				\$ 287,099	\$ 184,517

During the nine months ended March 31, 2015, we provided \$135,075 and \$39,425 of debt and equity financing, respectively, to NPRC to enable certain of its wholly-owned subsidiaries to invest in online consumer loans. In addition, during the nine months ended March 31, 2015, we received partial repayments of \$31,365 of the NPRC loan previously outstanding and \$5,577 as a return of capital on the 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 \$35, with fixed interest rates and fixed terms of either 36 or 60 months. As of March 31, 2015, the investment in online consumer loans by certain of NPRC's wholly-owned subsidiaries had a fair value of \$262,250. The average outstanding individual loan balance is approximately \$9 and the loans mature on dates ranging from October 31, 2016 to March 30, 2020. Fixed interest rates range from 6.0% to 29.0% with a weighted-average current interest rate of 19.4%.

During the nine months ended March 31, 2015, we provided \$11,810 and \$2,061 of debt and equity financing, respectively, to NPRC for the acquisition of real estate properties. During the nine months ended March 31, 2015, APRC and United Property REIT Corp. ("UPRC") transferred their investments in certain properties to NPRC. As a result, our investments in APRC and UPRC related to these properties also transferred to NPRC. The investments transferred consisted of \$11,518 of equity and \$75,030 of debt. There was no gain or loss realized on these transactions. As of March 31, 2015, our investment in NPRC had an amortized cost of \$367,672 and a fair value of \$389,801.

As of March 31, 2015, NPRC's real estate portfolio was comprised of ten multi-family properties and thirteen commercial properties. The following table shows the location, acquisition date, purchase price, and mortgage outstanding due to other parties for each of the properties held by NPRC as of March 31, 2015.

No.	Property Name	City	Acquisition Date	Purchase Price	Mortgage Outstanding
1	146 Forest Parkway, LLC	Forest Park, GA	10/24/2012	\$7,400	\$—
2	NPRC Carroll Resort, LLC	Pembroke Pines, FL	6/24/2013	225,000	157,500
3	APH Carroll 41, LLC	Marietta, GA	11/1/2013	30,600	22,173
4	Matthews Reserve II, LLC	Matthews, NC	11/19/2013	22,063	17,571
5	City West Apartments II, LLC	Orlando, FL	11/19/2013	23,562	18,533
6	Vinings Corner II, LLC	Smyrna, GA	11/19/2013	35,691	26,640
7	Uptown Park Apartments II, LLC	Altamonte Springs, FL	11/19/2013	36,590	27,471
8	Mission Gate II, LLC	Plano, TX	11/19/2013	47,621	36,148
9	St. Marin Apartments II, LLC	Coppell, TX	11/19/2013	73,078	53,863
10	APH Carroll Bartram Park, LLC	Jacksonville, FL	12/31/2013	38,000	28,500
11	APH Carroll Atlantic Beach, LLC	Atlantic Beach, FL	1/31/2014	13,025	8,951
12	23 Mile Road Self Storage, LLC	Chesterfield, MI	8/19/2014	5,804	4,350
13	36th Street Self Storage, LLC	Wyoming, MI	8/19/2014	4,800	3,600
14	Ball Avenue Self Storage, LLC	Grand Rapids, MI	8/19/2014	7,281	5,460
15	Ford Road Self Storage, LLC	Westland, MI	8/29/2014	4,642	3,480
16	Ann Arbor Kalamazoo Self Storage, LLC	Ann Arbor, MI	8/29/2014	4,458	3,345
17	Ann Arbor Kalamazoo Self Storage, LLC	Scio, MI	8/29/2014	8,927	6,695
18	Ann Arbor Kalamazoo Self Storage, LLC	Kalamazoo, MI	8/29/2014	2,363	1,775
19	Jolly Road Self Storage, LLC	Okemos, MI	1/16/2015	7,492	5,620
20	Eaton Rapids Road Self Storage, LLC	Lansing West, MI	1/16/2015	1,741	1,305
21	Haggerty Road Self Storage, LLC	Novi, MI	1/16/2015	6,700	5,025
22	Waldon Road Self Storage, LLC	Lake Orion, MI	1/16/2015	6,965	5,225
23	Tyler Road Self Storage, LLC	Ypsilanti, MI	1/16/2015	3,507	2,630
				\$617,310	\$445,860

During the nine months ended March 31, 2015, we provided \$48,473 and \$8,172 of debt and equity financing, respectively, to UPRC for the acquisition of certain properties. On October 23, 2014, UPRC transferred its investments in certain properties to NPRC. As a result, our investment in UPRC related to these properties also transferred to NPRC. The investments transferred consisted of \$1,281 of equity and \$9,444 of debt. There was no gain or loss realized on these transactions. As of March 31, 2015, our investment in UPRC had an amortized cost of \$70,165 and a fair value of \$81,918.

As of March 31, 2015, UPRC's real estate portfolio was comprised of fifteen multi-families properties and one commercial property. The following table shows the location, acquisition date, purchase price, and mortgage outstanding due to other parties for each of the properties held by UPRC as of March 31, 2015.

No.	Property Name	City	Acquisition Date	Purchase Price	Mortgage Outstanding
1	Atlanta Eastwood Village LLC	Stockbridge, GA	12/12/2013	\$ 25,957	\$ 19,785
2	Atlanta Monterey Village LLC	Jonesboro, GA	12/12/2013	11,501	9,193
3	Atlanta Hidden Creek LLC	Morrow, GA	12/12/2013	5,098	3,619
4	Atlanta Meadow Springs LLC	College Park, GA	12/12/2013	13,116	10,180
5	Atlanta Meadow View LLC	College Park, GA	12/12/2013	14,354	11,141
6	Atlanta Peachtree Landing LLC	Fairburn, GA	12/12/2013	17,224	13,575
7	Taco Bell, MO	Marshall, MO	6/4/2014	1,405	—
8	Canterbury Green Apartments Holdings LLC	Fort Wayne, IN	9/29/2014	85,500	65,825
9	Abbie Lakes OH Partners, LLC	Canal Winchester, OH	9/30/2014	12,600	10,440
10	Kengary Way OH Partners, LLC	Reynoldsburg, OH	9/30/2014	11,500	11,000
11	Lakeview Trail OH Partners, LLC	Canal Winchester, OH	9/30/2014	26,500	20,142
12	Lakepoint OH Partners, LLC	Pickerington, OH	9/30/2014	11,000	10,080
13	Sunbury OH Partners, LLC	Columbus, OH	9/30/2014	13,000	10,480
14	Heatherbridge OH Partners, LLC	Blacklick, OH	9/30/2014	18,416	15,480
15	Jefferson Chase OH Partners, LLC	Blacklick, OH	9/30/2014	13,551	12,240
16	Goldenstrand OH Partners, LLC	Hilliard, OH	10/29/2014	7,810	8,040
				\$ 288,532	\$ 231,220

On January 4, 2012, Energy Solutions Holdings Inc. ("Energy Solutions") sold its gas gathering and processing assets held in Gas Solutions II Ltd. ("Gas Solutions") for a potential sale price of \$199,805, adjusted for the final working capital settlement, including a potential earn-out of \$28,000 that may be paid based on the future performance of Gas Solutions. After expenses, including structuring fees of \$9,966 paid to us, and \$3,152 of third-party expenses, Gas Solutions LP LLC and Gas Solutions GP LLC, subsidiaries of Gas Solutions, received \$157,100 and \$1,587 in cash, respectively, and subsequently distributed these amounts, \$158,687 in total, to Energy Solutions. The sale of Gas Solutions by Energy Solutions resulted in significant earnings and profits, as defined by the Code, at Energy Solutions for calendar year 2012. As a result, 2012 distributions from Energy Solutions to us were required to be recognized as dividend income, in accordance with ASC 946, as there were current year earnings and profits sufficient to support such recognition.

On June 4, 2014, Gas Solutions GP LLC and Gas Solutions LP LLC merged with and into Freedom Marine Solutions, LLC (f/k/a Freedom Marine Services Holdings, LLC) ("Freedom Marine"), another subsidiary of Energy Solutions, with Freedom Marine as the surviving entity. On December 29, 2014, Freedom Marine reached a settlement for and received \$5,174, net of third party obligations, related to the contingent earn-out from the sale of Gas Solutions in January 2012 which was retained by Freedom Marine. This is a final settlement and no further payments are expected from the sale.

On August 6, 2013, we received a distribution of \$4,065 related to our investment in NRG Manufacturing, Inc. ("NRG") for which we realized a gain of \$3,252. This was a partial release of the amount held in escrow. On February 17, 2015, we received a distribution of \$7,140 related to our investment in NRG for which we realized a gain of \$4,647. This was a full release of the amount held in escrow. The \$7,140 distribution received from NRG included \$1,739 as reimbursement for legal, tax and portfolio level accounting services provided directly to NRG for which Prospect received payment on behalf of Prospect Administration (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).

On October 31, 2013, we sold \$18,755 of the National Bankruptcy Services, LLC loan receivable. The loan receivable was sold at a discount and we realized a loss of \$7,853.

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During the nine months ended March 31, 2014, Energy Solutions repaid \$8,500 of our subordinated secured debt to us. In addition to the repayment of principal, we received \$4,812 of make-whole fees for early repayment of the outstanding loan receivables, which was recorded as additional interest income during the nine months ended March 31, 2014.

On November 25, 2013, we provided \$13,000 in senior secured debt financing for the recapitalization of our investment in Freedom Marine. The subordinated secured loan to Jettco Marine Services, LLC, a subsidiary of Freedom Marine, was replaced with a senior secured note to Vessel Company II, LLC (f/k/a Vessel Holdings II, LLC) (“Vessel II”), a new subsidiary of Freedom Marine. On December 3, 2013, we made a \$16,000 senior secured investment in Vessel Company III, LLC (f/k/a Vessel Holdings III, LLC), another new subsidiary of Freedom Marine. Overall the restructuring of our investment in Freedom Marine provided approximately \$16,000 net senior secured debt financing to support the acquisition of two new vessels. We received \$2,480 of structuring fees from Energy Solutions related to the Freedom Marine restructuring which was recognized as other income during the nine months ended March 31, 2014.

During the nine months ended March 31, 2014, we received an \$8,000 fee from First Tower Holdings of Delaware LLC (“First Tower Delaware”) related to the renegotiation and expansion of First Tower’s revolver in December 2013 which was recorded as other income and we provided an additional \$8,500 and \$1,500 of senior secured first-lien and common equity financing, respectively, to First Tower Delaware.

During the nine months ended March 31, 2014, we provided an additional \$7,600 of subordinated secured financing to AMU Holdings Inc. (“AMU”). During the nine months ended March 31, 2014, we received distributions of \$12,000 from AMU which were recorded as dividend income.

On March 31, 2014, we invested \$246,250 in cash and 2,306,294 unregistered shares of our common stock to support the recapitalization of Harbortouch Payments, LLC (f/k/a United Bank Card, Inc. (d/b/a Harbortouch)), a provider of transaction processing services and point-of-sale equipment used by merchants across the United States. We invested \$24,898 of equity and \$123,000 of debt in Harbortouch Holdings of Delaware Inc., the newly-formed holding company, and \$130,796 of debt in Harbortouch Payments, LLC, the operating company (collectively, “Harbortouch”). Through the recapitalization, we acquired a controlling interest in Harbortouch Holdings of Delaware Inc. After the recapitalization, we received repayment of the \$23,894 loan previously outstanding. We received structuring fees of \$7,536 and \$8,544 related to our investment in Harbortouch which were recognized as other income during the three and nine months ended March 31, 2014, respectively.

On March 31, 2014, we provided \$78,521 of debt and \$14,107 of equity financing to Echelon Aviation LLC (“Echelon”), a newly established portfolio company which provides liquidity alternatives on aviation assets. In connection with our investment, we received a structuring fee of \$2,771 from Echelon which was recognized as other income during the three and nine months ended March 31, 2014.

On August 1, 2014, we sold our investments in Airmall Inc. (“Airmall”) for net proceeds of \$51,379 and realized a loss of \$3,473 on the sale. In addition, there is \$6,000 being held in escrow, of which 98% is due to Prospect, which will be recognized as an additional realized loss if it is not received. Included in the net proceeds were \$3,000 of structuring fees from Airmall related to the sale of the operating company which was recognized as other income during the nine months ended March 31, 2015. On October 22, 2014, we received a tax refund of \$665 related to our investment in Airmall for which we realized a gain of the same amount.

On August 20, 2014, we sold the assets of Borga, Inc., a wholly-owned subsidiary of STI Holding, Inc. (“STI”), for net proceeds of \$382 and realized a loss of \$2,589 on the sale. On December 29, 2014, Borga was dissolved.

On August 25, 2014, we sold Boxercraft Incorporated, a wholly-owned subsidiary of BXC Company, Inc. (“BXC”), for net proceeds of \$750 and realized a net loss of \$16,949 on the sale.

On September 15, 2014, Echelon repaid \$37,313 of the \$78,121 loan receivable to us.

On September 30, 2014, we made a \$26,431 follow-on investment in Harbortouch to support an acquisition. As part of the transaction, we received \$529 of structuring fee income and \$50 of amendment fee income from Harbortouch which was recognized as other income.

During the three months ended September 30, 2014, we determined that the impairment of Appalachian Energy LLC was other-than-temporary and recorded a realized loss of \$2,050, reducing the amortized cost to zero.



On October 3, 2014, we sold our \$35,000 investment in Babson CLO Ltd. 2011-I and realized a loss of \$6,410 on the sale.

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On October 10, 2014, ARRM Services, Inc. (“ARRM”) sold Ajax Rolled Ring & Machine, LLC (“Ajax”) to a third party and repaid the \$19,337 loan receivable to us and we recorded a realized loss of \$23,560 related to the sale. Concurrent with the sale, our ownership increased to 100% of the outstanding equity in SB Forging (see Note 1). As such, we began consolidating SB Forging on October 11, 2014. In addition, there is \$3,000 being held in escrow which will be recognized as additional gain if and when received. We received \$2,000 of structuring fees from Ajax related to the sale of the operating company which was recognized as other income during the nine months ended March 31, 2015. On October 20, 2014, we sold our \$22,000 investment in Galaxy XII CLO, Ltd. and realized a loss of \$2,435 on the sale.

On November 21, 2014, Coalbed, LLC (“Coalbed”) merged with and into Wolf Energy, LLC (“Wolf Energy”), with Wolf Energy as the surviving entity. During the three months ended December 31, 2014, we determined that the impairment of the Coalbed debt assumed by Wolf Energy was other-than-temporary and recorded a realized loss of \$5,991, reducing the amortized cost to zero.

On December 4, 2014, we sold our \$29,075 investment in Babson CLO Ltd. 2012-I and realized a loss of \$3,767 on the sale.

On December 4, 2014, we sold our \$27,850 investment in Babson CLO Ltd. 2012-II and realized a loss of \$2,949 on the sale.

During the three months ended December 31, 2014, Manx Energy, Inc. (“Manx”) was dissolved and we recorded a realized loss of \$50, reducing the amortized cost to zero.

During the three months ended December 31, 2014, we determined that the impairments of Change Clean Energy Company, LLC and Yatesville Coal Company, LLC (“Yatesville”) were other-than-temporary and recorded a realized loss of \$1,449, reducing the amortized cost to zero.

During the three months ended December 31, 2014, we determined that the impairment of New Century Transportation, Inc. (“NCT”) was other-than-temporary and recorded a realized loss of \$42,064, reducing the amortized cost to \$980.

During the three months ended December 31, 2014, we determined that the impairment of Stryker Energy, LLC (“Stryker”) was other-than-temporary and recorded a realized loss of \$32,711, reducing the amortized cost to zero.

During the three months ended December 31, 2014, we determined that the impairment of Wind River Resources Corporation (“Wind River”) was other-than-temporary and recorded a realized loss of \$11,650, reducing the amortized cost to \$3,000.

During the three and nine months ended March 31, 2014, we recognized zero and \$400, respectively, of interest income due to purchase discount accretion for the assets acquired from Patriot. As of December 31, 2013, the purchase discount for the assets acquired from Patriot had been fully accreted. As such, no such income was recognized during the three or nine months ended March 31, 2015.

As of March 31, 2015, \$4,510,970 of our loans, at fair value, bear interest at floating rates and \$4,478,012 of those loans have LIBOR floors ranging from 1.0% to 5.5%. As of June 30, 2014, \$4,499,955 of our loans, at fair value, bore interest at floating rates and \$4,466,756 of those loans had LIBOR floors ranging from 1.25% to 6.00%.

At March 31, 2015, six loan investments were on non-accrual status: Edmentum, Gulf Coast, Vets Securing America, Inc., NCT, Wind River, and Wolf Energy. At June 30, 2014, nine loan investments were on non-accrual status: BXC, The Healing Staff, Inc., Manx, NCT, STI, Stryker, Wind River, Wolf Energy Holdings Inc., and Yatesville. Principal balances of these loans amounted to \$109,468 and \$163,408 as of March 31, 2015 and June 30, 2014, respectively.

The fair value of these loans amounted to \$35,287 and \$5,937 as of March 31, 2015 and June 30, 2014, respectively. The fair values of these investments represent approximately 0.5% and 0.1% of our total assets as of March 31, 2015 and June 30, 2014, respectively. For the three months ended March 31, 2015 and March 31, 2014, the income foregone as a result of not accruing interest on non-accrual debt investments amounted to \$3,050 and \$5,262, respectively. For the nine months ended March 31, 2015 and March 31, 2014, the income foregone as a result of not accruing interest on non-accrual debt investments amounted to \$18,450 and \$15,918, respectively.

Undrawn committed revolvers and delayed draw term loans to our portfolio companies incur commitment and unused fees ranging from 0.00% to 2.00%. As of March 31, 2015 and June 30, 2014, we had \$89,400 and \$72,118, respectively, of undrawn revolver and delayed draw term loan commitments to our portfolio companies.



### 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 majority-owned portfolio companies, if any, are considered “significant subsidiaries.” In evaluating these investments, there are three tests utilized to determine if any of our investments are considered significant subsidiaries: the investment test, the asset test and the income test. Rule 3-09 of Regulation S-X, as interpreted by the SEC, requires separate audited financial statements of an unconsolidated majority-owned 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 any of the three tests exceeds 20%.

As of March 31, 2015, we had no single investment that represented greater than 20% of our total investment portfolio at fair value. As of March 31, 2015, we had no single investment whose assets represented greater than 20% of our total assets. 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 nine months ended March 31, 2015, we determined that one of our controlled investments individually generated more than 20% of our income, primarily due to the unrealized appreciation that was recognized on the investment during the nine months ended March 31, 2015. As such, the following unconsolidated majority-owned portfolio company was considered a significant subsidiary as of March 31, 2015: First Tower Finance Company LLC.

The following tables show summarized financial information for First Tower Finance Company LLC and its subsidiaries:

	March 31, 2015	June 30, 2014		
<b>Balance Sheet Data</b>				
Cash and cash equivalents	\$71,919	\$60,368		
Finance receivables, net	395,891	385,875		
Intangibles, including goodwill	125,764	137,696		
Other assets	15,158	14,056		
Notes payable	264,432	250,965		
Notes payable, due to Prospect or Affiliate	313,844	313,844		
Other liabilities	53,058	46,276		
Shareholder’s deficit	(22,602	) (13,090	)	
	Three Months Ended March 31,	2014	Nine Months Ended March 31,	2014
<b>Summary of Operations</b>				
Total revenue	\$50,180	\$49,045	\$157,703	\$152,152
Total expenses	55,215	40,782	164,207	121,917
Net (loss) income	\$(5,035	) \$8,263	\$(6,504	) \$30,235

As the SEC has not released details on the mechanics of how the calculations related to Rules 3-09 and 4-08(g) of Regulation S-X are to be completed, there is diversity in practice for the calculation. Based on our interpretation of Rules 10-01(b)(1) and 4-08(g) of Regulation S-X and related calculations, we do not believe that summarized financial information is required for any other entities in the current quarterly financial statements. We expect that the SEC will clarify the calculation method in the near future.

#### Note 4. Revolving Credit Facility

On March 27, 2012, we closed on an extended and expanded credit facility with a syndicate of lenders through PCF (the “2012 Facility”). The lenders had extended commitments of \$857,500 under the 2012 Facility as of June 30, 2014, which was increased to \$877,500 in July 2014. The 2012 Facility included an accordion feature which allowed commitments to be increased up to \$1,000,000 in the aggregate. Interest on borrowings under the 2012 Facility was one-month LIBOR plus 275 basis points with no minimum LIBOR floor. Additionally, the lenders charged a fee on the unused portion of the 2012 Facility equal to either 50 basis points if at least half of the credit facility is drawn or 100 basis points otherwise.

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On August 29, 2014, we renegotiated the 2012 Facility and closed an expanded five and a half year revolving credit facility (the “2014 Facility” and collectively with the 2012 Facility, the “Revolving Credit Facility”). The lenders have extended commitments of \$885,000 under the 2014 Facility as of March 31, 2015. The 2014 Facility includes an accordion feature which allows commitments to be increased up to \$1,500,000 in the aggregate. The revolving period of the 2014 Facility extends through March 2019, with an additional one year amortization period (with distributions allowed) after the completion of the revolving period. During such one year amortization period, all principal payments on the pledged assets will be applied to reduce the balance. At the end of the one year amortization period, the remaining balance will become due, if required by the lenders.

The 2014 Facility contains restrictions pertaining to the geographic and industry concentrations of funded loans, maximum size of funded loans, interest rate payment frequency of funded loans, maturity dates of funded loans and minimum equity requirements. The 2014 Facility also contains certain requirements relating to portfolio performance, including required minimum portfolio yield and limitations on delinquencies and charge-offs, violation of which could result in the early termination of the 2014 Facility. The 2014 Facility also requires the maintenance of a minimum liquidity requirement. As of March 31, 2015, we were in compliance with the applicable covenants.

Interest on borrowings under the 2014 Facility is one-month LIBOR plus 225 basis points with no minimum LIBOR floor. Additionally, the lenders charge a fee on the unused portion of the 2014 Facility equal to either 50 basis points if at least 35% of the credit facility is drawn or 100 basis points otherwise. The 2014 Facility requires us to pledge assets as collateral in order to borrow under the credit facility.

As of March 31, 2015 and June 30, 2014, we had \$739,066 and \$780,620, respectively, available to us for borrowing under the Revolving Credit Facility, of which the amount outstanding was \$317,700 and \$92,000, respectively. As additional eligible investments are transferred to PCF and pledged under the Revolving Credit Facility, PCF will generate additional availability up to the current commitment amount of \$885,000. As of March 31, 2015, the investments used as collateral for the Revolving Credit Facility had an aggregate fair value of \$1,609,258, which represents 24.2% of our total investments 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 \$8,885 of new fees and \$3,539 of fees carried over for continuing participants from the previous facility, which are being amortized over the term of the facility in accordance with ASC 470-50, of which \$10,983 remains to be amortized and is included within deferred financing costs on the Consolidated Statement of Assets and Liabilities as of March 31, 2015. In accordance with ASC 470-50, we expensed \$332 of fees relating to credit providers in the 2012 Facility who did not commit to the 2014 Facility.

During the three months ended March 31, 2015 and March 31, 2014, we recorded \$3,545 and \$3,243, respectively, of interest costs, unused fees and amortization of financing costs on the Revolving Credit Facility as interest expense. During the nine months ended March 31, 2015 and March 31, 2014, we recorded \$10,803 and \$8,319, respectively, of interest costs, unused fees and amortization of financing costs on the Revolving Credit Facility as interest expense.

#### Note 5. Convertible Notes

On December 21, 2010, we issued \$150,000 aggregate principal amount of convertible notes that mature on December 15, 2015 (the “2015 Notes”), unless previously converted or repurchased in accordance with their terms. The 2015 Notes bear interest at a rate of 6.25% per year, payable semi-annually on June 15 and December 15 of each year, beginning June 15, 2011. Total proceeds from the issuance of the 2015 Notes, net of underwriting discounts and offering costs, were \$145,200.

On February 18, 2011, we issued \$172,500 aggregate principal amount of convertible notes that mature on August 15, 2016 (the “2016 Notes”), unless previously converted or repurchased in accordance with their terms. The 2016 Notes bear 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 April 16, 2012, we issued \$130,000 aggregate principal amount of convertible notes that mature on October 15, 2017 (the "2017 Notes"), unless previously converted or repurchased in accordance with their terms. The 2017 Notes bear 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.

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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 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 in the amount of the difference between the reacquisition price and the net carrying amount of the 2020 Notes, net of the proportionate amount of unamortized debt issuance costs. The net gain on extinguishment of debt we recorded in the three and nine months ended March 31, 2015 was \$342.

Certain key terms related to the convertible features for the 2015 Notes, the 2016 Notes, the 2017 Notes, the 2018 Notes, the 2019 Notes and the 2020 Notes (collectively, the “Convertible Notes”) are listed below.

	2015 Notes	2016 Notes	2017 Notes	2018 Notes	2019 Notes	2020 Notes
Initial conversion rate(1)	88.0902	78.3699	85.8442	82.3451	79.7766	80.6647
Initial conversion price	\$ 11.35	\$ 12.76	\$ 11.65	\$ 12.14	\$ 12.54	\$ 12.40
Conversion rate at March 31, 2015(1)(2)	89.9752	80.2196	86.9426	83.6661	79.8248	80.6647
Conversion price at March 31, 2015(2)(3)	\$ 11.11	\$ 12.47	\$ 11.50	\$ 11.95	\$ 12.53	\$ 12.40
Last conversion price calculation date	12/21/2014	2/18/2015	4/16/2014	8/14/2014	12/21/2014	4/11/2014
Dividend threshold amount (per share)(4)	\$ 0.101125	\$ 0.101150	\$ 0.101500	\$ 0.101600	\$ 0.110025	\$ 0.110525

(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.

The conversion price in effect at March 31, 2015 was calculated on the last anniversary of the issuance and will be (3) adjusted again on the next anniversary, unless the exercise price shall have changed by more than 1% before the anniversary.

(4) The conversion rate is increased if monthly cash dividends paid to common shares exceed the monthly dividend threshold amount, subject to adjustment.

In no event will the total number of shares of common stock issuable upon conversion exceed 96.8992 per \$1 principal amount of the 2015 Notes (the “conversion rate cap”), except that, to the extent we receive written guidance or a no-action letter from the staff of the Securities and Exchange Commission (the “Guidance”) permitting us to adjust the conversion rate in certain instances without regard to the conversion rate cap and to make the 2015 Notes convertible into certain reference property in accordance with certain reclassifications, business combinations, asset sales and corporate events by us without regard to the conversion rate cap, we will make such adjustments without regard to the conversion rate cap and will also, to the extent that we make any such adjustment without regard to the conversion rate cap pursuant to the Guidance, adjust the conversion rate cap accordingly. We will use our commercially reasonable efforts to obtain such Guidance as promptly as practicable.



Prior to obtaining the Guidance, we will not engage in certain transactions that would result in an adjustment to the conversion rate increasing the conversion rate beyond what it would have been in the absence of such transaction unless we have engaged in a reverse stock split or share combination transaction such that in our reasonable best estimation, the conversion rate following the adjustment for such transaction will not be any closer to the conversion rate cap than it would have been in the absence of such transaction.

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.

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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 \$39,167 of fees which are being amortized over the terms of the notes, of which \$22,462 remains to be amortized and is included within deferred financing costs on the Consolidated Statement of Assets and Liabilities as of March 31, 2015.

During the three months ended March 31, 2015 and March 31, 2014, we recorded \$18,572 and \$13,378, respectively, of interest costs and amortization of financing costs on the Convertible Notes as interest expense. During the nine months ended March 31, 2015 and March 31, 2014, we recorded \$55,776 and \$40,048, respectively, of interest costs and amortization of financing costs on the Convertible Notes as interest expense.

#### Note 6. Public Notes

On May 1, 2012, we issued \$100,000 aggregate principal amount of unsecured notes that mature on November 15, 2022 (the "2022 Notes"). The 2022 Notes bear interest at a rate of 6.95% per year, payable quarterly on February 15, May 15, August 15 and November 15 of each year, beginning August 15, 2012. Total proceeds from the issuance of the 2022 Notes, net of underwriting discounts and offering costs, were \$97,000. On April 10, 2015, we provided notice of our intent to redeem 100% of the 2022 Notes outstanding (see Note 18).

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 \$245,885.

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 \$250,775.

The 2022 Notes, the 2023 Notes and the 5.00% 2019 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 Public Notes, we incurred \$11,367 of fees which are being amortized over the term of the notes, of which \$9,507 remains to be amortized and is included within deferred financing costs on the Consolidated Statement of Assets and Liabilities as of March 31, 2015.

During the three months ended March 31, 2015 and March 31, 2014, we recorded \$9,493 and \$5,591, respectively, of interest costs and amortization of financing costs on the Public Notes as interest expense. During the nine months ended March 31, 2015 and March 31, 2014, we recorded \$28,440 and \$16,764, respectively, of interest costs and amortization of financing costs on the Public Notes as interest expense.

## Note 7. Prospect Capital InterNotes®

On February 16, 2012, we entered into a Selling Agent Agreement (the “Selling Agent Agreement”) with Incapital LLC, as purchasing agent for our issuance and sale from time to time of up to \$500,000 of Prospect Capital InterNotes® (the “InterNotes® Offering”), which was increased to \$1,500,000 in May 2014. Additional agents may be appointed by us from time to time in connection with the InterNotes® Offering and become parties to the Selling Agent Agreement.

These notes are direct unsecured obligations and rank equally with all of our unsecured indebtedness from time to time outstanding. Each series of notes will be issued by a separate trust. These notes bear interest at fixed interest rates and offer a variety of maturities no less than twelve months from the original date of issuance.

During the nine months ended March 31, 2015, we issued \$74,967 aggregate principal amount of our Prospect Capital InterNotes® for net proceeds of \$73,730. These notes were issued with stated interest rates ranging from 4.25% to 4.75% with a weighted average interest rate of 4.58%. These notes mature between May 15, 2020 and September 15, 2020. All notes issued during the nine months ended March 31, 2015 mature 5.5 years from the original date of issuance.

During the nine months ended March 31, 2014, we issued \$407,208 aggregate principal amount of our Prospect Capital InterNotes® for net proceeds of \$400,062. These notes were issued with stated interest rates ranging from 3.75% to 6.75% with a weighted average interest rate of 5.14%. These notes mature between October 15, 2016 and October 15, 2043. The following table summarizes the Prospect Capital InterNotes® issued during the nine months ended March 31, 2014.

Tenor at Origination (in years)	Principal Amount	Interest Rate Range	Weighted Average Interest Rate	Maturity Date Range
3	\$ 5,710	4.00%	4.00	% October 15, 2016
3.5	3,149	4.00%	4.00	% April 15, 2017
4	36,992	3.75%–4.00%	3.96	% November 15, 2017 – March 15, 2018
5	195,965	4.75%–5.00%	4.96	% July 15, 2018 – August 15, 2019
5.5	43,820	4.75%–5.00%	4.77	% February 15, 2019 – August 15, 2019
6.5	1,800	5.50%	5.50	% February 15, 2020
7	47,227	5.25%–5.75%	5.50	% July 15, 2020 – March 15, 2021
7.5	1,996	5.75%	5.75	% February 15, 2021
10	13,691	5.75%–6.50%	6.02	% January 15, 2024 – March 15, 2024
12	2,978	6.00%	6.00	% November 15, 2025 – December 15, 2025
15	2,495	6.00%	6.00	% August 15, 2028 – November 15, 2028
18	4,062	6.00%–6.25%	6.21	% July 15, 2031 – August 15, 2031
20	2,791	6.00%	6.00	% September 15, 2033 – October 15, 2033
25	24,382	6.25%–6.50%	6.45	% August 15, 2038 – March 15, 2039
30	20,150	6.50%–6.75%	6.60	% July 15, 2043 – October 15, 2043
	\$407,208			

During the nine months ended March 31, 2015, we redeemed \$76,931 aggregate principal amount of our Prospect Capital InterNotes® at par with a weighted average interest rate of 6.06% in order to replace debt with higher interest rates with debt with lower rates. 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 Prospect Capital InterNotes®, net of the proportionate amount of unamortized debt issuance costs. The net loss on extinguishment of debt we recorded in the three and nine months ended March 31, 2015 was \$1,220 and \$1,556, respectively. During the nine months ended March 31, 2015, we repaid \$4,988 aggregate principal amount of our Prospect Capital InterNotes® at par in accordance with the Survivor’s Option, as defined in the InterNotes® Offering prospectus.

The following table summarizes the Prospect Capital InterNotes® outstanding as of March 31, 2015.

Tenor at Origination (in years)	Principal Amount	Interest Rate Range	Weighted Average Interest Rate	Maturity Date Range
3	\$ 5,710	4.00%	4.00	% October 15, 2016
3.5	3,109	4.00%	4.00	% April 15, 2017
4	45,690	3.75%–4.00%	3.92	% November 15, 2017 – May 15, 2018
5	212,784	4.25%–5.00%	4.91	% July 15, 2018 – August 15, 2019
5.5	78,787	4.25%–5.00%	4.60	% February 15, 2019 – September 15, 2020
6.5	1,800	5.50%	5.50	% February 15, 2020
7	185,497	4.00%–5.85%	5.13	% September 15, 2019 – May 15, 2021
7.5	1,996	5.75%	5.75	% February 15, 2021
10	36,925	3.27%–7.00%	6.11	% March 15, 2022 – May 15, 2024
12	2,978	6.00%	6.00	% November 15, 2025 – December 15, 2025
15	17,400	5.00%–6.00%	5.14	% May 15, 2028 – November 15, 2028
18	22,804	4.125%–6.25%	5.52	% December 15, 2030 – August 15, 2031
20	4,630	5.75%–6.00%	5.90	% November 15, 2032 – October 15, 2033
25	36,579	6.25%–6.50%	6.39	% August 15, 2038 – May 15, 2039
30	122,029	5.50%–6.75%	6.23	% November 15, 2042 – October 15, 2043
	\$ 778,718			

During the nine months ended March 31, 2014, we repaid \$3,341 aggregate principal amount of our Prospect Capital InterNotes® at par in accordance with the Survivor's Option, as defined in the InterNotes® Offering prospectus.

During the year ended June 30, 2014, we repaid \$6,869 aggregate principal amount of our Prospect Capital InterNotes® in accordance with the Survivor's Option, as defined in the InterNotes® Offering prospectus. In connection with the issuance of the 5.00% 2019 Notes, \$45,000 of previously-issued Prospect Capital InterNotes® were exchanged for the 5.00% 2019 Notes.

The following table summarizes the Prospect Capital InterNotes® outstanding as of June 30, 2014.

Tenor at Origination (in years)	Principal Amount	Interest Rate Range	Weighted Average Interest Rate	Maturity Date Range
3	\$ 5,710	4.00%	4.00	% October 15, 2016
3.5	3,149	4.00%	4.00	% April 15, 2017
4	45,751	3.75%–4.00%	3.92	% November 15, 2017 – May 15, 2018
5	212,915	4.25%–5.00%	4.91	% July 15, 2018 – August 15, 2019
5.5	3,820	5.00%	5.00	% February 15, 2019
6.5	1,800	5.50%	5.50	% February 15, 2020
7	256,903	4.00%–6.55%	5.39	% June 15, 2019 – May 15, 2021
7.5	1,996	5.75%	5.75	% February 15, 2021
10	41,952	3.23%–7.00%	6.18	% March 15, 2022 – May 15, 2024
12	2,978	6.00%	6.00	% November 15, 2025 – December 15, 2025
15	17,465	5.00%–6.00%	5.14	% May 15, 2028 – November 15, 2028
18	25,435	4.125%–6.25%	5.49	% December 15, 2030 – August 15, 2031
20	5,847	5.625%–6.00%	5.85	% November 15, 2032 – October 15, 2033
25	34,886	6.25%–6.50%	6.39	% August 15, 2038 – May 15, 2039
30	125,063	5.50%–6.75%	6.22	% November 15, 2042 – October 15, 2043
	\$ 785,670			

In connection with the issuance of the Prospect Capital InterNotes®, we incurred \$19,936 of fees which are being amortized over the term of the notes, of which \$17,966 remains to be amortized and is included within deferred financing costs on the Consolidated Statement of Assets and Liabilities as of March 31, 2015.

During the three months ended March 31, 2015 and March 31, 2014, we recorded \$10,603 and \$9,535, respectively, of interest costs and amortization of financing costs on the Prospect Capital InterNotes® as interest expense. During the nine months ended March 31, 2015 and March 31, 2014, we recorded \$32,352 and \$23,279, 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 the maximum draw amounts and outstanding borrowings of our Revolving Credit Facility, Convertible Notes, Public Notes and Prospect Capital InterNotes® as of March 31, 2015 and June 30, 2014.

	March 31, 2015		June 30, 2014	
	Maximum	Amount	Maximum	Amount
	Draw Amount	Outstanding	Draw Amount	Outstanding
Revolving Credit Facility	\$885,000	\$317,700	\$857,500	\$92,000
Convertible Notes	1,239,500	1,239,500	1,247,500	1,247,500
Public Notes	648,045	648,045	647,881	647,881
Prospect Capital InterNotes®	778,718	778,718	785,670	785,670
Total	\$3,551,263	\$2,983,963	\$3,538,551	\$2,773,051

The following table shows the contractual maturities of our Revolving Credit Facility, Convertible Notes, Public Notes and Prospect Capital InterNotes® as of March 31, 2015.

	Payments Due by Period				
	Total	Less than 1 Year	1 – 3 Years	3 – 5 Years	After 5 Years
Revolving Credit Facility	\$317,700	\$—	\$—	\$317,700	\$—
Convertible Notes	1,239,500	150,000	497,500	200,000	392,000
Public Notes	648,045	—	—	300,000	348,045
Prospect Capital InterNotes®	778,718	—	45,750	276,962	456,006
Total Contractual Obligations	\$2,983,963	\$150,000	\$543,250	\$1,094,662	\$1,196,051

The following table shows the contractual maturities of our Revolving Credit Facility, Convertible Notes, Public Notes and Prospect Capital InterNotes® as of June 30, 2014.

	Payments Due by Period				
	Total	Less than 1 Year	1 – 3 Years	3 – 5 Years	After 5 Years
Revolving Credit Facility	\$92,000	\$—	\$92,000	\$—	\$—
Convertible Notes	1,247,500	—	317,500	530,000	400,000
Public Notes	647,881	—	—	—	647,881
Prospect Capital InterNotes®	785,670	—	8,859	261,456	515,355
Total Contractual Obligations	\$2,773,051	\$—	\$418,359	\$791,456	\$1,563,236

As permitted by ASC 825-10-25, we have not elected to value our Revolving Credit Facility, Convertible Notes, Public Notes and Prospect Capital InterNotes® at fair value. The following table shows the fair value of these financial liabilities disaggregated into the three levels of the ASC 820 valuation hierarchy as of March 31, 2015.

	Fair Value Hierarchy			Total
	Level 1	Level 2	Level 3	
Revolving Credit Facility(1)	\$—	\$317,700	\$—	\$317,700
Convertible Notes(2)	—	1,246,495	—	1,246,495
Public Notes(2)	—	677,964	—	677,964
Prospect Capital InterNotes®(3)	—	801,135	—	801,135
Total	\$—	\$3,043,294	\$—	\$3,043,294

(1) The carrying value of our Revolving Credit Facility approximates the fair value.

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

(3) The fair value of our Prospect Capital InterNotes® is estimated by discounting remaining payments using current Treasury rates.

The following table shows the fair value of these financial liabilities disaggregated into the three levels of the ASC 820 valuation hierarchy as of June 30, 2014.

	Fair Value Hierarchy			Total
	Level 1	Level 2	Level 3	
Revolving Credit Facility(1)	\$—	\$92,000	\$—	\$92,000
Convertible Notes(2)	—	1,293,495	—	1,293,495
Public Notes(2)	—	679,816	—	679,816
Prospect Capital InterNotes®(3)	—	799,631	—	799,631
Total	\$—	\$2,864,942	\$—	\$2,864,942

(1) The carrying value of our Revolving Credit Facility approximates the fair value.

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

(3) The fair value of our Prospect Capital InterNotes® is estimated by discounting remaining payments using current Treasury rates.

### Note 9. Equity Offerings, Offering Expenses, and Distributions

Excluding dividend reinvestments, we issued 14,845,556 and 84,567,900 shares of our common stock during the nine months ended March 31, 2015 and March 31, 2014, respectively. The following table summarizes our issuances of common stock during the nine months ended March 31, 2014 and March 31, 2015.

Issuances of Common Stock	Number of Shares Issued	Gross Proceeds	Underwriting Fees	Offering Expenses	Average Offering Price
During the nine months ended March 31, 2014:					
July 5, 2013 – August 21, 2013(1)	9,818,907	\$ 107,725	\$ 902	\$ 169	\$ 10.97
August 2, 2013(2)	1,918,342	21,006	—	—	\$ 10.95
August 29, 2013 – November 4, 2013(1)	24,127,242	272,114	2,703	414	\$ 11.28
November 12, 2013 – February 5, 2014(1)	27,301,889	307,045	3,068	436	\$ 11.25
February 10, 2014 – March 31, 2014(1)	19,095,226	212,155	2,035	168	\$ 11.11
March 31, 2014(2)	2,306,294	24,908	—	—	\$ 10.80
During the nine months ended March 31, 2015:					
September 11, 2014 – November 3, 2014(1)	9,490,975	95,149	474	175	\$ 10.03
November 17, 2014 – December 3, 2014(1)	5,354,581	51,678	268	410	\$ 9.65

(1) Shares were issued in connection with our at-the-market offering program which we enter into from time to time with various counterparties.

On August 2, 2013 and March 31, 2014, we issued 1,918,342 and 2,306,294 shares of our common stock, (2) respectively, in conjunction with our investments in CP Holdings of Delaware LLC and Harbortouch Holdings of Delaware Inc., controlled portfolio companies.

Our shareholders' equity accounts as of March 31, 2015 and June 30, 2014 reflect cumulative shares issued 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 and our dividend reinvestment plan. When our common stock is issued, the related offering expenses have been charged against paid-in capital in excess of par. All underwriting fees and offering expenses were borne by us.

On August 24, 2011, our Board of Directors approved a share repurchase plan under which we may repurchase up to \$100,000 of our common stock at prices below our net asset value. We have not made any purchases of our common stock during the period from August 24, 2011 to March 31, 2015 pursuant to this plan. Prior to any repurchase, we are required to notify shareholders of our intention to purchase our common stock. This notice lasts for six months after notice is given. Our last notice was delivered with our annual proxy mailing on September 10, 2014.

Our Board of Directors, pursuant to the Maryland General Corporation Law, executed Articles of Amendment to increase the number of shares authorized for issuance from 500,000,000 to 1,000,000,000 in the aggregate. The amendment became effective May 6, 2014.

On November 4, 2014, our Registration Statement on Form N-2 was declared effective by the SEC. Under this Shelf Registration Statement, we can issue up to \$4,873,355 of additional debt and equity securities in the public market as of March 31, 2015.

During the nine months ended March 31, 2015 and March 31, 2014, we distributed approximately \$331,863 and \$289,875, respectively, to our stockholders. The following table summarizes our distributions declared and payable for the nine months ended March 31, 2014 and March 31, 2015.

Declaration Date	Record Date	Payment Date	Amount Per Share	Amount Distributed (in thousands)
5/6/2013	7/31/2013	8/22/2013	\$0.110175	\$28,001
5/6/2013	8/30/2013	9/19/2013	0.110200	28,759
6/17/2013	9/30/2013	10/24/2013	0.110225	29,915
6/17/2013	10/31/2013	11/21/2013	0.110250	31,224
6/17/2013	11/29/2013	12/19/2013	0.110275	32,189
6/17/2013	12/31/2013	1/23/2014	0.110300	33,229
8/21/2013	1/31/2014	2/20/2014	0.110325	34,239
8/21/2013	2/28/2014	3/20/2014	0.110350	35,509
8/21/2013	3/31/2014	4/17/2014	0.110375	36,810
Total declared and payable for the nine months ended March 31, 2014				\$289,875
2/3/2014	7/31/2014	8/21/2014	\$0.110475	\$37,863
2/3/2014	8/29/2014	9/18/2014	0.110500	37,885
2/3/2014	9/30/2014	10/22/2014	0.110525	38,519
5/6/2014	10/31/2014	11/20/2014	0.110550	38,977
5/6/2014	11/28/2014	12/18/2014	0.110575	39,583
5/6/2014	12/31/2014	1/22/2015	0.110600	39,623
9/24/2014	1/30/2015	2/19/2015	0.110625	39,648
12/8/2014	2/27/2015	3/19/2015	0.083330	29,878
12/8/2014	3/31/2015	4/23/2015	0.083330	29,887
Total declared and payable for the nine months ended March 31, 2015				\$331,863

Dividends and distributions to common stockholders are recorded on the ex-dividend date. As such, the table above includes distributions with record dates during the nine months ended March 31, 2015 and March 31, 2014. 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 payable subsequent to March 31, 2015: \$0.08333 per share for April 2015 to holders of record on April 30, 2015 with a payment date of May 21, 2015.

During the nine months ended March 31, 2015 and March 31, 2014, we issued 1,189,248 and 1,094,996 shares of our common stock, respectively, in connection with the dividend reinvestment plan.

As of March 31, 2015, we have reserved 102,790,062 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 for the three and nine months ended March 31, 2015 and March 31, 2014.

	Three Months Ended March 31,		Nine Months Ended March 31,	
	2015	2014	2015	2014
Structuring and amendment fees (refer to Note 3)	\$3,380	\$24,522	\$24,988	\$54,321
Recovery of legal costs from prior periods from legal settlement	—	—	—	5,000
Royalty interests	1,390	1,704	3,218	4,316
Administrative agent fees	216	135	494	343
Total Other Income	\$4,986	\$26,361	\$28,700	\$63,980

## 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 for the three and nine months ended March 31, 2015 and March 31, 2014.

	Three Months Ended March 31,		Nine Months Ended March 31,	
	2015	2014	2015	2014
Net increase in net assets resulting from operations	\$81,492	\$82,101	\$251,570	\$247,363
Weighted average common shares outstanding	358,449,304	316,388,733	351,922,217	286,949,781
Net increase in net assets resulting from operations per share	\$0.23	\$0.26	\$0.71	\$0.86

## Note 12. Income Taxes

While our fiscal year end for financial reporting purposes is June 30 of each year, our tax year end is August 31 of each year. The information presented in this footnote is based on our tax year end for each period presented, unless otherwise specified.

For income tax purposes, dividends paid and distributions made to shareholders are reported as ordinary income, capital gains, non-taxable return of capital, or a combination thereof. The tax character of dividends paid to shareholders during the tax years ended August 31, 2014, 2013 and 2012 were as follows:

	Tax Year Ended August 31,		
	2014	2013	2012
Ordinary income	\$413,051	\$282,621	\$147,204
Capital gain	—	—	—
Return of capital	—	—	—
Total dividends paid to shareholders	\$413,051	\$282,621	\$147,204

For the tax year ending August 31, 2015, the tax character of dividends paid to shareholders through March 31, 2015 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, 2015.

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, 2014, 2013 and 2012:

	Tax Year Ended August 31,		
	2014	2013	2012
Net increase in net assets resulting from operations	\$ 317,671	\$ 238,721	\$ 208,331
Net realized loss (gain) on investments	28,244	24,632	(38,363 )
Net unrealized depreciation on investments	24,638	77,835	32,367
Other temporary book-to-tax differences	(9,122 )	(6,994 )	(1,132 )
Permanent differences	(4,317 )	5,939	(6,103 )
Taxable income before deductions for distributions	\$ 357,114	\$ 340,133	\$ 195,100

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, 2014, we had capital loss carryforwards of approximately \$117,393 available for use in later tax years. Of the amount available as of August 31, 2014, \$623, \$33,096 and \$46,910 will expire on August 31, 2016, 2017 and 2018, respectively, and \$36,764 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, substantially all of the Company's capital loss carryforwards may become permanently unavailable due to limitations by the Code.

Under current tax law, capital losses and specific ordinary losses realized after October 31st and December 31st, respectively, may be deferred and treated as occurring on the first business day of the following tax year. As of August 31, 2014, we had deferred \$22,601 of long-term capital losses which will be treated as arising on the first day of the tax year ending August 31, 2015.

For the tax year ended August 31, 2014, we had distributions in excess of taxable income. After the excess distributions, we still had cumulative taxable income in excess of cumulative distributions, and therefore, we elected to carry forward the excess for distribution to shareholders in the tax year ending August 31, 2015. The amount carried forward to 2015 was approximately \$49,471. For the tax year ended August 31, 2013, we had taxable income in excess of the distributions made from such taxable income during the year, and therefore, we elected to carry forward the excess for distribution to shareholders in the tax year ended August 31, 2014. The amount carried forward to 2014 was approximately \$105,408. For the tax year ended August 31, 2012, we had taxable income in excess of the distributions made from such taxable income during the year, and therefore, we elected to carry forward the excess for distribution to shareholders in the tax year ended August 31, 2013. The amount carried forward to 2013 was approximately \$47,896.

As of March 31, 2015, the cost basis of investments for tax purposes was \$6,630,526 resulting in estimated gross unrealized appreciation and depreciation of \$212,369 and \$240,124, respectively. As of June 30, 2014, the cost basis of investments for tax purposes was \$6,424,182 resulting in estimated gross unrealized appreciation and depreciation of \$139,620 and \$310,063, respectively. Due to the difference between our fiscal and tax year ends, the cost basis of our investments for tax purposes as of March 31, 2015 and June 30, 2014 was calculated based on the book cost of investments as of March 31, 2015 and June 30, 2014, respectively, with cumulative book-to-tax adjustments for investments through each investment's most current tax year end.

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 taxes, among other items. During the tax year ended August 31, 2014, we increased accumulated overdistributed net investment income by \$4,316, decreased accumulated net realized loss on investments by \$3,384 and increased capital in excess of par value by \$932. During the tax year ended August 31, 2013, we increased accumulated undistributed net investment income by \$5,939, increased accumulated net realized loss on investments by \$2,621 and decreased capital in excess of par value by \$3,318. Due to the difference between our fiscal and tax year ends, the reclassifications for the taxable year ended August 31, 2014 are recorded in the fiscal

year ending June 30, 2015 and the reclassifications for the taxable year ended August 31, 2013 were recorded in the fiscal year ended June 30, 2014.

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Note 13. Related Party Agreements and Transactions

Investment Advisory Agreement

On December 23, 2014, the Investment Adviser, Prospect Capital Management LLC, converted into a Delaware limited partnership and is now known as Prospect Capital Management L.P. (continues as the “Investment Adviser”). 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 gross assets (including amounts borrowed). 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 base management fee incurred to the favor of the Investment Adviser was \$33,679 and \$28,709 for the three months ended March 31, 2015 and March 31, 2014, respectively. The fees incurred for the nine months ended March 31, 2015 and March 31, 2014 were \$100,878 and \$76,829, 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 appreciation or depreciation. Pre-incentive fee net investment income, expressed as a rate of return on the value of our net assets at the end of the immediately preceding calendar quarter, is compared to a “hurdle rate” of 1.75% per quarter (7.00% 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

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to each investment that has been in its portfolio. For the purpose of this calculation, an “investment” is defined as the total of all rights and claims which maybe 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 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 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 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 \$21,860 and \$24,631 for the three months ended March 31, 2015 and March 31, 2014, respectively. The fees incurred for the nine months ended March 31, 2015 and March 31, 2014 were \$68,307 and \$68,269, respectively. No capital gains incentive fee was incurred for the three or nine months ended March 31, 2015 and March 31, 2014.

#### Administration Agreement

We have also entered into an Administration Agreement with Prospect Administration LLC (“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. For the three months ended March 31, 2015 and March 31, 2014, the reimbursement was approximately \$2,984 and \$3,986, respectively. For the nine months ended March 31, 2015 and March 31, 2014, the reimbursement was approximately \$8,414 and \$11,958, respectively. 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” 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 subsidiary of the Investment Adviser.

During the three and nine months ended March 31, 2015, Prospect Administration received payments of \$3,037 and \$6,358, respectively, directly from our portfolio companies for legal, tax and portfolio level accounting services. 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.

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.



### 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 advice on (i) recruiting, hiring, management and termination of employees, officers and directors, succession planning and other human resource matters; (ii) capital raising, capital budgeting, and capital expenditures; (iii) advertising, marketing, and sales; (iv) fulfillment, operations, and execution; (v) 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. Our payments to Prospect Administration are periodically reviewed by our Board of Directors.

During the three months ended March 31, 2015 and March 31, 2014, we received payments of \$1,230 and \$1,695, respectively, from our controlled portfolio companies for managerial assistance and subsequently remitted these amounts to Prospect Administration. During the nine months ended March 31, 2015 and March 31, 2014, we received payments of \$3,795 and \$4,852, respectively, from our controlled portfolio companies for managerial assistance and subsequently remitted these amounts to Prospect Administration. During the three and nine months ended March 31, 2015, we incurred \$600 and \$1,800, respectively, of managerial assistance expense related to our consolidated entity First Tower Delaware. This amount is included within other general and administrative expenses on our Consolidated Statements of Operations and is included within due to Prospect Administration on our Consolidated Statement of Assets and Liabilities as of March 31, 2015.

### 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.



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As of March 31, 2015, we had co-investments with Priority Income Fund, Inc. in the following CLO funds: Babson CLO Ltd. 2014-III; Cent CLO 21 Limited; CIFC Funding 2014-IV Investor, Ltd.; Galaxy XVII CLO, Ltd.; Halcyon Loan Advisors Funding 2014-2 Ltd.; Symphony CLO XIV Ltd.; Voya CLO 2014-1, Ltd.; and Washington Mill CLO Ltd.

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#### 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 for the three and nine months ended March 31, 2015 are presented on a consolidated basis.

##### Airmall Inc.

As of June 30, 2014, 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 July 30, 2010, Prospect made a \$22,420 investment in AMU, of which \$12,500 was a senior subordinated note and \$9,920 was used to purchase 100% of the preferred and common equity of AMU. AMU used its combined debt and equity proceeds of \$22,420 to purchase 100% of Airmall’s common stock for \$18,000, to pay \$1,573 of structuring fees from AMU to Prospect (which was recognized by Prospect as structuring fee income), \$836 of third party expenses, \$11 of legal services provided by attorneys at Prospect Administration, and \$2,000 of withholding tax. Prospect then purchased for \$30,000 two loans of Airmall payable to unrealized third parties, one for \$10,000 and the other \$20,000. Prospect and Airmall subsequently refinanced the two loans into a single \$30,000 loan from Airmall to Prospect.

On October 1, 2013, Prospect made an additional \$2,600 investment in the senior subordinated note, of which \$575 was utilized by AMU to pay interest due to Prospect and \$2,025 was retained by AMU for working capital. On November 25, 2013, Prospect funded an additional \$5,000 to the senior subordinated note, which was utilized by AMU to pay a \$5,000 dividend to Prospect. On December 4, 2013, Prospect sold 2% of the outstanding principal balance of the senior secured term loan to Airmall and 2% of the outstanding principal balance of the senior subordinated note to AMU for \$972.

On June 13, 2014, Prospect made a new \$19,993 investment as a senior secured loan to Airmall. Airmall then distributed this amount to AMU as a return of capital, which AMU used to pay down the senior subordinated loan in the same amount. The minority interest held by a third party in AMU was exchanged for common stock of Airmall. On July 1, 2014, Prospect began consolidating AMU. As a result, any transactions between AMU and Prospect are eliminated in consolidation and as such, transactions after July 1, 2014 are not presented below.

On August 1, 2014, Prospect sold its investments in Airmall for net proceeds of \$51,379 and realized a loss of \$3,473 on the sale. In addition, there is \$6,000 being held in escrow, of which 98% is due to Prospect, which will be recognized as an additional realized loss if it is not received. Included in the net proceeds were \$3,000 of structuring fees from Airmall related to the sale of the operating company which was recognized as other income during the three months ended September 30, 2014. On October 22, 2014, Prospect received a tax refund of \$665 related to its investment in Airmall and realized a gain of the same amount.

In addition to the repayments noted above, the following amounts were paid from Airmall to Prospect and recorded by Prospect as repayment of loan receivable:

Three Months Ended March 31, 2014	\$ 147
Three Months Ended March 31, 2015	—
Nine Months Ended March 31, 2014	446
Nine Months Ended March 31, 2015	47,580

The following dividends were declared and paid from Airmall to AMU and recognized as dividend income by AMU:

Three Months Ended March 31, 2014	\$—
Three Months Ended March 31, 2015	N/A
Nine Months Ended March 31, 2014	7,000
Nine Months Ended March 31, 2015	N/A

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

Three Months Ended March 31, 2014	\$—
Three Months Ended March 31, 2015	N/A
Nine Months Ended March 31, 2014	12,000
Nine Months Ended March 31, 2015	N/A

All dividends were paid from earnings and profits of Airmall and AMU.

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

Three Months Ended March 31, 2014	\$ 885
Three Months Ended March 31, 2015	N/A
Nine Months Ended March 31, 2014	2,249
Nine Months Ended March 31, 2015	N/A

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

Three Months Ended March 31, 2014	\$ 295
Three Months Ended March 31, 2015	N/A
Nine Months Ended March 31, 2014	295
Nine Months Ended March 31, 2015	N/A

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

Three Months Ended March 31, 2014	\$ 825
Three Months Ended March 31, 2015	—
Nine Months Ended March 31, 2014	2,572
Nine Months Ended March 31, 2015	576

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

June 30, 2014	\$ 920
March 31, 2015	—

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

Three Months Ended March 31, 2014	\$ 75
Three Months Ended March 31, 2015	N/A
Nine Months Ended March 31, 2014	300
Nine Months Ended March 31, 2015	N/A

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

Three Months Ended March 31, 2014	\$—
Three Months Ended March 31, 2015	—
Nine Months Ended March 31, 2014	—
Nine Months Ended March 31, 2015	75

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

June 30, 2014	\$ 75
March 31, 2015	—

The following payments were paid from Airmall to Prospect Administration as reimbursement for legal, tax and portfolio level accounting services provided directly to Airmall (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 March 31, 2014	\$ —
Three Months Ended March 31, 2015	—
Nine Months Ended March 31, 2014	—
Nine Months Ended March 31, 2015	730

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

June 30, 2014	\$ 11
March 31, 2015	—

American Property REIT Corp.

Prospect owns 100% of the equity of APH Property Holdings, LLC (“APH”), a Consolidated Holding Company. APH owns 100% of the common equity of American Property REIT Corp. (f/k/a American Property Holdings Corp.) (“APRC”). APRC is a Maryland corporation and a qualified REIT for federal income tax purposes. In order to qualify as a REIT, APRC 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 APRC.

APRC 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. APRC acquires real estate assets, including, but not limited to, industrial, commercial, and multi-family properties. APRC may acquire real estate assets directly or through joint ventures by making a majority equity investment in a property-owning entity (the “JV”).

On October 24, 2012, Prospect initially made a \$7,808 investment in APH, of which \$6,000 was a Senior Term Loan and \$1,808 was used to purchase the membership interests of APH. The proceeds were utilized by APH to purchase APRC common equity for \$7,806, with \$2 retained by APH for working capital. The proceeds were utilized by APRC to purchase a 100% ownership interest in 146 Forest Parkway, LLC for \$7,326, pay a \$250 non-refundable deposit and \$222 of structuring fees to Prospect (which was recognized by Prospect as structuring fee income), with \$8 retained by APRC for working capital. 146 Forest Parkway, LLC was purchased for \$7,400. The remaining proceeds were used to pay \$168 of third party expenses and \$5 of legal services provided by attorneys at Prospect Administration, with \$3 retained by the JV for working capital. The investment was subsequently contributed to NPRC.

On December 28, 2012, Prospect made a \$9,594 investment in APH, of which \$6,400 was a Senior Term Loan and \$3,194 was used to purchase additional membership interests of APH. The proceeds were utilized by APH to purchase additional APRC common equity for \$9,594. The proceeds were utilized by APRC to purchase a 92.7% ownership interest in 1557 Terrell Mill Road, LLC for \$9,548, with \$46 retained by APRC for other expenses. The JV was purchased for \$23,500 which included debt financing and minority interest of \$15,275 and \$757, respectively. The remaining proceeds were used to pay \$286 of structuring fees to Prospect (which was recognized by Prospect as structuring fee income) and \$1,652 of third party expenses, with \$142 retained by the JV for working capital.

On January 17, 2013, Prospect made a \$30,348 investment in APH, of which \$27,600 was a Senior Term Loan and \$2,748 was used to purchase additional membership interests of APH. The proceeds were utilized by APH to purchase additional APRC common equity for \$29,348, with \$1,000 retained by APH for working capital. The proceeds were utilized by APRC to purchase a 97.7% ownership interest in 5100 Live Oaks Blvd, LLC for \$29,348. The JV was purchased for \$63,400 which included debt financing and minority interest of \$39,600 and \$686, respectively. The remaining proceeds were used to pay \$880 of structuring fees to Prospect (which was recognized by Prospect as

structuring fee income), \$4,265 of third party expenses, \$14 of legal services provided by attorneys at Prospect Administration, and \$1,030 of prepaid assets, with \$45 retained by the JV for working capital.

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On April 30, 2013, Prospect made a \$10,383 investment in APH, of which \$9,000 was a Senior Term Loan and \$1,383 was used to purchase additional membership interests of APH. The proceeds were utilized by APH to purchase additional APRC common equity for \$10,233, with \$150 retained by APH for working capital. The proceeds were utilized by APRC to purchase a 93.2% ownership interest in Lofton Place, LLC for \$10,233. The JV was purchased for \$26,000 which included debt financing and minority interest of \$16,965 and \$745, respectively. The remaining proceeds were used to pay \$306 of structuring fees to Prospect (which was recognized by Prospect as structuring fee income), \$1,223 of third party expenses, \$5 of legal services provided by attorneys at Prospect Administration, and \$364 of prepaid assets, with \$45 retained by the JV for working capital.

On April 30, 2013, Prospect made a \$10,863 investment in APH, of which \$9,000 was a Senior Term Loan and \$1,863 was used to purchase additional membership interests of APH. The proceeds were utilized by APH to purchase additional APRC common equity for \$10,708, with \$155 retained by APH for working capital. The proceeds were utilized by APRC to purchase a 93.2% ownership interest in Vista Palma Sola, LLC for \$10,708. The JV was purchased for \$27,000 which included debt financing and minority interest of \$17,550 and \$785, respectively. The remaining proceeds were used to pay \$321 of structuring fees to Prospect (which was recognized by Prospect as structuring fee income), \$1,272 of third party expenses, \$4 of legal services provided by attorneys at Prospect Administration, and \$401 of prepaid assets, with \$45 retained by the JV for working capital.

On May 8, 2013, Prospect made a \$6,118 investment in APH, of which \$4,000 was a Senior Term Loan and \$2,118 was used to purchase additional membership interests of APH. The proceeds were utilized by APH to purchase additional APRC common equity for \$6,028, with \$90 retained by APH for working capital. The proceeds were utilized by APRC to purchase a 93.3% ownership interest in Arlington Park Marietta, LLC for \$6,028. Arlington Park Marietta, LLC was purchased for \$14,850 which included debt financing and minority interest of \$9,650 and \$437, respectively. The remaining proceeds were used to pay \$181 of structuring fees to Prospect (which was recognized by Prospect as structuring fee income), \$911 of third party expenses, and \$128 of prepaid assets, with \$45 retained by the JV for working capital.

On June 24, 2013, Prospect made a \$76,533 investment in APH, of which \$63,000 was a Senior Term Loan and \$13,533 was used to purchase additional membership interests of APH. The proceeds were utilized by APH to purchase additional APRC common equity for \$75,233, with \$1,300 retained by APH for working capital. The proceeds were utilized by APRC to purchase a 95.0% ownership interest in APH Carroll Resort, LLC for \$74,398 and to pay \$835 of structuring fees to Prospect (which was recognized by Prospect as structuring fee income). The JV was purchased for \$225,000 which included debt financing and minority interest of \$157,500 and \$3,916, respectively. The remaining proceeds were used to pay \$1,436 of structuring fees to Prospect (which was recognized by Prospect as structuring fee income), \$7,687 of third party expenses, \$8 of legal services provided by attorneys at Prospect Administration, and \$1,683 of prepaid assets. The investment was subsequently contributed to NPRC and renamed NPRC Carroll Resort, LLC.

Between October 29, 2013 and December 4, 2013, Prospect made an \$11,000 investment in APH, of which \$9,350 was a Senior Term Loan and \$1,650 was used to purchase additional membership interests of APH. The proceeds were utilized by certain of APH's wholly-owned subsidiaries to purchase online consumer loans from a third party. The investment was subsequently contributed to NPRC.

On November 1, 2013, Prospect made a \$9,869 investment in APH, of which \$8,200 was a Senior Term Loan and \$1,669 was used to purchase additional membership interests of APH. The proceeds were utilized by APH to purchase additional APRC common equity for \$9,869. The proceeds were utilized by APRC to purchase a 94.0% ownership interest in APH Carroll 41, LLC for \$9,548 and to pay \$102 of structuring fees to Prospect (which was recognized by Prospect as structuring fee income), with \$219 retained by APRC for working capital. The JV was purchased for \$30,600 which included debt financing and minority interest of \$22,497 and \$609, respectively. The remaining proceeds were used to pay \$190 of structuring fees to Prospect (which was recognized by Prospect as structuring fee income), \$1,589 of third party expenses, \$5 of legal services provided by attorneys at Prospect Administration, and \$270 of prepaid assets. The investment was subsequently contributed to NPRC.

On November 15, 2013, Prospect made a \$45,900 investment in APH, of which \$38,500 was a Senior Term Loan and \$7,400 was used to purchase additional membership interests of APH. The proceeds were utilized by APH to purchase additional APRC common equity for \$45,900. The proceeds were utilized by APRC to purchase a 99.3% ownership

interest in APH Gulf Coast Holdings, LLC for \$45,024 and to pay \$364 of structuring fees to Prospect (which was recognized by Prospect as structuring fee income), with \$512 retained by APRC for working capital. The JV was purchased for \$115,200 which included debt financing and minority interest of \$75,558 and \$337, respectively. The remaining proceeds were used to pay \$1,013 of structuring fees to Prospect (which was recognized by Prospect as structuring fee income), \$2,590 of third party expenses, \$23 of legal services provided by attorneys at Prospect Administration, and \$2,023 of prepaid assets, with \$70 retained by the JV for working capital.

On November 19, 2013, Prospect made a \$66,188 investment in APH, of which \$55,000 was a Senior Term Loan and \$11,188 was used to purchase additional membership interests of APH. The proceeds were utilized by APH to purchase additional APRC common equity for \$66,188. The proceeds were utilized by APRC to purchase a 90.0% ownership interest in APH McDowell,

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LLC for \$64,392 and to pay \$695 of structuring fees to Prospect (which was recognized by Prospect as structuring fee income), with \$1,101 retained by APRC for working capital. The JV was purchased for \$238,605 which included debt financing and minority interest of \$180,226 and \$7,155, respectively. The remaining proceeds were used to pay \$1,290 of structuring fees to Prospect (which was recognized by Prospect as structuring fee income), \$9,205 of third party expenses, \$23 of legal services provided by attorneys at Prospect Administration, and \$1,160 of prepaid assets, with \$1,490 retained by the JV for working capital. The investment was subsequently contributed to NPRC and renamed NPH McDowell, LLC.

On December 12, 2013, Prospect made a \$22,507 investment in APH, of which \$18,800 was a Senior Term Loan and \$3,707 was used to purchase additional membership interests of APH. The proceeds were utilized by APH to purchase additional APRC common equity for \$22,507. The proceeds were utilized by APRC to purchase a 92.6% ownership interest in South Atlanta Portfolio Holding Company, LLC for \$21,874 and to pay \$238 of structuring fees to Prospect (which was recognized by Prospect as structuring fee income), with \$395 retained by APRC for working capital. The JV was purchased for \$87,250 which included debt financing and minority interest of \$67,493 and \$1,756, respectively. The remaining proceeds were used to pay \$437 of structuring fees to Prospect (which was recognized by Prospect as structuring fee income), \$2,920 of third party expenses, and \$116 of prepaid assets, with \$400 retained by the JV for working capital. The investment was subsequently contributed to UPRC.

On December 31, 2013, APRC distributed its majority interests in five JVs holding real estate assets to APH. APH then distributed these JV interests to Prospect in a transaction characterized as a return of capital. Prospect, on the same day, contributed certain of these JV interests to NPH Property Holdings, LLC and the remainder to UPH Property Holdings, LLC (each wholly-owned subsidiaries of Prospect). Each of NPH and UPH immediately thereafter contributed these JV interests to NPRC and UPRC, respectively. The total investments in the JVs transferred consisted of \$98,164 and \$20,022 of debt and equity financing, respectively. There was no material gain or loss realized on these transactions.

On January 17, 2014, Prospect made a \$6,565 investment in APH, of which \$5,500 was a Senior Term Loan and \$1,065 was used to purchase additional membership interests of APH. The proceeds were utilized by APH to purchase additional APRC common equity for \$6,565. The proceeds were utilized by APRC to purchase a 99.3% ownership interest in APH Gulf Coast Holdings, LLC for \$6,336 and to pay \$54 of structuring fees to Prospect (which was recognized by Prospect as structuring fee income), with \$175 retained by APRC for other expenses. The JV was purchased for \$15,430 which included debt financing and minority interest of \$10,167 and \$48, respectively. The remaining proceeds were used to pay \$143 of structuring fees to Prospect (which was recognized by Prospect as structuring fee income), \$627 of third party expenses, \$4 of legal services provided by attorneys at Prospect Administration, and \$312 of prepaid assets, with \$35 retained by the JV for working capital.

Effective April 1, 2014, Prospect made a new \$167,162 senior term loan to APRC. APRC then distributed this amount to APH as a return of capital which was used to pay down the Senior Term Loan from APH by the same amount.

On June 4, 2014, Prospect made a \$1,719 investment in APH to purchase additional membership interests of APH, which was revised to \$1,732 on July 1, 2014. The proceeds were utilized by APH to purchase additional APRC common equity for \$1,732. The proceeds were utilized by APRC to acquire the real property located at 975 South Cornwell, Yukon, OK ("Taco Bell, OK") for \$1,719 and pay \$13 of third party expenses.

On July 1, 2014, Prospect began consolidating APH. As a result, any transactions between APH and Prospect are eliminated in consolidation and as such, transactions after July 1, 2014 are not presented below.

On November 26, 2014, APRC transferred its investment in one property to NPRC. As a result, Prospect's investment in APRC related to this property also transferred to NPRC. The investment transferred consisted of \$10,237 of equity and \$65,586 of debt. There was no gain or loss realized on the transaction.

During the nine months ended March 31, 2015, Prospect received \$8 as a return of capital on the equity investment in APRC.

The following dividends were declared and paid from APRC to APH (partially via a wholly-owned subsidiary of APH) and recognized as dividend income by APH:

Three Months Ended March 31, 2014	\$6,020
Three Months Ended March 31, 2015	N/A
Nine Months Ended March 31, 2014	8,810



Nine Months Ended March 31, 2015                      N/A  
All dividends were paid from earnings and profits of APRC.

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

Three Months Ended March 31, 2014	\$4,746
Three Months Ended March 31, 2015	N/A
Nine Months Ended March 31, 2014	13,928
Nine Months Ended March 31, 2015	N/A

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

Three Months Ended March 31, 2014	\$—
Three Months Ended March 31, 2015	N/A
Nine Months Ended March 31, 2014	4,084
Nine Months Ended March 31, 2015	N/A

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

Three Months Ended March 31, 2014	\$—
Three Months Ended March 31, 2015	3,047
Nine Months Ended March 31, 2014	—
Nine Months Ended March 31, 2015	12,205

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

Three Months Ended March 31, 2014	\$—
Three Months Ended March 31, 2015	728
Nine Months Ended March 31, 2014	—
Nine Months Ended March 31, 2015	4,529

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

June 30, 2014	\$54
March 31, 2015	34

The following royalty payments were paid from APH to Prospect and recognized by Prospect as other income:

Three Months Ended March 31, 2014	\$385
Three Months Ended March 31, 2015	N/A
Nine Months Ended March 31, 2014	999
Nine Months Ended March 31, 2015	N/A

The following royalty payments were paid from APRC to Prospect and recognized by Prospect as other income:

Three Months Ended March 31, 2014	\$—
Three Months Ended March 31, 2015	265
Nine Months Ended March 31, 2014	—
Nine Months Ended March 31, 2015	1,078

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

Three Months Ended March 31, 2014	\$ 148
Three Months Ended March 31, 2015	148
Nine Months Ended March 31, 2014	489
Nine Months Ended March 31, 2015	443

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, 2014	\$ 148
March 31, 2015	148

The following payments were paid from APRC to Prospect Administration as reimbursement for legal, tax and portfolio level accounting services provided directly to APRC (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 March 31, 2014	\$ 744
Three Months Ended March 31, 2015	83
Nine Months Ended March 31, 2014	1,774
Nine Months Ended March 31, 2015	189

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

June 30, 2014	\$ 202
March 31, 2015	115

#### 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.

On May 5, 2014, Prospect initially purchased 100% of the common shares of Arctic Equipment for \$9,006. Proceeds were utilized by Arctic Equipment to purchase 70% of Arctic Energy as described in the following paragraph.

On May 5, 2014, Prospect made an additional \$51,870 investment (including in exchange for 1,102,313 common shares of Prospect at fair value of \$11,916) in Arctic Energy in exchange for a \$31,640 senior secured loan and a \$20,230 subordinated loan. Total proceeds received by Arctic Energy of \$60,876 were used to purchase 70% of the equity interests in Arctic Energy from Ailport for \$47,516, pay \$875 of third-party expenses, \$1,713 of structuring fees to Prospect (which was recognized as structuring fee income), \$445 of legal services provided by attorneys at Prospect Administration and \$10,327 was retained as working capital.

On July 1, 2014, Prospect began consolidating Arctic Equipment. As a result, any transactions between Arctic Equipment and Prospect are eliminated in consolidation and as such, transactions after July 1, 2014 are not presented below.

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

Three Months Ended March 31, 2014	\$—
Three Months Ended March 31, 2015	1,657
Nine Months Ended March 31, 2014	—
Nine Months Ended March 31, 2015	5,045

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

June 30, 2014	\$ 18
March 31, 2015	18

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

Three Months Ended March 31, 2014	\$—
Three Months Ended March 31, 2015	25
Nine Months Ended March 31, 2014	—
Nine Months Ended March 31, 2015	75

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, 2014	\$ 15
March 31, 2015	25

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

June 30, 2014	\$6
March 31, 2015	—

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

June 30, 2014	\$—
March 31, 2015	2

ARRM Services, 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.

As of July 1, 2011, the cost basis of Prospect’s total debt and equity investment in Ajax was \$41,699, including capitalized payment-in-kind interest of \$3,535. Prospect’s investment in Ajax consisted of the following: \$20,607 of senior secured term debt (“Tranche A Term Loan”); \$15,035 of subordinated secured term debt (“Tranche B Term Loan”); and \$6,057 of common equity. In October 2011, ARRM assumed Ajax’s Tranche B Term Loan and the equity of Ajax was exchanged for equity in ARRM. Ajax was converted into a limited liability company shortly thereafter. On December 28, 2012, Prospect provided an additional \$3,600 of unsecured debt to ARRM (“Promissory Demand Note”). On April 1, 2013, Prospect refinanced its investment in Ajax and ARRM, increasing the total size of the debt investment to \$38,537. The \$19,837 Tranche A Term Loan was replaced with a new senior secured term loan to Ajax in the same amount. The \$15,035 Tranche B Term Loan and \$3,600 Promissory Demand Note were replaced with a new subordinated unsecured term loan to ARRM in the amount of \$18,700. Prospect received \$49 and \$47 of structuring fees from Ajax and ARRM, respectively, which were recognized as other income.

On June 28, 2013, Prospect provided an additional \$1,000 in the ARRM subordinated unsecured term loan to fund equity into Ajax. The proceeds were used by Ajax to repay senior debt to a third party. On October 11, 2013, Prospect provided \$25,000 in preferred equity for the recapitalization of ARRM. After the financing, Prospect received repayment of the \$20,009 subordinated unsecured term loan previously outstanding from ARRM. In March 2014, Prospect received \$98 of structuring fees from Ajax related to the amendment of the loan agreement in September 2013.

On October 10, 2014, ARRM sold Ajax to a third party and repaid the \$19,337 loan receivable to Prospect and Prospect recorded a realized loss of \$23,560 related to the sale. Concurrent with the sale, Prospect's ownership increased to 100% of the outstanding equity of ARRM Services, Inc. which was renamed SB Forging Company, Inc. ("SB Forging"). As such, Prospect began consolidating SB Forging on October 11, 2014. In addition, there is \$3,000 being held in escrow which will be recognized as additional gain if and when received. Prospect received \$2,000 of structuring fees from Ajax related to the sale of the operating company which was recognized as other income during the nine months ended March 31, 2015.

In addition to the repayments noted above, the following amounts were paid from Ajax to Prospect and recorded by Prospect as repayment of loan receivable:

Three Months Ended March 31, 2014	\$ 100
Three Months Ended March 31, 2015	—
Nine Months Ended March 31, 2014	300
Nine Months Ended March 31, 2015	19,337

The following interest payments, including prepayment penalty fees, were accrued and paid from ARRM to Prospect and recognized by Prospect as interest income:

Three Months Ended March 31, 2014	\$—
Three Months Ended March 31, 2015	—
Nine Months Ended March 31, 2014	1,029
Nine Months Ended March 31, 2015	—

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

Three Months Ended March 31, 2014	\$—
Three Months Ended March 31, 2015	—
Nine Months Ended March 31, 2014	309
Nine Months Ended March 31, 2015	—

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

Three Months Ended March 31, 2014	\$513
Three Months Ended March 31, 2015	—
Nine Months Ended March 31, 2014	1,566
Nine Months Ended March 31, 2015	956

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

June 30, 2014	\$6
March 31, 2015	—

As of June 30, 2014, due to the pending sale transaction, Prospect reversed \$3,844 of previously recognized payment-in-kind interest which we do not expect to receive.

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

Three Months Ended March 31, 2014	\$45
Three Months Ended March 31, 2015	—
Nine Months Ended March 31, 2014	135
Nine Months Ended March 31, 2015	45

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, 2014	\$45
March 31, 2015	—

The following payments were paid from ARRM to Prospect Administration as reimbursement for legal, tax and portfolio level accounting services provided directly to ARRM (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 March 31, 2014	\$—
Three Months Ended March 31, 2015	—
Nine Months Ended March 31, 2014	17
Nine Months Ended March 31, 2015	1,391

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

June 30, 2014	\$2
March 31, 2015	—

Borga, Inc.

As of June 30, 2014, Prospect owned 100% of the equity of STI Holding, Inc. (“STI”), a Consolidated Holding Company. STI owned 100% of the equity of Borga, Inc. (“Borga”). Borga manufactures pre-engineered metal buildings and components for the agricultural and light industrial markets.

On May 6, 2005, Patriot Capital Funding, Inc. (“Patriot”) (previously acquired by Prospect) provided \$14,000 in senior secured debt to Borga. The debt was comprised of \$1,000 Senior Secured Revolver, \$3,500 Senior Secured Term Loan A, \$2,500 Senior Secured Term Loan B and \$7,000 Senior Secured Term Loan C. On March 31, 2009, Borga made its final amortization payment on the Senior Secured Term Loan A. The other loans remained outstanding. Prospect owned warrants to purchase 33,750 shares of common stock in Metal Buildings Holding Corporation (“Metal Buildings”), the former holding company of Borga. Metal Buildings owned 100% of Borga.

On March 8, 2010, Prospect acquired the remaining common stock of Borga.

On January 24, 2014, Prospect contributed its holdings in Borga to STI. STI also held \$3,371 of proceeds from the sale of a minority equity interest in Smart Tuition Holdings, LLC (“SMART”). Prospect initially acquired membership interests in SMART indirectly as part of the Patriot acquisition on December 2, 2009 recording a zero cost basis for the equity investment. The \$3,371 was distributed to Prospect on May 29, 2014, of which \$3,246 was paid from earnings and profits of STI and was recognized as dividend income by Prospect. The remaining \$125 was recognized as return of capital by Prospect.

On July 1, 2014, Prospect began consolidating STI. As a result, any transactions between STI and Prospect are eliminated in consolidation and as such, transactions after July 1, 2014 are not presented below.

On August 20, 2014, Prospect sold the assets of Borga, a wholly-owned subsidiary of STI, for net proceeds of \$382 and realized a loss of \$2,589 on the sale. On December 29, 2014, Borga was dissolved.

BXC Company, Inc.

As of June 30, 2014, Prospect owned 86.7% of Series A Preferred Stock, 96.8% of Series B Preferred Stock, and 83.1% of fully diluted common stock of BXC Company, Inc. (f/k/a BXC Holding Company) (“BXC”). BXC owned 100% of the common stock of Boxercraft Incorporated (“Boxercraft”).

As of July 1, 2012, the cost basis of Prospect’s total debt and equity investment in Boxercraft was \$15,123, including capitalized payment-in-kind interest of \$1,466. On December 31, 2013, Boxercraft repaid \$100 of the senior secured term loan. On April 18, 2014, Prospect made a new \$300 senior secured term loan to Boxercraft. During the period from July 1, 2012 through June 30, 2014, Prospect capitalized a total of \$804 of paid-in-kind interest and accreted a total of \$1,321 of the original purchase discount, increasing the total debt investment to \$17,448 as of June 30, 2014.

Effective March 28, 2014, Prospect acquired voting control of BXC pursuant to a voting agreement and irrevocable proxy. Effective May 8, 2014, Prospect acquired control of BXC by transferring shares held by the other equity holders of BXC to Prospect pursuant to an assignment agreement entered into with such other equity holders.

On July 2, 2014, Prospect made a new \$250 senior secured term loan to provide liquidity to Boxercraft.

On July 17, 2014, Prospect restructured the investments in BXC and Boxercraft. The existing Senior Secured Term Loan A and a portion of the existing Senior Secured Term Loan B were replaced with a new Senior Secured Term Loan A to Boxercraft. The remainder of the existing Senior Secured Term Loan B and the existing Senior Secured Term Loan C, Senior Secured Term Loan D, and Senior Secured Term Loan E were replaced with a new Senior Secured Term Loan B to Boxercraft. The existing Senior Secured Term Loan to Boxercraft was converted into Series D Preferred Stock in BXC.

During the nine months ended March 31, 2015, Prospect accrued \$5 of administrative agent fees from Boxercraft (which were recognized by Prospect as other income). On August 25, 2014, Prospect sold Boxercraft, a wholly-owned subsidiary of BXC, for net proceeds of \$750 and realized a net loss of \$16,949 on the sale.

CCPI Inc.

Prospect owns 100% of the equity of CCPI Holdings Inc. ("CCPI Holdings"), a Consolidated Holding Company. CCPI Holdings owns 94.77% of the equity of CCPI Inc. ("CCPI"), with CCPI management owning the remaining 5.23% 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.

On December 13, 2012, Prospect initially made a \$15,921 investment (including 467,928 common shares of Prospect at fair value of \$5,021) in CCPI Holdings, \$7,500 senior secured note and \$8,443 equity interest. The proceeds received by CCPI Holdings were partially utilized to purchase 95.13% of CCPI common stock for \$14,878. The remaining proceeds were used to pay \$395 of structuring fees from CCPI Holdings to Prospect (which were recognized by Prospect as structuring fee income), \$215 for legal services provided by attorneys at Prospect Administration, \$137 for third party expenses and \$318 was retained by CCPI Holdings for working capital.

On December 13, 2012, Prospect made an additional investment of \$18,000 in CCPI senior secured debt. The proceeds of the Prospect loan along with \$14,878 of equity financing from CCPI Holdings (mentioned above) were used to purchase 95.13% of CCPI equity from the sellers for \$31,829, provide \$120 of debt financing to CCPI management (to partially fund a purchase by management of CCPI stock), fund \$180 of structuring fees from CCPI to Prospect (which were recognized by Prospect as structuring fee income), pay \$548 of third-party expenses, reimburse \$12 for reimbursement of expenses paid by Prospect on behalf of CCPI (no income was recognized by Prospect) and \$189 was retained by CCPI as working capital.

During the year ended June 30, 2014, certain members of CCPI management exercised options to purchase common stock, decreasing our ownership to 94.77%. On June 13, 2014, Prospect made a new \$8,218 senior secured note to CCPI. CCPI then distributed this amount to CCPI Holdings as a return of capital which was used to pay down the \$8,216 senior secured note from CCPI Holdings to Prospect. The remaining \$2 was distributed to Prospect as a return of capital of Prospect's equity investment in CCPI Holdings.

On July 1, 2014, Prospect began consolidating CCPI Holdings. As a result, any transactions between CCPI Holdings and Prospect are eliminated in consolidation and as such, transactions after July 1, 2014 are not presented below.

In addition to the repayments noted above, the following amounts were paid from CCPI to Prospect and recorded by Prospect as repayment of loan receivable:

Three Months Ended March 31, 2014	\$ 113
Three Months Ended March 31, 2015	113
Nine Months Ended March 31, 2014	338
Nine Months Ended March 31, 2015	338

The following dividends were declared and paid from CCPI to CCPI Holdings and recognized as dividend income by CCPI Holdings:

Three Months Ended March 31, 2014	\$—
Three Months Ended March 31, 2015	N/A
Nine Months Ended March 31, 2014	990
Nine Months Ended March 31, 2015	N/A

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

Three Months Ended March 31, 2014	\$ 500
Three Months Ended March 31, 2015	N/A
Nine Months Ended March 31, 2014	500
Nine Months Ended March 31, 2015	N/A

All dividends were paid from earnings and profits of CCPI and CCPI Holdings.

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

Three Months Ended March 31, 2014	\$ 383
Three Months Ended March 31, 2015	N/A
Nine Months Ended March 31, 2014	1,147
Nine Months Ended March 31, 2015	N/A

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

Three Months Ended March 31, 2014	\$ 142
Three Months Ended March 31, 2015	N/A
Nine Months Ended March 31, 2014	557
Nine Months Ended March 31, 2015	N/A

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

Three Months Ended March 31, 2014	\$ 436
Three Months Ended March 31, 2015	841
Nine Months Ended March 31, 2014	1,332
Nine Months Ended March 31, 2015	2,495

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

Three Months Ended March 31, 2014	\$—
Three Months Ended March 31, 2015	152
Nine Months Ended March 31, 2014	—
Nine Months Ended March 31, 2015	446

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

June 30, 2014	\$ 9
March 31, 2015	—

The following royalty payments were paid from CCPI Holdings to Prospect and recognized by Prospect as other income:



Three Months Ended March 31, 2014	\$—
Three Months Ended March 31, 2015	N/A
Nine Months Ended March 31, 2014	71
Nine Months Ended March 31, 2015	N/A

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

Three Months Ended March 31, 2014	\$60
Three Months Ended March 31, 2015	60
Nine Months Ended March 31, 2014	180
Nine Months Ended March 31, 2015	180

The following managerial assistance payments received by Prospect had not yet been remitted to Prospect Administration and were included by Prospect within due to Prospect Administration:

June 30, 2014	\$60
March 31, 2015	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 March 31, 2014	\$177
Three Months Ended March 31, 2015	—
Nine Months Ended March 31, 2014	243
Nine Months Ended March 31, 2015	—

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, 2014	\$10
March 31, 2015	1

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 March 31, 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 3, 2012, Prospect initially made a \$21,500 senior secured debt investment in CP Well. As part of the transaction, Prospect received \$430 of structuring fees from CP Well (which was recognized by Prospect as structuring fee income) and \$7 was paid by CP Well to Prospect Administration for legal services provided by attorneys at Prospect Administration.

On August 2, 2013, Prospect invested \$94,014 (including 1,918,342 unregistered shares of Prospect common stock at a fair value of \$21,006) to support the recapitalization of CP Energy where Prospect acquired a controlling interest in CP Energy.

On August 2, 2013, Prospect invested \$12,741 into CP Holdings to purchase 100% of the common stock in CP Holdings. The proceeds were used by CP Holdings to purchase 82.9% of the common stock in CP Energy for \$12,135 and pay \$606 of legal services provided by attorneys at Prospect Administration.

On August 2, 2013, Prospect made a senior secured debt investment of \$58,773 in CP Energy. CP Energy also received \$2,505 management co-investment in exchange for 17.1% of CP Energy common stock. Total proceeds received by CP Energy of \$73,413 (including the \$12,135 of equity financing from CP Holdings mentioned above) were used to purchase 100% of the equity interests in CP Well Testing and Fluid Management for \$33,600 and \$34,576, respectively. The remaining proceeds were used by CP Energy to pay \$1,414 of structuring fees to Prospect (which was recognized by Prospect as structuring fee income) and pay \$823 of third-party expenses, with \$3,000 retained by CP Energy for working capital.

On August 2, 2013, Prospect made an additional senior secured debt investment of \$22,500 in CP Well Testing. Total proceeds received by CP Well Testing of \$56,100 (including the \$33,600 of equity financing from CP Energy mentioned above) were used to purchase 100% of the equity interests in CP Well for \$55,650 and pay \$450 of structuring fees to Prospect (which was recognized by Prospect as structuring fee income). After the financing, Prospect received repayment of the \$18,991 loan previously outstanding from CP Well.

On October 11, 2013, Prospect made a \$746 follow-on investment in CP Holdings to fund equity into CP Energy and made an additional senior secured loan to CP Energy of \$5,100. Management invested an additional \$154 of equity in CP Energy, and the percentage ownership of CP Energy did not change. Total proceeds of \$6,000 were used to purchase flowback equipment and expand the CP Well operations in West Texas.

On December 26, 2013, Prospect made an additional \$1,741 follow-on investment in CP Holdings to fund equity into CP Energy and made an additional senior secured loan to CP Energy of \$11,900. Management invested an additional \$359 of equity in CP Energy, and the percentage ownership of CP Energy did not change. Total proceeds of \$14,000 were used to purchase additional equipment.

On April 1, 2014, Prospect made new loans to CP Well (with Foster Testing Co., Inc.; ProHaul Transports, LLC; and Wright Trucking, Inc. as co-borrowers), two first lien loans in the amount of \$11,035 and \$72,238, and a second lien loan in the amount of \$15,000. The proceeds of these loans were used to repay CP Energy's senior secured term loan and CP Well Testing's senior secured term loan previously outstanding from Prospect.

On July 1, 2014, Prospect began consolidating CP Holdings. As a result, any transactions between CP Holdings and Prospect are eliminated in consolidation and as such, transactions after July 1, 2014 are not presented below.

During the three months ended March 31, 2015, certain members of CP Energy management receiving stock options to purchase common stock, decreasing our ownership to 82.3%.

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

Three Months Ended March 31, 2014	\$ 3,409
Three Months Ended March 31, 2015	—
Nine Months Ended March 31, 2014	8,121
Nine Months Ended March 31, 2015	—

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

Three Months Ended March 31, 2014	\$ 619
Three Months Ended March 31, 2015	—
Nine Months Ended March 31, 2014	1,664
Nine Months Ended March 31, 2015	—

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

Three Months Ended March 31, 2014	\$—
Three Months Ended March 31, 2015	4,037
Nine Months Ended March 31, 2014	—
Nine Months Ended March 31, 2015	12,273

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

Three Months Ended March 31, 2014	\$—
Three Months Ended March 31, 2015	1,075
Nine Months Ended March 31, 2014	—
Nine Months Ended March 31, 2015	1,075

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

June 30, 2014	\$45
March 31, 2015	45

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

Three Months Ended March 31, 2014	\$75
Three Months Ended March 31, 2015	75
Nine Months Ended March 31, 2014	200
Nine Months Ended March 31, 2015	225

The following managerial assistance payments received by Prospect had not yet been remitted to Prospect Administration and were included by Prospect within due to Prospect Administration:

June 30, 2014	\$75
March 31, 2015	75

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

Three Months Ended March 31, 2014	\$—
Three Months Ended March 31, 2015	60
Nine Months Ended March 31, 2014	609
Nine Months Ended March 31, 2015	60

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

June 30, 2014	\$4
March 31, 2015	1

## 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 74.77% 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 25.23% 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 December 28, 2012, Prospect initially made a \$47,663 investment (including the fair value of 897,906 common shares of Prospect for \$9,581 on that date, which were included in the purchase cost paid to acquire Credit Central) in Credit Central Delaware, of which \$38,082 was a Senior Secured Revolving Credit Facility and \$9,581 to purchase the membership interests of Credit Central Delaware. The proceeds were partially utilized to purchase 74.75% of Credit Central’s membership interests for \$43,293. The remaining proceeds were used to pay \$1,440 of structuring fees from Credit Central Delaware to Prospect (which was recognized by Prospect as structuring fee income), \$638 for third party expenses, \$292 for legal services provided by attorneys at Prospect Administration and \$2,000 was retained by Credit Central Delaware for working capital. On March 28, 2014, Prospect funded an additional \$2,500 (\$2,125 to the Senior Secured Revolving Credit Facility and \$375 to purchase additional membership interests of Credit Central Delaware) which was utilized by Credit Central Delaware to pay a \$2,000 dividend to Prospect and \$500 was retained by Credit Central Delaware for working capital.

On June 26, 2014, Prospect made a new \$36,333 second lien term loan to Credit Central. Credit Central then distributed this amount to Credit Central Delaware as a return of capital which was used to pay down the Senior Secured Revolving Credit Facility from Credit Central Delaware by the same amount. The remaining amount of the Senior Secured Revolving Credit Facility, \$3,874, was then converted to additional membership interests in Credit Central Delaware.

On July 1, 2014, Prospect began consolidating Credit Central Delaware. As a result, any transactions between Credit Central Delaware and Prospect are eliminated in consolidation and as such, transactions after July 1, 2014 are not presented below.

During the nine months ended March 31, 2015, Credit Central repurchased shares of Credit Central stock from a former Credit Central employee, decreasing the number of shares outstanding and increasing Prospect’s ownership to 74.77%.

In addition to the repayments noted above, the following amounts were paid from Credit Central to Prospect and recorded by Prospect as repayment of loan receivable:

Three Months Ended March 31, 2014	\$—
Three Months Ended March 31, 2015	300
Nine Months Ended March 31, 2014	—
Nine Months Ended March 31, 2015	300

During the three months ended March 31, 2015, Prospect reclassified \$159 of return of capital received from Credit Central Delaware in prior periods as dividend income.

The following dividends were declared and paid from Credit Central to Credit Central Delaware and recognized as dividend income by Credit Central Delaware:

Three Months Ended March 31, 2014	\$2,943
Three Months Ended March 31, 2015	N/A
Nine Months Ended March 31, 2014	7,596
Nine Months Ended March 31, 2015	N/A

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

Three Months Ended March 31, 2014	\$2,000
Three Months Ended March 31, 2015	N/A
Nine Months Ended March 31, 2014	5,000
Nine Months Ended March 31, 2015	N/A

All dividends were paid from earnings and profits of Credit Central and Credit Central Delaware.

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

Three Months Ended March 31, 2014	\$ 1,905
Three Months Ended March 31, 2015	N/A
Nine Months Ended March 31, 2014	5,819
Nine Months Ended March 31, 2015	N/A

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

Three Months Ended March 31, 2014	\$—
Three Months Ended March 31, 2015	1,824
Nine Months Ended March 31, 2014	—
Nine Months Ended March 31, 2015	5,538

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

Three Months Ended March 31, 2014	\$—
Three Months Ended March 31, 2015	300
Nine Months Ended March 31, 2014	—
Nine Months Ended March 31, 2015	300

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, 2014	\$ 20
March 31, 2015	20

The following royalty payments were paid from Credit Central Delaware to Prospect and recognized by Prospect as other income:

Three Months Ended March 31, 2014	\$ 147
Three Months Ended March 31, 2015	N/A
Nine Months Ended March 31, 2014	380
Nine Months Ended March 31, 2015	N/A

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

Three Months Ended March 31, 2014	\$—
Three Months Ended March 31, 2015	608
Nine Months Ended March 31, 2014	—
Nine Months Ended March 31, 2015	608

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

Three Months Ended March 31, 2014	\$ 175
Three Months Ended March 31, 2015	175
Nine Months Ended March 31, 2014	525
Nine Months Ended March 31, 2015	525

The following managerial assistance payments received by Prospect had not yet been remitted to Prospect Administration and were included by Prospect within due to Prospect Administration:

June 30, 2014	\$ 175
March 31, 2015	175

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

Three Months Ended March 31, 2014	\$ 15
Three Months Ended March 31, 2015	—
Nine Months Ended March 31, 2014	126
Nine Months Ended March 31, 2015	—

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

June 30, 2014	\$ 38
March 31, 2015	30

#### 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 March 31, 2014, Prospect initially made a \$92,628 investment in Echelon, of which \$78,521 was a Senior Secured Revolving Credit Facility and \$14,107 to purchase the membership interests of Echelon. The proceeds were partially utilized to purchase 60.7% of AerLift’s membership interests for \$83,657. The remaining proceeds were used to pay \$2,771 of structuring fees from Echelon to Prospect (which was recognized by Prospect as structuring fee income), \$540 for third party expenses, \$664 for legal and tax services provided by Prospect Administration and \$4,996 was retained by Echelon for working capital.

On July 1, 2014, Prospect sold a \$400 participation in the Senior Secured Revolving Credit Facility, equal to 0.51% of the outstanding principal amount on that date.

On September 15, 2014, Echelon made an optional partial prepayment of \$37,313 of the Senior Secured Revolving Credit Facility outstanding.

On September 30, 2014, Prospect made an additional \$5,800 investment in the membership interests of Echelon.

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

Three Months Ended March 31, 2014	\$ 31
Three Months Ended March 31, 2015	1,428
Nine Months Ended March 31, 2014	31
Nine Months Ended March 31, 2015	5,451

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

June 30, 2014	\$ 2,809
March 31, 2015	968

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

Three Months Ended March 31, 2014	\$—
Three Months Ended March 31, 2015	125
Nine Months Ended March 31, 2014	—
Nine Months Ended March 31, 2015	250

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, 2014	\$—
March 31, 2015	63

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

June 30, 2014	\$63
March 31, 2015	—

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 March 31, 2014	\$662
Three Months Ended March 31, 2015	206
Nine Months Ended March 31, 2014	662
Nine Months Ended March 31, 2015	211

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

June 30, 2014	\$78
March 31, 2015	5

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. As of July 1, 2011, the cost basis of Prospect’s investment in Energy Solutions, including debt and equity, was \$42,003. In December 2011, Prospect completed a reorganization of Gas Solutions Holdings Inc. renaming the company Energy Solutions and transferring ownership of other operating companies owned by Prospect and operating within the energy industry. As part of the reorganization, Prospect transferred its debt and equity interests with cost basis of \$2,540 in Change Clean Energy Holdings, Inc. and Change Clean Energy, Inc. to Change Clean; \$12,504 in Freedom Marine Holdings, Inc. to Freedom Marine; and \$1,449 of Yatesville Coal Holdings, Inc. to Yatesville. Each of these entities is wholly owned (directly or indirectly) by Energy Solutions. On December 28, 2011, Prospect made a follow-on \$1,250 equity investment in Energy Solutions and a \$3,500 debt investment in Vessel.



On January 4, 2012, Energy Solutions sold its gas gathering and processing assets held in Gas Solutions II Ltd. (“Gas Solutions”) for a potential sale price of \$199,805, adjusted for the final working capital settlement, including a potential earn-out of \$28,000 that may be paid based on the future performance of Gas Solutions. After expenses, including structuring fees of \$9,966 paid to us, and \$3,152 of third-party expenses, Gas Solutions LP LLC and Gas Solutions GP LLC, subsidiaries of Gas Solutions, received \$157,100 and \$1,587 in cash, respectively, and subsequently distributed these amounts, \$158,687 in total, to Energy Solutions. The sale of Gas Solutions by Energy Solutions resulted in significant earnings and profits, as defined by the Code, at Energy Solutions for calendar year 2012. As a result, 2012 distributions from Energy Solutions to us were required to be recognized as dividend income, in accordance with ASC 946, as there were current year earnings and profits sufficient to support such recognition.

On November 25, 2013, Prospect restructured its investment in Freedom Marine. The \$12,504 subordinated secured loan to Jettco Marine Services, LLC, a subsidiary of Freedom Marine, was replaced with a senior secured note to Vessel II. On December 3, 2013, Prospect made a \$16,000 senior secured investment in Vessel III. Overall, the restructuring of Prospect’s investment in Freedom Marine provided approximately \$16,000 net new senior secured debt financing to support the acquisition of two new vessels. Prospect received \$2,480 of structuring fees from Energy Solutions related to the Freedom Marine restructuring which was recognized as other income.

On November 28, 2012 and January 1, 2014, Prospect received \$475 and \$25 of litigation settlement proceeds related to Change Clean and recorded a reduction in its equity investment cost basis for Energy Solutions, respectively.

On June 4, 2014, Gas Solutions GP LLC and Gas Solutions LP LLC merged with and into Freedom Marine, with Freedom Marine as the surviving entity.

On July 1, 2014, Prospect began consolidating Energy Solutions. As a result, any transactions between Energy Solutions and Prospect are eliminated in consolidation and as such, transactions after July 1, 2014 are not presented below. Transactions between Prospect and Freedom Marine are separately discussed below under “Freedom Marine Solutions, LLC.”

During the three months ended December 31, 2014, Prospect determined that the impairments of Change Clean and Yatesville were other-than-temporary and recorded a realized loss of \$1,449, reducing the amortized cost to zero.

In addition to the repayments noted above, the following amounts were paid from Energy Solutions to Prospect and recorded by Prospect as repayment of loan receivable:

Three Months Ended March 31, 2014	\$—
Three Months Ended March 31, 2015	N/A
Nine Months Ended March 31, 2014	8,500
Nine Months Ended March 31, 2015	N/A

The following interest payments, including prepayment penalty fees, were accrued and paid from Energy Solutions to Prospect and recognized by Prospect as interest income:

Three Months Ended March 31, 2014	\$—
Three Months Ended March 31, 2015	N/A
Nine Months Ended March 31, 2014	5,368
Nine Months Ended March 31, 2015	N/A

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

Three Months Ended March 31, 2014	\$45
Three Months Ended March 31, 2015	N/A
Nine Months Ended March 31, 2014	135
Nine Months Ended March 31, 2015	N/A

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, 2014	\$45
March 31, 2015	N/A

## 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.

On June 15, 2012, Prospect made a \$287,953 investment (including 14,518,207 common shares of Prospect at a fair value of \$160,571) in First Tower Delaware, of which \$244,760 was a Senior Secured Revolving Credit Facility and \$43,193 of membership interest in First Tower Delaware. The proceeds were utilized by First Tower Delaware to purchase 80.1% of the membership interests in First Tower Finance for \$282,968. The remaining proceeds at First Tower Delaware were used to pay \$4,038 of structuring fees from First Tower Delaware to Prospect (which was recognized by Prospect as structuring fee income), \$940 of legal services provided by attorneys at Prospect Administration, and \$7 of third party expenses. Prospect received an additional \$4,038 of structuring fees from First Tower (which was recognized by Prospect as structuring fee income). Management purchased the additional 19.9% of First Tower Finance common stock for \$70,300. The combined proceeds received by First Tower Finance of \$353,268 (\$282,968 equity financing from First Tower Delaware mentioned above and \$70,300 equity financing from management) were used to purchase 100% of the common stock of First Tower for \$338,042, pay \$11,188 of third-party expenses and \$4,038 of structuring fees from First Tower mentioned above (which was recognized by Prospect as structuring fee income).

On October 18, 2012, Prospect made an additional \$20,000 investment through the Senior Secured Revolving Credit Facility, \$12,008 of which was invested by First Tower Delaware in First Tower Finance as equity and \$7,992 of which was retained by First Tower Delaware as working capital. On December 30, 2013, Prospect funded an additional \$10,000 into First Tower Delaware, \$8,500 through the Senior Secured Revolving Credit Facility and \$1,500 through the purchase of additional membership interests in First Tower Delaware. \$8,000 of the proceeds were utilized by First Tower Delaware to pay structuring fees to Prospect for the renegotiation and expansion of First Tower’s third-party revolver, and \$2,000 of the proceeds were retained by First Tower Delaware for working capital. On June 24, 2014, Prospect made a new \$251,246 second lien term loan to First Tower. First Tower distributed this amount to First Tower Finance, which distributed this amount to First Tower Delaware as a return of capital. First Tower Delaware used the distribution to partially pay down the Senior Secured Revolving Credit Facility. The remaining \$23,712 of the Senior Secured Revolving Credit Facility was then converted to additional membership interests held by Prospect in First Tower Delaware.

On July 1, 2014, Prospect began consolidating First Tower Delaware. As a result, any transactions between First Tower Delaware and Prospect are eliminated in consolidation and as such, transactions after July 1, 2014 are not presented below.

The following dividends were declared and paid from First Tower Finance to First Tower Delaware and recognized as dividend income by First Tower Delaware:

Three Months Ended March 31, 2014	\$9,524
Three Months Ended March 31, 2015	N/A
Nine Months Ended March 31, 2014	25,766
Nine Months Ended March 31, 2015	N/A

During the three months ended December 31, 2014, Prospect reclassified \$1,929 of return of capital received from First Tower Finance in prior periods as dividend income.

All dividends were paid from earnings and profits of First Tower Finance.

The following cash distributions were declared and paid from First Tower Finance to First Tower Delaware and recognized as a return of capital by First Tower Delaware:

Three Months Ended March 31, 2014	\$3,755
Three Months Ended March 31, 2015	N/A
Nine Months Ended March 31, 2014	14,913
Nine Months Ended March 31, 2015	N/A



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

Three Months Ended March 31, 2014	\$ 13,663
Three Months Ended March 31, 2015	N/A
Nine Months Ended March 31, 2014	40,737
Nine Months Ended March 31, 2015	N/A

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

Three Months Ended March 31, 2014	\$ —
Three Months Ended March 31, 2015	14,334
Nine Months Ended March 31, 2014	—
Nine Months Ended March 31, 2015	38,921

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, 2014	\$ 119
March 31, 2015	154

The following royalty payments were paid from First Tower Delaware to Prospect and recognized by Prospect as other income:

Three Months Ended March 31, 2014	\$ 664
Three Months Ended March 31, 2015	N/A
Nine Months Ended March 31, 2014	2,045
Nine Months Ended March 31, 2015	N/A

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

Three Months Ended March 31, 2014	\$ 600
Three Months Ended March 31, 2015	N/A
Nine Months Ended March 31, 2014	1,800
Nine Months Ended March 31, 2015	N/A

At June 30, 2014, \$600 of managerial assistance received by Prospect had not yet been remitted to Prospect Administration and was included by Prospect within due to Prospect Administration.

The following managerial assistance payments were accrued and paid from First Tower Delaware to Prospect Administration and recognized by Prospect as an expense:

Three Months Ended March 31, 2014	\$ —
Three Months Ended March 31, 2015	600
Nine Months Ended March 31, 2014	—
Nine Months Ended March 31, 2015	1,800

At March 31, 2015, \$600 of managerial assistance recognized had not yet been paid by First Tower Delaware to Prospect Administration and was included by Prospect within due to Prospect Administration.

The following payments were paid from First Tower Delaware to Prospect Administration as reimbursement for legal, tax and portfolio level accounting services provided directly to First Tower Delaware (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 March 31, 2014	\$ 16
Three Months Ended March 31, 2015	N/A
Nine Months Ended March 31, 2014	243
Nine Months Ended March 31, 2015	N/A

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, 2014	\$37
March 31, 2015	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.

As of July 1, 2014, the cost basis of Prospect's total debt and equity investment in Freedom Marine was \$39,811, which consisted of the following: \$3,500 senior secured note to Vessel; \$12,504 senior secured note to Vessel II; \$16,000 senior secured note to Vessel III; and \$7,807 of equity.

On December 29, 2014, Freedom Marine reached a settlement for and received \$5,174, net of third party obligations, related to the contingent earn-out from the sale of Gas Solutions in January 2012 which was retained by Freedom Marine. This is a final settlement and no further payments are expected from the sale. (See "Energy Solutions Holdings Inc." above for more information related to the sale of Gas Solutions.)

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

Three Months Ended March 31, 2014	\$ 157
Three Months Ended March 31, 2015	157
Nine Months Ended March 31, 2014	481
Nine Months Ended March 31, 2015	480

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

June 30, 2014	\$2
March 31, 2015	2

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

Three Months Ended March 31, 2014	\$422
Three Months Ended March 31, 2015	422
Nine Months Ended March 31, 2014	596
Nine Months Ended March 31, 2015	1,286

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

June 30, 2014	\$5
March 31, 2015	5

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

Three Months Ended March 31, 2014	\$ 520
Three Months Ended March 31, 2015	520
Nine Months Ended March 31, 2014	688
Nine Months Ended March 31, 2015	1,583

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

June 30, 2014	\$ 6
March 31, 2015	6

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

Three Months Ended March 31, 2014	\$ —
Three Months Ended March 31, 2015	75
Nine Months Ended March 31, 2014	—
Nine Months Ended March 31, 2015	225

The following managerial assistance payments received by Prospect had not yet been remitted to Prospect Administration and were included by Prospect within due to Prospect Administration:

June 30, 2014	\$ —
March 31, 2015	75

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

Three Months Ended March 31, 2014	\$ —
Three Months Ended March 31, 2015	1
Nine Months Ended March 31, 2014	38
Nine Months Ended March 31, 2015	1

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

June 30, 2014	\$ 1
March 31, 2015	1

#### 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.

On October 12, 2012, Prospect initially made a \$42,000 first lien term loan to Gulf Coast, of which \$840 was used to pay structuring fees from Gulf Coast to Prospect (which was recognized by Prospect as structuring fee income).

During the year ended June 30, 2013, Gulf Coast repaid \$787 of the first lien term loan.

Between July 1, 2013 and November 8, 2013, Gulf Coast repaid \$263 of the first lien term loan, leaving a balance of \$40,950. On November 8, 2013, Gulf Coast issued \$25,950 of convertible preferred stock to Prospect (representing 99.9% of the voting securities of Gulf Coast) in exchange for crediting the same amount to the first lien term loan previously outstanding, leaving a first lien loan balance of \$15,000. Prior to this conversion, Prospect was just a lender to Gulf Coast and the investment was not a controlled investment. On November 29, 2013 and December 16, 2013, Prospect provided an additional \$1,000 and \$1,500, respectively, to fund working capital needs, increasing the first lien loan balance to \$17,500.

During the nine months ended March 31, 2015, Prospect made an additional \$5,500 investment in the first lien term loan to Gulf Coast to fund capital improvements to key forging equipment and other liquidity needs.

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

Three Months Ended March 31, 2014	\$ 547
Three Months Ended March 31, 2015	324
Nine Months Ended March 31, 2014	896
Nine Months Ended March 31, 2015	1,370

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

June 30, 2014	\$ 6
March 31, 2015	—

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

June 30, 2014	\$ 342
March 31, 2015	1

#### Harbortouch Payments, LLC

Prospect owns 100% of the equity of Harbortouch Holdings of Delaware Inc. (“Harbortouch Delaware”), a Consolidated Holding Company. Harbortouch Delaware owns 100% of the Class C voting units of Harbortouch Payments, LLC (“Harbortouch”), which provide for a 53.5% residual profits allocation. Harbortouch management owns 100% of the Class B and D voting units of Harbortouch, which provide for a 46.5% residual profits allocation. Harbortouch owns 100% of Credit Card Processing USA, LLC. Harbortouch is a provider of transaction processing services and point-of sale equipment used by merchants across the United States.

On March 31, 2014, Prospect made a \$147,898 investment (including 2,306,294 common shares of Prospect at a fair value of \$24,908) in Harbortouch Delaware. Of this amount, \$123,000 was loaned in exchanged for a subordinated note and \$24,898 was an equity contribution. Harbortouch Delaware utilized \$137,972 to purchase 100% of the Harbortouch Class A voting preferred units which provided an 11% preferred return and a 53.5% interest in the residual profits. Harbortouch Delaware used the remaining proceeds to pay \$4,920 of structuring fees to Prospect (which was recognized by Prospect as structuring fee income), \$1,761 for legal services provided by attorneys at Prospect Administration and \$3,245 was retained by Harbortouch Delaware for working capital. Additionally, on March 31, 2014, Prospect provided Harbortouch a senior secured loan of \$130,796. Prospect received a structuring fee of \$2,616 from Harbortouch (which was recognized by Prospect as structuring fee income).

On April 1, 2014, Prospect made a new \$137,226 senior secured term loan to Harbortouch. Harbortouch then distributed this amount to Harbortouch Delaware as a return of capital which was used to pay down the \$123,000 senior secured note from Harbortouch Delaware to Prospect. The remaining \$14,226 was distributed to Prospect as a return of capital of Prospect’s equity investment in Harbortouch Delaware.

On July 1, 2014, Prospect began consolidating Harbortouch Delaware. As a result, any transactions between Harbortouch Delaware and Prospect are eliminated in consolidation and as such, transactions after July 1, 2014 are not presented below.

On September 30, 2014, Prospect made a new \$26,431 senior secured term loan to Harbortouch to support an acquisition. As part of the transaction, Prospect received \$529 of structuring fees (which was recognized by Prospect as structuring fee income) and \$50 of amendment fees (which was recognized by Prospect as amendment fee income).

On December 19, 2014, Prospect made an additional \$1,292 equity investment in Harbortouch Class C voting units. This amount was deferred consideration stipulated in the original agreement.

In addition to the repayments noted above, the following amounts were paid from Harbortouch to Prospect and recorded by Prospect as repayment of loan receivable:

Three Months Ended March 31, 2014	\$—
Three Months Ended March 31, 2015	1,914
Nine Months Ended March 31, 2014	—
Nine Months Ended March 31, 2015	3,554

The following cash distributions were declared and paid from Harbortouch to Harbortouch Holdings and recognized as a return of capital by Harbortouch Holdings:

Three Months Ended March 31, 2014	\$—
Three Months Ended March 31, 2015	41
Nine Months Ended March 31, 2014	—
Nine Months Ended March 31, 2015	41

During the three months ended March 31, 2015, Harbortouch Holdings reclassified \$27 of dividend income received from Harbortouch in prior periods as a return of capital.

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

Three Months Ended March 31, 2014	\$55
Three Months Ended March 31, 2015	N/A
Nine Months Ended March 31, 2014	55
Nine Months Ended March 31, 2015	N/A

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

Three Months Ended March 31, 2014	\$33
Three Months Ended March 31, 2015	7,502
Nine Months Ended March 31, 2014	33
Nine Months Ended March 31, 2015	22,092

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

June 30, 2014	\$ 1,962
March 31, 2015	7,714

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

Three Months Ended March 31, 2014	\$—
Three Months Ended March 31, 2015	125
Nine Months Ended March 31, 2014	—
Nine Months Ended March 31, 2015	375

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, 2014	\$ 125
March 31, 2015	125



The following payments were paid from Harbortouch to Prospect Administration as reimbursement for legal, tax and portfolio level accounting services provided directly to Harbortouch (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 March 31, 2014	\$ 1,761
Three Months Ended March 31, 2015	—
Nine Months Ended March 31, 2014	1,761
Nine Months Ended March 31, 2015	31

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

June 30, 2014	\$—
March 31, 2015	2

#### Manx Energy, Inc.

As of June 30, 2014, Prospect owned 41% of the equity of Manx Energy, Inc. (“Manx”). Manx was formed on January 19, 2010 for the purpose of rolling up the assets of existing Prospect portfolio companies, Coalbed, LLC (“Coalbed”), Appalachian Energy LLC (f/k/a Appalachian Energy Holdings, LLC) (“AEH”) and Kinley Exploration LLC. The three companies were combined under new common management.

On January 19, 2010, Prospect made a \$2,800 investment at closing to Manx to provide for working capital. On the same date, Prospect exchanged \$2,100 and \$4,500 of the loans to AEH and Coalbed, respectively, for Manx preferred equity, and Prospect’s AEH equity interest was converted into Manx common stock. There was no change to fair value at the time of restructuring, and Prospect continued to fully reserve any income accrued for Manx. On October 15, 2010 and May 26, 2011, Prospect increased its loan to Manx in the amount of \$500 and \$250, respectively, to provide additional working capital. As of June 30, 2011, the cost basis of Prospect’s investment in Manx, including debt and equity, was \$19,019.

On June 30, 2012, AEH and Coalbed loans held by Manx with a cost basis of \$7,991 were removed from Manx and contributed by Prospect to Wolf Energy Holdings Inc., a separate holding company wholly owned by Prospect.

During the three months ended June 30, 2013, Prospect determined that the impairment of Manx was other-than-temporary and recorded a realized loss of \$9,397 for the amount that the amortized cost exceeded the fair value, reducing the amortized cost to \$500. During the year ended June 30, 2014, Manx repaid \$450 of the senior secured note. During the three months ended December 31, 2014, Manx was dissolved and Prospect recorded a realized loss of \$50, reducing the amortized cost to zero.

#### 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.

On September 19, 2013, Prospect made a \$29,735 investment in MITY Delaware, of which \$22,792 was a senior secured debt to MITY Delaware and \$6,943 was a capital contribution to the equity of MITY Delaware. The proceeds were partially utilized to purchase 97.7% of MITY common stock for \$21,027. The remaining proceeds were used to issue a \$7,200 note from Broda Canada to MITY Delaware, pay \$684 of structuring fees from MITY Delaware to Prospect (which was recognized by Prospect as structuring fee income), \$311 for legal services provided by attorneys employed by Prospect Administration and \$513 was retained by MITY Delaware for working capital.

On September 19, 2013, Prospect made an additional \$18,250 senior secured debt investment in MITY. The proceeds were used to repay existing third-party indebtedness, pay \$365 of structuring fees from MITY to Prospect (which was recognized by Prospect as structuring fee income), pay \$1,143 of third party expenses and \$2,580 was retained by MITY for working capital. Members of management of MITY purchased additional shares of common stock of MITY, reducing MITY Delaware’s ownership to 94.99%. MITY, MITY-Lite and Broda USA are joint borrowers on the senior secured debt of MITY.

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On June 23, 2014, Prospect made a new \$15,769 debt investment in MITY and MITY distributed proceeds to MITY Delaware as a return of capital. MITY Delaware used this distribution to pay down the senior secured debt of MITY Delaware to Prospect by the same amount. The remaining amount of the senior secured debt due from MITY Delaware to Prospect, \$7,200, was then contributed to the capital of MITY Delaware. On June 23, 2014, Prospect also extended a new \$7,500 senior secured revolving facility to MITY, which was unfunded at closing.

On July 1, 2014, Prospect began consolidating MITY Delaware. As a result, any transactions between MITY Delaware and Prospect are eliminated in consolidation and as such, transactions after July 1, 2014 are not presented below.

During the nine months ended March 31, 2015, Prospect funded \$2,500 of MITY's senior secured revolving facility, which MITY fully repaid during that time.

The following dividends were declared and paid from MITY to MITY Delaware and recognized as dividend income by MITY Delaware:

Three Months Ended March 31, 2014	\$6
Three Months Ended March 31, 2015	N/A
Nine Months Ended March 31, 2014	473
Nine Months Ended March 31, 2015	N/A

All dividends were paid from earnings and profits of MITY.

The following cash distributions were declared and paid from MITY to MITY Delaware and recognized as a return of capital by MITY Delaware:

Three Months Ended March 31, 2014	\$601
Three Months Ended March 31, 2015	N/A
Nine Months Ended March 31, 2014	737
Nine Months Ended March 31, 2015	N/A

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

Three Months Ended March 31, 2014	\$1,033
Three Months Ended March 31, 2015	N/A
Nine Months Ended March 31, 2014	2,224
Nine Months Ended March 31, 2015	N/A

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

Three Months Ended March 31, 2014	\$—
Three Months Ended March 31, 2015	N/A
Nine Months Ended March 31, 2014	177
Nine Months Ended March 31, 2015	N/A

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

Three Months Ended March 31, 2014	\$—
Three Months Ended March 31, 2015	149
Nine Months Ended March 31, 2014	—
Nine Months Ended March 31, 2015	486

During the three and nine months ended March 31, 2015, there was an unfavorable fluctuation in the foreign currency exchange rate and MITY Delaware recognized \$3 of realized loss related to its investment in Broda Canada.

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

Three Months Ended March 31, 2014	\$456
Three Months Ended March 31, 2015	1,259
Nine Months Ended March 31, 2014	983
Nine Months Ended March 31, 2015	3,874

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

Three Months Ended March 31, 2014	\$—
Three Months Ended March 31, 2015	127
Nine Months Ended March 31, 2014	—
Nine Months Ended March 31, 2015	127

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

June 30, 2014	\$14
March 31, 2015	14

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

Three Months Ended March 31, 2014	\$75
Three Months Ended March 31, 2015	75
Nine Months Ended March 31, 2014	150
Nine Months Ended March 31, 2015	235

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, 2014	\$75
March 31, 2015	75

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

June 30, 2014	\$10
March 31, 2015	—

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

Three Months Ended March 31, 2014	\$12
Three Months Ended March 31, 2015	121
Nine Months Ended March 31, 2014	490
Nine Months Ended March 31, 2015	121

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

June 30, 2014	\$5
March 31, 2015	3

National Property REIT Corp.

Prospect owns 100% of the equity of NPH Property Holdings, LLC (“NPH”), a Consolidated Holding Company. NPH owns 100% of the common equity of National Property REIT Corp. (f/k/a National Property Holdings Corp.) (“NPRC”). 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 December 31, 2013, APRC distributed its majority interests in five JVs holding real estate assets to APH. APH then distributed these JV interests to Prospect in a transaction characterized as a return of capital. Prospect, on the same day, contributed certain of these JV interests to NPH and the remainder to UPH (each wholly-owned subsidiaries of Prospect). Each of NPH and UPH immediately thereafter contributed these JV interests to NPRC and UPRC, respectively. The total investments in the JVs transferred to NPH and from NPH to NPRC consisted of \$79,309 and \$16,315 of debt and equity financing, respectively. There was no material gain or loss realized on these transactions.

On December 31, 2013, Prospect made a \$10,620 investment in NPH, of which \$8,800 was a Senior Term Loan and \$1,820 was used to purchase additional membership interests of NPH. The proceeds were utilized by NPH to purchase additional NPRC common equity for \$10,620. The proceeds were utilized by NPRC to purchase a 93.0% ownership interest in APH Carroll Bartram Park, LLC for \$10,288 and to pay \$113 of structuring fees to Prospect (which was recognized by Prospect as structuring fee income), with \$219 retained by NPRC for working capital. The JV was purchased for \$38,000 which included debt financing and minority interest of \$28,500 and \$774, respectively. The remaining proceeds were used to pay \$206 of structuring fees to Prospect (which was recognized by Prospect as structuring fee income), \$1,038 of third party expenses, \$5 of legal services provided by attorneys at Prospect Administration, and \$304 of prepaid assets, with \$9 retained by the JV for working capital.

Between January 7, 2014 and March 13, 2014, Prospect made a \$14,000 investment in NPH, of which \$11,900 was a Senior Term Loan and \$2,100 was used to purchase additional membership interests of NPH. The proceeds were utilized by certain of NPRC’s wholly-owned subsidiaries to purchase online consumer loans from a third party.

On January 31, 2014, Prospect made a \$4,805 investment in NPH, of which \$4,000 was a Senior Term Loan and \$805 used to purchase additional membership interests of NPH. The proceeds were utilized by NPH to purchase additional NPRC common equity for \$4,805. The proceeds were utilized by NPRC to purchase a 93.0% ownership interest in APH Carroll Atlantic Beach, LLC for \$4,603 and to pay \$52 of structuring fees to Prospect (which was recognized by Prospect as structuring fee income), with \$150 retained by NPRC for working capital. The JV was purchased for \$13,025 which included debt financing and minority interest of \$9,118 and \$346, respectively. The remaining proceeds were used to pay \$92 of structuring fees to Prospect (which was recognized by Prospect as structuring fee income), \$681 of third party expenses, \$7 of legal services provided by attorneys at Prospect Administration, and \$182 of prepaid assets, with \$80 retained by the JV for working capital.

Effective April 1, 2014, Prospect made a new \$104,460 senior term loan to NPRC. NPRC then distributed this amount to NPH as a return of capital which was used to pay down the Senior Term Loan from NPH by the same amount.

Between April 3, 2014 and May 21, 2014, Prospect made an \$11,000 investment in NPH and NPRC, of which \$9,350 was a Senior Term Loan to NPRC and \$1,650 was used to purchase additional membership interests of NPH. The proceeds were utilized by NPH to purchase additional NPRC common equity for \$1,650. The proceeds were utilized by certain of NPRC’s wholly-owned subsidiaries to purchase online consumer loans from a third party.

On July 1, 2014, Prospect began consolidating NPH. As a result, any transactions between NPH and Prospect are eliminated in consolidation and as such, transactions after July 1, 2014 are not presented below.



On January 16, 2015, Prospect made a \$13,871 investment in NPRC, of which \$11,810 was a Senior Term Loan directly to NPRC and \$2,061 was used to purchase additional common equity of NPRC through NPH. The proceeds were utilized by NPRC to purchase additional ownership interest in Michigan Storage, LLC (which was originally purchased by UPRC and transferred to NPRC, as discussed below) for \$13,854, with \$17 retained by NPRC for working capital. The minority interest holder also invested an additional \$2,445 in the JV. With additional debt financing of \$12,602, the total proceeds were used by the JV to purchase five additional properties for \$26,405. The remaining proceeds were used to pay \$276 of structuring fees to Prospect (which was recognized by Prospect as structuring fee income), \$1,762 of third party expenses, \$65 in pre-funded capital expenditures, and \$393 of prepaid assets.

During the nine months ended March 31, 2015, APRC and UPRC transferred their investments in certain properties to NPRC. As a result, Prospect's investments in APRC and UPRC related to these properties also transferred to NPRC. The investments transferred consisted of \$11,518 of equity and \$75,030 of debt. There was no gain or loss realized on these transactions.

On March 17, 2015, Prospect entered into a new credit agreement, effective June 30, 2014, with ACL Loan Holdings, Inc. ("ACLLH"), a wholly-owned subsidiary of NPRC. The new credit agreement was in the form of two tranches of senior secured term loans, Term Loan A and Term Loan B, with the same terms as the existing NPRC Term Loan A and Term Loan B due to Prospect. On June 30, 2014, ACLLH made a non-cash return of capital distribution of \$22,390 to NPRC and NPRC transferred and assigned to ACLLH a senior secured Term Loan A due to Prospect. During the nine months ended March 31, 2015, Prospect made twenty-nine follow-on investments in NPRC totaling \$174,500 to support the online consumer lending initiative. Prospect invested \$39,425 of equity through NPH and \$135,075 of debt directly to NPRC and its wholly-owned subsidiaries. In addition, during the nine months ended March 31, 2015, Prospect received partial repayments of \$31,365 of the NPRC loan previously outstanding and \$5,577 as a return of capital on the equity investment in NPRC.

The following dividends were declared and paid from NPRC to NPH (partially via a wholly-owned subsidiary of NPH) and recognized as dividend income by NPH:

Three Months Ended March 31, 2014	\$2,696
Three Months Ended March 31, 2015	N/A
Nine Months Ended March 31, 2014	2,696
Nine Months Ended March 31, 2015	N/A

All dividends were paid from earnings and profits of NPRC.

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

Three Months Ended March 31, 2014	\$2,832
Three Months Ended March 31, 2015	N/A
Nine Months Ended March 31, 2014	2,838
Nine Months Ended March 31, 2015	N/A

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

Three Months Ended March 31, 2014	\$432
Three Months Ended March 31, 2015	N/A
Nine Months Ended March 31, 2014	432
Nine Months Ended March 31, 2015	N/A

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

Three Months Ended March 31, 2014	\$—
Three Months Ended March 31, 2015	4,832
Nine Months Ended March 31, 2014	—
Nine Months Ended March 31, 2015	14,775





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

Three Months Ended March 31, 2014	\$—
Three Months Ended March 31, 2015	1,738
Nine Months Ended March 31, 2014	—
Nine Months Ended March 31, 2015	3,056

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

June 30, 2014	\$—
March 31, 2015	55

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

Three Months Ended March 31, 2014	\$—
Three Months Ended March 31, 2015	3,293
Nine Months Ended March 31, 2014	—
Nine Months Ended March 31, 2015	3,293

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

June 30, 2014	\$—
March 31, 2015	48

The following royalty payments were paid from NPH to Prospect and recognized by Prospect as other income:

Three Months Ended March 31, 2014	\$ 278
Three Months Ended March 31, 2015	N/A
Nine Months Ended March 31, 2014	278
Nine Months Ended March 31, 2015	N/A

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

Three Months Ended March 31, 2014	\$—
Three Months Ended March 31, 2015	506
Nine Months Ended March 31, 2014	—
Nine Months Ended March 31, 2015	1,150

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

Three Months Ended March 31, 2014	\$ 128
Three Months Ended March 31, 2015	128
Nine Months Ended March 31, 2014	128
Nine Months Ended March 31, 2015	383

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, 2014	\$ 128
March 31, 2015	128

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 March 31, 2014	\$7
Three Months Ended March 31, 2015	649
Nine Months Ended March 31, 2014	7
Nine Months Ended March 31, 2015	709

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, 2014	\$13
March 31, 2015	66

#### Nationwide Acceptance 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 Acceptance LLC (“Nationwide”), with members of Nationwide management owning the remaining 6.21% of the equity.

On January 31, 2013, Prospect initially made a \$25,151 investment in Nationwide Holdings, of which \$21,308 was a Senior Secured Revolving Credit Facility and \$3,843 was in the form of membership interests in Nationwide Holdings. \$21,885 of the proceeds were utilized to purchase 93.79% of the membership interests in Nationwide. Proceeds were also used to pay \$753 of structuring fees from Nationwide Holdings to Prospect (which was recognized by Prospect as structuring fee income), \$350 of third party expenses and \$163 of legal services provided by attorneys at Prospect Administration. The remaining \$2,000 was retained by Nationwide Holdings as working capital.

In December 2013, Prospect received \$1,500 of structuring fees from Nationwide Holdings related to the amendment of the loan agreement. On March 28, 2014, Prospect funded an additional \$4,000 to Nationwide Holdings (\$3,400 through the Senior Secured Revolving Credit Facility and \$600 to purchase additional membership interests in Nationwide Holdings). The additional funding along with cash on hand was utilized by Nationwide Holdings to fund a \$5,000 dividend to Prospect.

On June 18, 2014, Prospect made a new \$14,820 second lien term loan to Nationwide. Nationwide distributed this amount to Nationwide Holdings as a return of capital. Nationwide Holdings used the distribution to pay down the Senior Secured Revolving Credit Facility. The remaining \$9,888 of the Senior Secured Revolving Credit Facility was then converted to additional membership interests in Nationwide Holdings.

On July 1, 2014, Prospect began consolidating Nationwide Holdings. As a result, any transactions between Nationwide Holdings and Prospect are eliminated in consolidation and as such, transactions after July 1, 2014 are not presented below.

On September 30, 2014, Prospect made an additional \$938 equity investment in Nationwide.

The following dividends were declared and paid from Nationwide to Nationwide Holdings and recognized as dividend income by Nationwide Holdings:

Three Months Ended March 31, 2014	\$1,984
Three Months Ended March 31, 2015	N/A
Nine Months Ended March 31, 2014	5,694
Nine Months Ended March 31, 2015	N/A

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

Three Months Ended March 31, 2014	\$5,000
Three Months Ended March 31, 2015	N/A
Nine Months Ended March 31, 2014	5,000
Nine Months Ended March 31, 2015	N/A

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

Three Months Ended March 31, 2014	\$—
Three Months Ended March 31, 2015	1,139
Nine Months Ended March 31, 2014	—
Nine Months Ended March 31, 2015	2,444

All dividends were paid from earnings and profits of Nationwide and Nationwide Holdings.

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

Three Months Ended March 31, 2014	\$ 1,067
Three Months Ended March 31, 2015	N/A
Nine Months Ended March 31, 2014	3,245
Nine Months Ended March 31, 2015	N/A

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

Three Months Ended March 31, 2014	\$—
Three Months Ended March 31, 2015	741
Nine Months Ended March 31, 2014	—
Nine Months Ended March 31, 2015	2,256

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

June 30, 2014	\$ 8
March 31, 2015	8

The following royalty payments were paid from Nationwide Holdings to Prospect and recognized by Prospect as other income:

Three Months Ended March 31, 2014	\$ 99
Three Months Ended March 31, 2015	N/A
Nine Months Ended March 31, 2014	285
Nine Months Ended March 31, 2015	N/A

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

Three Months Ended March 31, 2014	\$ 100
Three Months Ended March 31, 2015	100
Nine Months Ended March 31, 2014	300
Nine Months Ended March 31, 2015	300

The following managerial assistance payments received by Prospect had not yet been remitted to Prospect Administration and were included by Prospect within due to Prospect Administration:

June 30, 2014	\$ 100
March 31, 2015	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 March 31, 2014	\$ 17
Three Months Ended March 31, 2015	—
Nine Months Ended March 31, 2014	228
Nine Months Ended March 31, 2015	4

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

June 30, 2014	\$ 2
March 31, 2015	—

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

June 30, 2014	\$—
March 31, 2015	16

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.

On May 6, 2011, Prospect initially made a \$34,450 investment (of which \$31,750 was funded at closing) in NMMB Holdings and NMMB, of which \$24,250 was a senior secured term loan to NMMB, \$3,000 was a senior secured revolver to NMMB (of which \$300 was funded at closing), \$2,800 was a senior subordinated term loan to NMMB Holdings and \$4,400 to purchase 100% of the Series A Preferred Stock of NMMB Holdings. The proceeds received by NMMB were used to purchase 100% of the equity of Refuel Agency and assets related to the business for \$30,069, pay \$1,035 of structuring fees to Prospect (which was recognized by Prospect as structuring fee income), pay \$396 for third party expenses and \$250 was retained by NMMB for working capital. On May 31, 2011, NMMB repaid the \$300 senior secured revolver.

During the year ended June 30, 2012, NMMB repaid \$2,550 of the senior secured term loan. During the year ended June 30, 2013, NMMB repaid \$5,700 of the senior secured term loan due.

On December 13, 2013, Prospect invested \$8,086 for preferred equity to recapitalize NMMB Holdings. The proceeds were used by NMMB Holdings to repay in full the \$2,800 outstanding under the subordinated term loan and the remaining \$5,286 of proceeds from Prospect were used by NMMB Holdings to purchase preferred equity in NMMB. NMMB used the proceeds from the preferred equity issuance to pay down the senior term loan.

On June 12, 2014, Prospect made a new \$7,000 senior secured term loan to Armed Forces. Armed Forces distributed this amount to Refuel Agency as a return of capital. Refuel Agency distributed this amount to NMMB as a return of capital, which was used to pay down \$7,000 of NMMB’s \$10,714 senior secured term loan to Prospect.

On July 1, 2014, Prospect began consolidating NMMB Holdings. As a result, any transactions between NMMB Holdings and Prospect are eliminated in consolidation and as such, transactions after July 1, 2014 are not presented below.

On October 1, 2014, Prospect made an additional \$383 equity investment in NMMB Series B Preferred Stock, increasing Prospect’s ownership to 93.13%. During the three months ended March 31, 2015, NMMB repurchased 460 shares of NMMB stock from a former NMMB executive, decreasing the number of shares outstanding and increasing Prospect’s ownership to 96.33%.

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

Three Months Ended March 31, 2014	\$—
Three Months Ended March 31, 2015	N/A
Nine Months Ended March 31, 2014	192
Nine Months Ended March 31, 2015	N/A

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

Three Months Ended March 31, 2014	\$375
Three Months Ended March 31, 2015	130
Nine Months Ended March 31, 2014	1,480
Nine Months Ended March 31, 2015	393

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

June 30, 2014	\$1
March 31, 2015	1

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

Three Months Ended March 31, 2014	\$—
Three Months Ended March 31, 2015	245
Nine Months Ended March 31, 2014	—
Nine Months Ended March 31, 2015	749

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, 2014	\$3
March 31, 2015	3

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

Three Months Ended March 31, 2014	\$—
Three Months Ended March 31, 2015	—
Nine Months Ended March 31, 2014	100
Nine Months Ended March 31, 2015	—

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, 2014	\$300
March 31, 2015	600

The following payments were paid from NMMB to Prospect Administration as reimbursement for legal, tax and portfolio level accounting services provided directly to NMMB (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 March 31, 2014	\$ 15
Three Months Ended March 31, 2015	—
Nine Months Ended March 31, 2014	15
Nine Months Ended March 31, 2015	—

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, 2014	\$ 1
March 31, 2015	1

R-V Industries, Inc.

As of July 1, 2011 and continuing through March 31, 2015, 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 November 30, 2012, Prospect made a \$9,500 second lien term loan to R-V and R-V received an additional \$4,000 of senior secured financing from a third-party lender. The combined \$13,500 of proceeds was partially utilized by R-V to pay a dividend to its common stockholders in an aggregate amount equal to \$13,288 (including \$11,073 to Prospect recognized by Prospect as a dividend). The remaining proceeds were used by R-V to pay \$142 of structuring fees to Prospect (which was recognized by Prospect as structuring fee income), \$47 for third party expenses and \$23 for legal services provided by attorneys at Prospect Administration.

On June 12, 2013, Prospect provided an additional \$23,250 to the second lien term loan to R-V. The proceeds were partially utilized by R-V to pay a dividend to the common stockholders in an aggregate amount equal to \$15,000 (including \$13,240 dividend to Prospect). The remaining proceeds were used to pay off \$7,835 of outstanding debt due from R-V to a third-party, \$11 for legal services provided by attorneys at Prospect Administration and \$404 was retained by R-V for working capital. On February 28, 2014, R-V repaid \$2,339 of the second lien term loan due to Prospect.

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

Three Months Ended March 31, 2014	\$ 75
Three Months Ended March 31, 2015	75
Nine Months Ended March 31, 2014	1,026
Nine Months Ended March 31, 2015	224

All dividends were paid from earnings and profits of R-V.

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

Three Months Ended March 31, 2014	\$ 789
Three Months Ended March 31, 2015	761
Nine Months Ended March 31, 2014	2,428
Nine Months Ended March 31, 2015	2,281

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

Three Months Ended March 31, 2014	\$ 45
Three Months Ended March 31, 2015	45
Nine Months Ended March 31, 2014	135
Nine Months Ended March 31, 2015	135

The following managerial assistance payments received by Prospect had not yet been remitted to Prospect Administration and were included by Prospect within due to Prospect Administration:

June 30, 2014	\$45
March 31, 2015	45

The following amounts were due to R-V from Prospect for reimbursement of expenses paid by R-V on behalf of Prospect and were included by Prospect within other liabilities:

June 30, 2014	\$2
March 31, 2015	2

United Property REIT Corp.

Prospect owns 100% of the equity of UPH Property Holdings, LLC (“UPH”), a Consolidated Holding Company. UPH owns 100% of the common equity of United Property REIT Corp. (f/k/a United Property Holdings Corp.) (“UPRC”). UPRC is a Maryland corporation and a qualified REIT for federal income tax purposes. In order to qualify as a REIT, UPRC 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 UPRC.

UPRC 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. UPRC acquires real estate assets, including, but not limited to, industrial, commercial, and multi-family properties. UPRC may acquire real estate assets directly or through joint ventures by making a majority equity investment in a property-owning entity (the “JV”).

On December 31, 2013, APRC distributed its majority interests in five JVs holding real estate assets to APH. APH then distributed these JV interests to Prospect in a transaction characterized as a return of capital. Prospect, on the same day, contributed certain of these JV interests to NPH and the remainder to UPH (each wholly-owned subsidiaries of Prospect). Each of NPH and UPH immediately thereafter contributed these JV interests to NPRC and UPRC, respectively. The total investments in the JVs transferred to UPH and from UPH to UPRC consisted of \$18,855 and \$3,707 of debt and equity financing, respectively. There was no material gain or loss realized on these transactions.

Effective April 1, 2014, Prospect made a new \$19,027 senior term loan to UPRC. UPRC then distributed this amount to UPH as a return of capital which was used to pay down the Senior Term Loan from UPH by the same amount.

On June 4, 2014, Prospect made a \$1,405 investment in UPH to purchase additional membership interests of UPH, which was revised to \$1,420 on July 1, 2014. The proceeds were utilized by UPH to purchase additional UPRC common equity for \$1,420. The proceeds were utilized by UPRC to acquire the real property located at 1201 West College, Marshall, MO (“Taco Bell, MO”) for \$1,405 and pay \$15 of third party expenses.

On July 1, 2014, Prospect began consolidating UPH. As a result, any transactions between UPH and Prospect are eliminated in consolidation and as such, transactions after July 1, 2014 are not presented below.

On August 19, 2014 and August 27, 2014, Prospect made a combined \$11,046 investment in UPRC, of which \$9,389 was a Senior Term Loan directly to UPRC and \$1,657 was used to purchase additional common equity of UPRC through UPH. On October 1, 2015, UPRC distributed \$376 to Prospect as a return of capital. The net proceeds were utilized by UPRC to purchase an 85.0% ownership interest in Michigan Storage, LLC for \$10,579, with \$42 retained by UPRC for working capital and \$49 restricted for future property acquisitions. The JV was purchased for \$38,275 which included debt financing and minority interest of \$28,705 and \$1,867, respectively. The remaining proceeds were used to pay \$210 of structuring fees to Prospect (which was recognized by Prospect as structuring fee income), \$2,589 of third party expenses, and \$77 for legal services provided by attorneys at Prospect Administration. The investment was subsequently contributed to NPRC.

On September 29, 2014, Prospect made a \$22,618 investment in UPRC, of which \$19,225 was a Senior Term Loan and \$3,393 was used to purchase additional common equity of UPRC through UPH. The proceeds were utilized by UPRC to purchase a 92.5% ownership interest in Canterbury Green Apartments Holdings, LLC for \$22,036, with \$582 retained by UPRC for working capital. The JV was purchased for \$85,500 which included debt financing and minority interest of \$65,825 and \$1,787, respectively. The remaining proceeds were used to pay \$432 of structuring fees to Prospect (which was recognized by Prospect as structuring fee income), \$2,135 of third party expenses, \$82 for

legal services provided by attorneys at Prospect Administration, and \$1,249 of prepaid assets, with \$250 retained by the JV for working capital.

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On September 30, 2014 and October 29, 2014, Prospect made a combined \$22,688 investment in UPRC, of which \$19,290 was a Senior Term Loan and \$3,398 was used to purchase additional common equity of UPRC through UPH. The proceeds were utilized by UPRC to purchase a 66.2% ownership interest in Columbus OH Apartment Holdco, LLC for \$21,992 and to pay \$241 of structuring fees to Prospect (which was recognized by Prospect as structuring fee income), with \$455 retained by UPRC for working capital. The JV was purchased for \$114,377 which included debt financing and minority interest of \$97,902 and \$11,250, respectively. The remaining proceeds were used to pay \$440 of structuring fees to Prospect (which was recognized by Prospect as structuring fee income), \$7,711 of third party expenses, \$180 for legal services provided by attorneys at Prospect Administration, \$6,778 in pre-funded capital expenditures, and \$1,658 of prepaid assets.

On October 23, 2014, UPRC transferred its investment in certain properties to NPRC. As a result, Prospect's investment in UPRC related to these properties also transferred to NPRC. The investments transferred consisted of \$1,281 of equity and \$9,444 of debt. There was no gain or loss realized on these transactions.

On November 12, 2014, Prospect made a \$669 investment in UPRC, of which \$569 was a Senior Term Loan and \$100 was used to purchase additional common equity of UPRC through UPH. The proceeds were utilized by UPRC to purchase additional ownership interest in South Atlanta Portfolio Holding Company, LLC for \$667, with \$2 retained by UPRC for working capital. The minority interest holder also invested an additional \$53 in the JV. The proceeds were used by the JV to fund \$707 of capital expenditures and pay \$13 of structuring fees to Prospect (which was recognized by Prospect as structuring fee income).

The following dividends were declared and paid from UPRC to UPH and recognized as dividend income by UPH:

Three Months Ended March 31, 2014	\$ 510
Three Months Ended March 31, 2015	N/A
Nine Months Ended March 31, 2014	510
Nine Months Ended March 31, 2015	N/A

All dividends were paid from earnings and profits of UPRC.

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

Three Months Ended March 31, 2014	\$ 548
Three Months Ended March 31, 2015	N/A
Nine Months Ended March 31, 2014	548
Nine Months Ended March 31, 2015	N/A

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

Three Months Ended March 31, 2014	\$ 173
Three Months Ended March 31, 2015	N/A
Nine Months Ended March 31, 2014	173
Nine Months Ended March 31, 2015	N/A

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

Three Months Ended March 31, 2014	\$ —
Three Months Ended March 31, 2015	1,674
Nine Months Ended March 31, 2014	—
Nine Months Ended March 31, 2015	4,134

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

Three Months Ended March 31, 2014	\$ —
Three Months Ended March 31, 2015	—
Nine Months Ended March 31, 2014	—
Nine Months Ended March 31, 2015	162



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

June 30, 2014	\$6
March 31, 2015	19

The following royalty payments were paid from UPH to Prospect and recognized by Prospect as other income:

Three Months Ended March 31, 2014	\$69
Three Months Ended March 31, 2015	N/A
Nine Months Ended March 31, 2014	69
Nine Months Ended March 31, 2015	N/A

The following royalty payments were paid from UPRC to Prospect and recognized by Prospect as other income:

Three Months Ended March 31, 2014	\$—
Three Months Ended March 31, 2015	—
Nine Months Ended March 31, 2014	—
Nine Months Ended March 31, 2015	320

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

Three Months Ended March 31, 2014	\$50
Three Months Ended March 31, 2015	—
Nine Months Ended March 31, 2014	50
Nine Months Ended March 31, 2015	100

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, 2014	\$50
March 31, 2015	—

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

June 30, 2014	\$—
March 31, 2015	50

The following payments were paid from UPRC to Prospect Administration as reimbursement for legal, tax and portfolio level accounting services provided directly to UPRC (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 March 31, 2014	\$41
Three Months Ended March 31, 2015	104
Nine Months Ended March 31, 2014	41
Nine Months Ended March 31, 2015	177

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

June 30, 2014	\$32
March 31, 2015	9

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.

On December 31, 2012, Prospect initially invested \$52,098 (including 4,141,547 common shares of Prospect at a fair value of \$44,650) in exchange for \$32,572 was in the form of a senior secured note to Valley Holdings I, a \$10,000 senior secured note to Valley (discussed below) and \$9,526 to purchase the common stock of Valley Holdings I. The proceeds were partially utilized by Valley Holdings I to purchase 100% of Valley Holdings II common stock for \$40,528. The remaining proceeds at Valley Holdings I were used to pay \$977 of structuring fees from Valley Holdings I to Prospect (which were recognized by Prospect as structuring fee income), \$345 for legal services provided by attorneys at Prospect Administration and \$248 was retained by Valley Holdings I for working capital. The \$40,528 of proceeds received by Valley Holdings II were subsequently used to purchase 96.3% of Valley’s common stock. Valley management provided a \$1,500 co-investment in Valley.

On December 31, 2012, Prospect invested \$10,000 (as mentioned above) into Valley in the form of senior secured debt. Total proceeds of \$52,028 received by Valley (including \$42,028 equity investment mentioned above) were used to purchase the equity of Valley from third-party sellers for \$45,650, pay \$4,628 of third-party transaction expenses (including bonuses to Valley’s management of \$2,320), pay \$250 from Valley to Prospect (which were recognized by Prospect as structuring fee income) and \$1,500 was retained by Valley for working capital.

On June 24, 2014, Valley Holdings II 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%. Prospect made a new \$20,471 senior secured loan to Valley Electric. Valley Electric then distributed this amount to Valley Holdings I, via Valley Holdings II, as a return of capital which was used to pay down the senior secured note of Valley Holdings I by the same amount. The remaining principal amount of the senior secured note, \$16,754, was then contributed to the capital of Valley Holdings I.

On July 1, 2014, Prospect began consolidating Valley Holdings I and Valley Holdings II. As a result, any transactions between Valley Holdings I, Valley Holdings II and Prospect are eliminated in consolidation and as such, transactions after July 1, 2014 are not presented below.

In addition to the repayments noted above, the following amounts were paid from Valley to Prospect and recorded by Prospect as repayment of loan receivable:

Three Months Ended March 31, 2014	\$ 50
Three Months Ended March 31, 2015	—
Nine Months Ended March 31, 2014	150
Nine Months Ended March 31, 2015	—

The following dividends were declared and paid from Valley to Valley Holdings II, which were subsequently distributed to and recognized as dividend income by Valley Holdings I:

Three Months Ended March 31, 2014	\$ 867
Three Months Ended March 31, 2015	N/A
Nine Months Ended March 31, 2014	2,303
Nine Months Ended March 31, 2015	N/A

All dividends were paid from earnings and profits of Valley and Valley Holdings II.

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

Three Months Ended March 31, 2014	\$ 1,613
Three Months Ended March 31, 2015	N/A
Nine Months Ended March 31, 2014	4,792
Nine Months Ended March 31, 2015	N/A

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

Three Months Ended March 31, 2014	\$ 802
Three Months Ended March 31, 2015	N/A
Nine Months Ended March 31, 2014	2,386
Nine Months Ended March 31, 2015	N/A

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

Three Months Ended March 31, 2014	\$—
Three Months Ended March 31, 2015	972
Nine Months Ended March 31, 2014	—
Nine Months Ended March 31, 2015	2,906

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

Three Months Ended March 31, 2014	\$—
Three Months Ended March 31, 2015	454
Nine Months Ended March 31, 2014	—
Nine Months Ended March 31, 2015	1,335

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, 2014	\$45
March 31, 2015	546

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

Three Months Ended March 31, 2014	\$264
Three Months Ended March 31, 2015	268
Nine Months Ended March 31, 2014	806
Nine Months Ended March 31, 2015	812

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

Three Months Ended March 31, 2014	\$63
Three Months Ended March 31, 2015	64
Nine Months Ended March 31, 2014	192
Nine Months Ended March 31, 2015	194

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

June 30, 2014	\$3
March 31, 2015	3

The following royalty payments were paid from Valley Holdings I to Prospect and recognized by Prospect as other income:

Three Months Ended March 31, 2014	\$43
Three Months Ended March 31, 2015	N/A
Nine Months Ended March 31, 2014	115
Nine Months Ended March 31, 2015	N/A

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

Three Months Ended March 31, 2014	\$75
Three Months Ended March 31, 2015	75
Nine Months Ended March 31, 2014	225
Nine Months Ended March 31, 2015	225

The following managerial assistance payments received by Prospect had not yet been remitted to Prospect Administration and were included by Prospect within due to Prospect Administration:

June 30, 2014	\$75
March 31, 2015	75

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

Three Months Ended March 31, 2014	\$—
Three Months Ended March 31, 2015	—
Nine Months Ended March 31, 2014	86
Nine Months Ended March 31, 2015	18

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

June 30, 2014	\$—
March 31, 2015	2

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

June 30, 2014	\$6
March 31, 2015	—

Vets Securing America, Inc.

Prospect owns 100% of the equity of Vets Securing America, Inc. (“VSA”) and 100% of the equity of The Healing Staff, Inc. (“THS”), a former wholly-owned subsidiary of ESA Environmental Specialists, Inc. (“ESA”). During the nine months ended March 31, 2015, THS ceased operations. As of March 31, 2015, the VSA management team is supervising both the continued operations of VSA and the wind-down of activities at THS. VSA provides out-sourced security guards staffing.

As of July 1, 2011, the cost basis of Prospect’s investment in THS and VSA, including debt and equity, was \$18,219. During the year ended June 30, 2012, Prospect made follow-on secured debt investments of \$1,033 to support the ongoing operations of THS and VSA. In October 2011, Prospect sold a building previously acquired from ESA for \$894. In January 2012, Prospect received \$2,250 of litigation settlement proceeds related to ESA. The proceeds from both of these transactions were used to reduce the outstanding loan balances due from THS and VSA by \$3,144. In June 2012, THS and VSA repaid \$118 and \$42, respectively, of loans previously outstanding.

In May 2012, in connection with the implementation of accounts receivable based funding programs for THS and VSA with a third party provider, Prospect agreed to subordinate Prospect’s first priority security interest in all of the accounts receivable and other assets of THS and VSA to the third party provider of that accounts receivable based funding.

During the year ended June 30, 2013, Prospect determined that the impairment of THS and VSA was other-than-temporary and recorded a realized loss of \$12,117, reducing the amortized cost to \$3,831. During the nine months ended March 31, 2014, Prospect received \$5,000 of legal cost reimbursement related to the ESA litigation settlement which had been expensed in prior years. The proceeds were recognized by Prospect as other income during the nine months ended March 31, 2014. During the nine months ended March 31, 2015, Prospect received \$685 related to the ESA litigation settlement which was recognized as realized gain.

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

June 30, 2014	\$6
March 31, 2015	9

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.

In addition, effective June 29, 2012, C&J Cladding Holding Company, Inc. (“C&J Holdings”) merged with and into Wolf Energy Holdings, with Wolf Energy Holdings as the surviving entity. At the time of the merger, C&J Holdings held the remaining undistributed proceeds in cash from the sale of its membership interests in C&J Cladding, LLC (“C&J”) (discussed below). The merger was effectuated in connection with the broader simplification of Prospect’s energy investment holdings.

On June 1, 2012, Prospect sold the membership interests in C&J for \$5,500. Proceeds from the sale were used to pay a \$3,000 distribution to Prospect (\$580 reduction in cost basis and \$2,420 realized gain recognized by Prospect), an advisory fee of \$1,500 from C&J to Prospect (which was recognized by Prospect as other income) and \$978 was retained by C&J as working capital to pay \$22 of legal services provided by attorneys at Prospect Administration and third-party expenses.

On February 27, 2013, Prospect made a \$50 senior secured debt investment senior secured to East Cumberland, L.L.C., a former wholly-owned subsidiary of AEH with AEH as guarantor. Proceeds were used to pay off vendors.





On April 15, 2013, Prospect foreclosed on the assets of H&M Oil & Gas, LLC (“H&M”). At the time of foreclosure, H&M was in default on loans receivables due to Prospect with a cost basis of \$64,449. The assets previously held by H&M were assigned by Prospect to Wolf Energy in exchange for a \$66,000 term loan secured by the assets. The cost basis in this loan of \$44,632 was determined in accordance with ASC 310-40, Troubled Debt Restructurings by Creditors, and was equal to the fair value of assets at the time of transfer resulting in a capital loss of \$19,647 in connection with the foreclosure on the assets. On May 17, 2013, Wolf Energy sold the assets located in Martin County, which were previously held by H&M, for \$66,000. Proceeds from the sale were primarily used to repay the loan and net profits interest receivable due to us resulting in a realized capital gain of \$11,826 offsetting the previously recognized loss. Prospect received \$3,960 of structuring and advisory fees from Wolf Energy during the year ended June 30, 2013 related to the sale and \$991 under the net profits interest agreement which was recognized as other income during the fiscal year ended June 30, 2013.

On July 1, 2014, Prospect began consolidating Wolf Energy Holdings. As a result, any transactions between Wolf Energy Holdings and Prospect are eliminated in consolidation and as such, transactions after July 1, 2014 are not presented below.

During the three months ended September 30, 2014, Prospect determined that the impairment of AEH was other-than temporary and recorded a realized loss of \$2,050, reducing the amortized cost to zero. On November 21, 2014, Coalbed merged with and into Wolf Energy, with Wolf Energy as the surviving entity. During the three months ended December 31, 2014, Prospect determined that the impairment of the Coalbed debt assumed by Wolf Energy was other-than-temporary and recorded a realized loss of \$5,991, reducing the amortized cost to zero.

During the nine months ended March 31, 2015, Wolf Energy received a tax refund of \$173 related to its investment in C&J and Prospect realized a gain of the same amount.

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

Prospect to Prospect Administration):

Three Months Ended March 31, 2014	\$ 101
Three Months Ended March 31, 2015	—
Nine Months Ended March 31, 2014	101
Nine Months Ended March 31, 2015	—

#### 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 these matters as they 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 litigation as of March 31, 2015.

## Note 16. Financial Highlights

The following is a schedule of financial highlights for the three and nine months ended March 31, 2015 and March 31, 2014:

	Three Months Ended March 31,		Nine Months Ended March 31,	
	2015	2014	2015	2014
<b>Per Share Data</b>				
Net asset value at beginning of period	\$10.35	\$10.73	\$10.56	\$10.72
Net investment income(1)	0.24	0.31	0.78	0.95
Net realized gains (losses) on investments(1)	0.01	(0.01)	(0.44)	(0.01)
Net change in unrealized (depreciation) appreciation on investments(1)	(0.02)	(0.04)	0.37	(0.08)
Net realized losses on extinguishment of debt(1)	—	(2) —	—	(2) —
Dividends to shareholders	(0.28)	(0.33)	(0.94)	(0.99)
Common stock transactions(3)	—	0.02	(0.03)	0.09
Net asset value at end of period	\$10.30	\$10.68	\$10.30	\$10.68
Per share market value at end of period	\$8.45	\$10.80	\$8.45	\$10.80
Total return based on market value(4)	5.97	(0.85)	(11.98)	9.19
Total return based on net asset value(4)	3.09	2.52	8.00	8.78
Shares of common stock outstanding at end of period	358,661,441	333,499,861	358,661,441	333,499,861
Weighted average shares of common stock outstanding	358,449,304	316,388,733	351,922,217	286,949,781
<b>Ratios/Supplemental Data</b>				
Net assets at end of period	\$3,694,588	\$3,561,376	\$3,694,588	\$3,561,376
Portfolio turnover rate	1.65	3.63	18.65	12.59
Annualized ratio of operating expenses to average net assets	11.23	10.81	11.63	11.00
Annualized ratio of net investment income to average net assets	9.45	11.60	9.96	11.71

(1) Financial highlights are based on the weighted average number of common shares outstanding for the period presented (except for dividends to shareholders which is based on actual rate per share).

(2) Amount is less than \$0.01 per weighted average share.

(3) 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 and shares issued to acquire investments.

(4) Total return based on market value is based on the change in market price per share between the opening and ending market prices per share in each period and assumes that dividends are reinvested in accordance with our dividend reinvestment plan. Total return based on net asset value is based upon the change in net asset value per share between the opening and ending net asset values per share in each period and assumes that dividends are reinvested in accordance with our dividend reinvestment plan. For periods less than a year, the return is not annualized.

The following is a schedule of financial highlights for each of the five years in the period ended June 30, 2014:

	Year Ended June 30,				
	2014	2013	2012	2011	2010
<b>Per Share Data</b>					
Net asset value at beginning of year	\$10.72	\$10.83	\$10.36	\$10.30	\$12.40
Net investment income(1)	1.19	1.57	1.63	1.10	1.13
Net realized (losses) gains on investments(1)	(0.01 )	(0.13 )	0.32	0.19	(0.87 )
Net change in unrealized (depreciation) appreciation on investments(1)	(0.12 )	(0.37 )	(0.28 )	0.09	0.07
Dividends to shareholders	(1.32 )	(1.28 )	(1.22 )	(1.21 )	(1.33 )
Common stock transactions(2)	0.10	0.10	0.02	(0.11 )	(1.22 )
Fair value of equity issued for Patriot acquisition	—	—	—	—	0.12
Net asset value at end of year	\$10.56	\$10.72	\$10.83	\$10.36	\$10.30
Per share market value at end of year	\$10.63	\$10.80	\$11.39	\$10.11	\$9.65
Total return based on market value(3)	10.88 %	6.24 %	27.21 %	17.22 %	17.66 %
Total return based on net asset value(3)	10.97 %	10.91 %	18.03 %	12.54 %	(6.82 %)
Shares of common stock outstanding at end of year	342,626,637	247,836,965	139,633,870	107,606,690	69,086,862
Weighted average shares of common stock outstanding	300,283,941	207,069,971	114,394,554	85,978,757	59,429,222
<b>Ratios/Supplemental Data</b>					
Net assets at end of year	\$3,618,182	\$2,656,494	\$1,511,974	\$1,114,357	\$711,424
Portfolio turnover rate	15.21 %	29.24 %	29.06 %	27.63 %	21.61 %
Annualized ratio of operating expenses to average net assets	11.11 %	11.50 %	10.73 %	8.47 %	7.54 %
Annualized ratio of net investment income to average net assets	11.18 %	14.86 %	14.92 %	10.60 %	10.69 %

(1) Financial highlights are based on the weighted average number of common shares outstanding for the 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 and shares issued to acquire investments. The fair value of equity issued to acquire portfolio investments from Patriot has been presented separately for the year ended June 30, 2010.

(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.

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, 2015.

Quarter Ended	Investment Income		Net Investment Income		Net Realized and Unrealized Losses		Net Increase in Net Assets from Operations	
	Total	Per Share(1)	Total	Per Share(1)	Total	Per Share(1)	Total	Per Share(1)
September 30, 2012	\$123,636	\$0.76	\$74,027	\$0.46	\$(26,778 )	\$(0.17 )	\$47,249	\$0.29
December 31, 2012	166,035	0.85	99,216	0.51	(52,727 )	(0.27 )	46,489	0.24

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March 31, 2013	120,195	0.53	59,585	0.26	(15,156	) (0.07	) 44,429	0.20
June 30, 2013	166,470	0.68	92,096	0.38	(9,407	) (0.04	) 82,689	0.34
September 30, 2013	161,034	0.62	82,337	0.32	(2,437	) (0.01	) 79,900	0.31
December 31, 2013	178,090	0.62	92,215	0.32	(6,853	) (0.02	) 85,362	0.30
March 31, 2014	190,327	0.60	98,523	0.31	(16,422	) (0.05	) 82,101	0.26
June 30, 2014	182,840	0.54	84,148	0.25	(12,491	) (0.04	) 71,657	0.21
September 30, 2014	202,021	0.59	94,463	0.28	(10,355	) (0.04	) 84,108	0.24
December 31, 2014	198,883	0.56	91,325	0.26	(5,355	) (0.02	) 85,970	0.24
March 31, 2015	191,350	0.53	87,441	0.24	(5,949	) (0.01	) 81,492	0.23

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.

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Note 18. Subsequent Events

On April 2, 2015, we sold our \$74,654 investment in American Broadband Holding Company. There was no gain or loss realized on the sale.

On April 8, 2015, we sold 60% of the outstanding principal balance of the senior secured Term Loan A investment in Trinity Services Group, Inc. for \$59,253. There was no gain or loss realized on the sale.

On April 10, 2015, Sandow repaid the \$24,425 loan receivable to us.

On April 10, 2015, we provided notice of our intent to redeem \$100,000 aggregate principal amount of the 2022 Notes on May 15, 2015. We expect to recognize approximately \$2,599 of realized loss as a result of the call.

On April 11, 2015, we announced the then current conversion rate on the 2020 Notes as 80.6670 shares of common stock per \$1 principal amount of the 2020 Notes converted, which is equivalent to a conversion price of approximately \$12.40.

On April 15, 2015, we provided \$48,500 of first lien senior secured financing, of which \$43,500 was funded at closing, to USG Intermediate, LLC, an entrepreneur-owned direct marketing company.

On April 16, 2015, we made a \$10,000 second lien secured debt investment in SESAC Holdco II LLC, a performance rights organization based in Nashville, Tennessee.

On April 16, 2015, Ikaria, Inc. repaid the \$20,000 loan receivable to us.

On April 16, 2015, we announced the then current conversion rate on the 2017 Notes as 87.7516 shares of common stock per \$1 principal amount of the 2017 Notes converted, which is equivalent to a conversion price of approximately \$11.40.

On April 23, 2015, we issued 131,971 shares of our common stock in connection with the dividend reinvestment plan. During the period from April 1, 2015 through May 6, 2015, we made two follow-on investments in NPRC totaling \$20,000 to support the online consumer lending initiative. We invested \$5,500 of equity through NPH and \$14,500 of debt directly to ACL Loan Holdings, Inc., a wholly-owned subsidiary of NPRC.

During the period from April 1, 2015 through May 6, 2015, our wholly-owned subsidiary PSBL purchased \$13,779 of small business whole loans from OnDeck.

During the period from April 1, 2015 through May 6, 2015, we sold portions of two of our investments in syndicated debt totaling \$20,500.

During the period from April 1, 2015 through May 6, 2015, we issued \$25,045 aggregate principal amount of our Prospect Capital InterNotes® for net proceeds of \$24,632. In addition, we sold \$5,075 aggregate principal amount of our Prospect Capital InterNotes® for net proceeds of \$4,991 with expected closing on May 7, 2015.

On May 6, 2015, we announced the declaration of monthly dividends in the following amounts and with the following dates:

\$0.08333 per share for May 2015 to holders of record on May 29, 2015 with a payment date of June 18, 2015;

\$0.08333 per share for June 2015 to holders of record on June 30, 2015 with a payment date of July 23, 2015;

\$0.08333 per share for July 2015 to holders of record on July 31, 2015 with a payment date of August 20, 2015; and

\$0.08333 per share for August 2015 to holders of record on August 31, 2015 with a payment date of September 17, 2015.

\$5,000,000,000

PROSPECT CAPITAL CORPORATION

Common Stock

Preferred Stock

Debt Securities

Subscription Rights

Warrants

Units

We may offer, from time to time, in one or more offerings or series, together or separately, up to \$5,000,000,000 of our common stock, preferred stock, debt securities, subscription rights to purchase our securities, warrants representing rights to purchase our securities or separately tradeable units combining two or more of our securities, collectively, the Securities, to provide us with additional capital. Securities may be offered at prices and on terms to be disclosed in one or more supplements to this prospectus. You should read this prospectus and the applicable prospectus supplement carefully before you invest in our Securities.

We may offer shares of common stock, subscription rights, units, warrants, options or rights to acquire shares of common stock, at a discount to net asset value per share in certain circumstances. Sales of common stock at prices below net asset value per share dilute the interests of existing stockholders, have the effect of reducing our net asset value per share and may reduce our market price per share. At our 2013 annual meeting, held on December 6, 2013, subject to the condition that the maximum number of shares salable below net asset value pursuant to this authority in any particular offering that could result in such dilution is limited to 25% of our then outstanding common stock immediately prior to each such offering, our stockholders approved our ability to sell or otherwise issue shares of our common stock at any level of discount from net asset value per share for a twelve month period expiring on the anniversary of the date of stockholder approval. We are currently seeking stockholder approval at our 2014 annual meeting, to be held on December 5, 2014, to continue for an additional year our ability to issue shares of common stock below net asset value, subject to the condition that the maximum number of shares salable below net asset value pursuant to this authority in any particular offering that could result in such dilution is limited to 25% of our then outstanding common stock immediately prior to each such offering.

Our Securities may be offered directly to one or more purchasers, or through agents designated from time to time by us, or to or through underwriters or dealers. The prospectus supplement relating to the offering will identify any agents, underwriters or dealers involved in the sale of our Securities, and will disclose any applicable purchase price, fee, commission or discount arrangement between us and our agents, underwriters or dealers, or the basis upon which such amount may be calculated. See "Plan of Distribution." We may not sell any of our Securities through agents, underwriters or dealers without delivery of the prospectus and a prospectus supplement describing the method and terms of the offering of such Securities. Our common stock is traded on The NASDAQ Global Select Market under the symbol "PSEC." As of October 31, 2014 the last reported sales price for our common stock was \$9.58.

Prospect Capital Corporation, or the Company, is a company that lends to and invests in middle market privately-held companies. Prospect Capital Corporation, a Maryland corporation, has been organized as a closed-end investment company since April 13, 2004 and has filed an election to be treated as a business development company under the Investment Company Act of 1940, as amended, or the 1940 Act, and is a non-diversified investment company within the meaning of the 1940 Act.

Prospect Capital Management LLC, our investment adviser, manages our investments and Prospect Administration LLC, our administrator, provides the administrative services necessary for us to operate.

Investing in our Securities involves a heightened risk of total loss of investment. Before buying any Securities, you should read the discussion of the material risks of investing in our Securities in "Risk Factors" beginning on page 10 of this prospectus.

This prospectus contains important information about us that you should know before investing in our Securities. Please read it before making an investment decision and keep it for future reference. We file annual, quarterly and current reports, proxy statements and other information about us with the Securities and Exchange Commission, or the

SEC. You may make inquiries or obtain this information free of charge by writing to Prospect Capital Corporation at 10 East 40th Street, 42nd Floor, New York, NY 10016, or by calling 212-448-0702. Our Internet address is <http://www.prospectstreet.com>. Information contained on our website is not incorporated by reference into this prospectus and you should not consider information contained on our website to be a part of this prospectus. You may also obtain information about us from our website and the SEC's website (<http://www.sec.gov>).

The SEC has not approved or disapproved of these securities or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

This prospectus may not be used to consummate sales of securities unless accompanied by a prospectus supplement.

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## ABOUT THIS PROSPECTUS

This prospectus is part of a registration statement that we have filed with the SEC, using the “shelf” registration process. Under the shelf registration process, we may offer, from time to time on a delayed basis, up to \$5,000,000,000 of our common stock, preferred stock, debt securities, subscription rights to purchase shares of our securities, warrants representing rights to purchase our securities or separately tradeable units combining two or more of our securities, on the terms to be determined at the time of the offering. The Securities may be offered at prices and on terms described in one or more supplements to this prospectus. This prospectus provides you with a general description of the Securities that we may offer. Each time we use this prospectus to offer Securities, we will provide a prospectus supplement that will contain specific information about the terms of that offering. The prospectus supplement may also add, update or change information contained in this prospectus. Please carefully read this prospectus and any prospectus supplement together with any exhibits and the additional information described under the heading “Available Information” and the section under the heading “Risk Factors” before you make an investment decision.

## PROSPECTUS SUMMARY

The following summary contains basic information about this offering. It does not contain all the information that may be important to an investor. For a more complete understanding of this offering, we encourage you to read this entire document and the documents to which we have referred.

Information contained or incorporated by reference in this prospectus may contain “forward-looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995, which are statements about the future that may be identified by the use of forward-looking terminology such as “may,” “will,” “expect,” “intend,” “plans,” “anticipate,” “estimate” or “continue” or the negative thereof or other variations thereon or comparable terminology. These forward-looking statements do not meet the safe harbor for forward-looking statements pursuant to Section 27A of the Securities Act of 1933, as amended, or the Securities Act. The matters described in “Risk Factors” and certain other factors noted throughout this prospectus and in any exhibits to the registration statement of which this prospectus is a part, constitute cautionary statements identifying important factors with respect to any such forward-looking statements, including certain risks and uncertainties, that could cause actual results to differ materially from those in such forward-looking statements. The Company reminds all investors that no forward-looking statement can be relied upon as an accurate or even mostly accurate forecast because humans cannot forecast the future.

The terms “we,” “us,” “our,” “Prospect,” and “Company” refer to Prospect Capital Corporation; “Prospect Capital Management” or the “Investment Adviser” refers to Prospect Capital Management LLC, our investment adviser; and “Prospect Administration” or the “Administrator” refers to Prospect Administration LLC, our administrator.

### The Company

We are a financial services company that lends to and invests in middle market privately-held companies. In this prospectus, we use the term “middle-market” to refer to companies typically with annual revenues between \$50 million and \$2 billion.

From our inception to the fiscal year ended June 30, 2007, we invested primarily in industries related to the industrial/energy economy, which consists of companies in the discovery, production, transportation, storage and use of energy resources as well as companies that sell products and services to, or acquire products and services from, these companies. Since then, we have widened our strategy to focus on other sectors of the economy and continue to broaden our portfolio holdings.

We have been organized as a closed-end investment company since April 13, 2004 and have filed an election to be treated as a business development company under the 1940 Act. We are a non-diversified company within the meaning of the 1940 Act. Our headquarters are located at 10 East 40th Street, 42nd Floor, New York, NY 10016, and our telephone number is (212) 448-0702.

### The Investment Adviser

Prospect Capital Management, an affiliate of the Company, manages our investment activities. Prospect Capital Management is an investment adviser that has been registered under the Investment Advisers Act of 1940, or the Advisers Act, since March 31, 2004. Under an investment advisory and management agreement between us and Prospect Capital Management, or the Investment Advisory Agreement, we have agreed to pay Prospect Capital Management investment advisory fees, which will consist of an annual base management fee based on our gross assets, which we define as total assets without deduction for any liabilities (and, accordingly, includes the value of assets acquired with proceeds from borrowings), as well as a two-part incentive fee based on our performance.

### Our Investment Objective and Policies

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

We invest primarily in first and second lien senior loans and mezzanine debt. First and second lien senior loans generally are senior debt instruments that rank ahead of subordinated debt of a given portfolio company. These loans also have the benefit of security interests on the assets of the portfolio company, which may rank ahead of or be junior to other security interests. Mezzanine debt and our investments in CLOs are subordinated to senior loans and are generally unsecured. Our investments have generally ranged between \$5 million and \$250 million each, although the investment size may be more or less than this range. Our investment sizes are expected to grow as our capital base expands.

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

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We seek to maximize returns and minimize risk for our investors by applying rigorous analysis to make and monitor our investments. While the structure of our investments varies, we can invest in senior secured debt, senior unsecured debt, subordinated secured debt, subordinated unsecured debt, mezzanine debt, convertible debt, convertible preferred equity, preferred equity, common equity, warrants and other instruments, many of which generate current yield. While our primary focus is to seek current income through investment in the debt and/or dividend-paying equity securities of eligible privately-held, thinly-traded or distressed companies and long-term capital appreciation by acquiring accompanying warrants, options or other equity securities of such companies, we may invest up to 30% of the portfolio in opportunistic investments in order to seek enhanced returns for stockholders. Such investments may include investments in the debt and equity instruments of broadly-traded public companies. We expect that these public companies generally will have debt securities that are non-investment grade. Such investments may also include purchases (either in the primary or secondary markets) of the equity and junior debt tranches of a type of such pools known as CLOs. Structurally, CLOs are entities that are formed to hold a portfolio of senior secured loans (“Senior Secured Loans”) made to companies whose debt is rated below investment grade or, in limited circumstances, unrated. These securities, which are often referred to as “junk” or “high yield,” have predominantly speculative characteristics with respect to the issuer’s capacity to pay interest and repay principal. They may also be difficult to value and illiquid. The Senior Secured Loans within a CLO are limited to Senior Secured Loans which meet specified credit and diversity criteria and are subject to concentration limitations in order to create an investment portfolio that is diverse by Senior Secured Loan, borrower, and industry, with limitations on non-U.S. borrowers. CLOs are typically highly levered up to approximately 10 times, and therefore the junior debt and equity tranches that we will invest in are subject to a higher risk of total loss. Our potential investment in CLOs is limited by the 1940 Act to 30% of our portfolio. Within this 30% basket, we have and may make additional investments in debt and equity securities of financial companies and companies located outside of the United States.

#### The Offering

We may offer, from time to time, in one or more offerings or series, together or separately, up to \$5,000,000,000 of our Securities, which we expect to use initially to maintain balance sheet liquidity, involving repayment of debt under our credit facility, investment in high quality short-term debt instruments or a combination thereof, and thereafter to make long-term investments in accordance with our investment objectives.

Our Securities may be offered directly to one or more purchasers, through agents designated from time to time by us, or to or through underwriters or dealers. The prospectus supplement relating to a particular offering will disclose the terms of that offering, including the name or names of any agents, underwriters or dealers involved in the sale of our Securities by us, the purchase price, and any fee, commission or discount arrangement between us and our agents, underwriters or dealers, or the basis upon which such amount may be calculated. See “Plan of Distribution.” We may not sell any of our Securities through agents, underwriters or dealers without delivery of a prospectus supplement describing the method and terms of the offering of our Securities.

We may sell our common stock, subscription rights, units, warrants, options or rights to acquire our common stock, at a price below the current net asset value of our common stock upon approval of our directors, including a majority of our independent directors, in certain circumstances. Our stockholders approved our ability to issue warrants, options or rights to acquire our common stock at our 2008 annual meeting of stockholders for an unlimited time period and in accordance with the 1940 Act which provides that the conversion or exercise price of such warrants, options or rights may be less than net asset value per share at the date such securities are issued or at the date such securities are converted into or exercised for shares of our common stock. At our 2013 annual meeting, held on December 6, 2013, subject to the condition that the maximum number of shares salable below net asset value pursuant to this authority in any particular offering that could result in such dilution is limited to 25% of our then outstanding common stock immediately prior to each such offering, our stockholders approved our ability to sell or otherwise issue shares of our common stock at any level of discount from net asset value per share for a twelve month period expiring on the anniversary of the date of the stockholder approval. We are currently seeking stockholder approval at our 2014 annual meeting, to be held on December 5, 2014, to continue for an additional year our ability to issue shares of common stock below net asset value, subject to the condition that the maximum number of shares salable below net asset value pursuant to this authority in any particular offering that could result in such dilution is limited to 25% of our then outstanding common stock immediately prior to each such offering. See “Sales of Common Stock Below Net Asset

Value” in this prospectus and in the prospectus supplement, if applicable. Sales of common stock at prices below net asset value per share dilute the interests of existing stockholders, have the effect of reducing our net asset value per share and may reduce our market price per share. We have no current intention of engaging in a rights offering, although we reserve the right to do so in the future.

Set forth below is additional information regarding the offering of our Securities:

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Use of proceeds

Unless otherwise specified in a prospectus supplement, we intend to use the net proceeds from selling Securities pursuant to this prospectus initially to maintain balance sheet liquidity, involving repayment of debt under our credit facility, if any, investments in high quality short-term debt instruments or a combination thereof, and thereafter to make long-term investments in accordance with our investment objective. Interest on borrowings under our credit facility is one-month LIBOR plus 225 basis points, with no minimum LIBOR floor. Additionally, the lenders charge a fee on the unused portion of the credit facility equal to either 50 basis points if at least thirty-five percent of the credit facility is drawn or 100 basis points otherwise. See “Use of Proceeds.”

Distributions

In June 2010, our Board of Directors approved a change in dividend policy from quarterly distributions to monthly distributions. Since that time, we have paid monthly distributions to the holders of our common stock and generally intend to continue to do so. The amount of the monthly distributions is determined by our Board of Directors and is based on our estimate of our investment company taxable income and net short-term capital gains. Certain amounts of the monthly distributions may from time to time be paid out of our capital rather than from earnings for the month as a result of our deliberate planning or accounting reclassifications. Distributions in excess of our current and accumulated earnings and profits constitute a return of capital and will reduce the stockholder’s adjusted tax basis in such stockholder’s common stock. A return of capital (1) is a return of the original amount invested, (2) does not constitute earnings or profits and (3) while such returns are initially tax free, they will have the effect of reducing the basis such that when a stockholder sells its shares, it may be subject to additional tax even if the shares are sold for less than the original purchase price. After the adjusted basis is reduced to zero, these distributions will constitute capital gains to such stockholders. Certain additional amounts may be deemed as distributed to stockholders for income tax purposes. Other types of Securities will likely pay distributions in accordance with their terms. See “Price Range of Common Stock,” “Distributions” and “Material U.S. Federal Income Tax Considerations.”

Taxation

We have qualified and elected to be treated for U.S. federal income tax purposes as a regulated investment company, or a RIC, under Subchapter M of the Internal Revenue Code of 1986, or the Code. As a RIC, we generally do not have to pay corporate-level U.S. federal income taxes on any ordinary income or capital gains that we distribute to our stockholders as dividends. To maintain our qualification as a RIC and obtain RIC tax treatment, we must satisfy certain source-of-income and asset diversification requirements and distribute annually at least 90% of our ordinary income and realized net short-term capital gains in excess of realized net long-term capital losses, if any. See “Distributions” and “Material U.S. Federal Income Tax Considerations.”

Dividend reinvestment plan

We have a dividend reinvestment plan for our stockholders. This is an “opt out” dividend reinvestment plan. As a result, when we declare a dividend, the dividends are automatically reinvested in additional shares of our common stock, unless a stockholder specifically “opts out” of the dividend reinvestment plan so as to receive cash dividends. Stockholders who

receive distributions in the form of stock are subject to the same U.S. federal, state and local tax consequences as stockholders who elect to receive their distributions in cash. See “Dividend Reinvestment Plan.”

The NASDAQ Global Select Market  
Symbol

PSEC

Anti-takeover provisions

Our charter and bylaws, as well as certain statutory and regulatory requirements, contain provisions that may have the effect of discouraging a third party from making an acquisition proposal for us. These anti-takeover provisions may inhibit a change in control in circumstances that could give the holders of our common stock the opportunity to realize a premium over the market price of our common stock. See “Description Of Our Capital Stock.”

Management arrangements

Prospect Capital Management serves as our investment adviser. Prospect Administration serves as our administrator. For a description of Prospect Capital Management, Prospect Administration and our contractual arrangements with these companies, see “Business—Management Services—Investment Advisory Agreement,” and “Business— Management Services—Administration Agreement.”

Risk factors

Investment in our Securities involves certain risks relating to our structure and investment objective that should be considered by prospective purchasers of our Securities. In addition, as a business development company, our portfolio primarily includes securities issued by privately-held companies. These investments generally involve a high degree of business and financial risk, and are less liquid than public securities. We are required to mark the carrying value of our investments to fair value on a quarterly basis, and economic events, market conditions and events affecting individual portfolio companies can result in quarter-to-quarter mark-downs and mark-ups of the value of individual investments that collectively can materially affect our net asset value, or NAV. Also, our determinations of fair value of privately-held securities may differ materially from the values that would exist if there was a ready market for these investments. A large number of entities compete for the same kind of investment opportunities as we do. Moreover, our business requires a substantial amount of capital to operate and to grow and we seek additional capital from external sources. In addition, the failure to qualify as a RIC eligible for pass-through tax treatment under the Code on income distributed to stockholders could have a materially adverse effect on the total return, if any, obtainable from an investment in our Securities. See “Risk Factors” and the other information included in this prospectus for a discussion of factors you should carefully consider before deciding to invest in our Securities.

Plan of distribution

We may offer, from time to time, up to \$5,000,000,000 of our common stock, preferred stock, debt securities, subscription rights to purchase shares of our securities, warrants representing rights to purchase our securities or separately tradeable units combining two or more of our securities on the terms to be determined at the time of the offering. Securities may be offered at prices and on terms described in one or more supplements to this prospectus directly to one or more purchasers, through agents designated from time to time by us, or to or through underwriters or dealers. The supplement to this prospectus relating to the offering will identify any agents or underwriters involved in the sale of our Securities, and will set forth any applicable purchase price, fee and commission or discount arrangement or the basis upon which such amount may be calculated. We may not sell Securities pursuant to this prospectus without delivering a prospectus supplement describing the method and terms of the offering of such Securities. For more information, see “Plan of Distribution.”



Fees and Expenses

The following tables are intended to assist you in understanding the costs and expenses that an investor in this offering will bear directly or indirectly. We caution you that some of the percentages indicated in the table below are estimates and may vary. In these tables, we assume that we have borrowed \$810.0 million under our credit facility, which is the maximum amount available under the credit facility, in addition to our other indebtedness of \$2.7 billion and a maximum sales load pursuant to the equity distribution agreements. We do not intend to issue preferred stock during the year. Except where the context suggests otherwise, whenever this prospectus contains a reference to fees or expenses paid by “you” or “us” or that “we” will pay fees or expenses, the Company will pay such fees and expenses out of our net assets and, consequently, you will indirectly bear such fees or expenses as an investor in the Company. However, you will not be required to deliver any money or otherwise bear personal liability or responsibility for such fees or expenses.

Stockholder transaction expenses:

Sales load (as a percentage of offering price)(1)	3.00	%
Offering expenses borne by the Company (as a percentage of offering price)(2)	0.20	%
Dividend reinvestment plan expenses(3)	None	
Total stockholder transaction expenses (as a percentage of offering price)(4)	3.20	%
Annual expenses (as a percentage of net assets attributable to common stock):		
Management fees(5)	4.03	%
Incentive fees payable under Investment Advisory Agreement (20% of realized capital gains and 20% of pre-incentive fee net investment income)(6)	2.47	%
Total advisory fees	6.50	%
Total interest expense(7)	4.59	%
Acquired Fund Fees and Expenses(8)	0.01	%
Other expenses(9)	1.05	%
Total annual expenses(6)(9)	12.15	%

Example

The following table demonstrates the projected dollar amount of cumulative expenses we would pay out of net assets and that you would indirectly bear over various periods with respect to a hypothetical investment in our common stock. In calculating the following expense amounts, we have assumed we have borrowed all \$810.0 million available under our line of credit, in addition to our other indebtedness of \$2.7 billion and that our annual operating expenses would remain at the levels set forth in the table above and that we would pay the costs shown in the table above. We do not anticipate increasing the leverage percentage to a level higher than that which would be indicated after the borrowing of the entire available balance of the credit facility. Any future debt issuances would be dependent on future equity issuances and we do not anticipate any significant change in the borrowing costs as a percentage of net assets attributable to common stock.

	1 Year	3 Years	5 Years	10 Years
You would pay the following expenses on a \$1,000 investment, assuming a 5% annual return*	\$ 125.76	\$ 300.30	\$ 458.86	\$ 794.66
You would pay the following expenses on a \$1,000 investment, assuming a 5% annual return**	\$ 135.44	\$ 327.71	\$ 501.97	\$ 869.09

\* Assumes that we will not realize any capital gains computed net of all realized capital losses and unrealized capital depreciation.

\*\* Assumes no unrealized capital depreciation or realized capital losses and 5% annual return resulting entirely from net realized capital gains (and therefore subject to the capital gains incentive fee).

While the example assumes, as required by the SEC, a 5% annual return, our performance will vary and may result in a return greater or less than 5%. The income incentive fee under our Investment Advisory Agreement with Prospect Capital Management is unlikely to be material assuming a 5% annual return and is not included in the example. If we achieve sufficient returns on our investments, including through the realization of capital gains, to trigger an incentive fee of a material amount, our distributions to our common stockholders and our expenses would likely be higher. In addition, while the example assumes reinvestment of all dividends and other distributions at NAV, participants in our dividend reinvestment plan will receive a number of shares of our common stock determined by dividing the total dollar amount of the distribution payable to a participant by the market price per share of our common stock at the close of trading on the valuation date for the distribution. See “Dividend Reinvestment Plan” for additional information regarding our dividend reinvestment plan.

This example and the expenses in the table above should not be considered a representation of our future expenses. Actual expenses (including the cost of debt, if any, and other expenses) may be greater or less than those shown.

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(1) In the event that the Securities to which this prospectus relates are sold to or through underwriters, a corresponding prospectus supplement will disclose the estimated applicable sales load.

(2) The related prospectus supplement will disclose the estimated amount of offering expenses, the offering price and the estimated offering expenses borne by us as a percentage of the offering price.

(3) The expenses of the dividend reinvestment plan are included in “other expenses.” See “Capitalization” in this prospectus.

(4) The related prospectus supplement will disclose the offering price and the total stockholder transaction expenses as a percentage of the offering price.

(5) Our base management fee is 2% of our gross assets (which include any amount borrowed, i.e., total assets without deduction for any liabilities, including any borrowed amounts for non-investment purposes, for which purpose we have not and have no intention of borrowing). Although we have no intent to borrow the entire amount available under our line of credit, assuming that we had total borrowings of \$3.5 billion, the 2% management fee of gross assets would equal approximately 4.03% of net assets. Based on our borrowings as of October 31, 2014 of \$2.7 billion, the 2% management fee of gross assets would equal approximately 3.60% of net assets including costs of the undrawn credit facility. See “Business— Management Services—Investment Advisory Agreement” and footnote 5 below.

(6) Based on the incentive fee paid during our most recently completed quarter ended June 30, 2014, all of which consisted of an income incentive fee. The capital gain incentive fee is paid without regard to pre-incentive fee income. The incentive fee has two parts. The first part, the income incentive fee, which is payable quarterly in arrears, will equal 20% of the excess, if any, of our pre-incentive fee net investment income that exceeds a 1.75% quarterly (7% annualized) hurdle rate, subject to a “catch up” provision measured as of the end of each calendar quarter. For this purpose, pre-incentive fee net investment income means interest income, dividend income and any other income (including any other fees (other than fees for providing managerial assistance), such as commitment, origination, structuring, diligence and consulting fees and other fees that we receive from portfolio companies) accrued during the calendar quarter, minus our operating expenses for the quarter (including the base management fee, expenses payable under the Administration Agreement described below, and any interest expense and dividends paid on any issued and outstanding preferred stock, but excluding the incentive fee). Pre-incentive fee net investment income includes, in the case of investments with a deferred interest feature (such as original issue discount, debt instruments with payment in kind interest and zero coupon securities), accrued income that we have not yet received in cash. Pre-incentive fee net investment income does not include any realized capital gains, realized capital losses or unrealized capital appreciation or depreciation. Pre-incentive fee net investment income, expressed as a rate of return on the value of our net assets at the end of the immediately preceding calendar quarter, is compared to a “hurdle rate” of 1.75% per quarter (7% annualized). The “catch-up” provision requires us to pay 100% of our pre-incentive fee net investment income with respect to that portion of such income, if any, that exceeds the hurdle rate but is less than 125% of the quarterly hurdle rate in any calendar quarter (8.75% annualized assuming an annualized hurdle rate of 7%). The catch-up provision is meant to provide Prospect Capital Management with 20% of our pre-incentive fee net investment income as if a hurdle rate did not apply when our pre-incentive fee net

investment income exceeds 125% of the quarterly hurdle rate in any calendar quarter (8.75% annualized assuming an annualized hurdle rate of 7%). The second part of the incentive fee, the capital gains incentive fee, is determined and payable in arrears as of the end of each calendar year (or upon termination of the Investment Advisory Agreement, as of the termination date), and equals 20% of our realized capital gains for the calendar year, if any, computed net of all realized capital losses and unrealized capital depreciation at the end of such year. For a more detailed discussion of the calculation of the two-part incentive fee, see “Management Services—Investment Advisory Agreement” in the accompanying prospectus.

(7) As of October 31, 2014, Prospect has \$2.7 billion outstanding of its Unsecured Notes (as defined below) in various maturities, ranging from December 15, 2015 to October 15, 2043, and interest rates, ranging from 3.23% to 7.0%, some of which are convertible into shares of Prospect common stock at various conversion rates. Interest on borrowings under our credit facility is one-month LIBOR plus 225 basis points, with no minimum LIBOR floor. Additionally, the lenders charge a fee on the unused portion of the credit facility equal to either 50 basis points if at least thirty-five percent of the credit

facility is drawn or 100 basis points otherwise. Please see “Business of Prospect—General” and “Risks Related to Prospect—Risks Relating to Prospect’s Business” below for more detail on the Unsecured Notes.

The Company’s stockholders indirectly bear the expenses of underlying investment companies in which the Company invests. This amount includes the fees and expenses of investment companies in which the Company is invested in as of June 30, 2014. When applicable, fees and expenses are based on historic fees and expenses for the investment companies, and for those investment companies with little or no operating history fees and expenses are (8) based on expected fees and expenses stated in the investment companies’ prospectus or other similar communication without giving effect to any performance. Future fees and expenses for certain investment companies may be substantially higher or lower because certain fees and expenses are based on the performance of the investment companies, which may fluctuate over time. The amount of the Company’s average net assets used in calculating this percentage was based on net assets of approximately \$3.6 billion as of June 30, 2014.

“Other expenses” are based on estimated amounts for the current fiscal year. The amount shown above represents annualized expenses during our three months ended June 30, 2014 representing all of our estimated recurring operating expenses (except fees and expenses reported in other items of this table) that are deducted from our operating income and reflected as expenses in our Statement of Operations. The estimate of our overhead expenses, (9) including payments under an administration agreement with Prospect Administration, or the Administration Agreement is based on our projected allocable portion of overhead and other expenses incurred by Prospect Administration in performing its obligations under the Administration Agreement. “Other expenses” does not include non-recurring expenses. See “Business—Management Services—Administration Agreement.”

## SELECTED CONDENSED FINANCIAL DATA

You should read the condensed consolidated financial information below with the Consolidated Financial Statements and notes thereto included in this prospectus. Financial information below for the years ended June 30, 2014, 2013, 2012, 2011 and 2010 has been derived from the financial statements that were audited by our independent registered public accounting firm. Certain reclassifications have been made to the prior period financial information to conform to the current period presentation. See “Management’s Discussion and Analysis of Financial Condition and Results of Operations” starting on page 36 for more information.

	Year Ended June 30,					
	2014	2013	2012	2011	2010	
	(in thousands except data relating to shares, per share and number of portfolio companies)					
<b>Summary of Operations</b>						
Total investment income	\$712,291	\$576,336	\$320,910	\$169,476	\$114,559	
Total operating expenses	355,068	251,412	134,226	75,255	47,369	
Net investment income	357,223	324,924	186,684	94,221	67,190	
Net realized and unrealized (losses) gains	(38,203 )	(104,068 )	4,220	24,017	(47,565 )	
Net increase in net assets resulting from operations	319,020	220,856	190,904	118,238	19,625	
<b>Per Share Data</b>						
Net investment income(1)	\$1.19	\$1.57	\$1.63	\$1.10	\$1.13	
Net increase in net assets resulting from operations(1)	1.06	1.07	1.67	1.38	0.33	
Dividends to shareholders	(1.32 )	(1.28 )	(1.22 )	(1.21 )	(1.33 )	
Net asset value at end of year	10.56	10.72	10.83	10.36	10.30	
<b>Balance Sheet Data</b>						
Total assets	\$6,477,269	\$4,448,217	\$2,255,254	\$1,549,317	\$832,695	
Total debt outstanding	2,773,051	1,683,002	664,138	406,700	100,300	
Net assets	3,618,182	2,656,494	1,511,974	1,114,357	711,424	
<b>Other Data</b>						
Investment purchases for the year(2)	\$2,952,456	\$3,103,217	\$1,120,659	\$953,337	\$364,788	
Investment sales and repayments for the year	787,069	931,534	500,952	285,562	136,221	
Number of portfolio companies at year end	143	124	85	72	58	
Total return based on market value(3)	10.9	% 6.2	% 27.2	% 17.2	% 17.7	%
Total return based on net asset value(3)	11.0	% 10.9	% 18.0	% 12.5	% (6.8	%)
Weighted average yield on debt portfolio at year end(4)	12.1	% 13.6	% 13.9	% 12.8	% 16.2	%

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

(2) Investment purchases for the year ended June 30, 2010 includes \$207,126 of portfolio investments acquired from Patriot Capital Funding, Inc.

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



## RISK FACTORS

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

### Risks Relating to Our Business

Capital markets could experience a period of disruption and instability. Such market conditions have historically and could again have a material and adverse effect on debt and equity capital markets in the United States and abroad, which could have a materially negative impact on our business and operations.

Global capital markets have periodically experienced periods of instability as evidenced by the extended disruptions from 2007 to 2010 in liquidity in the debt capital markets, significant losses in the principal value of investments, the re-pricing of credit risk in the markets and the failure of certain major financial institutions. Such conditions may occur for a prolonged period of time. These market conditions have historically and could again have a material adverse effect on debt and equity capital markets in the United States and Europe, which could have a materially negative impact on our business, financial condition and results of operations. We and other companies in the financial services sector may have to access, if available, alternative markets for debt and equity capital. In such circumstances, equity capital may be difficult to raise because subject to some limited exceptions, as a BDC, we are generally not able to issue additional shares of our common stock at a price less than net asset value without general approval by our stockholders, which we currently have, and approval of the specific issuance by our Board of Directors. In addition, our ability to incur indebtedness or issue preferred stock is limited by applicable regulations such that our asset coverage, as defined in the 1940 Act, must equal at least 200% immediately after each time we incur indebtedness or issue preferred stock. The debt capital that may be available, if at all, may be at a higher cost and on less favorable terms and conditions in the future. Any inability to raise capital could have a negative effect on our business, financial condition and results of operations.

Market conditions may in the future make it difficult to extend the maturity of or refinance our existing indebtedness, including the final maturity of our credit facility in March 2020, and any failure to do so could have a material adverse effect on our business. The illiquidity of our investments may make it difficult for us to sell such investments if required. As a result, we may realize significantly less than the value at which we have recorded our investments.

Given the extreme volatility and dislocation that the capital markets have historically experienced, many BDCs have faced, and may in the future face, a challenging environment in which to raise capital. We may in the future have difficulty accessing debt and equity capital, and a severe disruption in the global financial markets or deterioration in credit and financing conditions could have a material adverse effect on our business, financial condition and results of operations. In addition, significant changes in the capital markets, including the extreme volatility and disruption, have had, and may in the future have, a negative effect on the valuations of our investments and on the potential for liquidity events involving our investments. An inability to raise capital, and any required sale of our investments for liquidity purposes, could have a material adverse impact on our business, financial condition or results of operations. The Investment Adviser does not know how long the financial markets will continue to be affected by these events and cannot predict the effects of these or similar events in the future on the United States economy and securities markets or on our investments. The Investment Adviser monitors developments and seeks to manage our investments in a manner consistent with achieving our investment objective, but there can be no assurance that it will be successful in doing so; and the Investment Adviser may not timely anticipate or manage existing, new or additional risks, contingencies or developments, including regulatory developments in the current or future market environment.

We are required to record certain of our assets at fair value, as determined in good faith by our Board of Directors in accordance with our valuation policy. As a result, volatility in the capital markets may have a material adverse effect on our investment valuations and our net asset value, even if we plan to hold investments to maturity.





Uncertainty about the financial stability of the United States and of several countries in the European Union (EU) could have a significant adverse effect on our business, financial condition and results of operations.

Due to federal budget deficit concerns, S&P downgraded the federal government's credit rating from AAA to AA+ for the first time in history on August 5, 2011. Further, Moody's and Fitch have warned that they may downgrade the federal government's credit rating. Further downgrades or warnings by S&P or other rating agencies, and the United States government's credit and deficit concerns in general, including issues around the federal debt ceiling, could cause interest rates and borrowing costs to rise, which may negatively impact both the perception of credit risk associated with our debt portfolio and our ability to access the debt markets on favorable terms. In addition, a decreased credit rating could create broader financial turmoil and uncertainty, which may weigh heavily on our financial performance and the value of our common stock.

In 2010, a financial crisis emerged in Europe, triggered by high budget deficits and rising direct and contingent sovereign debt in Greece, Ireland, Italy, Portugal and Spain, which created concerns about the debt crisis in Europe or any similar crisis could have a detrimental impact on the global economic recovery, sovereign and non-sovereign debt in these countries and the financial condition of European financial institutions. Market and economic disruptions have affected, and may in the future affect, consumer confidence levels and spending, personal bankruptcy rates, levels of incurrence and default on consumer debt and home prices, among other factors. We cannot assure you that market disruptions in Europe, including the increased cost of funding for certain governments and financial institutions, will not impact the global economy, and we cannot assure you that assistance packages will be available, or if available, be sufficient to stabilize countries and markets in Europe or elsewhere affected by a financial crisis. To the extent uncertainty regarding any economic recovery in Europe negatively impacts consumer confidence and consumer credit factors, our business, financial condition and results of operations could be significantly and adversely affected.

On December 18, 2013, the Federal Reserve announced that it would scale back its bond-buying program, or quantitative easing, which was designed to stimulate the economy and expand the Federal Reserve's holdings of long-term securities until key economic indicators, such as the unemployment rate, show signs of improvement. The Federal Reserve signaled it would reduce its purchases of long-term Treasury bonds and would scale back on its purchases of mortgage-backed securities. It is unclear what effect, if any, the incremental reduction in the rate of the Federal Reserve's monthly purchases will have on the value of our investments. However, it is possible that absent continued quantitative easing by the Federal Reserve, these developments, along with the United States government's federal debt ceiling issues and the European sovereign debt crisis, could cause interest rates and borrowing costs to rise, which may negatively impact our ability to access the debt markets on favorable terms.

We may suffer credit losses.

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

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

We depend on the diligence, skill and network of business contacts of the senior management of the Investment Adviser. We also depend, to a significant extent, on the Investment Adviser's access to the investment professionals and the information and deal flow generated by these investment professionals in the course of their investment and portfolio management activities. The senior management team of the Investment Adviser evaluates, negotiates,

structures, closes, monitors and services our investments. Our success depends to a significant extent on the continued service of the senior management team, particularly John F. Barry III and M. Grier Eliasek. The departure of any of the senior management team could have a materially adverse effect on our ability to achieve our investment objective. In addition, we can offer no assurance that Prospect Capital Management will remain the Investment Adviser or that we will continue to have access to its investment professionals or its information and deal flow.

We operate in a highly competitive market for investment opportunities.

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

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

We may lose investment opportunities if we do not match our competitors' pricing, terms and structure. If we match our competitors' pricing, terms and structure, we may experience decreased net interest income and increased risk of credit loss. As a result of operating in such a competitive environment, we may make investments that are on less favorable terms than what we may have originally anticipated, which may impact our return on these investments.

We fund a portion of our investments with borrowed money, which magnifies the potential for gain or loss on amounts invested and may increase the risk of investing in us.

Borrowings and other types of financing, also known as leverage, magnify the potential for gain or loss on amounts invested and, therefore, increase the risks associated with investing in our securities. Our lenders have fixed dollar claims on our assets that are superior to the claims of our common stockholders or any preferred stockholders. If the value of our assets increases, then leveraging would cause the net asset value to increase more sharply than it would have had we not leveraged. Conversely, if the value of our assets decreases, leveraging would cause net asset value to decline more sharply than it otherwise would have had we not leveraged. Similarly, any increase in our income in excess of consolidated interest payable on the borrowed funds would cause our net income to increase more than it would without the leverage, while any decrease in our income would cause net income to decline more sharply than it would have had we not borrowed. Such a decline could negatively affect our ability to make common stock dividend payments. Leverage is generally considered a speculative investment technique.

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

A portion of the debt investments we make bears interest at fixed rates and other debt investments bear interest at variable rates with floors and the value of these investments could be negatively affected by increases in market interest rates. In addition, as the interest rate on our revolving credit facility is at a variable rate based on an index, an increase in interest rates would make it more expensive to use debt to finance our investments. As a result, an increase in market interest rates could both reduce the value of our portfolio investments and increase our cost of capital, which could reduce our net investment income or net increase in net assets resulting from operations.

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

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

securities or issue preferred stock unless immediately thereafter our ratio of total assets to total borrowings and other senior securities is at least 200%. This may restrict our ability to obtain additional leverage in certain circumstances.

We may experience fluctuations in our quarterly results.

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

Our most recent NAV was calculated on June 30, 2014 and our NAV when calculated effective September 30, 2014 and thereafter may be higher or lower.

Our most recently estimated NAV per share is \$10.54 on an as adjusted basis solely to give effect to our issuance of common stock since June 30, 2014 in connection with our dividend reinvestment plan and our issuance of 9,490,975 shares of common stock for the period from September 8, 2014 to October 29, 2014 (including shares with settlement dates through November 3, 2014) under our at the market program, \$0.02 lower than the \$10.56 determined by us as of June 30, 2014. NAV per share as of September 30, 2014 may be higher or lower than \$10.54 based on potential changes in valuations, issuances of securities, dividends paid and earnings for the quarter then ended. Our Board of Directors has not yet determined the fair value of portfolio investments at any date subsequent to June 30, 2014. Our Board of Directors determines the fair value of our portfolio investments on a quarterly basis in connection with the preparation of quarterly financial statements and based on input from independent valuation firms, the Investment Adviser, the Administrator and the Audit Committee of our Board of Directors.

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

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

Potential conflicts of interest could impact our investment returns.

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

In the course of our investing activities, under the Investment Advisory Agreement we pay base management and incentive fees to Prospect Capital Management and reimburse Prospect Capital Management for certain expenses it incurs. As a result of the Investment Advisory Agreement, there may be times when the senior management team of Prospect Capital Management has interests that differ from those of our stockholders, giving rise to a conflict. The Investment Adviser receives a quarterly income incentive fee based, in part, on our pre-incentive fee net investment income, if any, for the immediately preceding calendar quarter. This income incentive fee is subject to a fixed quarterly hurdle rate before providing an income incentive fee return to Prospect Capital Management. This fixed hurdle rate was determined when

then current interest rates were relatively low on a historical basis. Thus, if interest rates rise, it would become easier for our investment income to exceed the hurdle rate and, as a result, more likely that Prospect Capital Management will receive an income incentive fee than if interest rates on our investments remained constant or decreased. Subject to the receipt of any requisite stockholder approval under the 1940 Act, our Board of Directors may adjust the hurdle rate by amending the Investment Advisory Agreement.

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

We have entered into a royalty-free license agreement with Prospect Capital Investment Management, LLC, an affiliate of Prospect Capital Management. Under this agreement, Prospect Capital Investment Management agrees to grant us a non-exclusive license to use the name "Prospect Capital." Under the license agreement, we have the right to use the "Prospect Capital" name for so long as Prospect Capital Management or one of its affiliates remains our investment adviser. In addition, we rent office space from Prospect Administration, an affiliate of Prospect Capital Management, and pay Prospect Administration our allocable portion of overhead and other expenses incurred by Prospect Administration in performing its obligations as Administrator under the Administration Agreement, including rent and our allocable portion of the costs of our Chief Financial Officer and Chief Compliance Officer and their respective staffs. This may create conflicts of interest that our Board of Directors monitors.

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

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

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

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

The Investment Adviser is entitled to incentive compensation for each fiscal quarter based, in part, on our pre-incentive fee net investment income if any, for the immediately preceding calendar quarter above a performance threshold for that quarter. Accordingly, since the performance threshold is based on a percentage of our net asset value, decreases in our net asset value make it easier to achieve the performance threshold. Our pre-incentive fee net

investment income for incentive compensation purposes excludes realized and unrealized capital losses or depreciation that we may incur in the fiscal quarter, even if such capital losses or depreciation result in a net loss on our statement of operations for that quarter. Thus, we may be required to pay the Investment Adviser incentive compensation for a fiscal quarter even if there is a decline in the value of our portfolio or we incur a net loss for that quarter. Further, part of the incentive compensation payable or distributable by us that relates to our ordinary income is computed on income that may include interest that has been accrued (in some cases at an increasing rate) but not yet received in cash. If a portfolio company defaults on a loan, it is possible that accrued interest previously used in the calculation of the incentive compensation will become uncollectible. Similarly, the income component is measured against a total return limitation that includes



unrealized gains. Such gains may not be realized or may be realized at a lower amount. Consequently, we may have paid incentive compensation on income in circumstances where we otherwise would not have done so and with respect to which we do not have a clawback right against the Investment Adviser.

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

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

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

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

Foreign and domestic political risk may adversely affect our business.

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

**Risks Relating to Our Operation as a Business Development Company**

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

As a BDC, we may not acquire any assets other than "qualifying assets" unless, at the time of and after giving effect to such acquisition, at least 70% of our total assets are qualifying assets. We may be precluded from investing in what we believe are attractive investments if such investments are not qualifying assets for purposes of the 1940 Act. If we

do not invest a sufficient portion of our assets in qualifying assets, we could be found to be in violation of the 1940 Act provisions applicable to BDCs, which would have a material adverse effect on our business, financial condition and results of operations. Similarly, these rules could prevent us from making follow-on investments in existing portfolio companies (which could result in the dilution of our position) or could require us to dispose of investments at inappropriate times in order to come into compliance with the 1940 Act. Because most of our investments will be in private companies, and therefore will be relatively illiquid, any such dispositions could be made at disadvantageous prices and could result in substantial losses.

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

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

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

The annual distribution requirement for a RIC is satisfied if we distribute at least 90% of our ordinary income and net short-term capital gains in excess of net long-term capital losses, if any, to our stockholders on an annual basis.

Because we use debt financing, we are subject to certain asset coverage ratio requirements under the 1940 Act and financial covenants that could, under certain circumstances, restrict us from making distributions necessary to qualify for RIC tax treatment. If we are unable to obtain cash from other sources, we may fail to qualify for RIC tax treatment and, thus, may be subject to corporate-level income tax on all of our taxable income.

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

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

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

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

The income incentive fee payable by us is computed and paid on income that may include interest that has been accrued but not yet received in cash. If a portfolio company defaults on a loan that is structured to provide accrued interest, it is possible that accrued interest previously used in the calculation of the income incentive fee will become uncollectible.

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

We have incurred indebtedness under our revolving credit facility and through the issuance of the Unsecured Notes and, in the future, may issue preferred stock or debt securities and/or borrow additional money from banks or other

financial institutions, which we refer to collectively as “senior securities,” up to the maximum amount permitted by the 1940 Act. Under the provisions of the 1940 Act, we are permitted, as a BDC, to incur indebtedness or issue senior securities only in amounts such that our asset coverage, as defined in the 1940 Act, equals at least 200% after each issuance of senior securities. If the value of our assets declines, we may be unable to satisfy this test, which would prohibit us from paying dividends in cash or other property and could prohibit

us from qualifying as a RIC. If we cannot satisfy this test, we may be required to sell a portion of our investments or sell additional shares of common stock at a time when such sales may be disadvantageous in order to repay a portion of our indebtedness or otherwise increase our net assets. In addition, issuance of additional common stock could dilute the percentage ownership of our current stockholders in us.

As a BDC regulated under provisions of the 1940 Act, we are not generally able to issue and sell our common stock at a price below the current net asset value per share without stockholder approval. If our common stock trades at a discount to net asset value, this restriction could adversely affect our ability to raise capital. We may, however, sell our common stock, or warrants, options or rights to acquire our common stock, at a price below the current net asset value of our common stock in certain circumstances, including if (i)(1) the holders of a majority of our shares (or, if less, at least 67% of a quorum consisting of a majority of our shares) and a similar majority of the holders of our shares who are not affiliated persons of us approve the sale of our common stock at a price that is less than the current net asset value, and (2) a majority of our Directors who have no financial interest in the transaction and a majority of our independent Directors (a) determine that such sale is in our and our stockholders' best interests and (b) in consultation with any underwriter or underwriters of the offering, make a good faith determination as of a time either immediately prior to the first solicitation by us or on our behalf of firm commitments to purchase such shares, or immediately prior to the issuance of such shares, that the price at which such shares are to be sold is not less than a price which closely approximates the market value of such shares, less any distributing commission or discount or if (ii) a majority of the number of the beneficial holders of our common stock entitled to vote at our annual meeting, without regard to whether a majority of such shares are voted in favor of the proposal, approve the sale of our common stock at a price that is less than the current net asset value per share.

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

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

Securitization of our assets subjects us to various risks.

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

An important aspect of most debt securitization transactions is that the sale and/or contribution of assets into the SPE be considered a true sale and/or contribution for accounting purposes and that a reviewing court would not consolidate the SPE with the operations of the originator in the event of the originator's bankruptcy based on equitable principles. Viewed as a whole, a debt securitization seeks to lower risk to the note purchasers by isolating the assets collateralizing the securitization in an SPE that is not subject to the credit and bankruptcy risks of the originator. As a result of this perceived reduction of risk, debt securitization transactions frequently achieve lower overall leverage costs for originators as compared to traditional secured lending transactions.

In accordance with the above description, to securitize loans, we may create a wholly-owned subsidiary and contribute a pool of our assets to such subsidiary. The SPE may be funded with, among other things, whole loans or interests from other pools and such loans may or may not be rated. The SPE would then sell its notes to purchasers who we would expect to be willing to accept a lower interest rate and the absence of any recourse against us to invest in a pool of income producing assets to which none of our creditors would have access. We would retain all or a portion of the equity in the SPE. An inability to successfully securitize portions of our portfolio or otherwise leverage our portfolio through secured and unsecured borrowings could limit our ability to grow our business and fully execute our business strategy, and could decrease our earnings. However, the successful securitization of portions of our portfolio exposes

us to a risk of loss for the equity we retain in the SPE and might expose us to greater risk on our remaining portfolio because the assets we retain may tend to be those that are riskier and more likely to generate losses. A successful securitization may also impose financial and operating covenants that restrict our business activities and may include limitations that could hinder our ability to finance additional loans and investments or to make the distributions required to maintain our status as a RIC under Subchapter M of the Code. The 1940 Act may also impose restrictions on the structure of any securitizations.

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

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

We may also engage in transactions utilizing SPEs and securitization techniques where the assets sold or contributed to the SPE remain on our balance sheet for accounting purposes. If, for example, we sell the assets to the SPE with recourse or provide a guarantee or other credit support to the SPE, its assets will remain on our balance sheet.

Consolidation would also generally result if we, in consultation with the SEC, determine that consolidation would result in a more accurate reflection of our assets, liabilities and results of operations. In these structures, the risks will be essentially the same as in other securitization transactions but the assets will remain our assets for purposes of the limitations described above on investing in assets that are not qualifying assets and the leverage incurred by the SPE will be treated as borrowings incurred by us for purposes of our limitation on the issuance of senior securities.

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

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

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

#### Risks Relating to Our Investments

We may not realize gains or income from our investments.

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

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

A large percentage of our portfolio investments consist of securities of privately held companies. Hence, market quotations are generally not readily available for determining the fair values of such investments. The determination of fair value, and thus the amount of unrealized losses we may incur in any year, is to a degree subjective, and the Investment Adviser has a conflict of interest in making the determination. We value these securities quarterly at fair value as determined in good faith by our Board of Directors based on input from the Investment Adviser, our Administrator, a third party independent valuation firm and our Audit Committee. Our Board of Directors utilizes the services of an independent valuation firm to aid it in determining the fair value of any securities. The types of factors

that may be considered in determining the fair values of our investments include the nature and realizable value of any collateral, the portfolio company's ability to make payments and its earnings, the markets in which the portfolio company does business, comparison to publicly traded companies, discounted cash flow, current market interest rates and other relevant factors. Because such valuations, and particularly valuations of private securities and private companies, are

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

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

Price declines and illiquidity in the corporate debt markets have adversely affected, and may in the future adversely affect, the fair value of our portfolio investments, reducing our net asset value through increased net unrealized depreciation.

As a BDC, we are required to carry our investments at market value or, if no market value is ascertainable, at fair value as determined in good faith by or under the direction of our Board of Directors. As part of the valuation process, the types of factors that we may take into account in determining the fair value of our investments include, as relevant and among other factors: available current market data, including relevant and applicable market trading and transaction comparables, applicable market yields and multiples, security covenants, call protection provisions, information rights, the nature and realizable value of any collateral, the portfolio company’s ability to make payments, its earnings and discounted cash flows, the markets in which the portfolio company does business, comparisons of financial ratios of peer companies that are public, merger and acquisition comparables, our principal market (as the reporting entity) and enterprise values. Decreases in the market values or fair values of our investments are recorded as unrealized depreciation. The effect of all of these factors on our portfolio can reduce our net asset value by increasing net unrealized depreciation in our portfolio. Depending on market conditions, we could incur substantial realized losses and may suffer additional unrealized losses in future periods, which could have a material adverse impact on our business, financial condition and results of operations.

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

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

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

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

They are more likely to depend on the management talents and efforts of a small group of persons; therefore, the death, disability, resignation or termination of one or more of these persons could have a materially adverse impact on

our portfolio company and, in turn, on us.

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

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

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

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

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

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

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

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

Economic recessions or downturns could impair our portfolio companies and harm our operating results.

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

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

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

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

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

subject to a bankruptcy process.

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

In some cases, equity securities in which we invest will not pay current dividends, and our ability to realize a return on our investment, as well as to recover our investment, will be dependent on the success of the portfolio company. Even if

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the portfolio company is successful, our ability to realize the value of our investment may be dependent on the occurrence of a liquidity event, such as a public offering or the sale of the portfolio company. It is likely to take a significant amount of time before a liquidity event occurs or we can otherwise sell our investment. In addition, the equity securities we receive or invest in may be subject to restrictions on resale during periods in which it could be advantageous to sell them.

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

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

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

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

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

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

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

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

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

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

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

event of an insolvency, liquidation, dissolution, reorganization or bankruptcy of the relevant portfolio company. The rights we may have with respect to the collateral securing any junior priority loans we make to our portfolio companies may also be limited pursuant to the terms of one or more intercreditor agreements (including agreements governing “first out” and “last out” structures) that we enter into with the holders of senior debt. Under such an intercreditor agreement, at any time

that senior obligations are outstanding, we may forfeit certain rights with respect to the collateral to the holders of the senior obligations. These rights may include the right to commence enforcement proceedings against the collateral, the right to control the conduct of such enforcement proceedings, the right to approve amendments to collateral documents, the right to release liens on the collateral and the right to waive past defaults under collateral documents. We may not have the ability to control or direct such actions, even if as a result our rights as junior lenders are adversely affected.

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

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

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

Our portfolio companies may be highly leveraged.

Some of our portfolio companies may be highly leveraged, which may have adverse consequences to these companies and to us as an investor. These companies may be subject to restrictive financial and operating covenants and the leverage may impair these companies' ability to finance their future operations and capital needs. As a result, these companies' flexibility to respond to changing business and economic conditions and to take advantage of business opportunities may be limited. Further, a leveraged company's income and net assets will tend to increase or decrease at a greater rate than if borrowed money were not used.

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

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

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

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

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

Until we identify new investment opportunities, we intend to either invest the net proceeds of future offerings and repayments from investments in interest-bearing deposits or other short-term instruments or use the net proceeds from such offerings to reduce then-outstanding obligations under our credit facility. We cannot assure you that we will be

able to find enough appropriate investments that meet our investment criteria or that any investment we complete using the proceeds from an offering will produce a sufficient return.



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

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

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

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

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

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

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

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

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

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

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

Our investment strategy contemplates potential investments in securities of foreign companies, including those located in emerging market countries. Investing in foreign companies may expose us to additional risks not typically associated with investing in U.S. companies. These risks include changes in exchange control regulations, political and social instability, expropriation, imposition of foreign taxes, less liquid markets and less available information than is generally the case in the United States, higher transaction costs, less government supervision of exchanges, brokers and issuers, less developed bankruptcy laws, difficulty in enforcing contractual obligations, lack of uniform accounting and auditing standards and greater price volatility. Such risks are more pronounced in emerging market countries.

Although currently substantially all of our investments are, and we expect that most of our investments will be, U.S. dollar-denominated, investments that are denominated in a foreign currency will be subject to the risk that the value of a particular currency will change in relation to one or more other currencies. Among the factors that may affect currency values are trade balances, the level of short-term interest rates, differences in relative values of similar assets in different currencies, long-term opportunities for investment and capital appreciation, and political developments.

We may expose ourselves to risks if we engage in hedging transactions.

We may employ hedging techniques to minimize certain investment risks, such as fluctuations in interest and currency exchange rates, but we can offer no assurance that such strategies will be effective. If we engage in hedging transactions, we may expose ourselves to risks associated with such transactions. We may utilize instruments such as forward contracts, currency options and interest rate swaps, caps, collars and floors to seek to hedge against fluctuations in the relative values of our portfolio positions from changes in currency exchange rates and market interest rates. Hedging against a decline in the values of our portfolio positions does not eliminate the possibility of fluctuations in the values of such positions or prevent losses if the values of such positions decline. However, such hedging can establish other positions designed to gain from those same developments, thereby offsetting the decline in the value of such portfolio positions. Such hedging transactions may also limit the opportunity for gain if the values of the portfolio positions should increase. Moreover, it may not be possible to hedge against an exchange rate or interest

rate fluctuation that is so generally anticipated that we are not able to enter into a hedging transaction at an acceptable price. Furthermore,

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our ability to engage in hedging transactions may also be adversely affected by rules adopted by the U.S. Commodity Futures Trading Commission.

The success of our hedging transactions depends on our ability to correctly predict movements, currencies and interest rates. Therefore, while we may enter into such transactions to seek to reduce currency exchange rate and interest rate risks, unanticipated changes in currency exchange rates or interest rates may result in poorer overall investment performance than if we had not engaged in any such hedging transactions. The degree of correlation between price movements of the instruments used in a hedging strategy and price movements in the portfolio positions being hedged may vary. Moreover, for a variety of reasons, we may not seek to establish a perfect correlation between such hedging instruments and the portfolio holdings being hedged. Any such imperfect correlation may prevent us from achieving the intended hedge and expose us to risk of loss. In addition, it may not be possible to hedge fully or perfectly against currency fluctuations affecting the value of securities denominated in non-U.S. currencies. We have no current intention of engaging in any of the hedging transaction described above, although it reserves the right to do so in the future.

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

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

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

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

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

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

Our CLO investments are exposed to leveraged credit risk.

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

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

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



Investments in foreign securities may involve significant risks in addition to the risks inherent in U.S. investments. Our CLO investment strategy allows investments in foreign CLOs. Investing in foreign entities may expose us to additional risks not typically associated with investing in U.S. issuers. These risks include changes in exchange control regulations, political and social instability, expropriation, imposition of foreign taxes, less liquid markets and less available information than is generally the case in the United States, higher transaction costs, less government supervision of exchanges, brokers and issuers, less developed bankruptcy laws, difficulty in enforcing contractual obligations, lack of uniform accounting and auditing standards and greater price volatility. Further, we, and the CLOs in which we invest, may have difficulty enforcing creditor's rights in foreign jurisdictions. In addition, the underlying companies of the CLOs in which we invest may be foreign, which may create greater exposure for us to foreign economic developments.

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

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

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

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

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

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

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

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

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

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

We are not be able to directly enforce any rights and remedies in the event of a default of a senior secured loan held by a CLO vehicle. In addition, the terms and conditions of the senior secured loans underlying our CLO investments may be amended, modified or waived only by the agreement of the underlying lenders. Generally, any such agreement

must include a majority or a super majority (measured by outstanding loans or commitments) or, in certain circumstances, a unanimous vote of the lenders. Consequently, the terms and conditions of the payment obligations arising from senior secured loans could be modified, amended or waived in a manner contrary to our preferences.

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

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

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

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

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

We expect that a majority of our portfolio will consist of equity and junior debt investments in CLOs, which involve a number of significant risks. CLOs are typically highly levered up to approximately 10 times, and therefore the junior debt and equity tranches that we will invest in are subject to a higher risk of total loss. In particular, investors in CLOs indirectly bear risks of the underlying debt investments held by such CLOs. We will generally have the right to receive payments only from the CLOs, and will generally not have direct rights against the underlying borrowers or the entities that sponsored the CLOs. Although it is difficult to predict whether the prices of indices and securities underlying CLOs will rise or fall, these prices, and, therefore, the prices of the CLOs will be influenced by the same types of political and economic events that affect issuers of securities and capital markets generally.

The investments we make in CLOs are thinly traded or have only a limited trading market. CLO investments are typically privately offered and sold, in the primary and secondary markets. As a result, investments in CLOs may be characterized as illiquid securities. In addition to the general risks associated with investing in debt securities, CLOs carry additional risks, including, but not limited to: (i) the possibility that distributions from the underlying senior secured loans will not be adequate to make interest or other payments; (ii) the quality of the underlying senior secured loans may decline in value or default; and (iii) the complex structure of the security may not be fully understood at the time of investment and may produce disputes with the CLO or unexpected investment results. Further, our investments in equity and junior debt tranches of CLOs are subordinate to the senior debt tranches thereof.

Investments in structured vehicles, including equity and junior debt instruments issued by CLOs, involve risks, including credit risk and market risk. Changes in interest rates and credit quality may cause significant price fluctuations. Additionally, changes in the underlying senior secured loans held by a CLO may cause payments on the instruments we hold to be reduced, either temporarily or permanently. Structured investments, particularly the subordinated interests in which we invest, are less liquid than many other types of securities and may be more volatile than the senior secured loans underlying the CLOs in which we invest.

Non-investment grade debt involves a greater risk of default and higher price volatility than investment grade debt.

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

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

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





The Volcker Rule may impact how we operate our business.

Section 13 of the Bank Holding Company Act of 1956, as amended, often referred to as the “Volcker Rule,” is expected to impose significant restrictions on banking entities’ ability to sponsor or invest in hedge funds, private equity funds or commodity pools, collectively referred to as covered funds. Certain CLOs will be considered covered funds under the Volcker Rule and banking entities’ investments in such CLOs may be considered ownership interests that are prohibited. The rules are highly complex, and many aspects of the implementation of the Volcker Rule remain unclear. We are in the process of assessing the impact of the Volcker Rule on our investments, CLOs and on our industry. The Volcker Rule may have a material adverse effect on our ability to invest in bank-sponsored CLOs in the future and therefore may adversely affect our share price.

Risks affecting investments in real estate.

We make investments in commercial and multi-family residential real estate through our three wholly-owned real estate investment trusts (“REITs”), American Property REIT Corp., National Property REIT Corp. and United Property REIT Corp. (collectively, “our REITs”). A number of factors may prevent each of our REIT’s properties and assets from generating sufficient net cash flow or may adversely affect their value, or both, resulting in less cash available for distribution, or a loss, to us. These factors include:

national economic conditions;

- regional and local economic conditions (which may be adversely impacted by plant closings, business layoffs, industry slow-downs, weather conditions, natural disasters, and other factors);

local real estate conditions (such as over-supply of or insufficient demand for office space);

changing demographics;

perceptions by prospective tenants of the convenience, services, safety, and attractiveness of a property;

the ability of property managers to provide capable management and adequate maintenance;

the quality of a property’s construction and design;

increases in costs of maintenance, insurance, and operations (including energy costs and real estate taxes);

changes in applicable laws or regulations (including tax laws, zoning laws, or building codes);

potential environmental and other legal liabilities;

the level of financing used by our REITs in respect of their properties, increases in interest rate levels on such financings and the risk that one of our REITs will default on such financings, each of which increases the risk of loss to us;

the availability and cost of refinancing;

the ability to find suitable tenants for a property and to replace any departing tenants with new tenants;

potential instability, default or bankruptcy of tenants in the properties owned by our REITs;

potential limited number of prospective buyers interested in purchasing a property that one of our REITs wishes to sell; and

- the relative illiquidity of real estate investments in general, which may make it difficult to sell a property at an attractive price or within a reasonable time frame.

Risks related to Payment-in-kind Interest and Original Issue Discount.

Our loans may contain a payment-in-kind, or PIK, interest provision or may be issued with original issue discount (OID). PIK and OID investments may carry additional risk as interest earned on these types of securities is deferred in whole or in part. Generally, investments with material amounts of deferred interest may reflect an increased credit risk if, for example, the deferral of PIK interest increases the loan-to-value ratio. If the issuer defaults, we may obtain no return or a reduced return on its investment. PIK interest, computed at the contractual rate specified in each loan agreement, is added to the principal balance of the loan and recorded as interest income, whereas in OID the issuer pays cash interest on the full principal amount which results in the OID

being amortized over the term of the loan. To avoid the imposition of corporate-level tax on us, these non-cash sources of income need to be paid out to stockholders in cash distributions or, in the event that we determine to do so and in certain cases, in shares of our common stock, even though we may have not yet collected and may never collect the cash relating to the PIK or OID interest.

#### Risks Relating to Our Securities

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

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

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

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

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

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

• Diminished operating flexibility as a result of asset coverage or investment portfolio composition requirements required by lenders or investors that are more stringent than those imposed by the 1940 Act;

• The possibility that investments will have to be liquidated at less than full value or at inopportune times to comply with debt covenants or to pay interest or dividends on the leverage;

• Increased operating expenses due to the cost of leverage, including issuance and servicing costs;

• Convertible or exchangeable securities, such as the Convertible Notes outstanding or those issued in the future may have rights, preferences and privileges more favorable than those of our common stock;

• Subordination to lenders' superior claims on our assets as a result of which lenders will be able to receive proceeds available in the case of our liquidation before any proceeds will be distributed to our stockholders;

• Making it more difficult for us to meet our payment and other obligations under the Unsecured Notes and our other outstanding debt;

• The occurrence of an event of default if we fail to comply with the financial and/or other restrictive covenants contained in our debt agreements, including the credit agreement and each indenture governing the Unsecured Notes, which event of default could result in all or some of our debt becoming immediately due and payable;

• Reduced availability of our cash flow to fund investments, acquisitions and other general corporate purposes, and limiting our ability to obtain additional financing for these purposes;

• The risk of increased sensitivity to interest rate increases on our indebtedness with variable interest rates, including borrowings under our amended senior credit facility; and

• Reduced flexibility in planning for, or reacting to, and increasing our vulnerability to, changes in our business, the industry in which we operate and the general economy.

For example, the amount we may borrow under our revolving credit facility is determined, in part, by the fair value of our investments. If the fair value of our investments declines, we may be forced to sell investments at a loss to maintain compliance

with our borrowing limits. Other debt facilities we may enter into in the future may contain similar provisions. Any such forced sales would reduce our net asset value and also make it difficult for the net asset value to recover. The Investment Adviser and our Board of Directors in their best judgment nevertheless may determine to use leverage if they expect that the benefits to our stockholders of maintaining the leveraged position will outweigh the risks. In addition, our ability to meet our payment and other obligations of the Unsecured Notes and our credit facility depends on our ability to generate significant cash flow in the future. This, to some extent, is subject to general economic, financial, competitive, legislative and regulatory factors as well as other factors that are beyond our control. We cannot assure you that our business will generate cash flow from operations, or that future borrowings will be available to us under our existing credit facility or otherwise, in an amount sufficient to enable us to meet our payment obligations under the Unsecured Notes and our other debt and to fund other liquidity needs. If we are not able to generate sufficient cash flow to service our debt obligations, we may need to refinance or restructure our debt, including the Unsecured Notes, sell assets, reduce or delay capital investments, or seek to raise additional capital. If we are unable to implement one or more of these alternatives, we may not be able to meet our payment obligations under the Unsecured Notes and our other debt.

**Illustration.** The following table illustrates the effect of leverage on returns from an investment in our common stock assuming various annual returns, net of interest expense. The calculations in the table below are hypothetical and actual returns may be higher or lower than those appearing below. The calculation assumes (i) \$6.5 billion in total assets, (ii) an average cost of funds of 5.41%, (iii) \$2.8 billion in debt outstanding and (iv) \$3.7 billion of shareholders' equity.

Assumed Return on Our Portfolio (net of expenses)	(10 )%	(5 )%	0 %	5 %	10 %
Corresponding Return to Stockholder	(21.7 )%	(12.9 )%	(4.1 )%	4.7 %	13.5 %

The assumed portfolio return is required by regulation of the SEC and is not a prediction of, and does not represent, our projected or actual performance. Actual returns may be greater or less than those appearing in the table.

The Convertible Notes and the Public Notes present other risks to holders of our common stock, including the possibility that such notes could discourage an acquisition of us by a third party and accounting uncertainty.

Certain provisions of the Convertible Notes and the Public Notes could make it more difficult or more expensive for a third party to acquire us. Upon the occurrence of certain transactions constituting a fundamental change, holders of the Convertible Notes and the Public Notes will have the right, at their option, to require us to repurchase all of their Convertible Notes and the Public Notes or any portion of the principal amount of such Convertible Notes and the Public Notes in integral multiples of \$1,000, in the case of the Convertible Notes, the 2023 Notes and the 5.00% 2019 Notes, and \$25, in the case of the 2022 Notes. We may also be required to increase the conversion rate or provide for conversion into the acquirer's capital stock in the event of certain fundamental changes with respect to the Convertible Notes. These provisions could discourage an acquisition of us by a third party.

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

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

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

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

Holders of any preferred stock we might issue, voting separately as a single class, would have the right to elect two members of the board of directors at all times and in the event dividends become two full years in arrears would have

the right to elect a majority of the directors until such arrearage is completely eliminated. In addition, preferred stockholders have class voting rights on certain matters, including changes in fundamental investment restrictions and conversion to open-end status, and accordingly can veto any such changes. Restrictions imposed on the declarations and payment of dividends or other distributions to the holders

of our common stock and preferred stock, both by the 1940 Act and by requirements imposed by rating agencies or the terms of our credit facilities, might impair our ability to maintain our qualification as a RIC for federal income tax purposes. While we would intend to redeem our preferred stock to the extent necessary to enable us to distribute our income as required to maintain our qualification as a RIC, there can be no assurance that such actions could be effected in time to meet the tax requirements.

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

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

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

As of June 30, 2014, we were in compliance with these covenants. However, our continued compliance with these covenants depends on many factors, some of which are beyond our control. Accordingly, there are no assurances that we will continue to comply with the covenants in our credit facility. Failure to comply with these covenants would result in a default under this facility which, if we were unable to obtain a waiver from the lenders thereunder, could result in an acceleration of repayments under the facility and thereby have a material adverse impact on our business, financial condition and results of operations.

Failure to extend our existing credit facility, the revolving period of which is currently scheduled to expire on March 27, 2019, could have a material adverse effect on our results of operations and financial position and our ability to pay expenses and make distributions.

The revolving period for our credit facility with a syndicate of lenders is currently scheduled to terminate on March 27, 2019, with an additional two year amortization period (with distributions allowed) after the completion of the revolving period. During such one year amortization period, all principal payments on the pledged assets will be applied to reduce the balance. At the end of the one year amortization period, the remaining balance will become due if required by the lenders. If the credit facility is not renewed or extended by the participant banks by March 27, 2019, we will not be able to make further borrowings under the facility after such date and the outstanding principal balance on that date will be due and payable on March 27, 2020. As of June 30, 2014, we had \$92.0 million of outstanding borrowings under our credit facility. Interest on borrowings under the credit facility is one-month LIBOR plus 225 basis points with no minimum LIBOR floor. Additionally, the lenders charge a fee on the unused portion of the credit facility equal to either 50 basis points if at least 35% of the credit facility is drawn or 100 basis points otherwise. The credit facility requires us to pledge assets as collateral in order to borrow under the credit facility. If we are unable to extend our facility or find a new source of borrowing on acceptable terms, we will be required to pay down the amounts outstanding under the facility during the two-year term-out period through one or more of the following:

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

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

Our Unsecured Notes mature at various dates from December 15, 2015 to October 15, 2043. If we are unable to refinance our Unsecured Notes or find a new source of borrowing on acceptable terms, we will be required to pay down the amounts outstanding at maturity under the facility during the two-year term-out period through one or more of the following: (1) borrowing additional funds under our then current credit facility, (2) issuance of additional common stock or (3) possible liquidation of some or all of our loans and other assets, any of which could have a

material adverse effect on our results of operations and financial position. In addition, our stock price could decline significantly; we would be restricted in our ability to acquire new investments and, in connection with our year-end audit, our independent registered accounting firm could raise an issue as to our ability to continue as a going concern.

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

Our publicly issued debt securities may or may not have an established trading market. We cannot assure our noteholders that a trading market for our publicly issued debt securities will ever develop or be maintained if developed. In addition to our creditworthiness, many factors may materially adversely affect the trading market for, and market value of, our publicly issued debt securities. These factors include, but are not limited to, the following:

- the time remaining to the maturity of these debt securities;
- the outstanding principal amount of debt securities with terms identical to these debt securities;
- the ratings assigned by national statistical ratings agencies;
- the general economic environment;
- the supply of debt securities trading in the secondary market, if any;
- the redemption or repayment features, if any, of these debt securities;
- the level, direction and volatility of market interest rates generally; and
- market rates of interest higher or lower than rates borne by the debt securities.

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

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

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

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

Shares of closed-end investment companies frequently trade at a market price that is less than the net asset value that is attributable to those shares. This characteristic of closed-end investment companies is separate and distinct from the risk that our net asset value per share may decline. It is not possible to predict whether any shares of our common stock will trade at, above, or below net asset value. In the past, the stocks of BDCs as an industry, including at times shares of our common stock, traded below net asset value as a result of concerns over liquidity, leverage restrictions and distribution requirements. When our common stock is trading below its net asset value per share, we will generally not be able to issue additional shares of our common stock at its market price without first obtaining approval for such issuance from our stockholders and our independent directors. At our 2013 annual meeting of stockholders held on December 6, 2013, our stockholders approved our ability, subject to the condition that the maximum number of shares salable below net asset value pursuant to this authority in any particular offering that could result in such dilution is limited to 25% of our then outstanding common stock immediately prior to each such offering, to sell shares of our common stock at any level of discount from net asset value per share during the 12 month period following December 6, 2013.

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

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

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

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

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

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

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

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

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

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

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

At our 2013 annual meeting of stockholders held on December 6, 2013, our stockholders approved our ability, subject to the condition that the maximum number of shares salable below net asset value pursuant to this authority in any particular offering that could result in such dilution is limited to 25% of our then outstanding common stock immediately prior to each such offering, to sell shares of our common stock at any level of discount from net asset value per share during the 12 month period following December 6, 2013. The issuance or sale by us of shares of our common stock or securities to subscribe for or are convertible into shares of our common stock at a discount to net asset value poses a risk of dilution to our stockholders. In particular, stockholders who do not purchase additional shares of common stock at or below the discounted price in proportion to their current ownership will experience an immediate decrease in net asset value per share (as well as in the aggregate net asset value of their shares of common stock if they do not participate at all). These stockholders will also experience a disproportionately greater decrease in their participation in our earnings and assets and their voting power than the increase we experience in our assets, potential earning power and voting interests from such issuance or sale. In addition, such sales may adversely affect the price at which our common stock trades. We have sold shares of our common stock at prices below net asset value per share in the past and may do so to the future.

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

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

Subject to certain limited exceptions, we are prohibited from buying or selling any security or other property from or to the Investment Adviser and its affiliates and persons with whom we are in a control relationship, or entering into



joint transactions with any such person, absent the prior approval of the SEC.

On February 10, 2014, we received an exemptive order from the SEC (the “Order”) that gave us the ability to negotiate terms other than price and quantity of co-investment transactions with other funds managed by the Investment Adviser or certain affiliates, including Priority Income Fund, Inc. and Pathway Energy Infrastructure Fund, Inc., subject to the conditions included therein. Under the terms of the relief permitting us to co-invest with other funds managed by our Investment Adviser or its affiliates, a “required

majority” (as defined in Section 57(o) of the 1940 Act) of our independent directors must make certain conclusions in connection with a co-investment transaction, including that (1) the terms of the proposed transaction, including the consideration to be paid, are reasonable and fair to us and our stockholders and do not involve overreaching of us or our stockholders on the part of any person concerned and (2) the transaction is consistent with the interests of our stockholders and is consistent with our investment objective and strategies. In certain situations where co-investment with one or more funds managed by the Investment Adviser or its affiliates is not covered by the Order, such as when there is an opportunity to invest in different securities of the same issuer, the personnel of the Investment Adviser or its affiliates will need to decide which fund will proceed with the investment. Such personnel will make these determinations based on policies and procedures, which are designed to reasonably ensure that investment opportunities are allocated fairly and equitably among affiliated funds over time and in a manner that is consistent with applicable laws, rules and regulations. Moreover, except in certain circumstances, when relying on the Order, we will be unable to invest in any issuer in which one or more funds managed by the Investment Adviser or its affiliates has previously invested.

The market price of our securities may fluctuate significantly.

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

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

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

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

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

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

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

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

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

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

The Maryland Control Share Acquisition Act, which provides that "control shares" of a Maryland corporation (defined as shares of common stock which, when aggregated with other shares of common stock controlled by the stockholder, entitles the stockholder to exercise one of three increasing ranges of voting power in electing directors, as described more fully below) acquired in a "control share acquisition" (defined as the direct or indirect acquisition of ownership or control of "control shares") have no voting rights except to the extent approved by stockholders by the affirmative vote of at least two-thirds of all the votes entitled to be cast on the matter, excluding all interested shares of common stock. The provisions of the Maryland Business Combination Act will not apply, however, if our Board of Directors adopts a resolution that any business combination between us and any other person will be exempt from the provisions of the Maryland Business Combination Act. Our Board of Directors has adopted a resolution that any business combination between us and any other person is exempted from the provisions of the Maryland Business Combination Act, provided that the business combination is first approved by the Board of Directors, including a majority of the directors who are not interested persons as defined in the 1940 Act. There can be no assurance that this resolution will not be altered or repealed in whole or in part at any time. If the resolution is altered or repealed, the provisions of the Maryland Business Combination Act may discourage others from trying to acquire control of us.

As permitted by Maryland law, our bylaws contain a provision exempting from the Maryland Control Share Acquisition Act any and all acquisitions by any person of our common stock. Although our bylaws include such a

provision, such a provision may also be amended or eliminated by our Board of Directors at any time in the future, provided that we will notify the Division of Investment Management at the SEC prior to amending or eliminating this provision. However, as noted above, the SEC has recently taken the position that the Maryland Control Share Acquisition Act is inconsistent with the 1940 Act and may not be invoked by

a BDC. It is the view of the staff of the SEC that opting into the Maryland Control Share Acquisition Act would be acting in a manner inconsistent with section 18(i) of the 1940 Act. See “Description of Capital Stock - Provisions of the Maryland General Corporate Law and our Charter and Bylaws” for more information.

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

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

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

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

We may distribute taxable dividends that are payable in part in our stock. The IRS has issued a private letter ruling on cash/stock dividends paid by us if certain requirements are satisfied, and the ruling permits us to declare such taxable cash/stock dividends, up to 80% in stock, with respect to our taxable years ending August 31, 2014 and August 31, 2015. Taxable stockholders receiving such dividends would be required to include the full amount of the dividend as ordinary income (or as long-term capital gain to the extent such distribution is properly designated as a capital gain dividend) to the extent of our current and accumulated earnings and profits for United States federal income tax purposes. As a result, a U.S. Stockholder (as defined in “Material U.S. Federal Income Tax Considerations”) may be required to pay tax with respect to such dividends in excess of any cash received. If a U.S. Stockholder sells the stock it receives as a dividend in order to pay this tax, it may be subject to transaction fees (e.g. broker fees or transfer agent fees) and the sales proceeds may be less than the amount included in income with respect to the dividend, depending on the market price of its stock at the time of the sale. Furthermore, with respect to Non-U.S. Stockholders (as defined in “Material U.S. Federal Income Tax Considerations”), we may be required to withhold U.S. tax with respect to such dividends, including in respect of all or a portion of such dividend that is payable in stock. In addition, if a significant number of our stockholders determine to sell shares of our stock in order to pay taxes owed on dividends, it may put downward pressure on the trading price of our stock. It is unclear whether and to what extent we will be able to pay dividends in cash and our stock.

## MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

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

The following discussion should be read in conjunction with our consolidated financial statements and related notes and other financial information appearing elsewhere in this prospectus or incorporated by reference into this prospectus. In addition to historical information, the following discussion and other parts of this prospectus contain forward-looking information that involves risks and uncertainties. Our actual results could differ materially from those anticipated by such forward-looking information due to the factors discussed under "Risk Factors" and "Forward-Looking Statements" appearing elsewhere herein.

### Note on Forward Looking Statements

Some of the statements in this section of the prospectus constitute forward-looking statements, which relate to future events or our future performance or financial condition. The forward-looking statements contained herein involve risks and uncertainties, including statements as to:

- our future operating results;
- our business prospects and the prospects of our portfolio companies;
- the impact of investments that we expect to make;
- our contractual arrangements and relationships with third parties;
- the dependence of our future success on the general economy and its impact on the industries in which we invest;
- the ability of our portfolio companies to achieve their objectives;
- our expected financings and investments;
- the adequacy of our cash resources and working capital; and
- the timing of cash flows, if any, from the operations of our portfolio companies.

We generally use words such as "anticipates," "believes," "expects," "intends" and similar expressions to identify forward-looking statements. Our actual results could differ materially from those projected in the forward-looking statements for any reason, including the factors set forth in "Risk Factors" and elsewhere in this prospectus. These forward-looking statements do not meet the safe harbor for forward-looking statements pursuant to Section 27A of the Securities Act.

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

### Overview

We are 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 "Internal Revenue Code" or the "Code"). We invest primarily in senior and subordinated debt and equity of 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 origination strategies in which we make investments: (1) lending in private equity sponsored transactions, (2) lending directly to companies not owned by private equity firms, (3) control investments in corporate operating companies, (4) control investments in financial companies, (5) investments in structured credit, (6) real estate investments, (7) investments in syndicated debt, (8) aircraft leasing and (9) online lending. We continue to evaluate other origination strategies in the ordinary course of business with no specific tops-down allocation to any single origination strategy.

Lending in Private Equity Sponsored Transactions – We make loans to companies which are controlled by leading private equity firms. This debt can take the form of first lien, second lien, unitranche or unsecured loans. In making these investments, we look for a diversified customer base, recurring demand for the product or service, barriers to entry, strong historical cash flow and experienced management teams. These loans typically have significant equity subordinate to our loan position. Historically, this strategy has comprised approximately 50%-60% of our business, but more recently it is less than 50% of our business.

**Lending Directly to Companies** – We provide debt financing to companies owned by non-private equity firms, the company founder, a management team or a family. Here, in addition to the strengths we look for in a sponsored transaction, we also look for the alignment with the management team with significant invested capital. This strategy often has less competition than the private equity sponsor strategy because such company financing needs are not easily addressed by banks and often require more diligence preparation. Direct lending can result in higher returns and lower leverage than sponsor transactions and may include warrants or equity to us. Historically, this strategy has comprised approximately 5%-15% of our business, but more recently it is less than 5% of our business.

**Control Investments in Corporate Operating Companies** – This strategy involves acquiring controlling stakes in non-financial operating companies. Our investments in these companies are generally structured as a combination of yield-producing debt and equity. We provide certainty of closure to our counterparties, give the seller personal liquidity and generally look for management to continue on in their current roles. This strategy has comprised approximately 10%-15% of our business.

**Control Investments in Financial Companies** – This strategy involves acquiring controlling stakes in financial companies, including consumer direct lending, sub-prime auto lending and other strategies. Our investments in these companies are generally structured as a combination of yield-producing debt and equity. These investments are often structured in a tax-efficient RIC-compliant partnership, enhancing returns. This strategy has comprised approximately 5%-15% of our business.

**Investments in Structured Credit** – We make investments in collateralized loan obligations (“CLOs”), generally taking a significant position in the subordinated interests (equity) of the CLOs. The CLOs include a diversified portfolio of broadly syndicated loans and do not have direct exposure to real estate, mortgages, sub-prime debt, or consumer based debt. The CLOs in which we invest are managed by top-tier collateral managers that have been thoroughly diligenced prior to investment. This strategy has comprised approximately 10%-20% of our business.

**Real Estate Investments** – We make investments in real estate through our three wholly-owned tax-efficient real estate investment trusts (“REITs”), American Property REIT Corp., National Property REIT Corp. and United Property REIT Corp. (collectively, “our REITs”). Our real estate investments are in various classes of fully developed and occupied real estate properties that generate current yields. We seek to identify properties that have historically high occupancy and steady cash flow generation. Our REITs partner with established property managers with experience in managing the property type to manage such properties after acquisition. This is a more recent investment strategy that has comprised approximately 5%-10% of our business.

**Investments in Syndicated Debt** – On an opportunistic basis, we make investments in loans and high yield bonds that have been sold to a syndicate of buyers. Here we look for investments with attractive risk-adjusted returns after we have completed a fundamental credit analysis. These investments are purchased with a long term, buy-and-hold outlook and we look to provide significant structuring input by providing anchoring orders. This strategy has comprised approximately 5%-10% of our business.

**Aircraft Leasing** – We invest debt as well as equity in aircraft assets subject to commercial leases to credit-worthy airlines across the globe. These investments present attractive return opportunities due to cash flow consistency from long-lived assets coupled with hard asset collateral. We seek to deliver risk-adjusted returns with strong downside protection by analyzing relative value characteristics across the spectrum of aircraft types of all vintages. Our target portfolio includes both in-production and out-of-production jet and turboprop aircraft and engines, operated by airlines across the globe. This strategy comprised approximately 1.5% of our business in the fiscal year ended June 30, 2014.

**Online Lending** – We make investments in loans originated by certain consumer loan and small and medium sized business (“SME”) originators. We purchase each loan in its entirety (i.e., a “whole loan”). The borrowers are consumers and SMEs. The loans are typically serviced by the originators of the loans. This strategy comprised approximately 1% of our business in the fiscal year ended June 30, 2014.

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. 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 in the holding company, generally as equity, its equity

investment in the operating company and along with any debt from us directly to the operating company structure represents our total exposure for the investment. As of June 30, 2014, as shown in our Consolidated Schedule of Investments, the cost basis and fair value of our investment in controlled companies is \$1,719,242 and \$1,640,454, respectively. This structure gives rise to several of the risks described in our public documents and highlighted above in Part I, Item 1A of this report. Effective for periods commencing on and after July 1, 2014, we will consolidate all wholly-owned and substantially wholly-owned holding companies formed by us for the purpose of holding our controlled investments in operating companies. We do not anticipate any significant effects 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.

We seek to be a long-term investor with our portfolio companies. The aggregate fair value of our portfolio investments was \$6,253,739 and \$4,172,852 as of June 30, 2014 and 2013, respectively. During the year ended June 30, 2014, our net cost of investments increased by \$2,115,744, or 49.7%, as a result of forty-seven new investments, four revolver advances and several follow-on investments of \$2,937,311, payment-in-kind interest of \$15,145, structuring fees of \$45,087 and net amortization of discounts and premiums of \$46,297, while we received full repayments on twenty-one investments, sold eight investments, and received several partial prepayments and amortization payments totaling \$787,069.

Compared to the end of last fiscal year (ended June 30, 2013), net assets increased by \$961,688, or 36.2%, during the year ended June 30, 2014, from \$2,656,494 to \$3,618,182. This increase resulted from the issuance of new shares of our common stock (less offering costs) in the amount of \$1,030,282, dividend reinvestments of \$15,574, and \$319,020 from operations. These increases, in turn, were offset by \$403,188 in dividend distributions to our stockholders. The \$319,020 from operations is net of the following: net investment income of \$357,223, net realized loss on investments of \$3,346, and net change in unrealized depreciation on investments of \$34,857.

#### Fourth Quarter Highlights

##### Investment Transactions

During the three months ended June 30, 2014, we acquired \$386,642 of new investments, completed follow-on investments in existing portfolio companies totaling approximately \$55,360, and recorded PIK interest of \$2,102, resulting in gross investment originations of \$444,104. During the three months ended June 30, 2014, we received full repayments on five investments, and received several partial prepayments and amortization payments totaling \$169,617. The more significant of these transactions are discussed in "Portfolio Investment Activity."

##### SEC Matter

On May 6, 2014, we announced in our filing on Form 10-Q for the quarter ended March 31, 2014 that the SEC Staff had asserted certain of our wholly-owned holding companies were investment companies, such companies were required to be consolidated in our historical financial results and financial position, and restatement of such financial statements was needed. At that time, we disclosed that we disagreed with the views of the SEC Staff and wished to appeal the conclusion through the Office of the Chief Accountant. On June 10, 2014, based on those discussions with the Office of the Chief Accountant, we concluded the following:

Our historical non-consolidation of wholly-owned and substantially wholly-owned holding companies did not require restatement of our prior period financial statements.

Upon our adoption of ASU 2013-08 for the fiscal year ended June 30, 2015, we will begin consolidating on a prospective basis certain of our wholly-owned and substantially wholly-owned holding companies formed by us in order to facilitate our investment strategy.

While we were in discussions with the SEC, we elected to suspend our debt and equity raising activities for the remainder of the quarter and continuing through the filing of this Form 10-K. This curtailment of capital raising activities suppressed our levels of origination and growth in the fourth quarter of the fiscal year ended June 30, 2014. This reduction in originations suppressed our level of structuring fees recognized and reduced our earnings for the quarter. Originations were \$1,343,356 in the quarter ended March 31, 2014 versus \$444,104 in the quarter ended June 30, 2014. As a result, structuring fees fell from \$24,659 in the quarter ended March 31, 2014 to \$5,026 in the quarter ended June 30, 2014.



### Equity Issuance

During the three months ended June 30, 2014, we sold 7,711,389 shares of our common stock at an average price of \$10.91 per share, and raised \$84,145 of gross proceeds, under our at-the-market offering program (the “ATM Program”). Net proceeds were \$83,308 after commissions to the broker-dealer on shares sold and offering costs. On April 17, 2014, May 22, 2014 and June 19, 2014, we issued 86,333, 114,111 and 112,630 shares of our common stock in connection with the dividend reinvestment plan, respectively.

### Dividend

On May 6, 2014, we announced the declaration of monthly dividends in the following amounts and with the following dates:

\$0.110550 per share for October 2014 to holders of record on October 31, 2014 with a payment date of November 20, 2014;

\$0.110575 per share for November 2014 to holders of record on November 28, 2014 with a payment date of December 18, 2014; and

\$0.110600 per share for December 2014 to holders of record on December 31, 2014 with a payment date of January 22, 2015.

### Revolving Credit Facility

On May 9, 2014 and May 29, 2014, we increased total commitments to our Revolving Credit Facility by \$45,000 and \$20,000, respectively. The lenders have extended total commitments of \$857,500 as of June 30, 2014, which was increased to \$877,500 in July 2014 (see “Recent Developments”).

### Debt Issuance

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 \$250,775.

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.

During the three months ended June 30, 2014, we issued \$66,554 aggregate principal amount of our Prospect Capital InterNotes® for net proceeds of \$65,251. These notes were issued with stated interest rates ranging from 3.75% to 6.25% with a weighted average interest rate of 5.03%. These notes mature between April 15, 2018 and May 15, 2039.

Tenor at Origination (in years)	Principal Amount	Interest Rate Range	Weighted Average Interest Rate	Maturity Date Range
4	\$ 8,759	3.75%	3.75	% April 15, 2018 – May 15, 2018
5	21,950	4.25%–4.75%	4.48	% April 15, 2019 – May 15, 2019
7	15,182	5.25%	5.25	% April 15, 2021 – May 15, 2021
10	10,159	5.75%	5.75	% April 15, 2024 – May 15, 2024
25	10,504	6.25%	6.25	% April 15, 2039 – May 15, 2039
	\$ 66,554			

## Investment Holdings

As of June 30, 2014, we continue to pursue our investment strategy. At June 30, 2014, approximately \$6,253,739, or 172.8%, of our net assets are invested in 143 long-term portfolio investments and CLOs.

During the year ended June 30, 2014, we originated \$2,952,456 of new investments, primarily composed of \$1,585,869 of debt and equity financing to non-controlled investments, \$913,094 of debt and equity financing to controlled investments, and \$453,493 of subordinated notes in CLOs. Our origination efforts are focused primarily on debt and equity financing to controlled investments and secured lending to non-control investments, to reduce the risk in the portfolio, investing primarily in first lien loans, and subordinated notes in CLOs, though we also continue to close select junior debt and equity investments. Our annualized current yield was 13.6% and 12.1% as of June 30, 2013 and June 30, 2014, respectively, across all performing interest bearing investments. The decrease in our current yield is primarily the result of originations at lower rates than our average existing portfolio yield. Monetization of equity positions that we hold and loans on non-accrual status are not included in this yield calculation. In many of our portfolio companies we hold equity positions, ranging from minority interests to majority stakes, which we expect over time to contribute to our investment returns. Some of these equity positions include features such as contractual minimum internal rates of returns, preferred distributions, flip structures and other features expected to generate additional investment returns, as well as contractual protections and preferences over junior equity, in addition to the yield and security offered by our cash flow and collateral debt protections.

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

As of June 30, 2014, we own controlling interests in AMU Holdings Inc.; APH Property Holdings, LLC; Arctic Oilfield Equipment USA, Inc.; ARRM Services, Inc. (f/k/a ARRM Holdings Inc.); AWC, LLC; BXC Company, Inc. (f/k/a BXC Holding Company); CCPI Holdings Inc.; CP Holdings of Delaware LLC; Credit Central Holdings of Delaware, LLC; Echelon Aviation LLC; Energy Solutions Holdings Inc. (f/k/a Gas Solutions Holdings, Inc.); First Tower Holdings of Delaware LLC; Gulf Coast Machine & Supply Company; Harbortouch Holdings of Delaware Inc.; The Healing Staff, Inc.; Manx Energy, Inc.; MITY Holdings of Delaware Inc.; Nationwide Acceptance Holdings LLC; NMMB Holdings, Inc.; NPH Property Holdings, LLC; R-V Industries, Inc.; STI Holding, Inc.; UPH Property Holdings, LLC; Valley Electric Holdings I, Inc.; and Wolf Energy Holdings Inc. We also own an affiliated interest in BNN Holdings Corp. (f/k/a Biotronic NeuroNetwork).

The following shows the composition of our investment portfolio by level of control as of June 30, 2014 and June 30, 2013:

Level of Control	June 30, 2014				June 30, 2013			
	Cost	% of Portfolio	Fair Value	% of Portfolio	Cost	% of Portfolio	Fair Value	% of Portfolio
Control Investments	\$1,719,242	27.0	% \$1,640,454	26.2	% \$830,151	19.5	% \$811,634	19.5
Affiliate Investments	31,829	0.5	% 32,121	0.5	% 49,189	1.2	% 42,443	1.0
Non-Control/Non-Affiliate Investments	4,620,451	72.5	% 4,581,164	73.3	% 3,376,438	79.3	% 3,318,775	79.5
Total Investments	\$6,371,522	100.0	% \$6,253,739	100.0	% \$4,255,778	100.0	% \$4,172,852	100.0

The following shows the composition of our investment portfolio by type of investment as of June 30, 2014 and June 30, 2013:

Type of Investment	June 30, 2014				June 30, 2013				
	Cost	% of Portfolio	Fair Value	% of Portfolio	Cost	% of Portfolio	Fair Value	% of Portfolio	
Revolving Line of Credit	\$3,445	0.1	%\$2,786	—	% \$9,238	0.2	%\$8,729	0.2	%
Senior Secured Debt	3,578,339	56.2	%3,514,198	56.2	% 2,262,327	53.1	%2,207,091	52.8	%
Subordinated Secured Debt	1,272,275	20.0	%1,200,221	19.2	% 1,062,386	25.0	%1,024,901	24.6	%
Subordinated Unsecured Debt	85,531	1.3	%85,531	1.4	% 88,470	2.1	%88,827	2.1	%
Small Business Whole Loans	4,637	0.1	%4,252	0.1	% —	—	%—	—	%
CLO Debt	28,118	0.4	%33,199	0.5	% 27,667	0.7	%28,589	0.7	%
CLO Residual Interest	1,044,656	16.4	%1,093,985	17.5	% 660,619	15.5	%658,086	15.8	%
Preferred Stock	80,096	1.3	%10,696	0.2	% 25,016	0.6	%14,742	0.4	%
Common Stock	84,768	1.3	%80,153	1.3	% 34,629	0.8	%47,083	1.1	%
Membership Interest	187,384	2.9	%217,763	3.5	% 83,265	1.9	%61,903	1.5	%
Net Profits Interest	—	—	%213	—	% —	—	%520	—	%
Net Revenue Interest	—	—	%—	—	% —	—	%20,439	0.5	%
Escrow Receivable	—	—	%1,589	—	% —	—	%4,662	0.1	%
Warrants	2,273	—	%9,153	0.1	% 2,161	0.1	%7,280	0.2	%
Total Investments	\$6,371,522	100.0	%\$6,253,739	100.0	% \$4,255,778	100.0	%\$4,172,852	100.0	%

The following shows our investments in interest bearing securities by type of investment as of June 30, 2014 and June 30, 2013:

Type of Investment	June 30, 2014				June 30, 2013				
	Cost	% of Portfolio	Fair Value	% of Portfolio	Cost	% of Portfolio	Fair Value	% of Portfolio	
First Lien	\$3,581,784	59.5	%\$3,516,984	59.3	% \$2,271,565	55.3	%\$2,215,820	55.2	%
Second Lien	1,272,275	21.1	%1,200,221	20.2	% 1,062,386	25.8	%1,024,901	25.5	%
Unsecured	85,531	1.4	%85,531	1.4	% 88,470	2.2	%88,827	2.2	%
Small Business Whole Loans	4,637	0.1	%4,252	0.1	% —	—	%—	—	%
CLO Debt	28,118	0.5	%33,199	0.6	% 27,667	0.7	%28,589	0.7	%
CLO Residual Interest	1,044,656	17.4	%1,093,985	18.4	% 660,619	16.0	%658,086	16.4	%
Total Debt Investments	\$6,017,001	100.0	%\$5,934,172	100.0	% \$4,110,707	100.0	%\$4,016,223	100.0	%

The following shows the composition of our investment portfolio by geographic location as of June 30, 2014 and June 30, 2013:

Geographic Location	June 30, 2014				June 30, 2013				
	Cost	% of Portfolio	Fair Value	% of Portfolio	Cost	% of Portfolio	Fair Value	% of Portfolio	
Canada	\$15,000	0.2	%\$15,000	0.2	% \$165,000	3.9	%\$165,000	4.0	%
Cayman Islands	1,072,774	16.8	%1,127,184	18.0	% 688,286	16.2	%686,675	16.5	%
France	10,170	0.2	%10,339	0.2	% —	—	%—	—	%
Ireland	—	—	%—	—	% 14,927	0.4	%15,000	0.4	%
Midwest US	787,482	12.4	%753,543	12.0	% 565,239	13.3	%531,934	12.7	%
Northeast US	1,224,403	19.2	%1,181,533	18.9	% 522,759	12.2	%536,300	12.8	%
Puerto Rico	41,307	0.7	%36,452	0.6	% 41,352	1.0	%41,352	1.0	%
Southeast US	1,491,554	23.4	%1,461,516	23.4	% 1,124,119	26.4	%1,098,996	26.3	%
Southwest US	759,630	11.9	%737,271	11.8	% 459,944	10.8	%445,411	10.7	%
Western US	969,202	15.2	%930,901	14.9	% 674,152	15.8	%652,184	15.6	%
Total Investments	\$6,371,522	100.0	%\$6,253,739	100.0	% \$4,255,778	100.0	%\$4,172,852	100.0	%

The following shows the composition of our investment portfolio by industry as of June 30, 2014 and June 30, 2013:

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Industry	June 30, 2014				June 30, 2013				
	Cost	% of Portfolio	Fair Value	% of Portfolio	Cost	% of Portfolio	Fair Value	% of Portfolio	
Aerospace & Defense	\$102,803	1.6	%\$102,967	1.6	% \$56	—	%\$—	—	%
Auto Finance	11,139	0.2	%11,139	0.2	% 10,914	0.3	%10,417	0.2	%
Automobile	22,296	0.4	%22,452	0.4	% 12,300	0.3	%12,500	0.3	%
Biotechnology	—	—	%—	—	% —	—	%14	—	%
Business Services	598,940	9.4	%611,286	9.8	% 180,793	4.2	%179,544	4.3	%
Chemicals	19,648	0.3	%19,713	0.3	% 28,364	0.7	%28,648	0.7	%
Commercial Services	301,610	4.7	%301,610	4.8	% 247,073	5.8	%247,073	5.9	%
Construction & Engineering	56,860	0.9	%33,556	0.5	% 53,615	1.3	%53,615	1.3	%
Consumer Finance	425,497	6.7	%434,348	6.9	% 413,332	9.7	%406,964	9.8	%
Consumer Services	502,862	7.9	%504,647	8.1	% 311,982	7.3	%314,033	7.5	%
Contracting	3,831	0.1	%—	—	% 3,831	0.1	%—	—	%
Diversified / Conglomerate Service	—	—	%—	—	% —	—	%143	—	%
Diversified Financial Services(1)	42,574	0.7	%42,189	0.7	% 57,419	1.3	%55,759	1.3	%
Durable Consumer Products	377,205	5.9	%375,329	6.0	% 359,403	8.5	%349,654	8.4	%
Ecological	—	—	%—	—	% 141	—	%335	—	%
Electronics	—	—	%—	—	% —	—	%149	—	%
Energy	77,379	1.2	%67,637	1.1	% 63,895	1.5	%56,321	1.3	%
Food Products	173,375	2.7	%174,603	2.8	% 177,423	4.2	%177,428	4.3	%
Healthcare	329,408	5.2	%326,142	5.2	% 273,438	6.4	%273,838	6.6	%
Hotels, Restaurants & Leisure	132,193	2.1	%132,401	2.1	% 35,125	0.8	%35,361	0.8	%
Machinery	396	—	%621	—	% 396	—	%790	—	%
Manufacturing	204,394	3.2	%171,577	2.7	% 163,431	3.8	%167,584	4.0	%
Media	362,738	5.7	%344,278	5.5	% 171,290	4.0	%161,325	3.9	%
Metal Services & Minerals	48,402	0.8	%51,977	0.8	% 98,662	2.3	%102,832	2.5	%
Oil & Gas Production	283,490	4.4	%248,494	4.0	% 75,126	1.8	%24,420	0.6	%
Personal & Nondurable Consumer Products	10,604	0.2	%11,034	0.2	% 59,822	1.4	%60,183	1.4	%
Pharmaceuticals	78,069	1.2	%73,690	1.2	% —	—	%—	—	%
Property Management	57,500	0.9	%45,284	0.7	% 51,170	1.2	%54,648	1.3	%
Real Estate	353,506	5.5	%355,236	5.7	% 152,540	3.6	%152,540	3.7	%
Retail	14,231	0.2	%14,625	0.2	% 14,190	0.3	%14,569	0.3	%
Software & Computer Services	240,469	3.8	%241,260	3.9	% 307,734	7.2	%309,308	7.4	%
Telecommunication Services	79,630	1.2	%79,654	1.3	% —	—	%—	—	%
Textiles, Apparel & Luxury Goods	275,023	4.3	%259,690	4.2	% 116,260	2.8	%108,708	2.6	%
Transportation	112,676	1.8	%69,116	1.1	% 127,767	3.0	%127,474	3.1	%
Subtotal	\$5,298,748	83.2	%\$5,126,555	82.0	% \$3,567,492	83.8	%\$3,486,177	83.5	%
CLO Investments(1)	1,072,774	16.8	%1,127,184	18.0	% 688,286	16.2	%686,675	16.5	%
Total Investments	\$6,371,522	100.0	%\$6,253,739	100.0	% \$4,255,778	100.0	%\$4,172,852	100.0	%

(1) Although designated as Diversified Financial Services within our Schedules of Investments in Item 8 of this report, our CLO investments do not have industry concentrations and as such have been separated in the table above.





#### Portfolio Investment Activity

During the year ended June 30, 2014, we acquired \$2,082,327 of new investments, completed follow-on investments in existing portfolio companies totaling approximately \$840,134, funded \$14,850 of revolver advances, and recorded PIK interest of \$15,145, resulting in gross investment originations of \$2,952,456. The more significant of these transactions are briefly described below.

On July 12, 2013, we provided \$11,000 of secured second lien financing to Water PIK, Inc., a leader in developing innovative personal and oral healthcare products. The second lien term loan bears interest in cash at the greater of 9.75% or Libor plus 8.75% and has a final maturity of January 8, 2021.

On July 23, 2013, we made a \$2,000 investment in Carolina Beverage Group, LLC (“Carolina Beverage”), a contract beverage manufacturer. The senior secured note bears interest in cash at 10.5% and has a final maturity of July 23, 2018.

On July 26, 2013, we made a \$2,000 follow-on senior secured debt investment in Spartan Energy Services, Inc. (“Spartan”) to finance the formation of the Well Testing division. The first lien note bears interest in cash at the greater of 10.5% or Libor plus 9.0% and has a final maturity of December 28, 2017.

On July 26, 2013, we made a \$20,000 follow-on secured second lien investment in Royal Adhesives & Sealants, LLC (“Royal”) to facilitate an acquisition. The second lien term loan bears interest in cash at the greater of 9.75% or Libor plus 8.5% and has a final maturity of January 31, 2019.

On July 31, 2013, we made a \$5,100 follow-on investment in Coverall North America, Inc. to fund a dividend recapitalization. The first lien note bears interest in cash at the greater of 11.5% or Libor plus 8.5% and has a final maturity of December 17, 2017.

On August 2, 2013, we made an investment of \$44,100 to purchase 90% of the subordinated notes in CIFC Funding 2013-III, Ltd.

On August 2, 2013, we provided \$81,273 of debt and \$12,741 of equity financing to support the recapitalization of CP Holdings, an energy services company based in western Oklahoma. Through the recapitalization, we acquired a controlling interest in CP Holdings for \$73,009 in cash and 1,918,342 unregistered shares of our common stock. After the financing, we received repayment of the \$18,991 loan previously outstanding. The \$58,773 first lien note issued to CP Energy Services Inc. bears interest in cash at the greater of 9.0% or Libor plus 7.0% and interest payment in kind of 9.0% and has a final maturity of August 2, 2018. The \$22,500 first lien note issued to CP Well Testing Holding Company LLC bears interest in cash at the greater of 11.0% or Libor plus 9.0% and has a final maturity of August 2, 2018.

On August 9, 2013, we provided \$80,000 in senior secured loans and a senior secured revolving loan facility, of which \$70,000 was funded at closing, for the recapitalization of Matrixx Initiatives, Inc., owner of Zicam, a developer and marketer of OTC cold remedy products under the Zicam brand. The \$35,000 Term Loan A note bears interest in cash at the greater of 7.5% or Libor plus 6.0% and has a final maturity of August 9, 2018. The \$35,000 Term Loan B note bears interest in cash at the greater of 12.5% or Libor plus 11.0% and has a final maturity of August 9, 2018. The \$10,000 senior secured revolver, which was unfunded at closing, bears interest in cash at the greater of 10.0% or Libor plus 8.5% and has a final maturity of February 9, 2014.

On August 15, 2013, we made a \$14,000 follow-on investment in Totes Isotoner Corporation (“Totes”) to fund a dividend to shareholders. The second lien term loan bears interest in cash at the greater of 10.75% or Libor plus 9.25% and has a final maturity of January 8, 2018.

On August 30, 2013, we made a \$16,000 follow-on investment in System One Holdings, LLC to support an acquisition. The first lien note bears interest in cash at the greater of 11.0% or Libor plus 9.5% and has a final maturity of December 31, 2018.

On September 5, 2013, we provided a \$50,382 senior secured term loan to United Bank Card, Inc. (d/b/a Harbortouch), a payments processor. The first lien term loan bears interest in cash at the greater of 11.5% or Libor plus 9.5% and has a final maturity of September 5, 2018.

On September 10, 2013, we made a \$12,500 first lien secured investment in Photonis Technologies SAS (“Photonis”), a world leader in the development, manufacture and sale of electro-optic components for the detection and intensification of very faint light sources. The first lien term loan bears interest in cash at the greater of 8.5% or Libor

plus 7.5% and has a final maturity of September 18, 2019.

On September 11, 2013, we provided a \$75,000 senior secured term loan to support the recapitalization of American Broadband Holding Company and Cameron Holdings of NC, Inc., a provider of voice, video, and high-speed internet services.

The first lien Term Loan B bears interest in cash at the greater of 11.0% or Libor plus 9.75% and has a final maturity of September 30, 2018.

On September 13, 2013, we made an investment of \$36,515 to purchase 83.56% of the subordinated notes in Apidos CLO XV.

On September 19, 2013, we provided \$41,042 of debt and \$6,943 of equity financing to support the recapitalization of Mity, a designer, manufacturer and seller of multipurpose room furniture and specialty healthcare seating products. The \$22,792 first lien note issued to Mity bears interest in cash at the greater of 9.0% or Libor plus 7.0% and interest payment in kind of 9.0% and has a final maturity of September 19, 2019. The \$18,250 first lien note issued to MITY Enterprises, Inc. bears interest in cash at the greater of 10.0% or Libor plus 7.0% and has a final maturity of March 19, 2019.

On September 25, 2013, we made a \$12,000 subordinated secured second lien investment in NCP Finance Limited Partnership, a lender to short term loan providers in the alternative financial services industry. The subordinated secured term loan bears interest in cash at the greater of 11.0% or Libor plus 9.75% and has a final maturity of September 30, 2018.

On September 30, 2013, we made an investment of \$20,945 to purchase 51.02% of the subordinated notes in Galaxy XVI CLO, Ltd.

On September 30, 2013, we made an \$18,818 follow-on investment in JHH Holdings, Inc. to finance an acquisition. The second lien term loan bears interest in cash at the greater of 11.25% or Libor plus 10.0% and interest payment in kind of 0.5% and has a final maturity of March 30, 2019.

On October 1, 2013, we made a \$2,600 follow-on investment in AIRMALL to support liquidity needs. The subordinated secured note bears interest in cash at 12.0% and interest payment in kind of 6.0% and has a final maturity of December 31, 2015.

On October 11, 2013, we made a \$5,846 follow-on investment in CP Holdings to fund flowback equipment purchases. We invested \$746 of equity and \$5,100 of debt in CP Holdings. The first lien note issued to CP Energy Services Inc. bears interest in cash at the greater of 9.0% or Libor plus 7.0% and interest payment in kind of 9.0% and has a final maturity of August 2, 2018.

On October 11, 2013, we provided \$25,000 in preferred equity for the recapitalization of Ajax. After the financing, we received repayment of the \$20,008 loan previously outstanding.

On October 11, 2013, we made a secured debt investment of \$2,000 in Digital Insight, a provider of digital banking software to financial institutions in the U.S. which allows financial institutions to offer a comprehensive, user friendly platform of products and services through the online and mobile channels.

On October 16, 2013, we made a secured debt investment of \$7,000 in Renaissance Learning, Inc. ("Renaissance"), a provider of technology based school improvement and student assessment programs.

On October 22, 2013, we made an investment of \$40,791 to purchase 85.05% of the subordinated notes in CIFIC Funding 2013-IV, Ltd.

On October 29, 2013, we made a \$2,000 follow-on investment in APH to support the peer-to-peer lending initiative. We invested \$300 of equity and \$1,700 of debt in APH. The senior secured note bears interest in cash at the greater of 6.0% or Libor plus 4.0% and interest payment in kind of 5.5% and has a final maturity of April 1, 2019. This investment was subsequently contributed to NPH.

On October 29, 2013, we made a secured debt investment of \$2,500 in Omnitrac, Inc. ("Omnitrac"), one of the world's largest providers of satellite and terrestrial-based connectivity and position location solutions to transportation and logistics companies.

On October 30, 2013, we made a secured debt investment of \$6,000 in The Petroleum Place, Inc. ("P2"), a provider of enterprise resource planning software focused on the oil & gas industry.

On November 1, 2013, we made a \$9,869 follow-on investment in APH to acquire Bexley Apartment Houses, a multi-family residential property located in Marietta, Georgia. We invested \$1,669 of equity and \$8,200 of debt in APH. The senior secured note bears interest in cash at the greater of 6.0% or Libor plus 4.0% and interest payment in kind of 5.5% and has a final maturity of April 1, 2019. This investment was subsequently contributed to NPH.



On November 5, 2013, we made a \$2,000 follow-on investment in APH to support the peer-to-peer lending initiative. We invested \$300 of equity and \$1,700 of debt in APH. The senior secured note bears interest in cash at the greater of 6.0% or Libor plus 4.0% and interest payment in kind of 5.5% and has a final maturity of April 1, 2019. This investment was subsequently contributed to NPH.

On November 8, 2013, we provided \$25,950 in preferred equity for the recapitalization of Gulf Coast, a provider of value-added forging solutions to energy and industrial end markets. Through the recapitalization, we acquired a controlling interest in Gulf Coast. After the financing, we received partial repayment of the loan previously outstanding, leaving a balance of \$15,000. The senior secured term loan bears interest in cash at the greater of 10.5% or Libor plus 8.5% and has a final maturity of October 12, 2017.

On November 14, 2013, we made an investment of \$26,064 to purchase 61.30% of the subordinated notes in Sudbury Mill CLO Ltd.

On November 15, 2013, we made a \$45,900 follow-on investment in APH to acquire the Gulf Coast Portfolio, a portfolio of six multi-family residential properties located in Alabama and Florida. We invested \$7,400 of equity and \$38,500 of debt in APH. The senior secured note bears interest in cash at the greater of 6.0% or Libor plus 4.0% and interest payment in kind of 5.5% and has a final maturity of April 1, 2019.

On November 19, 2013, we made a \$66,188 follow-on investment in APH to acquire the Oxford Portfolio, a portfolio of six multi-family residential properties located in Georgia, Florida, North Carolina and Texas. We invested \$11,188 of equity and \$55,000 of debt in APH. The senior secured note bears interest in cash at the greater of 6.0% or Libor plus 4.0% and interest payment in kind of 5.5% and has a final maturity of April 1, 2019. This investment was subsequently contributed to NPH.

On November 20, 2013, we made a secured debt investment of \$1,000 in Chromaflo Technologies (“Chromaflo”), a producer of colorants and related specialty chemical products based in Ohio.

On November 25, 2013, we restructured our investment in Freedom Marine Holdings, LLC (“Freedom Marine”), a subsidiary of Energy Solutions. The subordinated secured loan to Jettco Marine Services, LLC (“Jettco”), a subsidiary of Freedom Marine, was replaced with a senior secured note to Vessel Holdings II, LLC, a new subsidiary of Freedom Marine. The \$13,000 first lien note issued to Vessel Holdings II, LLC bears interest in cash at 13.0% and has a final maturity of November 25, 2018.

On November 25, 2013, we made a \$2,000 follow-on investment in APH to support the peer-to-peer lending initiative. We invested \$300 of equity and \$1,700 of debt in APH. The senior secured note bears interest in cash at the greater of 6.0% or Libor plus 4.0% and interest payment in kind of 5.5% and has a final maturity of April 1, 2019. This investment was subsequently contributed to NPH.

On November 25, 2013, we made a \$5,000 follow-on investment in AIRMALL to support liquidity needs. The subordinated secured note bears interest in cash at 12.0% and interest payment in kind of 6.0% and has a final maturity of December 31, 2015.

On November 29, 2013, we made a \$1,000 follow-on senior secured debt investment in Gulf Coast to fund working capital needs. The senior secured term loan bears interest in cash at the greater of 10.5% or Libor plus 8.5% and has a final maturity of October 12, 2017.

On December 3, 2013, we made a \$16,000 senior secured investment in Vessel Holdings III, LLC, a new subsidiary of Freedom Marine, a subsidiary of Energy Solutions. The first lien note bears interest in cash at 13.0% and has a final maturity of December 3, 2018.

On December 4, 2013, we made a \$5,000 follow-on investment in APH to support the peer-to-peer lending initiative. We invested \$750 of equity and \$4,250 of debt in APH. The senior secured note bears interest in cash at the greater of 6.0% or Libor plus 4.0% and interest payment in kind of 5.5% and has a final maturity of April 1, 2019. This investment was subsequently contributed to NPH.

On December 12, 2013, we made a \$22,507 follow-on investment in APH to acquire the Stonemark Portfolio, a portfolio of six multi-family residential properties located in Atlanta, Georgia. We invested \$3,707 of equity and \$18,800 of debt in APH. The senior secured note bears interest in cash at the greater of 6.0% or Libor plus 4.0% and interest payment in kind of 5.5% and has a final maturity of April 1, 2019. This investment was subsequently contributed to UPH.



On December 13, 2013, we provided \$8,086 in preferred equity for the recapitalization of NMMB. After the restructuring, we received full repayment of \$2,800 of the subordinated term loan and partial repayment of \$5,286 of the senior term loan previously outstanding.

On December 13, 2013, we purchased an additional \$5,000 investment in Therakos, Inc., a developer of technologies for extracorporeal photopheresis treatments. The second lien term loan bears interest in cash at the greater of 11.25% or Libor plus 10.0% and has a final maturity of June 27, 2018.

On December 16, 2013, we made a \$1,500 follow-on senior secured debt investment in Gulf Coast to fund working capital needs. The senior secured term loan bears interest in cash at the greater of 10.5% or Libor plus 8.5% and has a final maturity of October 12, 2017.

On December 18, 2013, we made a \$5,000 follow-on investment in Spartan to fund capital expenditures across all divisions. The first lien note bears interest in cash at the greater of 10.5% or Libor plus 9.0% and has a final maturity of December 28, 2017.

On December 18, 2013, we made an investment of \$39,876 to purchase 90% of the subordinated notes in Cent CLO 20 Limited.

On December 20, 2013, we made a secured debt investment of \$9,000 in Harley Marine Services, Inc., a provider of marine transportation services. The second lien term loan bears interest in cash at the greater of 10.5% or Libor plus 9.25% and has a final maturity of December 20, 2019.

On December 23, 2013, we provided \$102,400 of senior secured financing, of which \$87,400 was funded at closing, for the recapitalization of PrimeSport, Inc., a global live entertainment and event management company. The \$43,700 Term Loan A note bears interest in cash at the greater of 7.5% or Libor plus 6.5% and has a final maturity of December 23, 2019. The \$43,700 Term Loan B note bears interest in cash at the greater of 11.5% or Libor plus 10.5% and interest payment in kind of 1.0% and has a final maturity of December 23, 2019. The \$15,000 senior secured revolver, which was unfunded at closing, bears interest in cash at the greater of 10.0% or Libor plus 9.5% and has a final maturity of June 23, 2014.

On December 26, 2013, we made a \$13,641 follow-on investment in CP Holdings to fund the acquisition of additional equipment. We invested \$1,741 of equity and \$11,900 of debt in CP Holdings. The first lien note issued to CP Energy Services Inc. bears interest in cash at the greater of 9.0% or Libor plus 7.0% and interest payment in kind of 9.0% and has a final maturity of August 2, 2018.

On December 30, 2013, we made a secured debt investment of \$40,000 in Crosman Corporation, the world's leading designer, manufacturer and marketer of airguns, airsoft guns and related category consumables. The second lien term loan originally bore interest in cash at the greater of 11.0% or Libor plus 9.5%. On June 30, 2014, we amended the terms of this investment to the greater of 12.0% or Libor plus 10.5%. The second lien term loan has a final maturity of December 30, 2019.

On December 30, 2013, we made a \$10,000 follow-on investment in First Tower to support seasonal demand. We invested \$1,500 of equity and \$8,500 of debt in First Tower. The first lien term loan bears interest in cash at the greater of 20.0% or Libor plus 18.5% and has a final maturity of June 30, 2022.

On December 30, 2013, we made a \$45,000 follow-on investment in Progrexion Holdings, Inc. ("Progrexion") to fund a dividend recapitalization. The senior secured first lien note bears interest in cash at the greater of 10.5% or Libor plus 8.5% and has a final maturity of September 14, 2017.

On December 31, 2013, we made a \$10,620 follow-on investment in NPH to acquire Indigo Apartments, a multi-family residential property located in Jacksonville, Florida. We invested \$1,820 of equity and \$8,800 of debt in NPH. The senior secured note bears interest in cash at the greater of 6.0% or Libor plus 4.0% and interest payment in kind of 5.5% and has a final maturity of April 1, 2019.

On January 8, 2014, we made a \$161,500 follow-on investment in Broder Bros., Co. ("Broder") to support an acquisition. The senior secured term loan bears interest in cash at the greater of 10.25% or Libor plus 9.0% and has a final maturity of April 8, 2019.

On January 17, 2014, we made a \$6,565 follow-on investment in APH to acquire the Gulf Coast II Portfolio, a portfolio of two multi-family residential properties located in Alabama and Florida. We invested \$1,065 of equity and \$5,500 of debt in APH. The senior secured note bears interest in cash at the greater of 6.0% or Libor plus 4.0% and



interest payment in kind of 5.5% and has a final maturity of April 1, 2019.

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On January 31, 2014, we made a \$4,805 follow-on investment in NPH to acquire Island Club, a multi-family residential property located in Jacksonville, Florida. We invested \$805 of equity and \$4,000 of debt in NPH. The senior secured note bears interest in cash at the greater of 6.0% or Libor plus 4.0% and interest payment in kind of 5.5% and has a final maturity of April 1, 2019.

On February 4, 2014, we made a secured debt investment of \$25,000 in Ikaria, Inc., a biotherapeutics company focused on developing and commercializing innovative therapies designed to meet the unique and complex medical needs of critically ill patients. The second lien term loan bears interest in cash at the greater of 8.75% or Libor plus 7.75% and has a final maturity of February 12, 2022.

On February 5, 2014, we made an investment of \$32,383 to purchase 94.27% of the subordinated notes in ING IM CLO 2014-1, Ltd.

On February 7, 2014, we made an investment of \$23,111 to purchase 63.64% of the subordinated notes in Halcyon Loan Advisors Funding 2014-1 Ltd.

On February 11, 2014, we made a \$7,000 follow-on investment in InterDent, Inc. (“InterDent”) to fund an acquisition. We invested an additional \$3,500 in Term Loan A and \$3,500 in Term Loan B. The Term Loan A note bears interest in cash at the greater of 7.25% or Libor plus 5.75% and has a final maturity of August 3, 2017. The Term Loan B note bears interest in cash at the greater of 12.25% or Libor plus 9.25% and has a final maturity of August 3, 2017.

On February 11, 2014, we made a secured debt investment of \$10,000 in TriMark USA, LLC, a foodservice equipment and supplies distributor and provider of custom kitchen design services. The second lien term loan bears interest in cash at the greater of 10.0% or Libor plus 9.0% and has a final maturity of August 11, 2019.

On February 19, 2014, we provided \$17,000 of secured floating rate financing to support the acquisition of Venio LLC (f/k/a LM Keane Acquisition Co.) by Lovell Minnick Partners. Keane provides unclaimed property services to many of the nation’s largest financial institutions including transfer agents, mutual funds, banks, brokerages and insurance companies. The second lien term loan bears interest in cash at the greater of 12.0% or Libor plus 9.5% and has a final maturity of February 19, 2020.

On March 7, 2014, we provided \$78,000 of senior secured floating rate debt to support the continued growth of Tolt Solutions, Inc. (“Tolt”), a retail-focused information technology services company, providing customized network architecture solutions, installation, deployment, maintenance, and customer support to retailers nationwide. The \$39,000 Term Loan A note bears interest in cash at the greater of 7.0% or Libor plus 6.0% and has a final maturity of March 7, 2019. The \$39,000 Term Loan B note bears interest in cash at the greater of 12.0% or Libor plus 11.0% and has a final maturity of March 7, 2019.

On March 12, 2014, we made a secured debt investment of \$10,000 in Tectum Holdings, Inc., a manufacturer of aftermarket accessories for the lite-truck market. The second lien term loan originally bore interest in cash at the greater of 10.25% or PRIME plus 7.0%. On April 1, 2014, the interest rate changed to the greater of 9.0% or Libor plus 8.0%. The second lien term loan has a final maturity of March 12, 2019.

On March 18, 2014, we made a \$28,250 follow-on investment in LaserShip, Inc., of which \$22,250 was funded at closing, to finance an acquisition. The \$22,250 Term Loan B note bears interest in cash at the greater of 10.25% or Libor plus 8.25% and has a final maturity of March 18, 2019. We also provided \$6,000 of Delayed Draw Term Loan commitment to support future acquisitions. The Delayed Draw Term Loan, which was unfunded at closing, will bear interest in cash at 2.0% and have a final maturity of December 31, 2015.

On March 25, 2014, we made a secured debt investment of \$28,500 in Global Employment Solutions, Inc., a provider of contract and permanent placement staffing services, with a strategic focus on the information technology segment. The senior secured term loan bears interest in cash at the greater of 10.0% or Libor plus 9.0% and has a final maturity of March 25, 2019.

On March 28, 2014, we provided \$277,500 of secured floating rate debt to support the refinancing of Instant Web, LLC (“IWCO”), a provider of direct marketing solutions to direct marketers for acquisition and loyalty programs in the United States. The \$132,500 Term Loan A note bears interest in cash at the greater of 5.5% or Libor plus 4.5% and has a final maturity of March 28, 2019. The \$132,500 Term Loan B note bears interest in cash at the greater of 12.0% or Libor plus 11.0% and has a final maturity of March 28, 2019. The \$12,500 Term Loan C note bears interest in cash at the greater of 12.75% or Libor plus 11.75% and has a final maturity of March 28, 2019.

On March 31, 2014, we made a secured debt investment of \$60,000 in United States Environmental Services, LLC, a provider of industrial, environmental, and maritime services in the Gulf States region. The \$24,000 Term Loan A note bears interest in cash

at the greater of 6.5% or Libor plus 5.5% and has a final maturity of March 31, 2019. The \$36,000 Term Loan B note bears interest in cash at the greater of 11.5% or Libor plus 10.5% and has a final maturity of March 31, 2019.

On March 31, 2014, we provided \$153,500 follow-on investment in Progexion to fund a dividend recapitalization. The senior secured first lien note bears interest in cash at the greater of 10.5% or Libor plus 8.5% and has a final maturity of September 14, 2017.

On March 31, 2014, we invested \$246,250 in cash and 2,306,294 unregistered shares of our common stock to support the recapitalization of Harbortouch Payments, LLC (f/k/a United Bank Card, Inc. (d/b/a Harbortouch)), a provider of transaction processing services and point-of-sale equipment used by merchants across the United States. We invested \$24,898 of equity and \$123,000 of debt in Harbortouch Holdings of Delaware Inc., the newly-formed holding company, and \$130,796 of debt in Harbortouch Payments, LLC, the operating company. Through the recapitalization, we acquired a controlling interest in Harbortouch Payments, LLC. After the recapitalization, we received repayment of the \$23,894 loan previously outstanding. The \$130,796 senior secured term loan issued to the operating company bears interest in cash at the greater of 9.0% or Libor plus 7.0% and has a final maturity of September 30, 2017. The \$123,000 senior secured note issued to the holding company bears interest in cash at the greater of 10.0% or Libor plus 8.0% and interest payment in kind of 6.0% and has a final maturity of March 31, 2019.

On March 31, 2014, we provided \$78,521 of debt and \$14,107 of equity financing to Echelon Aviation LLC (“Echelon”), a newly established portfolio company which provides liquidity alternatives on aviation assets. We are the controlling equity owner of Echelon. The senior term loan bears interest in cash at the greater of 11.75% or Libor plus 9.75% and interest payment in kind of 2.25% and has a final maturity of March 31, 2022.

On April 8, 2014, we provided \$59,000 of senior secured financing, of which \$54,000 was funded at closing, to support the recapitalization of Ark-La-Tex Wireline Services, LLC and affiliates, a provider of cased hole wireline and related completion-stage services in connection with oil and gas production. The \$27,000 Term Loan A note bears interest in cash at the greater of 6.5% or Libor plus 5.5% and has a final maturity of April 8, 2019. The \$27,000 Term Loan B note bears interest in cash at the greater of 10.5% or Libor plus 9.5% and has a final maturity of April 8, 2019. We also provided \$5,000 of Delayed Draw Term Loan commitment to support future acquisitions. The Delayed Draw Term Loan, which was unfunded at closing, will increase the existing Term Loan A and Term Loan B on a pro rata basis and bear the same terms and conditions as the initial loans.

On April 8, 2014, we refinanced our existing subordinated loan to Pelican Products, Inc., making a new debt investment of \$17,500. Concurrent with the refinancing, we received repayment of the \$15,000 loan previously outstanding. The second lien term loan bears interest in cash at the greater of 9.25% or Libor plus 8.25% and has a final maturity of April 9, 2021.

On April 11, 2014, we made an investment of \$21,685 to purchase 52.87% of the subordinated notes in Washington Mill CLO Ltd.

On April 14, 2014, we made an investment of \$38,220 to purchase 78.37% of the subordinated notes in Halcyon Loan Advisors Funding 2014-2 Ltd.

On April 21, 2014, we made an \$18,250 follow-on investment in InterDent to fund an acquisition. We invested an additional \$9,125 in Term Loan A and \$9,125 in Term Loan B. The Term Loan A note bears interest in cash at the greater of 7.25% or Libor plus 5.75% and has a final maturity of August 3, 2017. The Term Loan B note bears interest in cash at the greater of 12.25% or Libor plus 9.25% and has a final maturity of August 3, 2017.

On April 30, 2014, we provided \$65,000 of senior secured financing, of which \$50,000 was funded at closing, to support the recapitalization of Fleetwash, Inc., a national provider of mobile vehicle fleet and mobile facility cleaning services. The \$25,000 Term Loan A note bears interest in cash at the greater of 6.5% or Libor plus 5.5% and has a final maturity of April 30, 2019. The \$25,000 Term Loan B note bears interest in cash at the greater of 10.5% or Libor plus 9.5% and has a final maturity of April 30, 2019. We also provided \$15,000 of Delayed Draw Term Loan commitment to support future acquisitions. The Delayed Draw Term Loan, which was unfunded at closing, will bear interest in cash at the greater of 9.5% or Libor plus 8.5% and have a final maturity of April 30, 2019.

On May 5, 2014, we invested \$48,960 in cash and 1,102,313 unregistered shares of our common stock to support the recapitalization of Arctic Energy Services, LLC, an oil and gas service company based in Glenrock, Wyoming and doing business as Arctic Oilfield Services. Through the recapitalization, we acquired a controlling interest in Arctic

Energy Services, LLC. We invested \$9,006 of equity in Arctic Oilfield Equipment USA, Inc., the newly-formed holding company, and \$51,870 of debt in Arctic Energy Services, LLC, the operating company. The \$31,640 senior secured term loan bears interest in cash at the greater

of 12.0% or Libor plus 9.0% and has a final maturity of May 5, 2019. The \$20,230 senior subordinated term loan bears interest in cash at the greater of 14.0% or Libor plus 11.0% and has a final maturity of May 5, 2019.

On May 6, 2014, we made an investment of \$49,250 to purchase 67.47% of the subordinated notes in Symphony CLO XIV Ltd.

On May 15, 2014, we made an investment of \$46,360 to purchase 89.08% of the subordinated notes in Cent CLO 21 Limited.

On May 30, 2014, we made an investment of \$36,766 to purchase 79.10% of the subordinated notes in Galaxy XVII CLO, Ltd.

On June 30, 2014, we made a \$19,800 follow-on investment in Tolt to fund an acquisition. We invested an additional \$9,900 in Term Loan A and \$9,900 in Term Loan B. The Term Loan A note bears interest in cash at the greater of 7.0% or Libor plus 6.0% and has a final maturity of March 7, 2019. The Term Loan B note bears interest in cash at the greater of 12.0% or Libor plus 11.0% and has a final maturity of March 7, 2019.

On June 30, 2014, we made a secured debt investment of \$15,000, of which \$12,000 was funded at closing, to support the recapitalization of Wheel Pros, LLC, a designer, marketer, and distributor of branded aftermarket wheels. The senior subordinated secured note bears interest in cash at the greater of 11.0% or Libor plus 7.0% and has a final maturity of June 29, 2020. We also provided \$3,000 of Delayed Draw Term Loan commitment to support future acquisitions. The Delayed Draw Term Loan, which was unfunded at closing, bears interest in cash at the greater of 11.0% or Libor plus 7.0% and has a final maturity of December 30, 2015.

In addition to the purchases noted above, during the year ended June 30, 2014, we made 11 follow-on investments in NPH totaling \$25,000 to support the peer-to-peer lending initiative. We invested \$3,750 of equity and \$21,250 of debt in NPH. The senior secured note bears interest in cash at the greater of 6.0% or Libor plus 4.0% and interest payment in kind of 5.5% and has a final maturity of April 1, 2019.

During the year ended June 30, 2014, we received full repayments on twenty-one investments, sold eight investments, received several partial prepayments and amortization payments totaling \$787,069. The more significant of these transactions are briefly described below.

On July 1, 2013, Pre-Paid Legal Services, Inc. repaid the \$5,000 loan receivable to us.

On July 9, 2013, Southern Management Corporation repaid the \$17,565 loan receivable to us.

On July 24, 2013, we sold our \$2,000 investment in Carolina Beverage and realized a gain of \$45 on the sale.

On July 31, 2013, Royal repaid the \$28,364 subordinated unsecured loan receivable to us.

On July 31, 2013, Cargo Airport Services USA, LLC repaid the \$43,399 loan receivable to us.

On August 1, 2013, Medical Security Card Company, LLC repaid the \$13,214 loan receivable to us.

On September 11, 2013, Seaton Corp. repaid the \$13,310 loan receivable to us.

On September 30, 2013, we sold our investment in ADAPCO, Inc. for net proceeds of \$553, recognizing a realized gain of \$413 on the sale.

On October 7, 2013, Evanta Ventures, Inc. repaid the \$10,506 loan receivable to us.

On October 15, 2013, we sold our \$2,000 investment in Digital Insight and realized a gain of \$20 on the sale.

On October 17, 2013, \$19,730 of the Apidos CLO VIII subordinated notes were called, and we realized a gain of \$1,183 on this investment.

On October 29, 2013, we sold our \$2,500 investment in Omnitracs and realized a gain of \$25 on the sale.

On October 31, 2013, we sold our \$18,755 National Bankruptcy Services, LLC ("NBS") loan receivable. The loan receivable was sold at a discount and we realized a loss of \$7,853.

On November 1, 2013, P2 repaid the \$22,000 second lien term loan receivable to us.

On November 4, 2013, we sold our \$6,000 secured debt investment in P2 and realized a gain of \$60 on the sale.  
 On November 4, 2013, we sold our \$7,000 investment in Renaissance and realized a gain of \$140 on the sale.  
 On November 4, 2013, we sold \$2,000 of our \$12,500 investment in Photonis and realized a gain of \$49 on the sale.  
 On November 19, 2013, United Bank Card, Inc. (d/b/a Harbortouch) made a partial repayment of \$23,942.  
 On November 22, 2013, we sold our \$1,000 investment in Chromaflo and realized a gain of \$10 on the sale.  
 On November 25, 2013, EIG Investors Corp. repaid the \$22,000 loan receivable to us.  
 On December 4, 2013, we sold a \$972 participation in our term loans in AIRMALL, equal to 2% of the outstanding principal amount of loans on that date.  
 On December 18, 2013, Naylor, LLC repaid the \$45,563 loan receivable to us.  
 On December 30, 2013, Energy Solutions repaid the \$4,250 junior secured note receivable to us.  
 On March 20, 2014, New Star Metals, Inc. repaid the \$50,534 loan receivable to us.  
 On March 26, 2014, Material Handling Services, LLC repaid the \$64,547 loan receivable to us.  
 On March 31, 2014, we sold \$10,000 of our \$277,500 investment in IWCO. There was no gain or loss realized on the sale.  
 On May 1, 2014, Totes repaid the \$53,000 loan receivable to us.  
 On May 9, 2014, Hoffmaster Group, Inc. repaid the \$21,000 loan receivable to us.  
 On June 2, 2014, Skillsoft Public Limited Company repaid the \$15,000 loan receivable to us.  
 On June 4, 2014, CRT MIDCO, LLC repaid \$14,000 of the \$61,504 loan receivable to us.  
 In addition to the sales noted above, during the year ended June 30, 2014, we sold \$21,250 of our investment in ICON Health & Fitness, Inc. ("ICON") and realized losses of \$1,669 on the sales.

The following table provides a summary of our investment activity for each quarter within the three years ended June 30, 2014:

Quarter Ended	Acquisitions(1)	Dispositions(2)
September 30, 2011	\$ 222,575	\$ 46,055
December 31, 2011	154,697	120,206
March 31, 2012	170,073	188,399
June 30, 2012	573,314	146,292
September 30, 2012	747,937	158,123
December 31, 2012	772,125	349,269
March 31, 2013	784,395	102,527
June 30, 2013	798,760	321,615
September 30, 2013	556,843	164,167
December 31, 2013	608,153	255,238
March 31, 2014	1,343,356	198,047
June 30, 2014	444,104	169,617

(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.

During the three months ended June 30, 2014, we restructured our investment in several of our controlled portfolio companies to replace holding company debt with debt of the associated operating company. These transactions are briefly described below.

\$19,993 of debt that was previously held at AMU Holdings Inc. was assumed by Airmall Inc.

\$167,162 of debt that was previously held at APH Property Holdings, LLC was assumed by American Property REIT Corp.

\$8,216 of debt that was previously held at CCPI Holdings Inc. was assumed by CCPI Inc. and \$2 of holding company equity was converted into additional debt investment in the operating company.

\$75,733 of debt that was previously held at CP Energy Services Inc. and \$22,500 of debt that was previously held at CP Well Testing Holding Company LLC was assumed by CP Well Testing, LLC.

\$36,333 of debt that was previously held at Credit Central Holdings of Delaware, LLC was assumed by Credit Central Loan Company, LLC and the remaining \$3,874 of holding company debt was converted into additional equity investment in the holding company.

\$251,246 of debt that was previously held at First Tower Holdings of Delaware LLC was assumed by First Tower, LLC and the remaining \$23,712 of holding company debt was converted into additional equity investment in the holding company.

\$123,000 of debt that was previously held at Harbortouch Holdings of Delaware Inc. was assumed by Harbortouch Payments, LLC and \$14,226 of holding company equity was converted into additional debt investment in the operating company.

\$15,769 of debt that was previously held at MITY Holdings of Delaware Inc. was assumed by MITY, Inc. and the remaining \$7,200 of holding company debt was converted into additional equity investment in the holding company.

\$14,820 of debt that was previously held at Nationwide Acceptance Holdings LLC was assumed by Nationwide Acceptance LLC and the remaining \$9,888 of holding company debt was converted into additional equity investment in the holding company.

\$104,460 of debt that was previously held at NPH Property Holdings, LLC was assumed by National Property REIT Corp.

\$19,027 of debt that was previously held at UPH Property Holdings, LLC was assumed by United Property REIT Corp.

\$20,471 of debt that was previously held at Valley Electric Holdings I, Inc. was assumed by Valley Electric Company, Inc. and the remaining \$16,754 of holding company debt was converted into additional equity investment in the holding company.

#### Investment Valuation

In determining the fair value of our portfolio investments at June 30, 2014, the Audit Committee considered valuations from the independent valuation firms and from management having an aggregate range of \$6,041,155 to \$6,421,204, excluding money market investments.

In determining the range of value for debt instruments except CLOs, management and the independent valuation firm generally estimate corporate and security credit ratings and identify corresponding yields to maturity for each loan from relevant market data. A discounted cash flow analysis was then prepared using the appropriate yield to maturity as the discount rate, to determine range of value. For non-traded equity investments, the enterprise value was determined by applying EBITDA multiples for similar guideline public companies and/or similar recent investment transactions. For stressed equity investments, a liquidation analysis was prepared.

In determining the range of value for our investments in CLOs, management and the independent valuation firm used a discounted 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. For each CLO security, the most appropriate valuation approach was chosen from alternative approaches to ensure the most accurate valuation for such security. A waterfall engine is used to store the collateral





data, generate collateral cash flows from the assets based on various assumptions for the risk factors, and distribute the cash flows to the liability structure based on the payment priorities, and discount them back using proper discount rates.

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 analyses, applied to each investment, was a total valuation of \$6,253,739, excluding money market investments.

Our portfolio companies are generally lower middle market companies, outside of the financial sector, with less than \$150,000 of annual EBITDA. We believe our market 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. Transactions between our controlled investments and us have been detailed in Note 14 to the accompanying consolidated financial statements. Several control investments in our portfolio are under enhanced scrutiny by our senior management and our Board of Directors and are discussed below.

AMU Holdings Inc.

AIRMALL is a leading developer and manager of airport retail operations. AIRMALL has developed and presently manages all or substantially all of the retail operations and food and beverage concessions at Baltimore/Washington International Thurgood Marshall Airport (BWI), Boston Logan International Airport (BOS), Cleveland Hopkins International Airport (CLE) and Pittsburgh International Airport (PIT). AIRMALL does so pursuant to long-term, infrastructure-like contracts with the respective municipal agencies that own and operate the airports.

On July 30, 2010, we invested \$52,420 of combined debt and equity as follows: \$30,000 senior term loan, \$12,500 senior subordinated note and \$9,920 preferred equity. During the six months ended December 31, 2013, we provided an additional \$7,600 of subordinated secured financing to AIRMALL. On December 4, 2013, we sold a \$972 participation in our term loans in AIRMALL, equal to 2% of the outstanding principal amount of loans on that date. As of June 30, 2014, we own 98% of AIRMALL's equity securities. AIRMALL's financial performance has been consistent since the acquisition and we continue to monitor the medium to long-term growth prospects for the company.

During the three months ended June 30, 2014, \$19,993 of debt that was previously held at AMU Holdings Inc. was assumed by Airmall Inc.

During the year ended June 30, 2014, we received distributions of \$12,000 from AIRMALL which were recorded as dividend income. No dividends were received from AIRMALL during the year ended June 30, 2013. Primarily as a result of the distribution of earnings during the year ended June 30, 2014, the Board of Directors decreased the fair value of our investment in AIRMALL to \$45,284 as of June 30, 2014, a discount of \$12,216 from its amortized cost, compared to the \$3,478 unrealized appreciation recorded at June 30, 2013.

APH Property Holdings, LLC

APH is a holding company that owns 100% of the common stock of American Property REIT Corp. ("APRC"). APRC is a Maryland corporation and a qualified REIT for federal income tax purposes. APRC was formed to acquire, operate, finance, lease, manage and sell a portfolio of real estate assets. As of June 30, 2014, we own 100% of the fully-diluted common equity of APH.

During the year ended June 30, 2013, we provided \$125,892 and \$26,648 of debt and equity financing, respectively, to APH for the acquisition of various real estate properties. During the year ended June 30, 2014, we provided \$135,350 and \$28,397 of debt and equity financing, respectively, to APH for the acquisition of certain properties. In December 2013, APRC, a wholly-owned subsidiary of APH, distributed its investments in fourteen properties: eight to National Property REIT Corp. ("NPRC"); and six to United Property REIT Corp. ("UPRC"), two newly formed REIT holding companies which are discussed below. The investments transferred consisted of \$98,164 and \$20,022 of debt and equity financing, respectively. The eight investments transferred to NPRC from APRC consisted of \$79,309 and

\$16,315 of debt and equity financing, respectively. The six investments transferred to UPRC from APRC consisted of \$18,855 and \$3,707 of debt and equity financing, respectively. There was no gain or loss realized on these transactions.

As of June 30, 2014, APRC's real estate portfolio was comprised of fourteen multi-family properties and one commercial property. The following table shows the location, acquisition date, purchase price, and mortgage outstanding due to other parties for each of the properties:

No.	Property Name	City	Acquisition Date	Purchase Price	Mortgage Outstanding
1	Abbingtion Pointe	Marietta, GA	12/28/2012	\$23,500	\$15,275
2	Amberly Place	Tampa, FL	1/17/2013	63,400	39,600
3	Lofton Place	Tampa, FL	4/30/2013	26,000	16,965
4	Vista at Palma Sola	Bradenton, FL	4/30/2013	27,000	17,550
5	Arlington Park	Marietta, GA	5/8/2013	14,850	9,650
6	The Resort	Pembroke Pines, FL	6/24/2013	225,000	157,500
7	Cordova Regency	Pensacola, FL	11/15/2013	13,750	9,026
8	Crestview at Oakleigh	Pensacola, FL	11/15/2013	17,500	11,488
9	Inverness Lakes	Mobile, AL	11/15/2013	29,600	19,400
10	Kings Mill Apartments	Pensacola, FL	11/15/2013	20,750	13,622
11	Plantations at Pine Lake	Tallahassee, FL	11/15/2013	18,000	11,817
12	Verandas at Rocky Ridge	Birmingham, AL	11/15/2013	15,600	10,205
13	Crestview at Cordova	Pensacola, FL	1/17/2014	8,500	5,072
14	Plantations at Hillcrest	Mobile, AL	1/17/2014	6,930	5,094
15	Taco Bell, OK	Yukon, OK	6/4/2014	1,719	—
				\$512,099	\$342,264

During the three months ended June 30, 2014, \$167,162 of debt that was previously held at APH Property Holdings, LLC was assumed by American Property REIT Corp.

The Board of Directors set the fair value of our investment in APH at \$206,159 as of June 30, 2014, a premium of \$3,392 from its amortized cost, compared to being valued at cost at June 30, 2013.

ARRM Holdings Inc.

Ajax Rolled Ring & Machine, Inc. ("Ajax") forges large seamless steel rings on two forging mills in Ajax's York, South Carolina facility. The rings are used in a range of industrial applications, including in construction equipment and power turbines. Ajax also provides machining and other ancillary services.

On April 4, 2008, we acquired a controlling equity interest in ARRM Holdings Inc. ("ARRM"), which owns 100% of Ajax, the operating company. We funded \$22,000 of senior secured term debt, \$11,500 of subordinated term debt and \$6,300 of equity as of that closing. During the fiscal year ended June 30, 2010, we funded an additional \$3,530 of secured subordinated debt to refinance a third-party revolver provider and provide working capital. Ajax repaid \$3,461 of this secured subordinated debt during the quarter ended September 30, 2010. During the quarter ended December 31, 2012, we funded an additional \$3,600 of unsecured debt to refinance first lien debt held by Wells Fargo.

On April 1, 2013, we refinanced our existing \$38,472 senior loans to Ajax, increasing the size of our debt investment to \$38,537. Concurrent with the refinancing, we received repayment of the \$18,635 loans that were previously outstanding. On October 11, 2013, we provided \$25,000 in preferred equity for the recapitalization of Ajax. After the financing, we received repayment of the \$20,008 subordinated unsecured loan previously outstanding. As of June 30, 2014, we control 79.53% of the fully-diluted common and preferred equity.

Due to soft operating results, the Board of Directors decreased the fair value of our investment in ARRM to \$25,536 as of June 30, 2014, a discount of \$21,014 from its amortized cost, compared to the \$6,057 unrealized depreciation recorded at June 30, 2013.

Energy Solutions Holdings Inc. (f/k/a Gas Solutions Holdings, Inc.)

Energy Solutions owns interests in companies operating in the energy sector. These include a company operating offshore supply vessels and ownership of a non-operating biomass plant and several coal mines. Energy Solutions subsidiaries formerly owned interests in a gas gathering and processing system in east Texas.



In December 2011, we completed a reorganization of Gas Solutions Holdings, Inc. renaming the company Energy Solutions and transferring ownership of other operating companies owned by us and operating within the energy industry with the intent of strategically expanding Energy Solutions operations across energy sectors. As part of the reorganization, we transferred our equity interests in Change Clean Energy Holdings, Inc. (“CCEHI”), Change Clean Energy, Inc. (“CCEI”), Freedom Marine and Yatesville Coal Holdings, Inc. (“Yatesville”) to Energy Solutions. On December 28, 2011, we made a follow-on investment of \$4,750 to support the acquisition of a new vessel by Vessel Holdings LLC, a subsidiary of Freedom Marine.

On January 4, 2012, Energy Solutions sold its gas gathering and processing assets (“Gas Solutions”) for a sale price of \$199,805, adjusted for the final working capital settlement, including a potential earnout of \$28,000 that may be paid based on the future performance of Gas Solutions. Through June 30, 2014, we have not accrued income for any portion of the \$28,000 potential payment. After expenses, including structuring fees of \$9,966 paid to us, Energy Solutions received \$158,687 in cash. The sale of Gas Solutions by Energy Solutions resulted in significant earnings and profits, as defined by the Internal Revenue Code, at Energy Solutions for calendar year 2012. As a result, distributions from Energy Solutions to us were required to be recognized as dividend income, in accordance with ASC 946, as cash distributions were received from Energy Solutions, to the extent there are current year earnings and profits sufficient to support such recognition. During the year ended June 30, 2013, we received distributions of \$53,820 from Energy Solutions which were recorded as dividend income. No such dividends were received during the year ended June 30, 2014.

During the year ended June 30, 2014, Energy Solutions repaid the remaining \$8,500 of our subordinated secured debt to the company. In addition to the repayment of principal, we received \$4,812 of make-whole fees for early repayment of the outstanding loan receivables, which was recorded as additional interest income during the year ended June 30, 2014.

On November 25, 2013, we provided \$13,000 in senior secured debt financing for the recapitalization of our investment in Freedom Marine. The subordinated secured loan to Jettco was replaced with a senior secured note to Vessel Holdings II, LLC (“Vessel Holdings II”), a new subsidiary of Freedom Marine. On December 3, 2013, we made a \$16,000 senior secured investment in Vessel Holdings III, LLC, another new subsidiary of Freedom Marine, to support the acquisition of two new vessels. We received \$2,480 of structuring fees from Energy Solutions related to the transaction which was recognized as other income during the year ended June 30, 2014. As of June 30, 2014, our loan to Vessel Holdings II, previously on non-accrual status, was accruing income due to improved operating results. In determining the value of Energy Solutions, we have utilized two valuation techniques to determine the value of the investment: a current value method for the cash balances of Energy Solutions and a liquidation analysis for our interests in CCEHI, CCEI, Freedom Marine and Yatesville. The Board of Directors set the fair value of our investment in Energy Solutions, including the underlying portfolio companies affected by the reorganization, at \$32,004 as of June 30, 2014, a discount of \$9,742 from its amortized cost, compared to the \$7,574 unrealized depreciation recorded at June 30, 2013.

First Tower Holdings of Delaware, LLC

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, LLC businesses for \$110,200 in cash and 14,518,207 unregistered shares of our common stock. Based on our share price of \$11.06 at the time of issuance, we acquired our 80.1% interest in First Tower for approximately \$270,771. As consideration for our investment, First Tower Delaware, which is 100% owned by us, recorded a secured revolving credit facility to us of \$244,760 and equity of \$43,193. First Tower Delaware owns 80.1% of First Tower Holdings LLC, the holding company of First Tower. The assets of First Tower acquired include, among other things, the subsidiaries owned by First Tower, which hold finance receivables, leaseholds, and tangible property associated with First Tower’s businesses. As part of the transaction, we received \$4,038 and \$4,038 in structuring fee income from First Tower and First Tower Delaware, respectively. On October 18, 2012, we funded an additional \$20,000 of senior secured debt to support seasonally high demand during the holiday season. On December 30, 2013, we funded an additional \$10,000 to again support seasonal demand and received \$8,000 of structuring fees related to the renegotiation and expansion of First Tower’s revolver with a third party which was recognized as other income. As of June 30, 2014, First Tower had total assets of approximately

\$597,995 including \$385,875 of finance receivables net of unearned charges. As of June 30, 2014, First Tower's total debt outstanding to parties senior to us was \$250,965.

During the three months ended June 30, 2014, \$251,246 of debt that was previously held at First Tower Holdings of Delaware LLC was assumed by First Tower, LLC and the remaining \$23,712 of holding company debt was converted into additional equity investment.

Due to improved operating results, the Board of Directors increased the fair value of our investment in First Tower to \$326,785 as of June 30, 2014, a premium of \$7,134 from its amortized cost, compared to the \$9,869 unrealized depreciation recorded at June 30, 2013.

#### NPH Property Holdings, LLC

NPH is a holding company that owns 100% of the common stock of National Property REIT Corp. (“NPRC”) and 100% of the membership units of NPH Property Holdings II, LLC (“NPH II”). NPRC is a Maryland corporation and a qualified REIT for federal income tax purposes. NPRC was formed to acquire, operate, finance, lease, manage and sell a portfolio of real estate assets. NPH II is a Delaware single member limited liability company structured to enable NPRC to invest in peer-to-peer consumer loans. As of June 30, 2014, we own 100% of the fully-diluted common equity of NPH.

The eight investments transferred to NPRC from APRC consisted of \$79,309 and \$16,315 of debt and equity financing, respectively. There was no gain or loss realized on these transactions. During the year ended June 30, 2014, we provided \$24,700 and \$4,725 of debt and equity financing, respectively, to NPH for the acquisition of certain properties and to invest in peer-to-peer consumer loans.

As of June 30, 2014, NPRC’s real estate portfolio was comprised of nine multi-family properties and one commercial property. The following table shows the location, acquisition date, purchase price, and mortgage outstanding due to other parties for each of the properties:

No.	Property Name	City	Acquisition Date	Purchase Price	Mortgage Outstanding
1	146 Forest Parkway	Forest Park, GA	10/24/2012	\$7,400	\$—
2	Bexley	Marietta, GA	11/1/2013	30,600	22,497
3	St. Marin	Coppell, TX	11/19/2013	73,078	53,863
4	Mission Gate	Plano, TX	11/19/2013	47,621	36,148
5	Vinings Corner	Smyrna, GA	11/19/2013	35,691	26,640
6	Central Park	Altamonte Springs, FL	11/19/2013	36,590	27,471
7	City West	Orlando, FL	11/19/2013	23,562	18,533
8	Matthews Reserve	Matthews, NC	11/19/2013	22,063	17,571
9	Indigo	Jacksonville, FL	12/31/2013	38,000	28,500
10	Island Club	Atlantic Beach, FL	1/31/2014	13,025	9,118
				\$327,630	\$240,341

During the three months ended June 30, 2014, \$104,460 of debt that was previously held at NPH Property Holdings, LLC was assumed by National Property REIT Corp.

The Board of Directors set the fair value of our investment in NPH at \$124,511 as of June 30, 2014, a discount of \$2,088 from its amortized cost.

#### UPH Property Holdings, LLC

UPH is a holding company that owns 100% of the common stock of United Property REIT Corp. (“UPRC”). UPRC is a Delaware limited liability company and a qualified REIT for federal income tax purposes. UPRC was formed to acquire, operate, finance, lease, manage and sell a portfolio of real estate assets. As of June 30, 2014, we own 100% of the fully-diluted common equity of UPH.

The six investments transferred to UPRC from APRC consisted of \$18,855 and \$3,707 of debt and equity financing, respectively. There was no gain or loss realized on these transactions. During the year ended June 30, 2014, we provided \$1,405 of equity financing to UPH for the acquisition of certain properties.

As of June 30, 2014, UPRC’s real estate portfolio was comprised of six multi-family properties and one commercial property. The following table shows the location, acquisition date, purchase price, and mortgage outstanding due to other parties for each of the properties:



No.	Property Name	City	Acquisition Date	Purchase Price	Mortgage Outstanding
1	Eastwood Village	Stockbridge, GA	12/12/2013	\$25,957	\$19,785
2	Monterey Village	Jonesboro, GA	12/12/2013	11,501	9,193
3	Hidden Creek	Morrow, GA	12/12/2013	5,098	3,619
4	Meadow Springs	College Park, GA	12/12/2013	13,116	10,180
5	Meadow View	College Park, GA	12/12/2013	14,354	11,141
6	Peachtree Landing	Fairburn, GA	12/12/2013	17,224	13,575
7	Taco Bell, MO	Marshall, MO	6/4/2014	1,405	—
				\$88,655	\$67,493

During the three months ended June 30, 2014, \$19,027 of debt that was previously held at UPH Property Holdings, LLC was assumed by United Property REIT Corp.

The Board of Directors set the fair value of our investment in UPH at \$24,566 as of June 30, 2014, a premium of \$426 from its amortized cost.

Valley Electric Holdings I, Inc.

Valley Electric 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 Electric was founded in 1982 by the Ward family, who held the company until the end of 2012.

On December 31, 2012, Valley Electric Holdings II, Inc., a wholly-owned subsidiary of Valley Electric Holdings I, Inc., and management acquired 100% of the outstanding shares of Valley Electric Company of Mount Vernon, Inc. We funded the recapitalization of Valley Electric with \$42,572 of debt and \$9,526 of equity financing. Through the recapitalization, we acquired a controlling interest in Valley Electric for \$7,449 in cash and 4,141,547 unregistered shares of our common stock. As of June 30, 2014, we control 96.3% of the common equity.

During the three months ended June 30, 2014, \$20,471 of debt that was previously held at Valley Electric Holdings I, Inc. was assumed by Valley Electric Company, Inc. and the remaining \$16,754 of holding company debt was converted into additional equity investment.

Due to soft operating results, the Board of Directors decreased the fair value of our investment in Valley Electric to \$33,556 as of June 30, 2014, a discount of \$23,304 from its amortized cost, compared to being valued at cost at June 30, 2013.

Wolf Energy Holdings Inc.

Wolf is a holding company formed to hold 100% of the outstanding membership interests of each of Coalbed and AEH. The membership interests of Coalbed and AEH, which were previously owned by 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. In addition, effective June 29, 2012 C&J Cladding Holding Company, Inc. ("C&J Holdings") merged with and into Wolf Energy Holdings, with Wolf Energy Holdings as the surviving entity. At the time of the merger, C&J Holdings held the remaining undistributed proceeds from the sale of its membership interests in C&J Cladding, LLC. The merger was effectuated in connection with the broader simplification of our energy investment holdings.

On April 15, 2013, assets previously held by H&M Oil & Gas, LLC ("H&M") were assigned to Wolf Energy, LLC ("Wolf Energy") in exchange for a \$66,000 term loan secured by the assets. Our cost basis in this loan of \$44,632 was determined in accordance with ASC 310-40, Troubled Debt Restructurings by Creditors, and is equal to the fair value of assets at the time of transfer and we recorded a realized loss of \$19,647 in connection with the foreclosure on the assets. On May 17, 2013, Wolf Energy sold certain of the assets that had been previously held by H&M that were located in Martin County to Hibernia for \$66,000. Proceeds from the sale were primarily used to repay the loan and net profits interest receivable due to us and we recognized as a realized gain of \$11,826 partially offsetting the

previously recorded loss. We received \$3,960 of structuring

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and advisory fees from Wolf Energy during the year ended June 30, 2013 related to the sale and \$991 under the net profits interest agreement which was recognized as other income during the fiscal year ended June 30, 2013.

The Board of Directors set the fair value of our investment in Wolf Energy Holdings at \$3,599 as of June 30, 2014, a discount of \$4,442 from its amortized cost, compared to the \$3,091 unrealized depreciation recorded at June 30, 2013. Equity positions in the portfolio are susceptible to potentially significant changes in value, both increases as well as decreases, due to changes in operating results. Seven of our controlled companies, AIRMALL, Ajax, CP Energy, First Tower, Gulf Coast, Harbortouch and Valley Electric, experienced such volatility and experienced fluctuations in valuations during the year ended June 30, 2014. See above for discussion regarding the fluctuations in AIRMALL, Ajax, First Tower, and Valley Electric. The value of Gulf Coast decreased to \$14,459 as of June 30, 2014, a discount of \$28,991 to its amortized cost, compared to the \$9,241 unrealized depreciation recorded at June 30, 2013 due to a decline in operating results. The value of Harbortouch increased to \$291,314 as of June 30, 2014, a premium of \$12,620 to its amortized cost. The value of CP Energy increased to \$130,119 as of June 30, 2014, a premium of \$16,618 to its amortized cost. Eight of the other controlled investments have been valued at discounts to the original investment. Nine of the other control investments are valued at the original investment amounts or higher. Overall, at June 30, 2014, control investments are valued at \$78,788 below their amortized cost.

We hold one affiliate investment at June 30, 2014. Our affiliate portfolio company did not experience a significant change in valuation during the year ended June 30, 2014.

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 premia 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 in valuation and are generally performing as expected or better than expected. Two of our Non-control/non-affiliate investments, Stryker Energy, LLC ("Stryker") and Wind River Resources Corporation ("Wind River"), are valued at a discount to amortized cost due to a decline in the operating results of the operating companies from those originally underwritten. In June 2014, New Century Transportation, Inc. ("NCT") filed for bankruptcy. As we hold a second lien position and do not expect liquidation proceeds to exceed the first lien liability, we decreased the fair value of our debt investment to zero. Overall, at June 30, 2014, other non-control/non-affiliate investments are valued at \$52,073 above their amortized cost, excluding our investments in NCT, Stryker and Wind River, as the remaining companies are generally performing as or better than expected.

#### Capitalization

Our investment activities are capital intensive and the availability and cost of capital is a critical component of our business. We capitalize our business with a combination of debt and equity. Our debt as of June 30, 2014 consists of: a Revolving Credit Facility availing us of the ability to borrow debt subject to borrowing base determinations; Convertible Notes which we issued in December 2010, February 2011, April 2012, August 2012, December 2012 and April 2014; Public Notes which we issued in May 2012, March 2013 and April 2014; and Prospect Capital InterNotes® which we may issue from time to time. Our equity capital is comprised entirely of common equity. The following table shows the Revolving Credit Facility, Convertible Notes, Public Notes and Prospect Capital InterNotes® maximum draw amounts and outstanding borrowings as of June 30, 2014 and June 30, 2013:

	June 30, 2014		June 30, 2013	
	Maximum Draw Amount	Amount Outstanding	Maximum Draw Amount	Amount Outstanding
Revolving Credit Facility	\$ 857,500	\$ 92,000	\$ 552,500	\$ 124,000
Convertible Notes	1,247,500	1,247,500	847,500	847,500
Public Notes	647,881	647,881	347,725	347,725
Prospect Capital InterNotes®	785,670	785,670	363,777	363,777
Total	\$ 3,538,551	\$ 2,773,051	\$ 2,111,502	\$ 1,683,002



The following table shows the contractual maturities of our Revolving Credit Facility, Convertible Notes, Public Notes and Prospect Capital InterNotes® as of June 30, 2014:

	Payments Due by Period				
	Total	Less than 1 Year	1 – 3 Years	3 – 5 Years	After 5 Years
Revolving Credit Facility	\$ 92,000	\$—	\$ 92,000	\$—	\$—
Convertible Notes	1,247,500	—	317,500	530,000	400,000
Public Notes	647,881	—	—	—	647,881
Prospect Capital InterNotes®	785,670	—	8,859	261,456	515,355
Total Contractual Obligations	\$ 2,773,051	\$—	\$ 418,359	\$ 791,456	\$ 1,563,236

The following table shows the contractual maturities of our Revolving Credit Facility, Convertible Notes, Public Notes and Prospect Capital InterNotes® as of June 30, 2013:

	Payments Due by Period				
	Total	Less than 1 Year	1 – 3 Years	3 – 5 Years	After 5 Years
Revolving Credit Facility	\$ 124,000	\$—	\$—	\$ 124,000	\$—
Convertible Notes	847,500	—	150,000	297,500	400,000
Public Notes	347,725	—	—	—	347,725
Prospect Capital InterNotes®	363,777	—	—	—	363,777
Total Contractual Obligations	\$ 1,683,002	\$—	\$ 150,000	\$ 421,500	\$ 1,111,502

We have and expect to continue to fund a portion of our cash needs through borrowings from banks, issuances of senior securities, including secured, unsecured and convertible debt securities, or issuances of common equity. For flexibility, we maintain a universal shelf registration statement that allows for the public offering and sale of our debt securities, common stock, preferred stock, subscription rights, and warrants and units to purchase such securities in an amount up to \$5,000,000 less issuances to date. As of June 30, 2014, we can issue up to \$3,691,792 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 Unsecured Notes are our general, unsecured obligations and rank equal in right of payment with all of our existing and future unsecured indebtedness and senior in right of payment to any of our subordinated indebtedness. As a result, 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 March 27, 2012, we closed on an expanded five-year \$650,000 revolving credit facility with a syndicate of lenders through PCF (the “2012 Facility”). The lenders have extended commitments of \$857,500 under the 2012 Facility as of June 30, 2014, which was increased to \$877,500 in July 2014 (see “Recent Developments”). The 2012 Facility includes an accordion feature which allows commitments to be increased up to \$1,000,000 in the aggregate. The revolving period of the 2012 Facility extends through March 2015, with an additional two year amortization period (with distributions allowed) after the completion of the revolving period. During such two year amortization period, all principal payments on the pledged assets will be applied to reduce the balance. At the end of the two year amortization period, the remaining balance will become due, if required by the lenders.

The 2012 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 2012 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 2012 Facility. The 2012 Facility also requires the maintenance of a minimum liquidity requirement. As of June 30, 2014, we were in compliance with the applicable covenants.



Interest on borrowings under the 2012 Facility is one-month Libor plus 275 basis points with no minimum Libor floor. Additionally, the lenders charge a fee on the unused portion of the 2012 Facility equal to either 50 basis points, if at least half of the credit facility is drawn, or 100 basis points otherwise. The 2012 Facility requires us to pledge assets as collateral in order to borrow under the credit facility. As of June 30, 2014 and June 30, 2013, we had \$780,620 and \$473,508, respectively, available to us for borrowing under the 2012 Facility, of which the amount outstanding was \$92,000 and \$124,000, respectively. As additional eligible investments are transferred to PCF and pledged under the 2012 Facility, PCF will generate additional availability up to the current commitment amount of \$877,500. At June 30, 2014, the investments used as collateral for the 2012 Facility had an aggregate fair value of \$1,535,476, which represents 24.1% of our total investments 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 2012 Facility, we incurred \$14,154 of fees, including \$1,319 of fees carried over from the previous facility, which are being amortized over the term of the facility in accordance with ASC 470-50, Debt Modifications and Extinguishments, of which \$4,883 remains to be amortized and is included within deferred financing costs on the Consolidated Statements of Assets and Liabilities as of June 30, 2014.

During the years ended June 30, 2014, 2013 and 2012, we recorded \$12,216, \$9,082 and \$14,883, respectively, of interest costs, unused fees and amortization of financing costs on the 2012 Facility as interest expense.

#### Convertible Notes

On December 21, 2010, we issued \$150,000 aggregate principal amount of convertible notes that mature on December 15, 2015 (the "2015 Notes"), unless previously converted or repurchased in accordance with their terms. The 2015 Notes bear interest at a rate of 6.25% per year, payable semi-annually on June 15 and December 15 of each year, beginning June 15, 2011. Total proceeds from the issuance of the 2015 Notes, net of underwriting discounts and offering costs, were \$145,200.

On February 18, 2011, we issued \$172,500 aggregate principal amount of convertible notes that mature on August 15, 2016 (the "2016 Notes"), unless previously converted or repurchased in accordance with their terms. The 2016 Notes bear 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 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 April 16, 2012, we issued \$130,000 aggregate principal amount of convertible notes that mature on October 15, 2017 (the "2017 Notes"), unless previously converted or repurchased in accordance with their terms. The 2017 Notes bear 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 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 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.

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Certain key terms related to the convertible features for the 2015 Notes, the 2016 Notes, the 2017 Notes, the 2018 Notes, the 2019 Notes and the 2020 Notes (collectively, the “Convertible Notes”) are listed below.

	2015 Notes	2016 Notes	2017 Notes	2018 Notes	2019 Notes	2020 Notes
Initial conversion rate(1)	88.0902	78.3699	85.8442	82.3451	79.7766	80.6647
Initial conversion price	\$ 11.35	\$12.76	\$11.65	\$12.14	\$ 12.54	\$12.40
Conversion rate at June 30, 2014(1)(2)	89.0157	79.3176	86.9426	82.8631	79.7865	80.6647
Conversion price at June 30, 2014(2)(3)	\$ 11.23	\$12.61	\$11.50	\$12.07	\$ 12.53	\$12.40
Last conversion price calculation date	12/21/2013	2/18/2014	4/16/2014	8/14/2013	12/21/2013	4/11/2014
Dividend threshold amount (per share)(4)	\$ 0.101125	\$0.101150	\$0.101500	\$0.101600	\$ 0.110025	\$0.110525

(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.

The conversion price in effect at June 30, 2014 was calculated on the last anniversary of the issuance and will be (3) adjusted again on the next anniversary, unless the exercise price shall have changed by more than 1% before the anniversary.

(4) The conversion rate is increased if monthly cash dividends paid to common shares exceed the monthly dividend threshold amount, subject to adjustment.

In no event will the total number of shares of common stock issuable upon conversion exceed 96.8992 per \$1 principal amount of the 2015 Notes (the “conversion rate cap”), except that, to the extent we receive written guidance or a no-action letter from the staff of the Securities and Exchange Commission (the “Guidance”) permitting us to adjust the conversion rate in certain instances without regard to the conversion rate cap and to make the 2015 Notes convertible into certain reference property in accordance with certain reclassifications, business combinations, asset sales and corporate events by us without regard to the conversion rate cap, we will make such adjustments without regard to the conversion rate cap and will also, to the extent that we make any such adjustment without regard to the conversion rate cap pursuant to the Guidance, adjust the conversion rate cap accordingly. We will use our commercially reasonable efforts to obtain such Guidance as promptly as practicable.

Prior to obtaining the Guidance, we will not engage in certain transactions that would result in an adjustment to the conversion rate increasing the conversion rate beyond what it would have been in the absence of such transaction unless we have engaged in a reverse stock split or share combination transaction such that in our reasonable best estimation, the conversion rate following the adjustment for such transaction will not be any closer to the conversion rate cap than it would have been in the absence of such transaction.

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 \$39,558 of fees which are being amortized over the terms of the notes, of which \$27,824 remains to be amortized and is included within deferred financing costs on the Consolidated Statements of Assets and Liabilities as of June 30, 2014.

During the years ended June 30, 2014, 2013 and 2012, we recorded \$58,042, \$45,880 and \$22,197, respectively, of interest costs and amortization of financing costs on the Convertible Notes as interest expense.

## Public Notes

On May 1, 2012, we issued \$100,000 aggregate principal amount of unsecured notes that mature on November 15, 2022 (the "2022 Notes"). The 2022 Notes bear interest at a rate of 6.95% per year, payable quarterly on February 15, May 15, August 15 and November 15 of each year, beginning August 15, 2012. Total proceeds from the issuance of the 2022 Notes, net of underwriting discounts and offering costs, were \$97,000.

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 \$245,885.

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 \$250,775.

The 2022 Notes, the 2023 Notes and the 5.00% 2019 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 Public Notes, we incurred \$11,358 of fees which are being amortized over the term of the notes, of which \$10,297 remains to be amortized and is included within deferred financing costs on the Consolidated Statements of Assets and Liabilities as of June 30, 2014.

During the years ended June 30, 2014, 2013 and 2012, we recorded \$25,988, \$11,672 and \$1,178, 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 outstanding. Each series of notes will be issued by a separate trust. These notes bear interest at fixed interest rates and offer a variety of maturities no less than twelve months from the original date of issuance.

During the year ended June 30, 2014, we issued \$473,762 aggregate principal amount of our Prospect Capital InterNotes® for net proceeds of \$465,314. These notes were issued with stated interest rates ranging from 3.75% to 6.75% with a weighted average interest rate of 5.12%. These notes mature between October 15, 2016 and October 15, 2043. Below is a summary of the Prospect Capital InterNotes® issued during the year ended June 30, 2014:

Tenor at Origination (in years)	Principal Amount	Interest Rate Range	Weighted Average Interest Rate	Maturity Date Range
3	\$5,710	4.00%	4.00	% October 15, 2016
3.5	3,149	4.00%	4.00	% April 15, 2017
4	45,751	3.75%–4.00%	3.92	% November 15, 2017 – May 15, 2018
5	217,915	4.25%–5.00%	4.91	% July 15, 2018 – August 15, 2019
5.5	43,820	4.75%–5.00%	4.77	% February 15, 2019 – August 15, 2019
6.5	1,800	5.50%	5.50	% February 15, 2020
7	62,409	5.25%–5.75%	5.44	% July 15, 2020 – May 15, 2021
7.5	1,996	5.75%	5.75	% February 15, 2021
10	23,850	5.75%–6.50%	5.91	% January 15, 2024 – May 15, 2024
12	2,978	6.00%	6.00	% November 15, 2025 – December 15, 2025
15	2,495	6.00%	6.00	% August 15, 2028 – November 15, 2028
18	4,062	6.00%–6.25%	6.21	% July 15, 2031 – August 15, 2031
20	2,791	6.00%	6.00	% September 15, 2033 – October 15, 2033
25	34,886	6.25%–6.50%	6.39	% August 15, 2038 – May 15, 2039
30	20,150	6.50%–6.75%	6.60	% July 15, 2043 – October 15, 2043
	\$473,762			

During the year ended June 30, 2013, we issued \$343,139 aggregate principal amount of our Prospect Capital InterNotes® for net proceeds of \$334,244. These notes were issued with stated interest rates ranging from 3.28% to 6.625% with a weighted average interest rate of 5.59%. These notes mature between July 15, 2019 and June 15, 2043. Below is a summary of the Prospect Capital InterNotes® issued during the year ended June 30, 2013:

Tenor at Origination (in years)	Principal Amount	Interest Rate Range	Weighted Average Interest Rate	Maturity Date Range
7	\$190,937	4.00%–6.45%	5.35	% July 15, 2019 – June 15, 2020
10	1,489	3.28%–3.78%	3.37	% March 15, 2023 – April 15, 2023
15	15,000	5.00%	5.00	% May 15, 2028 – June 15, 2028
18	22,157	4.125%–6.00%	5.34	% December 15, 2030 – June 15, 2031
20	3,106	5.625%–5.75%	5.70	% November 15, 2032 – December 15, 2032
30	110,450	5.50%–6.625%	6.15	% November 15, 2042 – June 15, 2043
	\$343,139			

In connection with the issuance of the 5.00% 2019 Notes, \$45,000 of previously-issued Prospect Capital InterNotes® were exchanged for the 5.00% 2019 Notes. During the year ended June 30, 2014, we repaid \$6,869 aggregate principal amount of our Prospect Capital InterNotes® in accordance with the Survivor's Option, as defined in the InterNotes® Offering prospectus. Below are the Prospect Capital InterNotes® outstanding as of June 30, 2014:

Tenor at Origination (in years)	Principal Amount	Interest Rate Range	Weighted Average Interest Rate	Maturity Date Range
3	\$ 5,710	4.00%	4.00	% October 15, 2016
3.5	3,149	4.00%	4.00	% April 15, 2017
4	45,751	3.75%–4.00%	3.92	% November 15, 2017 – May 15, 2018
5	212,915	4.25%–5.00%	4.92	% July 15, 2018 – August 15, 2019
5.5	3,820	5.00%	5.00	% February 15, 2019
6.5	1,800	5.50%	5.50	% February 15, 2020
7	256,903	4.00%–6.55%	5.39	% June 15, 2019 – May 15, 2021
7.5	1,996	5.75%	5.75	% February 15, 2021
10	41,952	3.23%–7.00%	6.18	% March 15, 2022 – May 15, 2024
12	2,978	6.00%	6.00	% November 15, 2025 – December 15, 2025
15	17,465	5.00%–6.00%	5.14	% May 15, 2028 – November 15, 2028
18	25,435	4.125%–6.25%	5.49	% December 15, 2030 – August 15, 2031
20	5,847	5.625%–6.00%	5.85	% November 15, 2032 – October 15, 2033
25	34,886	6.25%–6.50%	6.39	% August 15, 2038 – May 15, 2039
30	125,063	5.50%–6.75%	6.22	% November 15, 2042 – October 15, 2043
	\$ 785,670			

Below are the Prospect Capital InterNotes® outstanding as of June 30, 2013:

Tenor at Origination (in years)	Principal Amount	Interest Rate Range	Weighted Average Interest Rate	Maturity Date Range
7	\$ 194,937	4.00%–6.55%	5.37	% June 15, 2019 – June 15, 2020
10	18,127	3.28%–7.00%	6.56	% March 15, 2022 – April 15, 2023
15	15,000	5.00%	5.00	% May 15, 2028 – June 15, 2028
18	22,157	4.125%–6.00%	5.34	% December 15, 2030 – June 15, 2031
20	3,106	5.625%–5.75%	5.70	% November 15, 2032 – December 15, 2032
30	110,450	5.50%–6.625%	6.15	% November 15, 2042 – June 15, 2043
	\$ 363,777			

In connection with the issuance of the Prospect Capital InterNotes®, we incurred \$20,235 of fees which are being amortized over the term of the notes, of which \$18,889 remains to be amortized and is included within deferred financing costs on the Consolidated Statements of Assets and Liabilities as of June 30, 2014.

During the years ended June 30, 2014, 2013 and 2012, we recorded \$33,857, \$9,707 and \$276, respectively, of interest costs and amortization of financing costs on the Prospect Capital InterNotes® as interest expense.

#### Net Asset Value

During the year ended June 30, 2014, we issued \$1,045,856 of additional equity, net of underwriting and offering costs, by issuing 94,789,672 shares of our common stock. The following table shows the calculation of net asset value per share as of June 30, 2014 and June 30, 2013:

	June 30, 2014	June 30, 2013
Net assets	\$3,618,182	\$2,656,494
Shares of common stock issued and outstanding	342,626,637	247,836,965
Net asset value per share	\$ 10.56	\$ 10.72



## Results of Operations

Net increase in net assets resulting from operations for the years ended June 30, 2014, 2013 and 2012 was \$319,020, \$220,856 and \$190,904, respectively, representing \$1.06, \$1.07 and \$1.67 per weighted average share, respectively. During the year ended June 30, 2014, the decrease is primarily due to a \$32,300, or \$0.38 per weighted average share, decline in net investment income primarily due to a decrease in dividend income from our investment in Energy Solutions, a decrease in the average rate of interest earned on investments, a decline in structuring fee income (during the quarter ended June 30, 2014) and an increase in interest expense due to additional debt financing. (See "Investment Income" for further discussion of dividend and structuring fee income.) The decline in net investment income is partially offset by a \$65,865, or \$0.37 per weighted average share, favorable decrease in our net realized losses and net change in unrealized depreciation on investments. (See "Net Realized Losses and Net Decrease in Net Assets from Changes in Unrealized Depreciation" for further discussion.)

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 are typically not issuing securities rated investment grade, have limited resources, have limited operating history, have concentrated product lines or customers, 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 \$712,291, \$576,336 and \$320,910 for the years ended June 30, 2014, 2013 and 2012, respectively. During the year ended June 30, 2014, the increase in investment income is primarily the result of a larger income producing portfolio. During the year ended June 30, 2013, the increase in investment income is primarily the result of a larger income producing portfolio, increased structuring, advisory and amendment fees from the deployment of additional capital in revenue-producing assets, make-whole fees from Energy Solutions for early repayment of our outstanding loan, and increased dividends received from Energy Solutions and R-V.

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

	Year Ended June 30,			
	2014	2013	2012	
Interest income	\$ 613,741	\$ 435,455	\$ 219,536	
Dividend income	26,837	82,705	64,881	
Other income	71,713	58,176	36,493	
Total investment income	\$ 712,291	\$ 576,336	\$ 320,910	
Average debt principal of performing investments	\$ 4,886,846	\$ 2,878,421	\$ 1,466,703	
Weighted average interest rate earned on performing assets	12.56	% 15.13	% 14.97	%

Average interest income producing assets have increased from \$1,466,703 for the year ended June 30, 2012 to \$2,878,421 for the year ended June 30, 2013 to \$4,886,846 for the year ended June 30, 2014. The average yield on interest bearing performing assets decreased from 15.1% for the year ended June 30, 2013 to 12.6% for the year ended June 30, 2014. The decrease in annual returns during the comparable period is primarily due to a decline in

prepayment penalty income driven by a \$14,731 decrease in the make-whole fees we received from Energy Solutions. The decrease in our current yield is primarily due to originations at lower rates than our average existing portfolio yield. Excluding the adjustment for make-whole fees our annual return would have been 14.1% for the year ended June 30, 2013.



Investment income is also generated from dividends and other income. Dividend income decreased from \$82,705 for the year ended June 30, 2013 to \$26,837 for the year ended June 30, 2014. The decrease in dividend income is primarily attributed to a \$53,820 decrease in the level of dividends received from our investment in Energy Solutions. The sale of Gas Solutions by Energy Solutions resulted in significant earnings and profits, as defined by the Internal Revenue Code, at Energy Solutions for calendar year 2012. As a result, distributions from Energy Solutions to us were recognized as dividend income, in accordance with ASC 946, Financial Services—Investment Companies, as cash distributions are received from Energy Solutions to the extent there are earnings and profits sufficient to support such recognition. As a result, we received dividends from Energy Solutions of \$53,820 during the year ended June 30, 2013. No such dividends were received during the year ended June 30, 2014 related to our investment in Energy Solutions. The decrease in dividend income is also attributed to a \$23,361 decrease in the level of dividends received from our investment in R-V. We received dividends from R-V of \$1,100 and \$24,462 during the years ended June 30, 2014 and 2013, respectively. The \$24,462 of dividends received from R-V during the year ended June 30, 2013 include a \$11,073 distribution as part of R-V's recapitalization in November 2012 for which we provided an additional \$9,500 of senior secured financing. The decrease in dividend income is further attributed to a \$2,945 decrease in dividends received from our investment in American Gilsonite Company ("AGC"). We received dividends of \$2,945 from AGC during the year ended June 30, 2013. No such dividends were received during the year ended June 30, 2014 related to our investment in AGC. The decrease in dividend income was partially offset by dividends of \$12,000, \$4,841 and \$5,000 received from our investments in AIRMALL, Credit Central and Nationwide, respectively, during the year ended June 30, 2014. The dividends received from Credit Central and Nationwide include distributions as part of follow-on financings in March 2014 for which we provided an additional \$6,500 of financing, as discussed above. No dividends were received from AIRMALL, Credit Central or Nationwide during the year ended June 30, 2013.

Dividend income increased from \$64,881 for the year ended June 30, 2012 to \$82,705 for the year ended June 30, 2013. This \$17,824 increase in dividend income is primarily attributed to an increase in the level of dividends received from our investments in Energy Solutions and R-V due to increased profits generated by the portfolio companies. We received dividends from Energy Solutions of \$53,820 and \$47,850 during the years ended June 30, 2013 and June 30, 2012, respectively. The sale of Gas Solutions by Energy Solutions has resulted in significant earnings and profits, as defined by the Internal Revenue Code, at Energy Solutions for calendar year 2012. We received dividends from R-V of \$24,462 and \$283 during the years ended June 30, 2013 and June 30, 2012, respectively. The \$24,462 of dividends received from R-V during the year ended June 30, 2013 include a \$11,073 distribution as part of R-V's recapitalization in November 2012 for which we provided an additional \$9,500 of senior secured financing. The increases in dividend income from our investments in Energy Solutions and R-V were offset by a reduction in dividends received from NRG. We received dividends from NRG of \$15,011 during the year ended June 30, 2012. There were no dividends from NRG received during the year ended June 30, 2013 as NRG has been sold.

Other income has come primarily from structuring fees, overriding royalty interests, and settlement of net profits interests. Income from other sources increased from \$58,176 for the year ended June 30, 2013 to \$71,713 for the year ended June 30, 2014. The increase is primarily due to a \$4,998 increase in structuring fees, \$5,825 of legal cost reimbursement from a litigation settlement which had been expensed in prior years, and a \$1,771 increase in royalty interests from our controlled investments, particularly APH, Credit Central, First Tower, Nationwide, NPH and UPH. During the years ended June 30, 2014 and 2013, we recognized structuring fees of \$57,697 and \$52,699, respectively, from new originations, restructurings and follow-on investments. Included within the \$57,697 of structuring fees recognized during the year ended June 30, 2014 is an \$8,000 fee from First Tower Delaware related to the renegotiation and expansion of First Tower's third party revolver for which a fee was received in December 2013. The remaining \$49,697 of structuring fees recognized during the year ended June 30, 2014 resulted from follow-on investments and new originations, primarily from our investments in Echelon, Harbortouch, IWCO and Matrixx. Income from other sources increased from \$36,493 for the year ended June 30, 2012 to \$58,176 for the year ended June 30, 2013. The increase is primarily due to \$52,699 of structuring fees recognized during the year ended June 30, 2013 primarily from our investments in APH, Arctic Glacier, Broder, InterDent, Progrexion, Ryan, TransPlace, USC

and Wolf, in comparison to \$26,443 of structuring fees recognized during the year ended June 30, 2012. The increase in structuring fees is partially offset by a decrease in advisory fees recognized during the year ended June 30, 2013 from our investments in Energy Solutions and NRG. We received \$8,783 of advisory fees from Energy Solutions and NRG during the year ended June 30, 2012. No such fee was received during the year ended June 30, 2013. The remaining increase is primarily due to \$4,122 of royalty income recognized during the year ended June 30, 2013 primarily from First Tower and Wolf, in comparison to \$224 of royalty income recognized during the year ended June 30, 2012.

While we were in discussions with the SEC regarding consolidation, we elected to suspend our debt and equity raising activities for the remainder of the quarter and continuing through the filing of this Form 10-K. This curtailment of capital raising activities suppressed our levels of origination and growth in the fourth quarter of the fiscal year ended June 30, 2014. While structuring fees increased from the fiscal year ended June 30, 2013 to the fiscal year ended June 30, 2014, the reduction in originations in the quarter ended June 30, 2014 suppressed our level of structuring fees recognized and reduced our earnings for the quarter. Originations were \$1,343,356 in the quarter ended March 31, 2014 versus \$444,104 in the quarter ended June 30, 2014. As a result, structuring fees fell from \$24,659 in the quarter ended March 31, 2014 to \$5,026 in the quarter ended June 30, 2014.

#### Operating Expenses

Our primary operating expenses consist of investment advisory fees (base management and income incentive fees), borrowing costs, legal and professional fees and other operating and overhead-related expenses. These expenses include our allocable portion of overhead under the Administration Agreement with Prospect Administration under which Prospect Administration provides administrative services and facilities for us. Our investment advisory fees compensate Prospect Capital Management (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 \$355,068, \$251,412 and \$134,226 for the years ended June 30, 2014, 2013 and 2012, respectively.

The base management fee was \$108,990, \$69,800 and \$35,836 for the years ended June 30, 2014, 2013 and 2012, respectively. The increases are directly related to our growth in total assets. For the years ended June 30, 2014, 2013 and 2012, we incurred \$89,306, \$81,231 and \$46,671 of income incentive fees, respectively. These increases are driven by corresponding increases in pre-incentive fee net investment income from \$233,355 for the year ended June 30, 2012 to \$406,155 for the year ended June 30, 2013 to \$446,529 for the year ended June 30, 2014, primarily due to an increase in interest income from a larger asset base. No capital gains incentive fee has yet been incurred pursuant to the Investment Advisory Agreement.

During the years ended June 30, 2014, 2013 and 2012, we incurred \$130,103, \$76,341 and \$38,534, respectively, of expenses related to our Revolving Credit Facility, Convertible Notes, Public Notes and Prospect Capital InterNotes® (collectively, our "Notes"). These expenses are related directly to the leveraging capacity put into place for each of those periods and the levels of indebtedness actually undertaken in those periods. The table below describes the various expenses of our Notes and the related indicators of leveraging capacity and indebtedness during these periods.

	Year Ended June 30,			
	2014	2013	2012	
Interest on borrowings	\$ 111,900	\$ 62,657	\$ 27,346	
Amortization of deferred financing costs	11,491	8,232	8,511	
Accretion of discount on Public Notes	156	50	—	
Facility commitment fees	6,556	5,402	2,677	
Total interest and credit facility expenses	\$ 130,103	\$ 76,341	\$ 38,534	
Average principal debt outstanding	\$ 1,982,054	\$ 1,066,368	\$ 502,038	
Weighted average stated interest rate on borrowings(1)	5.65	% 5.88	% 5.45	%
Weighted average interest rate on borrowings(2)	6.23	% 6.65	% 7.14	%
Revolving Credit Facility amount at beginning of year	\$ 552,500	\$ 492,500	\$ 325,000	

(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.

The increase in interest expense for the year ended June 30, 2014 is primarily due to the issuance of additional Prospect Capital InterNotes®, the 2019 Notes, the 5.00% 2019 Notes, the 2020 Notes, and the 2023 Notes for which we incurred an incremental \$49,101 of collective interest expense, respectively. The weighted average interest rate on borrowings (excluding amortization, accretion and undrawn facility fees) decreased from 5.88% for the year ended June 30, 2013 to 5.65% for the year ended June 30, 2014. This decrease is primarily due to issuances of debt at lower

coupon rates. For example, the weighted average interest rate on our Prospect Capital InterNotes® decreased from 5.65% as of June 30, 2013 to 5.38% as of June 30, 2014.

The allocation of overhead expense from Prospect Administration was \$14,373, \$8,737 and \$6,848 for the years ended June 30, 2014, 2013 and 2012, respectively. As our portfolio continues to grow, we expect Prospect Administration to continue to

increase the size of its administrative and financial staff. During the years ended June 30, 2014, 2013 and 2012, Prospect Administration received payments of \$7,582, \$1,394, and \$1,092 directly from our controlled portfolio companies for legal, tax and portfolio level accounting services. 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.

Excise tax decreased from an expense of \$6,500 for the year ended June 30, 2013 to a benefit of \$4,200 for the year ended June 30, 2014. As of June 30, 2013, we accrued \$5,000 as an estimate of the excise tax due for continuing to retain a portion of our annual taxable income for the calendar year ended December 31, 2013. We previously paid \$4,500 for the undistributed ordinary income retained at December 31, 2012. During the year ended June 30, 2014, we amended our excise tax returns resulting in the \$4,200 reversal of previously recognized expense and we recorded a \$2,200 prepaid asset for the amount our \$4,500 excise tax payment exceeded the excise tax liability estimated through June 30, 2014. There was no excise tax expense for the year ended June 30, 2012.

Total operating expenses, net of investment advisory fees, interest and credit facility expenses, allocation of overhead from Prospect Administration and excise tax ("Other Operating Expenses") were \$16,496, \$8,803 and \$6,337 for the years ended June 30, 2014, 2013 and 2012, respectively. The increase of \$7,693 during the year ended June 30, 2014 is primarily due to an increase in our investor relations expense which is included within other general and administrative expenses. Investor relations expense increased due to increased proxy costs incurred for our larger investor base. The increase of \$2,466 during the year ended June 30, 2013 is primarily the result of a \$1,000 insurance claim settlement for legal fees expensed in previous periods which reduced legal fees in the year ended June 30, 2012.

#### Net Investment Income

Net investment income was \$357,223, \$324,924 and \$186,684 for the years ended June 30, 2014, 2013 and 2012, respectively (\$1.19, \$1.57 and \$1.63 per weighted average share, respectively). The \$32,299 increase during the year ended June 30, 2014 is primarily the result of a \$135,955 increase in investment income partially offset by a \$103,656 increase in operating expenses. The \$0.38 per weighted average share decrease in net investment income for the year ended June 30, 2014 is primarily due to a \$0.31 per weighted average share decrease in dividend income primarily due to a decline in the level of dividends received from our investment in Energy Solutions. The \$138,240 increase in net investment income during the year ended June 30, 2013 is primarily the result of a \$255,426 increase in investment income partially offset by a \$117,186 increase in operating expenses. The \$0.06 per weighted average share decrease in net investment income for the year ended June 30, 2013 is primarily due to an increase in excise taxes and higher levels of cash awaiting deployment. (Refer to "Investment Income" and "Operating Expenses" above for further discussion.)

#### Net Realized Gains (Losses)

Net realized gains (losses) were \$(3,346), \$(26,234) and \$36,588 for the years ended June 30, 2014, 2013 and 2012, respectively. The net realized loss during the year ended June 30, 2014 was due primarily to realized losses of \$7,853 and \$1,669 related to the sale of our investments in NBS and ICON, respectively. These losses were partially offset by a distribution of \$3,252 related to our investment in NRG for which we realized a gain of the same amount; a \$1,183 gain realized when the subordinated notes from Apidos CLO VIII were called in October 2013; \$954 gains received from the release of escrowed amounts due to us from several portfolio companies; and \$762 gains realized on sales of other investments described above in "Portfolio Investment Activity."

The net realized loss for the year ended June 30, 2013 was primarily due to the sale of New Meatco Provisions, LLC (realized loss of \$10,814), the other-than-temporary impairment of ICS (realized loss of \$12,117) and restructuring of the H&M debt in conjunction with the foreclosure on the assets of H&M (realized loss of \$19,647). These losses were partially offset by net realized gains from the sale of our assets in Wolf Energy (realized gain of \$11,826), assets formerly held by H&M, and distributions received from our escrow receivable account, primarily NRG (realized gains of \$3,252).

#### Net Decrease in Net Assets from Changes in Unrealized Depreciation

Net decrease in net assets from changes in unrealized depreciation was \$34,857, \$77,834 and \$32,368 for the years ended June 30, 2014, 2013 and 2012, respectively. The variability in results is primarily due to the valuation of equity

positions in our portfolio susceptible to significant changes in value, both increases as well as decreases, due to operating results. For the year ended June 30, 2014, the \$34,857 net change in unrealized depreciation was driven by significant write-down of our investment in NCT, which filed for bankruptcy in June 2014. As we hold a second lien position and do not expect liquidation proceeds to exceed the first lien liability, we decreased the fair value of our debt investment in NCT to zero. We also experienced significant write-downs in our investments in AIRMALL, Ajax, Gulf Coast and Valley Electric. These instances of unrealized depreciation

were partially offset by unrealized appreciation related to CP Well, First Tower, Harbortouch and our CLO equity investments. During the year ended June 30, 2014, we partially sold our debt investment in ICON at a discount and realized a loss of \$1,669, reducing the amount previously recorded as unrealized depreciation. Included within the change in net unrealized appreciation for the year ended June 30, 2014 is \$1,669 of unrealized appreciation resulting from the partial sale of ICON recognized as a realized loss.

For the year ended June 30, 2013, the \$77,834 decrease in net assets from the net change in unrealized depreciation was driven by a reduction in the fair value of our investments in Ajax, Boxercraft and First Tower because of changes in current market conditions; and Energy Solutions for which we received \$19,543 of make-whole fees for early repayment of the outstanding loan and distributions of \$53,820 during the year, which were recorded as interest and dividend income, respectively, reducing the amount previously recorded as unrealized appreciation. These instances of unrealized depreciation were partially offset by the elimination of the unrealized depreciation resulting from the H&M foreclosure mentioned above.

#### Financial Condition, Liquidity and Capital Resources

For the years ended June 30, 2014, 2013 and 2012, our operating activities used \$1,725,387, \$1,786,208 and \$229,415 of cash, respectively. There were no investing activities for the years ended June 30, 2014, 2013 and 2012. Financing activities provided \$1,656,376, \$1,868,250 and \$289,214 of cash during the years ended June 30, 2014, 2013 and 2012, respectively, which included dividend payments of \$377,070, \$242,301 and \$127,564, 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 been issuances of debt and equity. We have and may continue to fund a portion of our cash needs through borrowings from banks, issuances of senior securities or secondary offerings. We may also securitize a portion of our investments in unsecured or senior secured loans or other assets. Our objective is to put in place such borrowings in order to enable us to expand our portfolio. During the year ended June 30, 2014, we borrowed \$1,078,500 and made repayments totaling \$1,110,500 under our Revolving Credit Facility. As of June 30, 2014, we had \$92,000 outstanding on our Revolving Credit Facility, \$1,247,500 outstanding on our Convertible Notes, Public Notes with a carrying value of \$647,881 and \$785,670 outstanding on our Prospect Capital InterNotes®. (See "Capitalization" above.)

Undrawn committed revolvers to our portfolio companies incur commitment fees ranging from 0.00% to 2.00%. As of June 30, 2014 and June 30, 2013, we have \$143,597 and \$202,518 of undrawn revolver commitments to our portfolio companies, respectively.

Our Board of Directors, pursuant to the Maryland General Corporation Law, executed Articles of Amendment to increase the number of shares authorized for issuance from 500,000,000 to 1,000,000,000 in the aggregate. The amendment became effective May 6, 2014.

On October 15, 2013, our Registration Statement on Form N-2 was declared effective by the SEC. Under this Shelf Registration Statement, we can issue up to \$3,691,792 of additional debt and equity securities in the public market as of June 30, 2014.

We also continue to generate liquidity through public and private stock offerings.

On May 8, 2013, we entered into an ATM Program with BB&T Capital Markets, BMO Capital Markets, and KeyBanc Capital Markets through which we could sell, by means of at-the-market offerings from time to time, up to 45,000,000 shares of our common stock. During the period from July 5, 2013 to August 21, 2013, we sold 9,818,907 shares of our common stock at an average price of \$10.97 per share, and raised \$107,725 of gross proceeds, under the ATM Program. Net proceeds were \$106,654 after commissions to the broker-dealer on shares sold and offering costs. On August 22, 2013, we entered into an ATM Program with BMO Capital Markets, Goldman Sachs, KeyBanc Capital Markets, and RBC Capital Markets through which we could sell, by means of at-the-market offerings from time to time, up to 45,000,000 shares of our common stock. During the period from August 29, 2013 to November 4, 2013, we sold 24,127,242 shares of our common stock at an average price of \$11.28 per share, and raised \$272,114 of gross proceeds, under the ATM Program. Net proceeds were \$268,997 after commissions to the broker-dealer on shares sold and offering costs.

On November 5, 2013, we entered into an ATM Program with Barclays Capital, Goldman Sachs, KeyBanc Capital Markets, and RBC Capital Markets through which we could sell, by means of at-the-market offerings from time to time, up to 50,000,000 shares of our common stock. During the period from November 12, 2013 to February 5, 2014, we sold 27,301,889



shares of our common stock at an average price of \$11.25 per share, and raised \$307,045 of gross proceeds, under the ATM Program. Net proceeds were \$303,540 after commissions to the broker-dealer on shares sold and offering costs. On February 4, 2014, we entered into an ATM Program with BMO Capital Markets, BNP Paribas, Goldman Sachs, KeyBanc Capital Markets, and UBS Investment Bank through which we could sell, by means of at-the-market offerings from time to time, up to 50,000,000 shares of our common stock. During the period from February 10, 2014 to April 9, 2014, we sold 21,592,715 shares of our common stock at an average price of \$11.08 per share, and raised \$239,305 of gross proceeds, under the ATM Program. Net proceeds were \$236,904 after commissions to the broker-dealer on shares sold and offering costs.

On April 9, 2014, we entered into an ATM Program with Barclays Capital through which we could sell, by means of at-the-market offerings from time to time, up to 20,000,000 shares of our common stock. During the period from April 15, 2014 to May 2, 2014, we sold 5,213,900 shares of our common stock at an average price of \$10.93 per share, and raised \$56,995 of gross proceeds, under the ATM Program. Net proceeds were \$56,357 after commissions to the broker-dealer on shares sold and offering costs.

#### Off-Balance Sheet Arrangements

As of June 30, 2014, we did not have any off-balance sheet liabilities or other contractual obligations that are reasonably likely to have a current or future material effect on our financial condition, other than those which originate from 1) the investment advisory and management agreement and the administration agreement and 2) the portfolio companies.

#### Recent Developments

On July 11, 2014, we increased total commitments to our Revolving Credit Facility by \$10,000 to \$867,500 in the aggregate.

On July 22, 2014, Injured Workers Pharmacy, LLC repaid the \$22,678 loan receivable to us.

On July 23, 2014, Correctional Healthcare Holding Company, Inc. repaid the \$27,100 loan receivable to us.

On July 23, 2014, we increased total commitments to our Revolving Credit Facility by \$10,000 to \$877,500 in the aggregate.

On July 24, 2014, we issued 98,503 shares of our common stock in connection with the dividend reinvestment plan.

On July 28, 2014, Tectum Holdings, Inc. repaid the \$10,000 loan receivable to us.

On August 1, 2014, we sold our investments in AMU Holdings Inc. and Airmall Inc. for net proceeds of \$51,379. In addition, there is \$6,000 being held in escrow, of which 98% is due to Prospect, which will be recognized as a realized gain if and when received.

On August 5, 2014, we made an investment of \$39,105 to purchase 70.94% of the subordinated notes in CIFIC Funding 2014-IV, Ltd.

On August 13, 2014, we provided \$210,000 of senior secured financing, of which \$200,000 was funded at closing, to support the recapitalization of Trinity Services Group, Inc., a leading food services company in the H.I.G. Capital portfolio.

On August 14, 2014, we announced the then current conversion rate on the 2018 Notes as 83.6661 shares of common stock per \$1 principal amount of the 2018 Notes converted, which is equivalent to a conversion price of approximately \$11.95.

On August 18, 2014 and August 27, 2014, we made a combined \$11,046 investment in United Property REIT Corp. to acquire Michigan Storage, LLC, purchasing seven self-storage facilities located in Michigan. We invested \$1,657 of equity through UPH Property Holdings, LLC and \$9,389 of debt in United Property REIT Corp.

On August 21, 2014, we issued 129,435 shares of our common stock in connection with the dividend reinvestment plan.

On August 22, 2014, Byrider Systems Acquisition Corp. repaid the \$11,177 loan receivable to us.

On August 22, 2014, Capstone Logistics, LLC repaid the \$189,941 loan receivable to us.

On August 22, 2014, TriMark USA, LLC repaid the \$10,000 loan receivable to us.

On August 29, 2014, we completed the extension of the revolving credit facility (the "Facility") for Prospect Capital Funding LLC ("PCF"), a consolidated subsidiary of Prospect, extending the term 5.5 years and reducing pricing to one-month Libor plus



2.25%. The new Facility, for which \$810,000 of commitments have been closed to date, includes an accordion feature that allows the Facility, at Prospect's discretion, to accept up to a total of \$1,500,000 of commitments.

On August 29, 2014, we made a \$15,050 follow-on investment in BNN Holdings Corp. (f/k/a Biotronic NeuroNetwork) in connection with a corporate recapitalization.

On September 10, 2014 and October 6, 2014, we collectively made an \$86,090 follow-on investment in Onyx Payments (f/k/a Pegasus Business Intelligence, LP) of which part of the proceeds were used to fund an acquisition.

On September 15, 2014, Echelon Aviation LLC repaid \$37,313 of the \$78,121 loan receivable to us.

On September 18, 2014, we issued 113,020 shares of our common stock in connection with the dividend reinvestment plan.

On September 24, 2014, we announced the declaration of monthly dividends in the following amount and with the following date:

\$0.110625 per share for January 2015 to holders of record on January 30, 2015 with a payment date of February 19, 2015.

On September 26, 2014, we provided \$215,000 of senior secured financing, of which \$202,500 was funded at closing, to Pacific World Corporation, a supplier of nail and beauty care products to food, drug, mass, and value retail channels worldwide.

On September 26, 2014, we made a secured second lien investment of \$144,000 to support the recapitalization of Progrexion Holdings, Inc. As part of the recapitalization, we received a repayment of the \$436,647 loan receivable to us.

On September 29, 2014, we made a \$22,618 follow-on investment in United Property REIT Corp. to acquire Canterbury Green, a multi-family property located in Fort Wayne, Indiana. We invested \$3,393 of equity through UPH Property Holdings, LLC and \$19,225 of debt in United Property REIT Corp.

On September 30, 2014, we made a \$26,431 follow-on investment in Harbortouch Payments, LLC to support an acquisition.

On September 30, 2014, we made a \$42,200 follow-on investment in PrimeSport, Inc. to fund a dividend recapitalization.

On September 30, 2014, we made a \$22,216 follow-on investment in United Property REIT Corp. to acquire the Cortland Columbus Ohio Portfolio, a portfolio of eight multi-family residential properties located in Ohio. We invested \$3,316 of equity through UPH Property Holdings, LLC and \$18,900 of debt in United Property REIT Corp.

On September 30, 2014, we made a \$938 follow-on investment in the equity of Nationwide Acceptance LLC.

On August 29, 2014, we entered into an ATM Program with BB&T Capital Markets, Goldman Sachs, KeyBanc Capital Markets, and RBC Capital Markets through which we could sell, by means of at-the-market offerings from time to time, up to 50,000,000 shares of our common stock. During the period from September 8, 2014 through October 29, 2014 (with settlement dates of September 11, 2014 to November 3, 2014), we sold 9,490,975 shares of our common stock at an average price of \$10.03 per share, and raised \$95,149 of gross proceeds, under the ATM Program. Net proceeds were \$94,675 after commissions to the broker-dealer on shares sold and offering costs.

On October 3, 2014, we sold our \$35,000 investment in Babson CLO Ltd. 2011-I.

On October 7, 2014, Grocery Outlet, Inc. repaid the \$14,457 loan receivable to us.

On October 8, 2014, we made a \$65,000 investment in Capstone Logistics, LLC, a logistics services portfolio company.

On October 9, 2014, we made an investment of \$50,743 to purchase 83.60% of the subordinated notes in Babson CLO Ltd. 2014-III.

On October 10, 2014, Ajax Rolled Ring & Machine, LLC repaid the \$19,337 loan receivable to us.

On October 17, 2014, we made an investment of \$48,994 to purchase 90.54% of the subordinated notes in Symphony CLO XV, Ltd.

On October 20, 2014, we sold our \$22,000 investment in Galaxy XII CLO, Ltd. and realized a loss on the sale.

On October 21, 2014, we made a \$22,500 secured debt investment in Hollander Sleep Products, a manufacturer of bed pillows and mattress pads in the United States.

On October 22, 2014, we issued 138,721 shares of our common stock in connection with the dividend reinvestment plan.

In addition to the transactions noted above, during the period from July 1, 2014 through November 3, 2014, we made sixteen follow-on investments in National Property REIT Corp. totaling \$92,500 to support the online lending initiative. We invested \$13,875 of equity through NPH Property Holdings, LLC and \$78,625 of debt directly to National Property REIT Corp. In addition, during this period, we received a partial repayment of \$10,965 of the National Property REIT Corp. loan previously outstanding and \$1,935 as a return of capital on the equity investment in National Property REIT Corp.

#### Critical Accounting Policies and Estimates

##### Basis of Presentation

The accompanying consolidated financial statements have been prepared in accordance with United States generally accepted accounting principles (“GAAP”) and pursuant to the requirements for reporting on Form 10-K, ASC 946, Financial Services—Investment Companies (“ASC 946”), and Articles 6 and 12 of Regulation S-X. The financial results of our portfolio investments are not consolidated in the financial statements.

##### Reclassifications

Certain reclassifications have been made in the presentation of prior consolidated financial statements and accompanying notes to conform to the presentation as of and for the year ended June 30, 2014.

##### 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 our portfolio companies and any other parameters used in determining these estimates could cause actual results to differ, and these differences could be material.

##### Basis of Consolidation

Under the 1940 Act, the regulations pursuant to Article 6 of Regulation S-X and ASC 946, 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 our accounts and the accounts of PCF and PSBL, our wholly-owned, closely-managed subsidiaries that are also investment companies. All intercompany balances and transactions have been eliminated in consolidation.

On May 6, 2014, we announced in our filing on Form 10-Q for the quarter ended March 31, 2014 that the SEC Staff had asserted certain of our wholly-owned holding companies were investment companies, such companies were required to be consolidated in our historical financial results and financial position, and restatement of such financial statements was needed. At that time, we disclosed that we disagreed with the views of the SEC Staff and wished to appeal the conclusion through the Office of the Chief Accountant. On June 10, 2014, based on those discussions with the Office of the Chief Accountant, we concluded the following:

• Our historical non-consolidation of wholly-owned and substantially wholly-owned holding companies did not require restatement of our prior period financial statements.

Upon our adoption of ASU 2013-08 for the fiscal year ended June 30, 2015, we will begin consolidating on a prospective basis certain of our wholly-owned and substantially wholly-owned holding companies formed by us in order to facilitate our investment strategy.

The following companies will be consolidated: AMU Holdings Inc.; APH Property Holdings, LLC; 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; STI Holding, Inc.; UPH Property Holdings, LLC; Valley Electric Holdings I, Inc.; Valley Electric Holdings II, Inc.; and Wolf Energy Holdings Inc.



Any operating companies owned by the holding companies will not be consolidated. We do not expect this consolidation to have any material effect on our financial position or results of operations.

#### Cash and Cash Equivalents

Cash and cash equivalents include funds deposited with financial institutions and short-term, highly-liquid investments in money market funds. Cash and cash equivalents are carried at cost which approximates fair value.

#### 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 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.

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. 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. Specifically, we record all security transactions on a trade date basis. Amounts for investments recognized or derecognized but not yet settled are reported as receivables for investments sold and payables for investments purchased, respectively, in the Consolidated Statements of Assets and Liabilities.

#### 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 the security less likely to be an income producing instrument.

##### Investment Valuation

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

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

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

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

Level 3: Unobservable inputs for the asset or liability.

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

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

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

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

1. Each portfolio company or investment is reviewed by our investment professionals with independent valuation firms engaged by our Board of Directors;
2. The independent valuation firms conduct independent valuations and make their own independent assessments;
3. The Audit Committee of our Board of Directors reviews and discusses the preliminary valuation of Prospect Capital Management LLC (the "Investment Adviser") and that of the independent valuation firms; and
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.

Investments are valued utilizing a yield analysis, enterprise value ("EV") analysis, net asset value analysis, liquidation analysis, discounted cash flow analysis, or a combination of methods, as appropriate. The yield analysis uses loan spreads and other relevant information implied by market data involving identical or comparable assets or liabilities. Under the EV analysis, 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 approach that considers relevant and applicable market trading data of guideline public companies, transaction metrics from precedent M&A transactions and/or a discounted cash flow analysis. The net asset value analysis 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 analysis 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 analysis uses valuation techniques to convert 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 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 fair value pricing 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 ASC 820 Level 3 securities and are valued using a discounted cash flow model. The valuations have been accomplished through the analysis of the CLO deal structures to identify the risk exposures from the modeling point of view. For each CLO security, the most appropriate valuation approach has been chosen from alternative approaches to ensure the most accurate valuation for such security. To value a CLO, both the assets and the liabilities of the CLO capital structure are modeled. We use a waterfall engine to store the collateral data, generate collateral cash flows from the assets based on various assumptions for the risk factors, distribute the

cash flows to the liability structure based on the payment priorities, and discount them back using current market discount rates. The main risk factors are: default risk, interest rate risk, downgrade risk, and credit spread risk.



#### Valuation of Other Financial Assets and Financial Liabilities

The Fair Value Option within ASC 825, Financial Instruments, specifically ASC 825-10-25, permits an entity to elect fair value as the initial and subsequent measurement attribute for eligible assets and liabilities for which the assets and liabilities are measured using another measurement attribute. For our non-investment assets and liabilities, we have elected not to value them at fair value as would be permitted by ASC 825-10-25.

#### Convertible Notes

We have recorded the Convertible Notes (see Note 5) at their contractual amounts. The Convertible Notes were analyzed for any features that would require their accounting to be bifurcated and such features were determined to be immaterial.

#### 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. Origination, closing and/or commitment fees associated with investments in portfolio companies are accreted into interest income over the respective terms of the applicable loans. Accretion of such purchase discounts or amortization of premiums is calculated by the effective interest method as of the purchase date and adjusted only for material amendments or prepayments. Upon the prepayment of a loan or debt security, any prepayment penalties and unamortized loan origination, closing and commitment fees are recorded as interest income. The purchase discount for portfolio investments acquired from Patriot Capital Funding, Inc. ("Patriot") was determined based on the difference between par value and fair value as of December 2, 2009, and continues to accrete until maturity or repayment of the respective loans (see Note 3). As of June 30, 2014, the purchase discount from the assets acquired from Patriot has been fully accreted.

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 may be recognized as income or applied to principal depending upon management's judgment. Non-accrual loans are restored to accrual status when past due principal and interest is paid and in management's judgment, are likely to remain current. As of June 30, 2014, approximately 0.1% of our total assets are in non-accrual status.

Interest income from investments in the "equity" class of security of CLO funds (typically income notes or subordinated notes) 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 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.

Structuring fees and similar fees are recognized as income as earned, usually when paid. Structuring fees, excess deal deposits, net profits interests and overriding royalty interests are included in other income.

#### Federal and State Income Taxes

We have elected to be treated as a regulated investment company and intend to continue to comply with the requirements of the Internal Revenue 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 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. We had an excise tax liability of \$1,918 for the calendar year ended December 31, 2012 and zero for the calendar year ended December 31, 2013. As of June 30, 2014, we had an accrued prepaid excise tax balance of \$2,200 because we have made estimated excise tax payments in excess of our expected excise tax liability for the calendar year ending December 31, 2014.

If we fail to satisfy the annual distribution requirement or otherwise fail to qualify as a RIC in any taxable year, we would be subject to tax on all of our taxable income at regular corporate rates. We would not be able to deduct distributions to stockholders, nor would we be required to make distributions. Distributions would generally be taxable to our individual and other non-corporate taxable stockholders as ordinary dividend income eligible for the reduced maximum rate applicable to qualified dividend income to the extent of our current and accumulated earnings and profits, provided certain holding period and other requirements are met. Subject to certain limitations under the Internal Revenue 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 reduced by an interest charge of 50% of such earnings and profits payable by us as an additional tax. In addition, if we failed to qualify as a RIC for a period greater than two taxable years, then, in order to qualify as a RIC in a subsequent year, we would be required to elect to recognize and pay tax on any net built-in gain (the excess of aggregate gain, including items of income, over aggregate loss that would have been realized if we had been liquidated) or, alternatively, be subject to taxation on such built-in gain recognized for a period of ten years.

We follow ASC 740, Income Taxes (“ASC 740”). ASC 740 provides guidance for how uncertain tax positions should be recognized, measured, presented, and disclosed in the consolidated financial statements. ASC 740 requires the evaluation of tax positions taken or expected to be taken in the course of preparing our tax returns to determine whether the tax positions are “more-likely-than-not” of being sustained by the applicable tax authority. Tax positions not deemed to meet the more-likely-than-not threshold are recorded as a tax benefit or expense in the current year. As of June 30, 2014 and for the year then ended, we did not have a liability for any unrecognized tax benefits. 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 tax returns for each of our federal tax years since 2010 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 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 “Notes”), as deferred financing costs. These expenses are deferred and amortized as part of interest expense using the straight-line method for our Revolving Credit Facility and the effective interest method for our Notes, over the respective expected life or maturity.

We record registration expenses related to shelf filings as prepaid assets. These expenses consist principally of SEC registration fees, legal fees and accounting fees incurred. These prepaid assets are charged to capital upon the receipt of proceeds from an equity offering or charged to expense if no offering is completed.

#### 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 2013, the FASB issued Accounting Standards Update 2013-08, Financial Services — Investment Companies (Topic 946), Amendments to the Scope, Measurement, and Disclosure Requirements (“ASU 2013-08”). The update clarifies the approach to be used for determining whether an entity is an investment company and provides new

measurement and disclosure requirements. ASU 2013-08 is effective for interim and annual reporting periods in fiscal years that begin after December 15,

2013. Earlier application is prohibited. The adoption of the amended guidance in ASU 2013-08 is not expected to have a significant effect on our consolidated financial statements and disclosures.

In May 2014, the FASB issued Accounting Standards Update 2014-09, Revenue from Contracts with Customers (Topic 606) (“ASU 2014-09”). The update supersedes the revenue recognition requirements in ASC 605, Revenue Recognition. Under the new guidance, an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. ASU 2014-09 is effective for annual reporting periods beginning after December 15, 2016, including interim periods within that reporting period. Early adoption is not permitted. The adoption of the amended guidance in ASU 2014-09 is not expected to have a significant effect on our consolidated financial statements and disclosures.

#### QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We are subject to financial market risks, including changes in interest rates and equity price risk. Some of the loans in our portfolio have floating interest rates.

We may hedge against interest rate fluctuations by using standard hedging instruments such as futures, options and forward contracts subject to the requirements of the 1940 Act. While hedging activities may insulate us against adverse changes in interest rates, they may also limit our ability to participate in the benefits of higher interest rates with respect to our portfolio of investments. During the year ended June 30, 2014, we did not engage in hedging activities.

#### REPORT OF MANAGEMENT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

Management is responsible for establishing and maintaining adequate internal control over financial reporting, and for performing an assessment of the effectiveness of internal control over financial reporting as of June 30, 2014. Internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. The Company’s internal control over financial reporting includes those policies and procedures that (i) pertain to assets of the Company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the Company are being made only in accordance with authorizations of management and directors of the Company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the Company’s assets that could have a material effect on the financial statements.

Management performed an assessment of the effectiveness of the Company’s internal control over financial reporting as of June 30, 2014 based upon criteria in Internal Control—Integrated Framework (1992) issued by the Committee of Sponsoring Organizations of the Treadway Commission (“COSO”). Based on our assessment, management determined that the Company’s internal control over financial reporting was effective as of June 30, 2014 based on the criteria on Internal Control—Integrated Framework (1992) issued by COSO. There were no changes in our internal control over financial reporting during the quarter ended June 30, 2014 that have materially affected, or are reasonably likely to affect, our internal control over financial reporting.

Our management’s assessment of the effectiveness of our internal control over financial reporting as of June 30, 2014 has been audited by BDO USA, LLP, an independent registered public accounting firm, as stated in their report which appears herein.

#### USE OF PROCEEDS

Unless otherwise specified in a prospectus supplement, we intend to use the net proceeds from selling Securities pursuant to this prospectus initially to maintain balance sheet liquidity, involving repayment of debt under our credit facility, if any, investments in high quality short-term debt instruments or a combination thereof, and thereafter to make long-term investments in accordance with our investment objective. Interest on borrowings under the credit facility is one-month LIBOR plus 225 basis points, with no minimum LIBOR floor. Additionally, the lenders charge a fee on the unused portion of the credit facility equal to either 50 basis points if at least thirty-five percent of the credit facility is drawn or 100 basis points otherwise. A supplement to this prospectus relating to each offering will provide additional detail, to the extent known at the time, regarding the use of the proceeds from such offering including any

intention to utilize proceeds to pay expenses in order to avoid sales of long-term assets.

On August 29, 2014, we completed a first closing on an expanded five-and-one-half year \$1.5 billion revolving credit facility (the "Facility") for Prospect Capital Funding LLC with reduced pricing. The new Facility, for which twenty lenders have closed on \$800 million to date, includes an accordion feature that allows the Facility, at our discretion, to accept up to a total of \$1.5 billion of commitments, an objective we target reaching with additional lenders. The Facility matures in March

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2020 and is substantially similar to the terms of the prior revolving credit facility. It includes a revolving period that extends through March 2019, followed by an additional one-year amortization period, with distributions allowed to us after the completion of the revolving period. Pricing for the Facility is one-month Libor plus 2.25%, achieving 50 basis point reduction in pricing from the previous five-year facility pricing of Libor plus 2.75%. The new Facility has an investment grade Moody's rating of Aa3.

We anticipate that substantially all of the net proceeds of an offering of Securities pursuant to this prospectus will be used for the above purposes within six months, depending on the availability of appropriate investment opportunities consistent with our investment objective and market conditions. In addition, we expect that there will be several offerings pursuant to this prospectus; we expect that substantially all of the proceeds from all offerings will be used within three years. Pending our new investments, we plan to invest a portion of net proceeds in cash equivalents, U.S. government securities and other high-quality debt investments that mature in one year or less from the date of investment and other general corporate purposes. The management fee payable by us will not be reduced while our assets are invested in such securities, which may generate a loss to the Company. See "Regulation—Temporary Investments" for additional information about temporary investments we may make while waiting to make longer-term investments in pursuit of our investment objective.

## FORWARD-LOOKING STATEMENTS

Our annual report on Form 10-K for the year ended June 30, 2014, any of our quarterly reports on Form 10-Q or current reports on Form 8-K, or any other oral or written statements made in press releases or otherwise by or on behalf of Prospect Capital Corporation including this prospectus may contain forward-looking statements within the meaning of the Section 21E of the Securities Exchange Act of 1934, as amended, which involve substantial risks and uncertainties. Forward-looking statements predict or describe our future operations, business plans, business and investment strategies and portfolio management and the performance of our investments and our investment management business. These forward-looking statements are not historical facts, but rather are based on current expectations, estimates and projections about our industry, our beliefs, and our assumptions. Words such as “intends,” “intend,” “intended,” “goal,” “estimate,” “estimates,” “expects,” “expect,” “expected,” “project,” “projected,” “projections,” “anticipates,” “anticipated,” “should,” “could,” “may,” “will,” “designed to,” “foreseeable future,” “believe,” “believes,” and “variations of these words and similar expressions are intended to identify forward-looking statements. Our actual results or outcomes may differ materially from those anticipated. Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date the statement was made. We undertake no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. These forward-looking statements do not meet the safe harbor for forward-looking statements pursuant to Section 27A of the Securities Act. These statements are not guarantees of future performance and are subject to risks, uncertainties, and other factors, some of which are beyond our control and difficult to predict and could cause actual results to differ materially from those expressed or forecasted in the forward-looking statements, including without limitation:

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

Although we believe that the assumptions on which these forward-looking statements are based are reasonable, any of those assumptions could prove to be inaccurate, and as a result, the forward-looking statements based on those assumptions also could be inaccurate. Important assumptions include our ability to originate new loans and investments, certain margins and levels of profitability and the availability of additional capital. In light of these and other uncertainties, the inclusion of a projection or forward-looking statement in this prospectus should not be



regarded as a representation by us that our plans and objectives will be achieved. These risks and uncertainties include those described or identified in “Risk Factors” and elsewhere in this prospectus. You should not place undue reliance on these forward-looking statements, which apply only as of the date of this prospectus.

## DISTRIBUTIONS

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

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

We had no excise tax liability for the calendar year ended December 31, 2013. Through June 30, 2014, we have an accrued prepaid excise tax balance of \$2.2 million because we have made estimated excise tax payments in excess of our expected excise tax liability for the calendar year ending December 31, 2014. Tax characteristics of all distributions will be reported to stockholders, as appropriate, on Form 1099-DIV after the end of the calendar year. In addition, although we currently intend to distribute realized net capital gains (which we define as net long-term capital gains in excess of short-term capital losses), if any, at least annually out of the assets legally available for such distributions, we may decide in the future to retain such capital gains for investment. In such event, the consequences of our retention of net capital gains are described under "Material U.S. Federal Income Tax Considerations." We can offer no assurance that we will achieve results that will permit the payment of any cash distributions and, if we issue senior securities, we may be prohibited from making distributions if doing so causes us to fail to maintain the asset coverage ratios stipulated by the 1940 Act or if distributions are limited by the terms of any of our borrowings.

During the years ended June 30, 2014 and 2013, we distributed approximately \$403.2 million and \$271.5 million, respectively, to our stockholders. The following table summarizes our distributions declared and payable for 2013 and 2014:

Declaration Date	Record Date	Payment Date	Amount Per Share	Amount Distributed (in thousands)
5/7/2012	7/31/2012	8/24/2012	\$0.101575	\$16,886
5/7/2012	8/31/2012	9/21/2012	0.101600	16,897
8/21/2012	9/28/2012	10/24/2012	0.101625	17,597
8/21/2012	10/31/2012	11/22/2012	0.101650	17,736
11/7/2012	11/30/2012	12/20/2012	0.101675	21,308
12/7/2012	12/31/2012	1/23/2013	0.110000	23,669
12/7/2012	1/31/2013	2/20/2013	0.110025	24,641
2/7/2013	2/28/2013	3/21/2013	0.110050	25,307
2/7/2013	3/29/2013	4/18/2013	0.110075	26,267
2/7/2013	4/30/2013	5/23/2013	0.110100	26,620
5/6/2013	5/31/2013	6/20/2013	0.110125	27,280
5/6/2013	6/28/2013	7/18/2013	0.110150	27,299
Total declared and payable for 2013				\$271,507
5/6/2013	7/31/2013	8/22/2013	\$0.110175	\$28,001
5/6/2013	8/30/2013	9/19/2013	0.110200	28,759
6/17/2013	9/30/2013	10/24/2013	0.110225	29,915
6/17/2013	10/31/2013	11/21/2013	0.110250	31,224
6/17/2013	11/29/2013	12/19/2013	0.110275	32,189
6/17/2013	12/31/2013	1/23/2014	0.110300	33,229
8/21/2013	1/31/2014	2/20/2014	0.110325	34,239
8/21/2013	2/28/2014	3/20/2014	0.110350	35,508
8/21/2013	3/31/2014	4/17/2014	0.110375	36,810
11/4/2013	4/30/2014	5/22/2014	0.110400	37,649
11/4/2013	5/30/2014	6/19/2014	0.110425	37,822
11/4/2013	6/30/2014	7/24/2014	0.110450	37,843
Total declared and payable for 2014				\$403,188

Dividends and distributions to common stockholders are recorded on the ex-dividend date. As such, the table above includes distributions with record dates during the years ended June 30, 2014 and 2013. It does not include distributions previously declared to stockholders of record on any future dates, as those amounts are not yet determinable.

## SENIOR SECURITIES

Information about our senior securities is shown in the following table as of each fiscal year ended June 30 since the Company commenced operations and as of June 30, 2014.

Credit Facility	Total Amount Outstanding(1)	Asset Coverage per Unit(2)	Involuntary Liquidating Preference per Unit(3)	Average Market Value per Unit(4)
Fiscal 2014 (as of June 30, 2014)	\$92,000	\$69,470	—	—
Fiscal 2013 (as of June 30, 2013)	124,000	34,996	—	—
Fiscal 2012 (as of June 30, 2012)	96,000	22,668	—	—
Fiscal 2011 (as of June 30, 2011)	84,200	18,065	—	—
Fiscal 2010 (as of June 30, 2010)	100,300	8,093	—	—
Fiscal 2009 (as of June 30, 2009)	124,800	5,268	—	—
Fiscal 2008 (as of June 30, 2008)	91,167	5,712	—	—
Fiscal 2007 (as of June 30, 2007)	—	N/A	—	—
Fiscal 2006 (as of June 30, 2006)	28,500	4,799	—	—
Fiscal 2005 (as of June 30, 2005)	—	N/A	—	—
Fiscal 2004 (as of June 30, 2004)	—	N/A	—	—
2015 Notes				
Fiscal 2014 (as of June 30, 2014)	\$150,000	\$42,608	—	—
Fiscal 2013 (as of June 30, 2013)	150,000	28,930	—	—
Fiscal 2012 (as of June 30, 2012)	150,000	14,507	—	—
Fiscal 2011 (as of June 30, 2011)	150,000	10,140	—	—
2016 Notes				
Fiscal 2014 (as of June 30, 2014)	\$167,500	\$38,157	—	—
Fiscal 2013 (as of June 30, 2013)	167,500	25,907	—	—
Fiscal 2012 (as of June 30, 2012)	167,500	12,992	—	—
Fiscal 2011 (as of June 30, 2011)	172,500	8,818	—	—
2017 Notes				
Fiscal 2014 (as of June 30, 2014)	\$130,000	\$49,163	—	—
Fiscal 2013 (as of June 30, 2013)	130,000	33,381	—	—
Fiscal 2012 (as of June 30, 2012)	130,000	16,739	—	—
2018 Notes				
Fiscal 2014 (as of June 30, 2014)	\$200,000	\$31,956	—	—
Fiscal 2013 (as of June 30, 2013)	200,000	21,697	—	—
2019 Notes				
Fiscal 2014 (as of June 30, 2014)	\$200,000	\$31,956	—	—
Fiscal 2013 (as of June 30, 2013)	200,000	21,697	—	—
5.00% 2019 Notes				
Fiscal 2014 (as of June 30, 2014)	\$300,000	\$21,304	—	—
2020 Notes				
Fiscal 2014 (as of June 30, 2014)	\$400,000	\$15,978	—	—

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2022 Notes

Fiscal 2014 (as of June 30, 2014)	\$ 100,000	\$ 63,912	—	\$ 103,920
Fiscal 2013 (as of June 30, 2013)	100,000	43,395	—	101,800
Fiscal 2012 (as of June 30, 2012)	100,000	21,761	—	99,560

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	Total Amount Outstanding(1)	Asset Coverage per Unit(2)	Involuntary Liquidating Preference per Unit(3)	Average Market Value per Unit(4)
2023 Notes				
Fiscal 2014 (as of June 30, 2014)	\$247,881	\$25,783	—	—
Fiscal 2013 (as of June 30, 2013)	247,725	17,517	—	—
Prospect Capital InterNotes®				
Fiscal 2014 (as of June 30, 2014)	\$785,670	\$8,135	—	—
Fiscal 2013 (as of June 30, 2013)	363,777	11,929	—	—
Fiscal 2012 (as of June 30, 2012)	20,638	105,442	—	—
All Senior Securities				
Fiscal 2014 (as of June 30, 2014)	\$2,773,051	\$2,305	—	—
Fiscal 2013 (as of June 30, 2013)	1,683,002	2,578	—	—
Fiscal 2012 (as of June 30, 2012)	664,138	3,277	—	—
Fiscal 2011 (as of June 30, 2011)	406,700	3,740	—	—

(1) Total amount of each class of senior securities outstanding at the end of the period presented (in 000's).

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

(3) This column is inapplicable.

(4) This column is inapplicable, except for the 2022 Notes. The average market value per unit is presented in thousands.

## PRICE RANGE OF COMMON STOCK

Our common stock is quoted on the NASDAQ Global Select Market under the symbol "PSEC." The following table sets forth, for the periods indicated, our NAV per share of common stock and the high and low sales prices per share of our common stock as reported on the NASDAQ Global Select Market. Our common stock historically trades at prices both above and below its NAV per share. There can be no assurance, however, that such premium or discount, as applicable, to NAV per share will be maintained. Common stock of business development companies, like that of closed-end investment companies, frequently trades at a discount to current NAV per share. In the past, our common stock has traded at a discount to our NAV per share. The risk that our common stock may continue to trade at a discount to our NAV per share is separate and distinct from the risk that our NAV per share may decline.

	Stock Price			Premium	Premium	Dividends Declared
	NAV(1)	High(2)	Low(2)	(Discount) of High to NAV	(Discount) of Low to NAV	
Twelve Months Ending June 30, 2013						
First quarter	\$ 10.88	\$ 12.21	\$ 10.83	12.2	% (0.5)	% \$ 0.304800
Second quarter	10.81	11.98	9.89	10.8	% (8.5)	% 0.313325
Third quarter	10.71	11.49	10.91	7.3	% 1.9	% 0.330150
Fourth quarter	10.72	11.11	10.08	3.6	% (6.0)	% 0.330375
Twelve Months Ending June 30, 2014						
First quarter	\$ 10.72	\$ 11.61	\$ 10.76	8.3	% 0.4	% \$ 0.330600
Second quarter	10.73	11.48	10.80	7.0	% 0.7	% 0.330825
Third quarter	10.68	11.39	10.73	6.6	% 0.5	% 0.331050
Fourth quarter	10.56	10.99	9.64	4.1	% (8.7)	% 0.331275
Twelve Months Ending June 30, 2015						
First quarter	(3)(4)	\$ 11.00	\$ 9.90	(4)	(4)	\$ 0.331500
Second quarter (through October 31, 2014)	(3)(4)	\$ 9.92	\$ 9.08	(4)	(4)	\$ 0.331725 (5)

Net asset value per share is determined as of the last day in the relevant quarter and therefore may not reflect the (1) net asset value per share on the date of the high or low sales price. The NAVs shown are based on outstanding shares of our common stock at the end of each period.

(2) The High/Low Stock Price is calculated as of the closing price on a given day in the applicable quarter.

Our most recently estimated NAV per share is 10.54 on an as adjusted basis solely to give effect to our issuance of common stock since June 30, 2014 in connection with our dividend reinvestment plan and our issuance of

9,490,975 shares of common stock for the period from September 8, 2014 to October 29, 2014 (including shares (3) with settlement dates through November 3, 2014) under our at the market program, \$0.02 lower than the \$10.56 determined by us as of June 30, 2014. NAV per share as of September 30, 2014, may be higher or lower than \$10.54 based on potential changes in valuations, issuances of securities, dividends paid and earnings for the quarter then ended.

(4) NAV has not yet been finally determined for any day after June 30, 2014.

(5) On February 3, 2014, Prospect announced the declaration of a monthly dividend in the following amount and with the following date:

\$0.110525 per share for September 2014 to holders of record on September 30, 2014 with a payment date of October 22, 2014.

On May 6, 2014, Prospect announced the declaration of monthly dividends in the following amounts and with the following dates:

\$0.110550 per share for October 2014 to holders of record on October 31, 2014 with a payment date of November 20, 2014;

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\$0.110575 per share for November 2014 to holders of record on November 28, 2014 with a payment date of December 18, 2014; and

\$0.110600 per share for December 2014 to holders of record on December 31, 2014 with a payment date of January 22, 2015.

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On September 24, 2014, Prospect announced the declaration of a monthly dividend in the following amount and with the following date:

\$0.110625 per share for January 2015 to holders of record on January 30, 2015 with a payment date of February 19, 2015.

On October 31, 2014, the last reported sales price of our common stock was \$9.58 per share.

As of October 31, 2014, we had approximately 123 stockholders of record.

The below table sets forth each class of our outstanding securities as of October 31, 2014, including sales of shares under our at-the-market offering program which will settle through November 3, 2014.

Title of Class	Amount Authorized	Amount Held by Registrant or for its Account	Amount Outstanding
Common Stock	1,000,000,000	—	352,597,291

## BUSINESS

### General

We are a financial services company that primarily lends to and invests in middle market privately-held companies. In this prospectus, we use the term “middle-market” to refer to companies with annual revenues of less than \$750 million and enterprise values of less than \$1 billion. We are a closed-end investment company that has filed an election to be treated as a business development company under the Investment Company Act of 1940, or the “1940 Act.” We invest primarily in senior and subordinated debt and equity of 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 origination strategies in which we make investments: (1) lending in private equity sponsored transactions, (2) lending directly to companies not owned by private equity firms, (3) control investments in corporate operating companies, (4) control investments in financial companies, (5) investments in structured credit, (6) real estate investments, (7) investments in syndicated debt, (8) aircraft leasing and (9) online lending. We continue to evaluate other origination strategies in the ordinary course of business with no specific tops-down allocation to any single origination strategy.

**Lending in Private Equity Sponsored Transactions** – We make loans to companies which are controlled by leading private equity firms. This debt can take the form of first lien, second lien, unitranche or unsecured loans. In making these investments, we look for a diversified customer base, recurring demand for the product or service, barriers to entry, strong historical cash flow and experienced management teams. These loans typically have significant equity subordinate to our loan position. Historically, this strategy has comprised approximately 50%-60% of our business, but more recently it is less than 50% of our business.

**Lending Directly to Companies** – We provide debt financing to companies owned by non-private equity firms, the company founder, a management team or a family. Here, in addition to the strengths we look for in a sponsored transaction, we also look for the alignment with the management team with significant invested capital. This strategy often has less competition than the private equity sponsor strategy because such company financing needs are not easily addressed by banks and often require more diligence preparation. Direct lending can result in higher returns and lower leverage than sponsor transactions and may include warrants or equity to us. Historically, this strategy has comprised approximately 5%-15% of our business, but more recently it is less than 5% of our business.

**Control Investments in Corporate Operating Companies** – This strategy involves acquiring controlling stakes in non-financial operating companies. Our investments in these companies are generally structured as a combination of yield-producing debt and equity. We provide certainty of closure to our counterparties, give the seller personal liquidity and generally look for management to continue on in their current roles. This strategy has comprised approximately 10%-15% of our business.

**Control Investments in Financial Companies** – This strategy involves acquiring controlling stakes in financial companies, including consumer direct lending, sub-prime auto lending and other strategies. Our investments in these companies are generally structured as a combination of yield-producing debt and equity. These investments are often structured in a tax-efficient RIC (as defined below) -compliant partnership, enhancing returns. This strategy has comprised approximately 5%-15% of our business.

**Investments in Structured Credit** – We make investments in collateralized loan obligations (“CLOs”), generally taking a significant position in the subordinated interests (equity) of the CLOs. The CLOs include a diversified portfolio of broadly syndicated loans and do not have direct exposure to real estate, mortgages, sub-prime debt, or consumer based debt. The CLOs in which we invest are managed by top-tier collateral managers that have been thoroughly diligenced prior to investment. This strategy has comprised approximately 10%-20% of our business.

**Real Estate Investments** – We make investments in real estate through our three wholly-owned tax-efficient real estate investment trusts (“REITs”), American Property REIT Corp., National Property REIT Corp. and United Property REIT Corp. (collectively, “our REITs”). Our real estate investments are in various classes of fully developed and occupied real estate properties that generate current yields. We seek to identify properties that have historically high occupancy and steady cash flow generation. Our REITs partner with established property managers with experience in managing the property type to manage such properties after acquisition. This is a more recent investment strategy that has comprised

approximately 5%-10% of our business.

Investments in Syndicated Debt – On an opportunistic basis, we make investments in loans and high yield bonds that have been sold to a syndicate of buyers. Here we look for investments with attractive risk-adjusted returns after we have completed a fundamental credit analysis. These investments are purchased with a long term, buy-and-hold outlook and we look

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to provide significant structuring input by providing anchoring orders. This strategy has comprised approximately 5%-10% of our business.

**Aircraft Leasing** – We invest debt as well as equity in aircraft assets subject to commercial leases to credit-worthy airlines across the globe. These investments present attractive return opportunities due to cash flow consistency from long-lived assets coupled with hard asset collateral. We seek to deliver risk-adjusted returns with strong downside protection by analyzing relative value characteristics across the spectrum of aircraft types of all vintages. Our target portfolio includes both in-production and out-of-production jet and turboprop aircraft and engines, operated by airlines across the globe. This strategy comprised approximately 1.5% of our business in the fiscal year ended June 30, 2014.

**Online Lending** – We make investments in loans originated by certain consumer loan and small and medium sized business (“SME”) originators. We purchase each loan in its entirety (i.e., a “whole loan”). The borrowers are consumers and SMEs. The loans are typically serviced by the originators of the loans. This strategy comprised approximately 1% of our business in the fiscal year ended June 30, 2014.

Typically, we concentrate on making investments in companies with annual revenues of less than \$750 million and enterprise values of less than \$1 billion. Our typical investment involves a secured loan of less than \$250 million. We also acquire controlling interests in companies in conjunction with making secured debt investments in such companies. In most cases, companies in which we invest are privately held at the time we invest in them. We refer to these companies as “target” or “middle market” companies and these investments as “middle market investments.”

We seek to maximize total returns to our investors, including both current yield and equity upside, by applying rigorous credit analysis and asset-based and cash-flow based lending techniques to make and monitor our investments. We are constantly pursuing multiple investment opportunities, including purchases of portfolios from private and public companies, as well as originations and secondary purchases of particular securities. We also regularly evaluate control investment opportunities in a range of industries, and some of these investments could be material to us. There can be no assurance that we will successfully consummate any investment opportunity we are currently pursuing. If any of these opportunities are consummated, there can be no assurance that investors will share our view of valuation or that any assets acquired will not be subject to future write downs, each of which could have an adverse effect on our stock price.

We have been organized as a closed-end investment company since April 13, 2004 and have filed an election to be treated as a business development company under the Investment Company Act of 1940 (the “1940 Act”). We are a non-diversified company within the meaning of the 1940 Act. Our headquarters are located at 10 East 40th Street, 42nd Floor, New York, NY 10016, and our telephone number is (212) 448-0702. Our investment adviser is Prospect Capital Management LLC.

On July 27, 2004, we completed our initial public offering (“IPO”) and sold 7 million shares of common stock at a price of \$15.00 per share, less underwriting discounts and commissions totaling \$1.05 per share. An additional 55,000 shares were issued through the exercise of an over-allotment option with respect to the IPO on August 27, 2004. Since the IPO and the exercise of the related over-allotment option, we have made other common stock share offerings (including options exercised by underwriters) resulting in the issuance of 294,799,101 shares at prices ranging from \$7.75 to \$17.70. We issued the 2015 Notes on December 21, 2010, the 2016 Notes on February 18, 2011, the 2017 Notes on April 16, 2012, the 2022 Notes on May 1, 2012, the 2018 Notes on August 14, 2012, the 2019 Notes on December 21, 2012, the 2023 Notes on March 15, 2013, the 5.00% 2019 Notes on April 7, 2014, the 2020 Notes on April 11, 2014 and have issued Prospect Capital InterNotes® since February 16, 2012. Each of 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 senior in right of payment to any of our subordinated indebtedness. As a result, 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.

#### Convertible Notes

On December 21, 2010, we issued \$150.0 million aggregate principal amount of convertible notes that mature on December 15, 2015 (the “2015 Notes”), unless previously converted or repurchased in accordance with their terms. The 2015 Notes bear interest at a rate of 6.25% per year, payable semi-annually on June 15 and December 15 of each year,

beginning June 15, 2011. Total proceeds from the issuance of the 2015 Notes, net of underwriting discounts and offering costs, were \$145.2 million.

On February 18, 2011, we issued \$172.5 million aggregate principal amount of convertible notes that mature on August 15, 2016 (the "2016 Notes"), unless previously converted or repurchased in accordance with their terms. The 2016 Notes bear 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 \$167.3 million. Between January 30, 2012 and February 2, 2012, we repurchased \$5.0 million of the 2016 Notes at a price of

97.5, including commissions. The transactions resulted in our recognizing \$0.10 million of loss in the year ended June 30, 2012.

On April 16, 2012, we issued \$130.0 million aggregate principal amount of convertible notes that mature on October 15, 2017 (the “2017 Notes”), unless previously converted or repurchased in accordance with their terms. The 2017 Notes bear 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 \$126.0 million.

On August 14, 2012, we issued \$200.0 million 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 \$193.6 million.

On December 21, 2012, we issued \$200.0 million 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 \$193.6 million.

On April 11, 2014, we issued \$400.0 million 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 \$387.5 million.

Certain key terms related to the convertible features for the 2015 Notes, the 2016 Notes, the 2017 Notes, the 2018 Notes, the 2019 Notes and the 2020 Notes (collectively, the “Convertible Notes”) are listed below.

	2015 Notes	2016 Notes	2017 Notes	2018 Notes	2019 Notes	2020 Notes
Initial conversion rate(1)	88.0902	78.3699	85.8442	82.3451	79.7766	80.6647
Initial conversion price	\$ 11.35	\$ 12.76	\$ 11.65	\$ 12.14	\$ 12.54	\$ 12.40
Conversion rate at June 30, 2014(1)(2)	89.0157	79.3176	86.9426	82.8631	79.7865	80.6647
Conversion price at June 30, 2014(2)(3)	\$ 11.23	\$ 12.61	\$ 11.50	\$ 12.07	\$ 12.53	\$ 12.40
Last conversion price calculation date	12/21/2013	2/18/2014	4/16/2014	8/14/2013	12/21/2013	4/11/2014
Dividend threshold amount (per share)(4)	\$ 0.101125	\$ 0.101150	\$ 0.101500	\$ 0.101600	\$ 0.110025	\$ 0.110525

(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.

The conversion price in effect at June 30, 2014 was calculated on the last anniversary of the issuance and will be (3) adjusted again on the next anniversary, unless the exercise price shall have changed by more than 1% before the anniversary.

(4) The conversion rate is increased if monthly cash dividends paid to common shares exceed the monthly dividend threshold amount, subject to adjustment.

In no event will the total number of shares of common stock issuable upon conversion exceed 96.8992 per \$1 principal amount of the 2015 Notes (the “conversion rate cap”), except that, to the extent we receive written guidance or a no-action letter from the staff of the Securities and Exchange Commission (the “Guidance”) permitting us to adjust the conversion rate in certain instances without regard to the conversion rate cap and to make the 2015 Notes convertible into certain reference property in accordance with certain reclassifications, business combinations, asset sales and corporate events by us without regard to the conversion rate cap, we will make such adjustments without regard to the

conversion rate cap and will also, to the extent that we make any such adjustment without regard to the conversion rate cap pursuant to the Guidance, adjust the conversion rate cap accordingly. We will use our commercially reasonable efforts to obtain such Guidance as promptly as practicable.

Prior to obtaining the Guidance, we will not engage in certain transactions that would result in an adjustment to the conversion rate increasing the conversion rate beyond what it would have been in the absence of such transaction unless we have engaged in a reverse stock split or share combination transaction such that in our reasonable best estimation, the conversion rate following the adjustment for such transaction will not be any closer to the conversion rate cap than it would have been in the absence of such transaction.

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.

#### Public Notes

On May 1, 2012, we issued \$100.0 million aggregate principal amount of unsecured notes that mature on November 15, 2022 (the “2022 Notes”). The 2022 Notes bear interest at a rate of 6.95% per year, payable quarterly on February 15, May 15, August 15 and November 15 of each year, beginning August 15, 2012. Total proceeds from the issuance of the 2022 Notes, net of underwriting discounts and offering costs, were \$97.0 million.

On March 15, 2013, we issued \$250.0 million 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 \$245.9 million.

On April 7, 2014, we issued \$300.0 million aggregate principal amount of unsecured notes that mature on July 15, 2019 (the “5.00% 2019 Notes”). Included in the issuance is \$45.0 million 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 \$250.8 million.

The 2022 Notes, the 2023 Notes and the 5.00% 2019 Notes (collectively, the “Public Notes”) are direct unsecured obligations and rank equally with all of our unsecured indebtedness from time to time outstanding.

#### 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 \$500.0 million of Prospect Capital InterNotes® (the “InterNotes® Offering”), which was increased to \$1.5 billion 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.

On March 4, 2013, the Company entered into a Second Amended and Restated Selling Agent Agreement (the “Selling Agent Agreement”) with Incapital LLC and Merrill Lynch, Pierce, Fenner & Smith Incorporated, as purchasing agents for the Company’s issuance and sale from time to time of up to \$500 million of Prospect Capital InterNotes® (the “InterNotes® Offering”). The initial Selling Agent Agreement was entered into on February 16, 2012. Citigroup Global Markets Inc. joined the Selling Agent Agreement by the Agent Joinder Letter dated April 15, 2013. Additional agents appointed by us from time to time in connection with the InterNotes Offering may become parties to the Selling Agent Agreement. On August 23, 2013, we amended the Selling Agent Agreement to increase the aggregate principal amount of notes that may be issued from time to time under such agreement from \$500.0 million to \$1.0 billion. These Prospect Capital InterNotes® are and will be the Company’s direct unsecured obligations and will and do rank equally with all of the Company’s unsecured indebtedness from time to time outstanding. Each series of Prospect



Capital InterNotes® will be issued by a separate supplemental indenture. The Prospect Capital InterNotes® bear interest at fixed interest rates and offer a variety of maturities no less than twelve months from the original date of issuance. Since the inception of the InterNotes® Offering, the Company has issued \$430.1 million in aggregate principal amount of Prospect Capital

InterNotes® for net proceeds of approximately \$419.3 million. The Prospect Capital InterNotes® were issued with variable and fixed interest rates ranging from 3.28% to 7.00% with an average rate of 5.63%, and maturities ranging from July 15, 2018 to October 15, 2043. The Prospect Capital InterNotes® may be issued with a Survivor's Option, which is a provision in such Note's supplemental indenture pursuant to which the Company will repay that Note, if requested by the authorized representative of the beneficial owner of that Note, following the death of the beneficial owner of the Note, so long as the Note was owned by that beneficial owner or the estate of that beneficial owner at least six months prior to the request. Each of the Prospect Capital InterNotes® issued thus far includes a Survivor's Option.

Under each indenture governing the Unsecured Notes, there are certain events of default, the occurrence of which may lead to the Unsecured Notes being due and payable immediately. An event of default under an indenture could have a material adverse effect on our business, financial conditions and results of operations.

If the Company undergoes a "fundamental change" as described in the indenture for each of the Convertible Notes or Public Notes, holders may require the Company to repurchase all or part of their Convertible Notes or Public Notes at a price equal to 100% of the principal amount of the Convertible Notes or Public Notes, plus accrued and unpaid interest (including additional interest, if any).

#### Our Investment Objective and Policies

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

We invest primarily in first and second lien secured loans and unsecured debt, which in some cases includes an equity component. First and second lien secured loans generally are senior debt instruments that rank ahead of unsecured debt of a given portfolio company. These loans also have the benefit of security interests on the assets of the portfolio company, which may rank ahead of or be junior to other security interests. Our investments in CLOs are subordinated to senior loans and are generally unsecured. We invest in debt and equity positions of CLOs which are a form of securitization in which the cash flows of a portfolio of loans are pooled and passed on to different classes of owners in various tranches. Our CLO investments are derived from portfolios of corporate debt securities which are generally risk rated from BB to B. Our investments have generally ranged between \$5 million and \$250 million each, although the investment size may be more or less than this range. Our investment sizes are expected to grow as our capital base expands.

We also acquire controlling interests in companies in conjunction with making secured debt investments in such companies. These may be in several industries, including industrial, service, real estate and financial businesses. We seek to maximize returns and minimize risk for our investors by applying rigorous analysis to make and monitor our investments. While the structure of our investments varies, we can invest in senior secured debt, senior unsecured debt, subordinated secured debt, subordinated unsecured debt, convertible debt, convertible preferred equity, preferred equity, common equity, warrants and other instruments, many of which generate current yield. While our primary focus is to seek current income through investment in the debt and/or dividend-paying equity securities of eligible privately-held, thinly-traded or distressed companies and long-term capital appreciation by acquiring accompanying warrants, options or other equity securities of such companies, we may invest up to 30% of the portfolio in opportunistic investments in order to seek enhanced returns for stockholders. Such investments may include investments in the debt and equity instruments of broadly-traded public companies. We expect that these public companies generally will have debt securities that are non-investment grade. Such investments may also include purchases (either in the primary or secondary markets) of the equity and junior debt tranches of a type of such pools known as CLOs. Structurally, CLOs are entities that are formed to hold a portfolio of senior secured loans made to companies whose debt is rated below investment grade or, in limited circumstances, unrated. These securities, which are often referred to as "junk" or "high yield," have predominantly speculative characteristics with respect to the issuer's capacity to pay interest and repay principal. They may also be difficult to value and illiquid. The senior secured loans within a CLO are limited to senior secured loans which meet specified credit and diversity criteria and are subject to concentration limitations in order to create an investment portfolio that is diverse by senior secured loan, borrower, and industry, with limitations on non-U.S. borrowers. Within this 30% basket, we have and may make additional

investments in debt and equity securities of financial companies and companies located outside of the United States. Our investments may include other equity investments, such as warrants, options to buy a minority interest in a portfolio company, or contractual payment rights or rights to receive a proportional interest in the operating cash flow or net income of such company. When determined by the Investment Adviser to be in our best interest, we may acquire a controlling interest in a portfolio company. Any warrants we receive with our debt securities may require only a nominal cost to exercise, and thus, as a portfolio company appreciates in value, we may achieve additional investment return from this equity interest. We have structured, and will continue to structure, some warrants to include provisions protecting our rights as a minority-interest or, if applicable, controlling-

interest holder, as well as puts, or rights to sell such securities back to the company, upon the occurrence of specified events. In many cases, we obtain registration rights in connection with these equity interests, which may include demand and “piggyback” registration rights.

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

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

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

#### Industry Sectors

Our portfolio is invested across 30 industry categories. Excluding our CLO investments, which do not have industry concentrations, no individual industry comprises more than 9.8% of the portfolio on either a cost or fair value basis.

#### Ongoing Relationships with Portfolio Companies

##### Monitoring

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

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

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

##### Investment Valuation

To value our investments, we follow the guidance of ASC 820, Fair Value Measurement (“ASC 820”), that defines fair value, establishes a framework for measuring fair value in conformity with United States generally accepted accounting principles 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 conduct independent valuations and make their own independent assessments;
3. The Audit Committee of our Board of Directors reviews and discusses the preliminary valuation of the Investment Adviser and that of the independent valuation firms; and
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.

Investments are valued utilizing a yield analysis, enterprise value (“EV”) analysis, net asset value analysis, liquidation analysis, discounted cash flow analysis, or a combination of methods, as appropriate. The yield analysis uses loan spreads and other relevant information implied by market data involving identical or comparable assets or liabilities. Under the EV analysis, 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 approach that considers relevant and applicable market trading data of guideline public companies, transaction metrics from precedent M&A transactions and/or a discounted cash flow analysis. The net asset value analysis 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 analysis 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 analysis uses valuation techniques to convert 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 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 fair value pricing 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 ASC 820 Level 3 securities and are valued using a discounted cash flow model. The valuations have been accomplished through the analysis of the CLO deal structures to identify the risk exposures from the modeling point of view. For each CLO security, the most appropriate valuation approach has been chosen from alternative approaches to ensure the most accurate valuation for such security. To value a CLO, both the assets and the liabilities of the CLO capital structure are modeled. We use a waterfall engine to store the collateral data, generate collateral cash flows from the assets based on various assumptions for the risk factors, distribute the cash flows to the liability structure based on the payment priorities, and discount them back using current market discount rates. The main risk factors are: default risk, interest rate risk, downgrade risk, and credit spread risk.

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

to the value of our portfolio investments.”

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#### Valuation of Other Financial Assets and Financial Liabilities

The Fair Value Option within ASC 825, Financial Instruments, specifically ASC 825-10-25, permits an entity to elect fair value as the initial and subsequent measurement attribute for eligible assets and liabilities for which the assets and liabilities are measured using another measurement attribute. For our non-investment assets and liabilities, we have elected not to value them at fair value as would be permitted by ASC 825-10-25.

#### 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 will vary according to the particular needs of each portfolio company. Examples of such activities include advice on marketing, operations, fulfillment and overall strategy, capital budgeting, managing relationships with financing sources, recruiting management personnel, evaluating acquisition and divestiture opportunities, participating in board and management meetings, consulting with and advising officers of portfolio companies, and providing other organizational and financial guidance.

Prospect Administration, through a managerial assistance agreement executed with each portfolio company to which we provide managerial assistance, provides such managerial assistance on our behalf. In doing so, Prospect Administration utilizes personnel of our Investment Adviser, Prospect Capital Management. We, on behalf of Prospect Administration, invoice portfolio companies receiving and paying for managerial assistance, and we remit to Prospect Administration its allocated cost of providing such services, including payments to Prospect Capital Management for personnel it utilizes for that purpose. Our payments to Prospect Administration are periodically reviewed by our Board of Directors.

#### Investment Adviser

Prospect Capital Management manages our investments as the Investment Adviser. Prospect Capital Management is a Delaware limited liability corporation that has been registered as an investment adviser under the Investment Advisers Act of 1940 (the "Advisers Act") since March 31, 2004. Prospect Capital Management is led by John F. Barry III and M. Grier Eliasek, two senior executives with significant investment advisory and business experience. Both Messrs. Barry and Eliasek spend a significant amount of their time in their roles at Prospect Capital Management working on our behalf. The principal executive offices of Prospect Capital Management are 10 East 40th Street, 42nd Floor, New York, NY 10016. We depend on the due diligence, skill and network of business contacts of the senior management of the Investment Adviser. We also depend, to a significant extent, on the Investment Adviser's investment professionals and the information and deal flow generated by those investment professionals in the course of their investment and portfolio management activities. The Investment Adviser's senior management team evaluates, negotiates, structures, closes, monitors and services our investments. Our future success depends to a significant extent on the continued service of the senior management team, particularly John F. Barry III and M. Grier Eliasek. The departure of any of the senior managers of the Investment Adviser could have a materially adverse effect on our ability to achieve our investment objective. In addition, we can offer no assurance that Prospect Capital Management will remain the Investment Adviser or that we will continue to have access to its investment professionals or its information and deal flow. Under the Investment Advisory Agreement (as defined below), we pay Prospect Capital Management investment advisory fees, which consist of an annual base management fee based on our gross assets as well as a two-part incentive fee based on our performance. Mr. Barry currently controls Prospect Capital Management.

#### Staffing

Mr. John F. Barry III, our chairman and chief executive officer, Mr. Grier Eliasek, our chief operating officer and president, and Mr. Brian H. Oswald, our chief financial officer, chief compliance officer, treasurer and secretary, comprise our senior management. Over time, we expect to add additional officers and employees.

Messrs. Barry and Eliasek each also serves as an officer of Prospect Administration and performs his respective functions under the terms of the Administration Agreement. Our day-to-day investment operations are managed by

Prospect Capital Management. In addition, we reimburse Prospect Administration for our allocable portion of expenses incurred by it in performing its obligations under the Administration Agreement, including rent and our allocable portion of the costs of our chief executive officer, president, chief financial officer, chief operating officer, chief compliance officer, treasurer and secretary and their respective staffs. See “Business—Management Services—Administration Agreement.”



#### Properties

We do not own any real estate or other physical properties materially important to our operation. Our corporate headquarters are located at 10 East 40th Street, 42nd Floor, New York, NY 10016, where we occupy an office space pursuant to the Administration Agreement.

#### 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 that may arise out of these investigations, claims and proceedings will be subject to various uncertainties and, even if such matters are without merit, could result in the expenditure of significant financial and managerial resources.

We are not aware of any material pending legal proceeding, and no such material proceedings are contemplated to which we are a party or of which any of our property is subject.

#### Management

Our business and affairs are managed under the direction of our Board of Directors. Our Board of Directors currently consists of five directors, three of whom are not “interested persons” of the Company as defined in Section 2(a)(19) of the 1940 Act. We refer to these individuals as our independent directors. Our Board of Directors elects our officers to serve for a one-year term and until their successors are duly elected and qualify, or until their earlier removal or resignation.

#### Board Of Directors And Executive Officers

Under our charter, our directors are divided into three classes. Directors are elected for a staggered term of three years each, with a term of office of one of the three classes of directors expiring each year. At each annual meeting of our stockholders, the successors to the class of directors whose terms expire at such meeting are elected to hold office for a term expiring at the annual meeting of stockholders held in the third year following the year of their election. Each director holds office for the term to which he or she is elected and until his or her successor is duly elected and qualifies.

#### Directors and Executive Officers

Our directors and executive officers and their positions are set forth below. The address for each director and executive officer is c/o Prospect Capital Corporation, 10 East 40th Street, 42nd Floor, New York, NY 10016.

Independent Directors

Name and Age	Position(s) Held with the Company	Term of Office(1) and Length of Time Served	Principal Occupation(s) During Past 5 Years	Number of Funds in Fund Complex(2) Overseen by Director	Other Directorships Held by Director
William J. Grempe, 71	Director	Class II Director from 2006 to 2009; Class I Director since April 2010; Term expires 2014	Mr. Grempe is responsible for traditional banking services, credit and lending, private equity and corporate cash management with Merrill Lynch & Co. from 1999 to present.	Three	Priority Income Fund, Inc. since October 28, 2012(3), Pathway Energy Infrastructure Fund, Inc. since February 19, 2013(3)
Eugene S. Stark, 56	Director	Class III Director since September 2008; Term expires 2016	Principal Financial Officer, Chief Compliance Officer and Vice President—Administration of General American Investors Company, Inc. from May 2005 to present.	Three	Priority Income Fund, Inc. since October 28, 2012(3), Pathway Energy Infrastructure Fund, Inc. since February 19, 2013(3)
Andrew C. Cooper, 52	Director	Class II Director since February 2009; Term expires 2015	Mr. Cooper is an entrepreneur, who over the last 15 years has founded, built, run and sold three companies. He is Co-Chief Executive Officer of Unison Energy, LLC, a company that develops, owns and operates, distributed combined heat and power co-generation solutions.	Three	Priority Income Fund, Inc. since October 28, 2012(3), Pathway Energy Infrastructure Fund, Inc. since February 19, 2013(3)

(1) Our Board of Directors is divided into three classes of directors serving staggered three-year terms. Mr. Eliasek and Mr. Cooper are Class II directors with terms that will expire in 2015, Mr. Barry and Mr. Stark are Class III directors with terms that will expire in 2016, and Mr. Grempe is a Class I director with a term that will expire in 2014.

(2) The Fund Complex consists of the Company, Prospect Senior Secured Income Fund, Inc. and Pathway Energy Infrastructure Fund, Inc.

(3) An investment company subject to the 1940 Act.

Interested Directors

Name and Age	Position(s) Held with the Company	Term of Office(1) and Length of Time Served	Principal Occupation(s) During Past 5 Years	Number of Funds in Fund Complex(2)	Other Directorships Held by Director
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				Overseen by Director	
John F. Barry III, 62(3)	Director, Chairman of the Board of Directors, and Chief Executive Officer	Class III Director since June 2004; Term expires 2016	Chairman and Chief Executive Officer of the Company; Managing Director of Prospect Capital Management and Prospect Administration since June 2004	One	None
M. Grier Eliasek, 41(3)	Director, Chief Operating Officer	Class II Director since June 2004; Term expires 2015	President and Chief Operating Officer of the Company, Managing Director of Prospect Capital Management and Prospect Administration, President and CEO of Priority Income Fund, Inc., President and COO of Priority Senior Secured Income Management, LLC, President and CEO of Pathway Energy Infrastructure Fund, Inc., President and COO of Pathway Energy Infrastructure Management, LLC.	Three	Priority Income Fund, Inc. since October 28, 2012(4), Pathway Energy Infrastructure Fund, Inc. since February 19, 2013(4)

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- (1) Our Board of Directors is divided into three classes of directors serving staggered three-year terms. Mr. Eliasek and Mr. Cooper are Class II directors with terms that will expire in 2015, Mr. Barry and Mr. Stark are Class III directors with terms that will expire in 2016 and Mr. Grempe is a Class I director with a term that will expire in 2014.
- (2) The Fund Complex consists of the Company, Prospect Income Fund, Inc. and Pathway Energy Infrastructure Fund, Inc.
- (3) Messrs. Barry and Eliasek are each considered an “interested person” under the 1940 Act by virtue of serving as one of our officers and having a relationship with Prospect Capital Management.
- (4) An investment company subject to the 1940 Act.

## Information about Executive Officers who are not Directors

Name and Age	Position(s) Held with the Company	Term of Office and Length of Time Served	Principal Occupation(s) During Past Five Years
Brian H. Oswald, 53	Chief Financial Officer, Chief Compliance Officer, Treasurer and Secretary	November 2008 to present as Chief Financial Officer, Treasurer and Secretary and October 2008 to present as Chief Compliance Officer.	Joined Prospect Administration as Managing Director in June 2008.

## Board Leadership Structure

The Board of Directors believes that the combined position of Chief Executive Officer of the Company and Chairman of the Board of Directors of the Company is a superior model that results in greater efficiency regarding management of the Company, reduced confusion due to the elimination of the need to transfer substantial information quickly and repeatedly between a chief executive officer and chairman, and business advantages to the Company arising from the specialized knowledge acquired from the duties of the dual roles. The need for efficient decision making is particularly acute in the line of business of the Company, whereby multiple factors including market factors, interest rates and innumerable other financial metrics change on an ongoing and daily basis.

The Board of Directors does not currently have a designated lead independent director. Instead, all of the independent directors play an active role on the Board of Directors. The independent directors compose a majority of the Board of Directors, and are closely involved in all material board level deliberations related to the Company. The Board of Directors believes that, with these practices, each independent director has an equal stake in the Board's actions and oversight role and equal accountability to the Company and its stockholders. The Company believes that Eugene Stark acts as the de facto lead independent director, by virtue of his role as an accounting expert and Chairman of the Audit Committee.

## Director Independence

On an annual basis, each member of our Board of Directors is required to complete an independence questionnaire designed to provide information to assist the Board of Directors in determining whether the director is independent. Our Board of Directors has determined that each of our directors, other than Messrs. Barry and Eliasek, is independent under the 1940 Act.

## Role of the Chairman and Chief Executive Officer

As Chairman of the Board of Directors and Chief Executive Officer, Mr. Barry assumes a leading role in mid- and long-term strategic planning and supports major transaction initiatives of the Company. Mr. Barry also manages the day-to-day operations of the Company, with the support of the other executive officers. As Chief Executive Officer, Mr. Barry has general responsibility for the implementation of the policies of the Company, as determined by the Board of Directors, and for the management of the business and affairs of the Company. The Board of Directors has determined that its leadership structure, in which the majority of the directors are not affiliated with the Company, Prospect Capital Management or Prospect Administration, is appropriate in light of the services that Prospect Capital Management and Prospect Administration and their affiliates provide to the Company and the potential conflicts of interest that could arise from these relationships.

## Experience, Qualifications, Attributes and/or Skills that Led to the Board's Conclusion that such Members Should Serve as Director of the Company

The Board believes that, collectively, the directors have balanced and diverse experience, qualifications, attributes and skills, which allow the Board to operate effectively in governing the Company and protecting the interests of its stockholders. Below is a description of the various experiences, qualifications, attributes and/or skills with respect to each director considered by the Board.

## John F. Barry III

The Board benefits from Mr. Barry's years of experience as a lawyer, investment banker, venture capitalist, and private equity investor, and his service on various boards of directors, over the past 35 years. In addition to overseeing the

Company, Mr. Barry has served on the boards of directors of private and public companies, including financial services, financial technology and energy companies. Mr. Barry also managed the Corporate Finance Department of L.F. Rothschild & Company, focusing on private equity and debt financing for energy and other companies, and was a founding member of the project finance group at Merrill Lynch & Co. The Board also benefits from Mr. Barry's past experience as a corporate securities lawyer at Davis Polk & Wardwell, advising energy companies and their commercial and investment bankers. Mr. Barry's service as Chairman and Chief Executive Officer of the Company and as a Managing Director of PCM and Prospect

Administration provides him with a continuously updated understanding of the Company, its operation, and the business and regulatory issues facing the Company.

M. Grier Eliasek

Mr. Eliasek brings to the Board business leadership and experience and knowledge of senior loan, mezzanine, bridge loan, private equity and venture capital investments, as well as a knowledge of diverse management practices. Mr. Eliasek is the President and Chief Operating Officer of the Company and a Managing Director of Prospect Capital Management and Prospect Administration. He is also responsible for leading the origination and assessment of investments for the Company. The Board also benefits from Mr. Eliasek's experience as a consultant with Bain & Company, a global strategy consulting firm, where he managed engagements for companies in several different industries, by providing the Company with unique views on investment and management issues. At Bain & Company, Mr. Eliasek analyzed new lines of businesses, developed market strategies, revamped sales organizations, and improved operational performance for Bain & Company clients. Mr. Eliasek's longstanding service as Director, President and Chief Operating Officer of the Company and as a Managing Director of Prospect Capital Management and Prospect Administration provide him with a specific understanding of the Company, its operation, and the business and regulatory issues facing the Company.

Andrew C. Cooper

Mr. Cooper's over 25 years of experience in venture capital management, venture capital investing and investment banking provides the Board with a wealth of leadership, business investing and financial experience. Mr. Cooper's experience as the co-founder, director and former co-CEO of Unison Site Management LLC, a leading cellular site owner with 2,000 plus cell sites which generate more than \$40 million in annual cash flow, and as co-founder, CFO and VP of business development for Avesta Technologies, an enterprise, information and technology management software company bought by Visual Networks in 2000, provides the Board with the benefit of leadership and experience in finance and management. Mr. Cooper also serves on the board of Brand Asset Digital, Aquatic Energy and the Madison Square Boys and Girls Club of New York. Further, Mr. Cooper's time as a director of CSG Systems, Protection One Alarm, LionBridge Technologies and Weblink Wireless, provides the Board with a wealth of experience and an in-depth understanding of management practices. Mr. Cooper's knowledge of financial and accounting matters qualifies him to serve on the Company's Audit Committee and his independence from the Company, Prospect Capital Management and Prospect Administration enhances his service as a member of the Nominating, Corporate Governance and Compensation Committee.

William J. Grempp

Mr. Grempp brings to the Board a broad and diverse knowledge of business and finance as a result of his career as an investment banker, spanning over 40 years working in corporate finance and originating and executing transactions and advisory assignments for energy and utility related clients. Since 1999, Mr. Grempp has been responsible for traditional banking services, credit and lending, private equity and corporate cash management with Merrill Lynch & Co.. From 1996 to 1999, he served at Wachovia as senior vice president, managing director and co-founder of the utilities and energy investment banking group, responsible for origination, structuring, negotiation and successful completion of transactions utilizing investment banking, capital markets and traditional commercial banking products. From 1990 to 1996, Mr. Grempp was the managing director of global power and project finance at JPMorgan Chase & Co., and from 1970 to 1990, Mr. Grempp was with Merrill Lynch & Co., starting out as an associate in the mergers and acquisitions department, then in 1986 becoming the senior vice president, managing director and head of the regulated industries group. Mr. Grempp's knowledge of financial and accounting matters qualifies him to serve on the Company's Audit Committee and his independence from the Company, Prospect Capital Management and Prospect Administration enhances his service as a member of the Nominating, Corporate Governance and Compensation Committee.

Eugene S. Stark

Mr. Stark brings to the Board over 25 years of experience in directing the financial and administrative functions of investment management organizations. The Board benefits from his broad experience in financial management; SEC reporting and compliance; strategic and financial planning; expense, capital and risk management; fund administration; due diligence; acquisition analysis; and integration activities. Since May 2005, Mr. Stark's position as

the Principal Financial Officer, Chief Compliance Officer and Vice President of Administration at General American Investors Company, Inc., where he is responsible for operations, compliance, and financial functions, allows him to provide the Board with added insight into the management practices of other financial companies. From January to April of 2005, Mr. Stark was the Chief Financial Officer of the Company, prior to which he worked at Prudential Financial, Inc. between 1987 and 2004. His many positions within Prudential include 10 years as Vice President and Fund Treasurer of Prudential Mutual Funds, 4 years as Senior Vice President of Finance of Prudential Investments, and 2 years as Senior Vice President of Finance of Prudential Amenities. Mr. Stark is also a Certified Public Accountant (inactive status). Mr. Stark's knowledge of financial and accounting matters qualifies him to serve

on the Company's Audit Committee and his independence from the Company, Prospect Capital Management and Prospect Administration enhances his service as a member of the Nominating, Corporate Governance and Compensation Committee. Mr. Stark is also a member of Mount Saint Mary Academy's Finance Committee.

#### Means by Which the Board of Directors Supervises Executive Officers

The Board of Directors is regularly informed on developments and issues related to the Company's business, and monitors the activities and responsibilities of the executive officers in various ways.

At each regular meeting of the Board of Directors, the executive officers report to the Board of Directors on developments and important issues. Each of the executive officers, as applicable, also provide regular updates to the members of the Board of Directors regarding the Company's business between the dates of regular meetings of the Board of Directors.

Executive officers and other members of Prospect Capital Management, at the invitation of the Board of Directors, regularly attend portions of meetings of the Board of Directors and its committees to report on the financial results of the Company, its operations, performance and outlook, and on areas of the business within their responsibility, including risk management and management information systems, as well as other business matters.

#### The Board's Role in Risk Oversight

The Company's Board of Directors performs its risk oversight function primarily through (a) its two standing committees, which report to the entire Board of Directors and are comprised solely of independent directors and (b) monitoring by the Company's Chief Compliance Officer in accordance with its compliance policies and procedures.

As set forth in the descriptions regarding the Audit Committee and the Nominating, Governance and Compensation Committee, the Audit Committee and the Nominating, Governance and Compensation Committee assist the Board of Directors in fulfilling its risk oversight responsibilities. The Audit Committee's risk oversight responsibilities include reviewing and discussing with management and the independent accountants the annual audited financial statements of the Company, including disclosures made in management's discussion and analysis; reviewing and discussing with management and the independent accountants the Company's quarterly financial statements prior to the filings of its quarterly reports on Form 10-Q; pre-approving the independent accountants' engagement to render audit and/or permissible non-audit services; and evaluating the qualifications, performance and independence of the independent accountants. The Nominating, Governance and Compensation Committee's risk oversight responsibilities include selecting qualified nominees to be elected to the Board of Directors by stockholders; selecting qualified nominees to fill any vacancies on the Board of Directors or a committee thereof; developing and recommending to the Board of Directors a set of corporate governance principles applicable to the Company; and overseeing the evaluation of the Board of Directors and management. Both the Audit Committee and the Nominating, Governance and Compensation Committee consist solely of independent directors.

The Board of Directors also performs its risk oversight responsibilities with the assistance of the Chief Compliance Officer. The Company's Chief Compliance Officer prepares a written report annually discussing the adequacy and effectiveness of the compliance policies and procedures of the Company and certain of its service providers. The Chief Compliance Officer's report, which is reviewed by the Board of Directors, addresses at a minimum (a) the operation of the compliance policies and procedures of the Company and certain of its service providers since the last report; (b) any material changes to such policies and procedures since the last report; (c) any recommendations for material changes to such policies and procedures as a result of the Chief Compliance Officer's annual review; and (d) any compliance matter that has occurred since the date of the last report about which the Board of Directors would reasonably need to know to oversee the Company's compliance activities and risks. In addition, the Chief Compliance Officer meets separately in executive session with the independent directors at least once each year.

The Company believes that its Board of Director's role in risk oversight is effective and appropriate given the extensive regulation to which it is already subject as a business development company, or BDC, under the 1940 Act. Specifically, as a BDC the Company must comply with certain regulatory requirements that control certain types of risk in its business and operations. For example, the Company's ability to incur indebtedness is limited such that its asset coverage must equal at least 200% immediately after each time it incurs indebtedness, the Company generally has to invest at least 70% of its total assets in "qualifying assets." In addition, the Company elected to be treated as a



regulated investment company, or RIC, under Subchapter M of the Internal Revenue Code, as amended. As a RIC, the Company must, among other things, meet certain income source and asset diversification requirements.

The Company believes that the extent of its Board of Directors' (and its committees') role in risk oversight complements its Board's leadership structure because it allows the Company's independent directors to exercise oversight of risk without any conflict that might discourage critical review through the two fully independent board committees, auditor and independent valuation providers, and otherwise.

The Company believes that a board's roles in risk oversight must be evaluated on a case by case basis and that the Board of Directors' practices concerning risk oversight is appropriate. However, the Company continually re-examines the manners in which the Board administers its oversight function on an ongoing basis to ensure that they continue to meet the Company's needs.

#### Committees of the Board of Directors

Our Board of Directors has established an Audit Committee and a Nominating, Corporate Governance and Compensation Committee. For the fiscal year ended June 30, 2014, our Board of Directors held 15 Board meetings, 10 Audit Committee meetings, and one Nominating, Corporate Governance and Compensation Committee meeting. All directors attended at least 75% of the aggregate number of meetings of the Board and of the respective committees on which they served. We require each director to make a diligent effort to attend all board and committee meetings, as well as each annual meeting of stockholders. Two directors attended last year's annual meeting of stockholders in person.

The Audit Committee. The Audit Committee operates pursuant to a charter approved by the Board of Directors. The charter sets forth the responsibilities of the Audit Committee, which include selecting or retaining each year an independent registered public accounting firm, or independent accountants, to audit the accounts and records of the Company; reviewing and discussing with management and the independent accountants the annual audited financial statements of the Company, including disclosures made in management's discussion and analysis, and recommending to the Board of Directors whether the audited financial statements should be included in the Company's annual report on Form 10 K; reviewing and discussing with management and the independent accountants the Company's quarterly financial statements prior to the filings of its quarterly reports on Form 10 Q; pre approving the independent accountants' engagement to render audit and/or permissible non audit services; and evaluating the qualifications, performance and independence of the independent accountants. The Audit Committee is presently composed of three persons: Messrs. Cooper, Grempe and Stark, each of whom is not an "interested person" as defined in the 1940 Act and is considered independent under applicable NASDAQ rules, with Mr. Stark serving as chairman of the committee. The Board of Directors has determined that Mr. Stark is an "audit committee financial expert" as that term is defined under Item 407 of Regulation S K. The Audit Committee may delegate its pre approval responsibilities to one or more of its members. The member(s) to whom such responsibility is delegated must report, for informational purposes only, any pre approval decisions to the Audit Committee at its next scheduled meeting. Messrs. Cooper, Grempe and Stark were added to the Audit Committee concurrent with their election or appointment to the Board of Directors on February 12, 2009, April 1, 2010 and September 4, 2008, respectively.

The function of the Audit Committee is oversight. Our management is primarily responsible for maintaining appropriate systems for accounting and financial reporting principles and policies and internal controls and procedures that provide for compliance with accounting standards and applicable laws and regulations. The independent accountants are primarily responsible for planning and carrying out a proper audit of our annual financial statements in accordance with generally accepted accounting standards. The independent accountants are accountable to the Board of Directors and the Audit Committee, as representatives of our stockholders. The Board of Directors and the Audit Committee have the ultimate authority and responsibility to select, evaluate and, where appropriate, replace our independent accountants (subject, if applicable, to stockholder ratification).

In fulfilling their responsibilities, it is recognized that members of the Audit Committee are not our full time employees or management and are not, and do not represent themselves to be, accountants or auditors by profession. As such, it is not the duty or the responsibility of the Audit Committee or its members to conduct "field work" or other types of auditing or accounting reviews or procedures, to determine that the financial statements are complete and accurate and are in accordance with generally accepted accounting principles, or to set auditor independence standards. Each member of the Audit Committee shall be entitled to rely on (a) the integrity of those persons within and outside us and management from which it receives information; (b) the accuracy of the financial and other information provided to the Audit Committee absent actual knowledge to the contrary (which shall be promptly reported to the Board of Directors); and (c) statements made by our officers and employees, our investment adviser or other third parties as to any information technology, internal audit and other non audit services provided by the independent accountants to us.

The Nominating, Corporate Governance and Compensation Committee. The Nominating, Corporate Governance and Compensation Committee is responsible for selecting qualified nominees to be elected to the Board of Directors by stockholders; selecting qualified nominees to fill any vacancies on the Board of Directors or a committee thereof; developing and recommending to the Board of Directors a set of corporate governance principles applicable to the Company; overseeing the evaluation of the Board of Directors and management; determining or recommending to the Board of Directors for determination the compensation of any executive officers of the Company to the extent the Company pays any executive officers' compensation; and undertaking such other duties and responsibilities as may from time to time be delegated by the Board of Directors to the Nominating, Corporate Governance and Compensation Committee. Currently, the Company's executive officers do not receive any direct compensation from the Company. The Nominating, Corporate Governance and

Compensation Committee takes into consideration the educational, professional and technical backgrounds and diversity of each nominee when evaluating such nominees to be elected to the Board of Directors. The Nominating, Corporate Governance and Compensation Committee does not have a formal policy with respect to diversity. The Nominating, Corporate Governance and Compensation Committee is presently composed of three persons: Messrs. Cooper, Grempe and Stark, each of whom is not an "interested person" as defined in the 1940 Act and is considered independent under applicable NASDAQ rules, with Mr. Grempe serving as chairman of the committee. Messrs. Cooper, Grempe and Stark were added to the Nominating, Corporate Governance and Compensation Committee concurrent with their election or appointment to the Board of Directors on February 12, 2009, April 1, 2010 and September 4, 2008, respectively.

The Nominating, Corporate Governance and Compensation Committee will consider stockholder recommendations for possible nominees for election as directors when such recommendations are submitted in accordance with the Company's Bylaws and any applicable law, rule or regulation regarding director nominations. Nominations should be sent to the Corporate Secretary c/o Prospect Capital Corporation, 10 East 40th Street, 42nd Floor, New York, New York 10016. When submitting a nomination to the Company for consideration, a stockholder must provide all information that would be required under applicable Commission rules to be disclosed in connection with election of a director, including the following minimum information for each director nominee: full name, age and address; principal occupation during the past five years; current directorships on publicly held companies and investment companies; number of shares of our common stock owned, if any; and, a written consent of the individual to stand for election if nominated by the Board of Directors and to serve if elected by the stockholders. Criteria considered by the Nominating, Corporate Governance and Compensation Committee in evaluating the qualifications of individuals for election as members of the Board of Directors include compliance with the independence and other applicable requirements of the NASDAQ rules and the 1940 Act and all other applicable laws, rules, regulations and listing standards, the criteria, policies and principles set forth in the Nominating, Corporate Governance and Compensation Committee Charter, and the ability to contribute to the effective management of the Company, taking into account our needs and such factors as the individual's experience, perspective, skills, expertise and knowledge of the industries in which the Company operates, personal and professional integrity, character, business judgment, time availability in light of other commitments, dedication, and conflicts of interest. The Nominating, Corporate Governance and Compensation Committee also may consider such other factors as it may deem to be in our best interests and those of our stockholders. The Board of Directors also believes it is appropriate for certain key members of our management to participate as members of the Board of Directors.

#### Corporate Governance

**Corporate Governance Guidelines.** Upon the recommendation of the Nominating, Governance and Compensation Committee, the Board of Directors has adopted Corporate Governance Guidelines on behalf of the Company. These Corporate Governance Guidelines address, among other things, the following key corporate governance topics: director responsibilities; the size, composition, and membership criteria of the Board of Directors; composition and responsibilities of directors serving on committees of the Board of Directors; director access to officers, employees, and independent advisors; director orientation and continuing education; director compensation; and an annual performance evaluation of the Board of Directors.

**Code of Conduct.** We have adopted a code of conduct which applies to, among others, our senior officers, including our Chief Executive Officer and Chief Financial Officer, as well as all of our employees. Our code of conduct can be accessed via our website at [www.prospectstreet.com](http://www.prospectstreet.com). We intend to disclose amendments to or waivers from a required provision of the code of conduct on our website.

**Code of Ethics.** We, Prospect Capital Management and Prospect Administration have each adopted a code of ethics pursuant to Rule 17j-1 under the 1940 Act that establishes procedures for personal investments and restricts certain personal securities transactions. Personnel subject to each code may invest in securities for their personal investment accounts, including securities that may be purchased or held by us, so long as such investments are made in accordance with the code's requirements.

**Internal Reporting and Whistle Blower Protection Policy.** The Company's Audit Committee has established guidelines and procedures regarding the receipt, retention and treatment of complaints regarding accounting, internal

accounting controls or auditing matters, collectively, Accounting Matters, and the confidential, anonymous submission by our employees of concerns regarding questionable accounting or auditing matters. Persons with complaints or concerns regarding Accounting Matters may submit their complaints to our Chief Compliance Officer, or CCO. Persons who are uncomfortable submitting complaints to the CCO, including complaints involving the CCO, may submit complaints directly to our Audit Committee Chairman. Complaints may be submitted on an anonymous basis.

The CCO may be contacted at: Prospect Capital Corporation, Chief Compliance Officer, 10 East 40th Street, 42nd Floor, New York, New York 10016.

The Audit Committee Chairman may be contacted at: Prospect Capital Corporation, Audit Committee Chairman, 10 East 40th Street, 42nd Floor, New York, New York 10016.

#### Independent Directors

The Board of Directors, in connection with the 1940 Act and the applicable Marketplace Rules of NASDAQ, has considered the independence of members of the Board of Directors who are not employed by Prospect Capital Management and has concluded that Messrs. Cooper, Grempe and Stark are not “interested persons” as defined by the 1940 Act and therefore qualify as independent directors under the standards promulgated by the Marketplace Rules of NASDAQ. In reaching this conclusion, the Board of Directors concluded that Messrs. Cooper, Grempe and Stark had no relationships with Prospect Capital Management or any of its affiliates, other than their positions as directors of the Company and, if applicable, investments in us that are on the same terms as those of other stockholders.

#### Proxy Voting Policies And Procedures

We have delegated our proxy voting responsibility to Prospect Capital Management. The guidelines are reviewed periodically by Prospect Capital Management and our non-interested directors, and, accordingly, are subject to change. See “Regulation—Proxy Voting Policies and Procedures.”

#### Compensation of Directors and Officers

The following table sets forth information regarding the compensation received by the directors and executive officers from the Company for the fiscal year ended June 30, 2014. No compensation is paid to the interested directors by the Company.

Name and Position	Aggregate Compensation from the Company	Pension or Retirement Benefits Accrued as Part of the Company’s Expenses(1)	Total Compensation Paid to Director/ Officer
<b>Interested Directors</b>			
John F. Barry III(2)	None	None	None
M. Grier Eliasek(2)	None	None	None
<b>Independent Directors</b>			
Andrew C. Cooper(3)	\$ 108,833	None	\$ 108,833
William J. Grempe(4)	\$ 108,833	None	\$ 108,833
Eugene S. Stark(5)	\$ 108,833	None	\$ 108,833
<b>Executive Officers</b>			
Brian H. Oswald(2)	None	None	None

(1) We do not have a bonus, profit sharing or retirement plan, and directors do not receive any pension or retirement benefits.

We have not paid, and we do not intend to pay, any annual cash compensation to our executive officers for their services as executive officers. Messrs. Barry and Eliasek are compensated by Prospect Capital Management from (2) the income Prospect Capital Management receives under the management agreement between Prospect Capital Management and us. Mr. Oswald is compensated from the income Prospect Administration receives under the administration agreement.

(3) Mr. Cooper joined our Board of Directors on February 12, 2009.

(4) Mr. Grempe joined our Board of Directors on April 1, 2010.

(5) Mr. Stark joined our Board of Directors on September 4, 2008.

No compensation was paid to directors who are interested persons of the Company as defined in 1940 Act. In addition, the Company purchases directors’ and officers’ liability insurance on behalf of the directors and officers.

#### Management Services

#### Investment Advisory Agreement

We have entered into the Investment Advisory Agreement with Prospect Capital Management 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, our 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.

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Prospect Capital Management'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% on our gross assets (including amounts borrowed). For services 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. Base management fees for any partial month or quarter are appropriately prorated. The incentive fee has two parts. The first part, the income incentive fee, which is payable quarterly in arrears, will equal 20% of the excess, if any, of our pre-incentive fee net investment income that exceeds a 1.75% quarterly (7% annualized) hurdle rate, subject to a "catch up" provision measured as of the end of each calendar quarter. In the three months ended June 30, 2014, we paid an incentive fee of \$21.0 million (see calculation below). For this purpose, pre-incentive fee net investment income means interest income, dividend income and any other income (including any other fees (other than fees for providing managerial assistance), such as commitment, origination, structuring, diligence and consulting fees and other fees that we receive from portfolio companies) accrued during the calendar quarter, minus our operating expenses for the quarter (including the base management fee, expenses payable under the Administration Agreement described below, and any interest expense and dividends paid on any issued and outstanding preferred stock, but excluding the incentive fee). Pre-incentive fee net investment income includes, in the case of investments with a deferred interest feature (such as original issue discount, debt instruments with payment in kind interest and zero coupon securities), accrued income that we have not yet received in cash. Pre-incentive fee net investment income does not include any realized capital gains, realized capital losses or unrealized capital appreciation or depreciation. Pre-incentive fee net investment income, expressed as a rate of return on the value of our net assets at the end of the immediately preceding calendar quarter, is compared to a "hurdle rate" of 1.75% per quarter (7% annualized).

We expect the incentive fees we pay to increase to the extent we earn greater interest and dividend income through our investments in portfolio companies and, to a lesser extent, realize capital gains upon the sale of warrants or other equity investments in our portfolio companies and to decrease if our interest and dividend income and capital gains decrease. The "catch-up" provision requires us to pay 100% of our pre-incentive fee net investment income with respect to that portion of such income, if any, that exceeds the hurdle rate but is less than 125% of the quarterly hurdle rate in any calendar quarter (8.75% annualized assuming an annualized hurdle rate of 7%). The catch-up provision is meant to provide Prospect Capital Management with 20% of our pre-incentive fee net investment income as if a hurdle rate did not apply when our pre-incentive fee net investment income exceeds 125% of the quarterly hurdle rate in any calendar quarter (8.75% annualized assuming an annualized hurdle rate of 7%). The income incentive fee will be computed and paid on income that may include interest that is accrued but not yet received in cash. If interest income is accrued but never paid, the Board of Directors would decide to write off the accrual in the quarter when the accrual is determined to be uncollectible. The write off would cause a decrease in interest income for the quarter equal to the amount of the prior accrual. The Investment Adviser is not under any obligation to reimburse us for any part of the incentive fee it received that was based on accrued income that we never receive as a result of a default by an entity on the obligation that resulted in the accrual of such income.

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% 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% 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 out of our participation in the debt, equity, and other financial instruments issued by that company. Aggregate realized capital gains, if any, equals the sum of the differences between the aggregate net sales price of each investment and the aggregate 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 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 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% of such amount, less the aggregate amount of any capital gains incentive fees paid since inception. The actual transfer or sale of assets by Prospect to a SPE established by Prospect and consolidated with Prospect is disregarded for purposes of calculating the incentive fee.

The following is a calculation of the most recently paid incentive fee paid in July 2014 (for the quarter ended June 30, 2014) (in thousands):

Prior Quarter Net Asset Value (adjusted for stock offerings during the quarter)	\$ 3,627,282	
Quarterly Hurdle Rate	1.75	%
Current Quarter Hurdle	\$ 63,477	
125% of the Quarterly Hurdle Rate	2.1875	%
125% of the Current Quarter Hurdle	\$ 79,347	
Current Quarter Pre Incentive Fee Net Investment Income	\$ 105,185	
Incentive Fee—"Catch-Up"	\$ 15,869	
Incentive Fee—20% in excess of 125% of the Current Quarter Hurdle	\$ 5,168	
Total Current Quarter Incentive Fee	\$ 21,037	

The total base management fees earned by and paid to Prospect Capital Management during the twelve months ended June 30, 2014, June 30, 2013 and June 30, 2012 were \$109.0 million, \$69.8 million, and \$35.8 million, respectively. The income incentive fees were \$89.3 million, \$81.2 million and \$46.7 million for the twelve months ended June 30, 2014, June 30, 2013 and June 30, 2012, respectively. No capital gains incentive fees were earned for the twelve months ended June 30, 2014, June 30, 2013 and June 30, 2012.

The total investment advisory fees were \$198.3 million, \$151.0 million and \$82.5 million for the twelve months ended June 30, 2014, June 30, 2013 and June 30, 2012, respectively.

Because of the structure of the incentive fee, it is possible that we may have to pay an incentive fee in a quarter where we incur a loss. For example, if we receive pre-incentive fee net investment income in excess of the hurdle rate for a quarter, we will pay the applicable income incentive fee even if we have incurred negative total return in that quarter due to realized or unrealized losses on our investments.

Examples of Quarterly Incentive Fee Calculation

Example 1: Income Incentive Fee(\*):

Alternative 1

Assumptions

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

Hurdle rate(1) = 1.75%



Base management fee(2) = 0.50%

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

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

(1) Represents 7% annualized hurdle rate

(2) Represents 2% annualized base management fee.

(3) Excludes organizational and offering expenses.

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

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

Alternative 2

Assumptions

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

Hurdle rate(1) = 1.75%

Base management fee(2) = 0.50%

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

(1) Represents 7% annualized hurdle rate

(2) Represents 2% annualized base management fee.

(3) Excludes organizational and offering expenses.

Pre-incentive fee net investment income (investment income - (base management fee + other expenses)) = 2%

Pre-incentive net investment income exceeds hurdle rate, therefore there is an income incentive fee payable by us to our Investment Adviser.

Income incentive Fee

$$\begin{aligned}
 &= 100\% \times \text{"Catch Up"} + \text{the greater of } 0\% \text{ AND } (20\% \times (\text{pre-incentive fee net} \\
 &\text{investment income} - 2.1875)\%) \\
 &= (100\% \times (2\% - 1.75\%)) + 0\% \\
 &= 100\% \times 0.25\% + 0\% = 0.25\%
 \end{aligned}$$

Alternative 3

Assumptions

Investment income (including interest, dividends, fees, etc.) = 3%

Hurdle rate(1) = 1.75%

Base management fee(2) = 0.50%

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

(1) Represents 7% annualized hurdle rate.

(2) Represents 2% annualized base management fee.

(3) Excludes organizational and offering expenses.

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

Pre-incentive net investment income exceeds hurdle rate, therefore there is an income incentive fee payable by us to our Investment Adviser.

Income incentive Fee

$$= 100\% \times \text{“Catch Up”} + \text{the greater of } 0\% \text{ AND } (20\% \times (\text{pre-incentive fee net}))\text{investment income} - 2.1875\%$$

$$= (100\% \times (2.1875\% - 1.75\%)) + \text{the greater of } 0\% \text{ AND } (20\% \times (2.30\% - 2.1875\%))$$

$$= (100\% \times 0.4375\%) + (20\% \times 0.1125\%)$$

$$= 0.4375\% + 0.0225\%$$

$$= 0.46\%$$

Example 2: Capital Gains Incentive Fee:

Alternative 1

Assumptions

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

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

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

Alternative 2

Assumptions

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

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

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

Alternative 3

Assumptions

- Year 1: \$20 million investment made in company A, or Investment A, and \$20 million investment made in company B, or Investment B
- Year 2: FMV of Investment A is determined to be \$21 million, and Investment B is sold for \$18 million
- Year 3: Investment A is sold for \$23 million

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

- Year 1: No impact



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

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

Alternative 4

Assumptions

Year 1: \$20 million investment made in company A, or Investment A, and \$20 million investment made in company B, or Investment B

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

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

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

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

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

Year 1: No impact

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

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

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

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

Payment of our expenses

All investment professionals of the Investment Adviser and its staff, when and to the extent engaged in providing investment advisory and management services, and the compensation and routine overhead expenses of such personnel allocable to such services, will be provided and paid for by the Investment Adviser. We bear all other costs and expenses of our operations and transactions, including those relating to: organization and offering; calculation of our net asset value (including the cost and expenses of any independent valuation firms); expenses incurred by Prospect Capital Management payable to third parties, including agents, consultants or other advisers (such as independent valuation firms, accountants and legal counsel), in monitoring our financial and legal affairs and in monitoring our investments and performing due diligence on our prospective portfolio companies; interest payable on debt, if any, and dividends payable on preferred stock, if any, incurred to finance our investments; offerings of our debt, our preferred shares, our common stock and other securities; investment advisory fees; fees payable to third parties, including agents, consultants or other advisors, relating to, or associated with, evaluating and making investments; transfer agent and custodial fees; registration fees; listing fees; taxes; independent directors' fees and expenses; costs of preparing and filing reports or other documents with the SEC; the costs of any reports, proxy statements or other notices to stockholders, including printing costs; our allocable portion of the fidelity bond, directors and officers/errors and omissions liability insurance, and any other insurance premiums; direct costs and expenses of administration, including auditor and legal costs; and all other expenses incurred by us, by our Investment Adviser or by Prospect Administration in connection with administering our business, such as our allocable portion of overhead under the Administration Agreement, including rent and our allocable portion of the costs of our chief compliance officer and chief financial officer and his staff, including the internal legal staff.

Duration and Termination

The Investment Advisory Agreement was originally approved by our Board of Directors on June 23, 2004 and was recently re-approved by the Board of Directors on May 5, 2014 for an additional one-year term expiring June 22, 2015. Unless terminated earlier as described below, it will remain in effect from year to year thereafter if approved annually by our Board of Directors or by the affirmative vote of the holders of a majority of our outstanding voting securities, including, in either case, approval by a majority of our directors who are not interested persons. The Investment Advisory Agreement will automatically



terminate in the event of its assignment. The Investment Advisory Agreement may be terminated by either party without penalty upon not more than 60 days' written notice to the other. See "Risk Factors—Risks Relating to Our Business—We are dependent upon Prospect Capital Management's key management personnel for our future success." Administration Agreement

We have also entered into an Administration Agreement with Prospect Administration LLC ("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. For the years ended June 30, 2014, 2013 and 2012, the reimbursement was approximately \$14.4 million, \$8.7 million and \$6.8 million, respectively. 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" below). After identifying those whole and partial portions of its internal and external costs and expenses incurred by Prospect Administration to provide administrative services to us or our portfolio companies (e.g., personnel (compensation and overhead), infrastructure, vendors, etc.) and that are reimbursable under the Administration Agreement, Prospect Administration allocates to us all such costs and expenses not previously reimbursed to Prospect Administration by us or our portfolio companies. Our payments to Prospect Administration for these allocated costs and expenses are periodically reviewed by our Board of Directors, which oversees the allocation of the foregoing costs and expenses. The Administration Agreement may be terminated by either party without penalty upon 60 days' written notice to the other party. Prospect Administration is a subsidiary of the Investment Adviser.

During the years ended June 30, 2014, 2013 and 2012, Prospect Administration received payments of \$7.6 million, \$1.4 million and \$1.1 million directly from our controlled portfolio companies for legal, tax and portfolio level accounting services. 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.

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.

#### Indemnification

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

Board of Directors approval of the Investment Advisory Agreement

On May 5, 2014, our Board of Directors voted unanimously to renew the Investment Advisory Agreement for the 12-month period ending June 22, 2015. In its consideration of the Investment Advisory Agreement, the Board of Directors focused

on information it had received relating to, among other things: (a) the nature, quality and extent of the advisory and other services to be provided to us by Prospect Capital Management; (b) comparative data with respect to advisory fees or expense ratios paid by other business development companies with similar investment objectives; (c) our projected operating expenses; (d) the projected profitability of Prospect Capital Management and any existing and potential sources of indirect income to Prospect Capital Management or Prospect Administration from their relationships with us and the profitability of those relationships; (e) information about the services to be performed and the personnel performing such services under the Investment Advisory Agreement; (f) the organizational capability and financial condition of Prospect Capital Management and its affiliates and (g) the possibility of obtaining similar services from other third party service providers or through an internally managed structure. In approving the renewal of the Investment

Advisory Agreement, the Board of Directors, including all of the directors who are not “interested persons,” considered the following:

**Nature, Quality and Extent of Services.** The Board of Directors considered the nature, extent and quality of the investment selection process employed by Prospect Capital Management. The Board of Directors also considered Prospect Capital Management’s personnel and their prior experience in connection with the types of investments made by us. The Board of Directors concluded that the services to be provided under the Investment Advisory Agreement are generally the same as those of comparable business development companies described in the available market data.

**Investment Performance.** The Board of Directors reviewed our investment performance as well as comparative data with respect to the investment performance of other externally managed business development companies. The Board of Directors concluded that Prospect Capital Management was delivering results consistent with our investment objective and that our investment performance was satisfactory when compared to comparable business development companies.

**The reasonableness of the fees paid to Prospect Capital Management.** The Board of Directors considered comparative data based on publicly available information on other business development companies with respect to services rendered and the advisory fees (including the management fees and incentive fees) of other business development companies as well as our projected operating expenses and expense ratio compared to other business development companies. The Board of Directors, on behalf of the Company, also considered the profitability of Prospect Capital Management. Based upon its review, the Board of Directors concluded that the fees to be paid under the Investment Advisory Agreement are reasonable compared to other business development companies.

**Economies of Scale.** The Board of Directors considered information about the potential of Prospect Capital Management to realize economies of scale in managing our assets, and determined that at this time there were not economies of scale to be realized by Prospect Capital Management.

Based on the information reviewed and the discussions detailed above, the Board of Directors (including all of the directors who are not “interested persons”) concluded that the investment advisory fee rates and terms are fair and reasonable in relation to the services provided and approved the renewal of the Investment Advisory Agreement with Prospect Capital Management as being in the best interests of the Company and its stockholders.

#### Portfolio Managers

The following individuals function as portfolio managers primarily responsible for the day-to-day management of our portfolio. Our portfolio managers are not responsible for day-to-day management of any other accounts. For a description of their principal occupations for the past five years, see above.

Name	Position	Length of Service with Company (Years)
John F. Barry III	Chairman and Chief Executive Officer	10
M. Grier Eliasek	President and Chief Operating Officer	10

Mr. Eliasek receives no compensation from the Company. Mr. Eliasek receives a salary and bonus from Prospect Capital Management that takes into account his role as a senior officer of the Company and of Prospect Capital Management, his performance and the performance of each of Prospect Capital Management and the Company. Mr. Barry receives no compensation from the Company. Mr. Barry, as the sole member of Prospect Capital

Management, receives a salary and/or bonus from Prospect Capital Management and is entitled to equity distributions after all other obligations of Prospect Capital Management are met.

The following table sets forth the dollar range of our common stock beneficially owned by each of the portfolio managers described above as of June 30, 2014.

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Name	Aggregate Dollar Range of Common Stock Beneficially Owned by Prospect Capital Management
John F. Barry III	Over \$100,000
M. Grier Eliasek	Over \$100,000

#### 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 will vary according to the particular needs of each portfolio company. Examples of such activities include advice on marketing, operations, fulfillment and overall strategy, capital budgeting, managing relationships with financing sources, recruiting management personnel, evaluating acquisition and divestiture opportunities, participating in board and management meetings, consulting with and advising officers of portfolio companies, and providing other organizational and financial guidance.

Prospect Administration, through a managerial assistance agreement executed with each portfolio company to which we provide managerial assistance, provides such managerial assistance on our behalf. In doing so, Prospect Administration utilizes personnel of our Investment Adviser, Prospect Capital Management. We, on behalf of Prospect Administration, invoice portfolio companies receiving and paying for managerial assistance, and we remit to Prospect Administration its allocated cost of providing such services, including payments to Prospect Capital Management for personnel it utilizes for that purpose. Our payments to Prospect Administration are periodically reviewed by our Board of Directors.

During the years ended June 30, 2014, 2013 and 2012, we received payments of \$7.5 million, \$5.4 million and \$1.8 million, respectively, from our portfolio companies for managerial assistance and subsequently remitted these amounts to Prospect Administration.

#### License Agreement

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

#### CERTAIN RELATIONSHIPS AND TRANSACTIONS

We have entered into the Investment Advisory Agreement with Prospect Capital Management. Our Chairman of the Board of Directors is the sole member of and controls Prospect Capital Management. Our senior management may in the future also serve as principals of other investment managers affiliated with Prospect Capital Management that may in the future manage investment funds with investment objectives similar to ours. In addition, our executive officers and directors and the principals of Prospect Capital Management may serve as officers, directors or principals of entities that operate in the same or related lines of business as we do or of investment funds managed by affiliates. Accordingly, we may not be given the opportunity to participate in certain investments made by investment funds managed by advisers affiliated with Prospect Capital Management. However, our Investment Adviser and other members of the affiliated present and predecessor companies of Prospect Capital Management intend to allocate investment opportunities in a fair and equitable manner consistent with our investment objectives and strategies so that we are not disadvantaged in relation to any other client. See “Risk Factors—Risks Relating To Our Business—Potential conflicts of interest could impact our investment returns” and “Risk Factors—Risks Relating To Our Securities—Our ability to enter into transactions with our affiliates is restricted.”

In addition, pursuant to the terms of the Administration Agreement, Prospect Administration provides, or arranges to provide, the Company with the office facilities and administrative services necessary to conduct our day-to-day

operations. Prospect Capital Management is the sole member of and controls Prospect Administration.

**CONTROL PERSONS AND PRINCIPAL STOCKHOLDERS**

As of October 31, 2014, there were no persons that owned 25% or more of our outstanding voting securities, and we believe no person should be deemed to control us, as such term is defined in the 1940 Act.

The following table sets forth, as of October 31, 2014, certain ownership information with respect to our common stock for those persons who directly or indirectly own, control or hold with the power to vote, 5% or more of our outstanding common stock and all officers and directors, as a group. Unless otherwise indicated, we believe that the beneficial owners set forth in the tables below have sole voting and investment power.

Name and Address of Beneficial Owner	Number of Shares Beneficially Owned	Percentage of Class(1)
5% or more holders		
None		
Executive officers and directors as a group	4,788,229	1.4 %

Based on a total of 352,597,291 shares of our common stock issued and outstanding as of October 31, (1)2014, including sales of shares under our at-the-market offering program which will settle through November 3, 2014.

The following table sets forth the dollar range of our equity securities beneficially owned by each of our directors and officers as of June 30, 2014. We are not part of a “family of investment companies” as that term is defined in the 1940 Act.

Name of Director or Officer	Dollar Range of Equity Securities in the Company(1)
Independent Directors	
William J. Grempe	\$10,001 - \$50,000
Andrew C. Cooper	None
Eugene S. Stark	Over \$100,000
Interested Directors	
John F. Barry III(2)	Over \$100,000
M. Grier Eliasek	Over \$100,000
Officer	
Brian H. Oswald	Over \$100,000

(1)Dollar ranges are as follows: none, \$1-\$10,000, \$10,001-\$50,000, \$50,001-\$100,000 or over \$100,000.

Represents an indirect beneficial ownership in shares of our common stock, that are beneficially owned directly by (2)Prospect Capital Management, by reason of Mr. Barry’s position as a control person of Prospect Capital Management.

## PORTFOLIO COMPANIES

The following is a listing of our portfolio companies at June 30, 2014. Values are as of June 30, 2014.

The portfolio companies are presented in three categories: “companies more than 25% owned” are portfolio companies in which Prospect directly or indirectly owns more than 25% of the outstanding voting securities of such portfolio company and, therefore, such portfolio company is presumed to be controlled by us under the 1940 Act; “companies owned 5% to 25%” are portfolio companies where Prospect directly or indirectly owns 5% to 25% of the outstanding voting securities of such portfolio company and/or holds one or more seats on the portfolio company’s Board of Directors and, therefore, such portfolio company is deemed to be an affiliated person with us under the 1940 Act; “companies less than 5% owned” are portfolio companies where Prospect directly or indirectly owns less than 5% of the outstanding voting securities of such portfolio company and where it has no other affiliations with such portfolio company. As of June 30, 2014, Prospect owned controlling interests in AMU Holdings Inc.; APH Property Holdings, LLC; Arctic Oilfield Equipment USA, Inc.; ARRM Services, Inc. (f/k/a ARRM Holdings Inc.); AWC, LLC; BXC Company, Inc. (f/k/a BXC Holding Company); CCPI Holdings Inc.; CP Holdings of Delaware LLC; Credit Central Holdings of Delaware, LLC; Echelon Aviation LLC; Energy Solutions Holdings Inc. (f/k/a Gas Solutions Holdings, Inc.); First Tower Holdings of Delaware LLC; Gulf Coast Machine & Supply Company; Harbortouch Holdings of Delaware Inc.; The Healing Staff, Inc.; Manx Energy, Inc.; MITY Holdings of Delaware Inc.; Nationwide Acceptance Holdings LLC; NMMB Holdings, Inc.; NPH Property Holdings, LLC; R-V Industries, Inc.; STI Holding, Inc.; UPH Property Holdings, LLC; Valley Electric Holdings I, Inc.; and Wolf Energy Holdings Inc. We also own an affiliated interest in BNN Holdings Corp. (f/k/a Biotronic NeuroNetwork). Prospect makes available significant managerial assistance to its portfolio companies. Prospect generally requests and may receive rights to observe the meetings of its portfolio companies’ Boards of Directors.

Portfolio Company	Nature of its Principal Business (Location)	Title and Class of Securities Held	Collateral Held	% of Class Held	Fair Value (Equity) (in thousands)	Fair Value (Debt) (in thousands)
Companies more than 25% owned						
AMU Holdings Inc.	Property Management (Pennsylvania)	Senior Secured Term Loan A to Airmall Inc. (12.00% (LIBOR + 9.00% with 3.00% LIBOR floor), due 6/30/2015)	First priority lien			27,587
		Senior Secured Term Loan B to Airmall Inc. (12.00% plus 6.00% PIK, due 12/31/2015)	First priority lien			17,697
		Series A Preferred Stock of AMU Holdings Inc. (9,919.684 shares)		100.00%	—	
		Common Stock of AMU Holdings Inc. (100 shares)		100.00%	—	
APH Property Holdings, LLC	Real Estate (Florida)	Senior Term Loan to American Property REIT Corp. (6.00% (LIBOR + 4.00% with 2.00% LIBOR floor) plus 5.50% PIK, due 4/1/2019)	First priority lien			167,743
		Membership Interest in APH Property Holdings, LLC		100.00%	38,416	
Arctic Oilfield Equipment	Oil & Gas Production	Senior Secured Term Loan to Arctic Energy Services, LLC	First priority lien			31,640



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USA, Inc.	(Wyoming)	(12.00% (LIBOR + 9.00% with 3.00% LIBOR floor), due 5/5/2019)		
		Senior Subordinated Term Loan to Arctic Energy Services, LLC (14.00% (LIBOR + 11.00% with 3.00% LIBOR floor), due 5/5/2019)	Second priority lien	20,230
		Common Stock of Arctic Oilfield Equipment USA, Inc. (100 shares)	100.00%	9,244
		Senior Secured Note to Ajax Rolled Ring & Machine, LLC (10.50% (LIBOR + 7.50% with 3.00% LIBOR floor), due 3/30/2018)	First priority lien	19,337
ARRM Services, Inc. (f/k/a ARRM Holdings Inc.)	Manufacturing (South Carolina)	Series B Preferred Stock of ARRM Services, Inc. (25,000 shares)	100.00%	6,199
		Series A Convertible Preferred Stock of ARRM Services, Inc. (6,142.60 shares)	85.76%	—
		Common Stock of ARRM Services, Inc. (6.00 shares)	2.09%	—

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Portfolio Company	Nature of its Principal Business (Location)	Title and Class of Securities Held	Collateral Held	% of Class Held	Fair Value (Equity) (in thousands)	Fair Value (Debt) (in thousands)
AWC, LLC	Machinery (North Carolina)	Members Units – Class A (1,800,000 units)			—	
		Members Units – Class B-1 (1 unit)			—	
		Members Units – Class B-2 (7,999,999 units)			—	
		Senior Secured Term Loan A to Boxercraft Incorporated (10.00% plus 1.00% PIK, in non-accrual status effective 1/1/2014, due 9/15/2015)	First priority lien		—	1,629
		Senior Secured Term Loan B to Boxercraft Incorporated (10.00% plus 1.00% PIK, in non-accrual status effective 1/1/2014, due 9/15/2015)	First priority lien		—	486
BXC Company, Inc. (f/k/a BXC Holding Company)	Textiles, Apparel & Luxury Goods (Georgia)	Senior Secured Term Loan C to Boxercraft Incorporated (10.00% plus 1.00% PIK, in non-accrual status effective 1/1/2014, due 9/15/2015)	First priority lien		—	—
		Senior Secured Term Loan D to Boxercraft Incorporated (10.00% plus 1.00% PIK, in non-accrual status effective 4/18/2014, due 9/15/2015)	First priority lien		—	—
		Senior Secured Term Loan to Boxercraft Incorporated (10.00% plus 1.00% PIK, in non-accrual status effective 1/1/2014, due 9/15/2015)	First priority lien		—	—
		Series A Preferred Stock of BXC Company, Inc. (12,520,000 shares)		86.68%	—	—
		Series B Preferred Stock of BXC Company, Inc. (2,400,000 shares)		96.80%	—	—
		Common Stock of BXC Company, Inc. (138,250 shares)		83.10%	—	—
		Warrant (to purchase 15% of all classes of equity of BXC Company, Inc., expires 8/31/2022)			—	—

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		Senior Secured Term Loan A to CCPI Inc. (10.00%, due 12/31/2017)	First priority lien	17,213
CCPI Holdings Inc.	Manufacturing (Ohio)	Senior Secured Term Loan B to CCPI Inc. (12.00% plus 7.00% PIK, due 12/31/2017)	First priority lien	8,245
		Common Stock of CCPI Holdings Inc. (100 shares)	100.00%	7,136
		Senior Secured Term Loan A to CP Well Testing, LLC (7.00% (LIBOR + 5.00% with 2.00% LIBOR floor), due 4/1/2019)	First priority lien	11,035
CP Holdings of Delaware LLC	Oil & Gas Production (Oklahoma)	Senior Secured Term Loan B to CP Well Testing, LLC (10.00% (LIBOR + 8.00% with 2.00% LIBOR floor) plus 7.50% PIK, due 4/1/2019)	First priority lien	72,238
		Second Lien Term Loan to CP Well Testing, LLC (9.00% (LIBOR + 7.00% with 2.00% LIBOR floor) plus 9.00% PIK, due 4/1/2019)	Second priority lien	15,000
		Membership Interest in CP Holdings of Delaware LLC	100.00%	31,846
Credit Central Holdings of Delaware, LLC(1)	Consumer Finance (Ohio)	Subordinated Term Loan to Credit Central Loan Company, LLC (10.00% plus 10.00% PIK, due 6/26/2019)	Second priority lien	36,333
		Membership Interest in Credit Central Holdings of Delaware, LLC	100.00%	14,099
Echelon Aviation LLC	Aerospace & Defense (New York)	Senior Secured Revolving Credit Facility to Echelon Aviation LLC – \$150,000 Commitment (11.75% (LIBOR + 9.75% with 2.00% LIBOR floor) plus 2.25% PIK, due 3/31/2022)	First priority lien	78,521
		Membership Interest in Echelon Aviation LLC	100.00%	14,107

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Portfolio Company	Nature of its Principal Business (Location)	Title and Class of Securities Held	Collateral Held	% of Class Held	Fair Value (Equity) (in thousands)	Fair Value (Debt) (in thousands)
Energy Solutions Holdings Inc.	Energy (Texas)	Senior Secured Note to Vessel Company, LLC (18.00%, due 12/12/2016)	First priority lien			3,500
		Senior Secured Note to Vessel Company II, LLC (13.00%, due 11/25/2018)	First priority lien			12,504
		Senior Secured Note to Vessel Company III, LLC (13.00%, due 12/3/2018)	First priority lien			16,000
		Senior Secured Note to Yatesville Coal Company, LLC (in non-accrual status effective 1/1/2009, past due)	First priority lien			—
		Common Stock of Energy Solutions Holdings Inc. (100 shares)			100.00%	—
First Tower Holdings of Delaware LLC(1)	Consumer Finance (Mississippi)	Subordinated Term Loan to First Tower, LLC (10.00% plus 7.00% PIK, due 6/24/2019)	Second priority lien			251,246
		Membership Interest in First Tower Holdings of Delaware LLC			100.00%	75,539
Gulf Coast Machine & Supply Company	Manufacturing (Texas)	Senior Secured Term Loan to Gulf Coast Machine & Supply Company (10.50% (LIBOR + 8.50% with 2.00% LIBOR floor) plus 2.00% default interest on principal, due 10/12/2017)	First priority lien			14,459
		Series A Convertible Preferred Stock of Gulf Coast Machine & Supply Company (99,900 shares)			100.00%	—
Harbortouch Holdings of Delaware Inc.	Business Services (Pennsylvania)	Senior Secured Term Loan A to Harbortouch Payments, LLC (9.00% (LIBOR + 7.00% with 2.00% LIBOR floor), due 9/30/2017)	First priority lien			130,796
		Senior Secured Term Loan B to Harbortouch Payments, LLC (5.50% (LIBOR + 4.00% with 1.50% LIBOR floor) plus 5.50% PIK, due 3/31/2018)	First priority lien			137,226

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		Common Stock of Harbortouch Holdings of Delaware Inc. (100 share)	100.00%	23,292	
		Secured Promissory Notes to The Healing Staff, Inc. and Vets Securing America, Inc. (15.00%, in non-accrual status effective 12/22/2010, past due)			First priority lien —
The Healing Staff, Inc.	Contracting (North Carolina)	Senior Demand Note to The Healing Staff, Inc. (15.00%, in non-accrual status effective 11/1/2010, past due)			First priority lien —
		Common Stock of The Healing Staff, Inc. (1,000 shares)	100.00%	—	
		Common Stock of Vets Securing America, Inc. (1 share)	100.00%	—	
		Senior Secured Note to Manx Energy, Inc. (13.00%, in non-accrual status effective 1/19/2010, past due)			First priority lien —
Manx Energy, Inc.	Oil & Gas Production (Kansas)	Series A-1 Preferred Stock of Manx Energy, Inc. (6,635 shares)	75.96%	—	
		Common Stock of Manx Energy, Inc. (17,082 shares)	0.40%	—	
		Revolving Line of Credit to MITY, Inc. – \$7,500 Commitment (9.50% (LIBOR + 7.00% with 2.50% LIBOR floor), due 12/23/2014)			First priority lien —
MITY Holdings of Delaware Inc.	Durable Consumer Products (Utah)	Senior Secured Note A to MITY, Inc. (10.00% (LIBOR + 7.00% with 3.00% LIBOR floor), due 3/19/2019)			First priority lien 18,250
		Senior Secured Note B to MITY, Inc. (10.00% (LIBOR + 7.00% with 3.00% LIBOR floor) plus 10.00% PIK, due 3/19/2019)			First priority lien 15,769
		Common Stock of MITY Holdings of Delaware Inc. (100 shares)	100.00%	15,270	

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Portfolio Company	Nature of its Principal Business (Location)	Title and Class of Securities Held	Collateral Held	% of Class Held	Fair Value (Equity) (in thousands)	Fair Value (Debt) (in thousands)
Nationwide Acceptance Holdings LLC(1)	Consumer Finance (Illinois)	Subordinated Term Loan to Nationwide Acceptance LLC (10.00% plus 10.00% PIK, due 6/18/2019)	Second priority lien			14,820
		Membership Interest in Nationwide Acceptance Holdings LLC		100.00%	15,103	
		Senior Secured Note to NMMB, Inc. (14.00%, due 5/6/2016)	First priority lien			2,183
NMMB Holdings, Inc.	Media (New York)	Senior Secured Note to Armed Forces Communications, Inc. (14.00%, due 5/6/2016)	First priority lien			4,114
		Series B Convertible Preferred Stock of NMMB Holdings, Inc. (8,086 shares)		100.00%	—	
		Series A Preferred Stock of NMMB Holdings, Inc. (4,400 shares)		100.00%	—	
NPH Property Holdings, LLC	Real Estate (Texas)	Senior Term Loan to National Property REIT Corp. (6.00% (LIBOR + 4.00% with 2.00% LIBOR floor) plus 5.50% PIK, due 4/1/2019)	First priority lien			105,309
		Membership Interest in NPH Property Holdings, LLC		100.00%	19,202	
		Senior Subordinated Note to R-V Industries, Inc. (10.00% (LIBOR + 9.00% with 1.00% LIBOR floor), due 6/12/2018)	Second priority lien			30,411
R-V Industries, Inc.	Manufacturing (Pennsylvania)	Common Stock of R-V Industries, Inc. (545,107 shares)		84.62%	19,989	
		Warrant (to purchase 200,000 shares of Common Stock of R-V Industries, expires 6/30/2017)			7,334	
		Revolving Line of Credit to Borga, Inc. – \$1,150 Commitment (5.00% (PRIME + 1.75%), in non-accrual status effective 3/2/2010, past due)	First priority lien			436
						—
STI Holding, Inc.	Manufacturing (California)					406

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		Senior Secured Term Loan B to Borga, Inc. (8.50% (PRIME + 5.25%), in non-accrual status effective 3/2/2010, past due)	First priority lien	—
		Senior Secured Term Loan C to Borga, Inc. (12.00% plus 4.00% PIK, in non-accrual status effective 3/2/2010, past due)	First priority lien	—
		Common Stock of STI Holding, Inc. (100 shares)		100.00% —
		Warrant (to purchase 33,750 shares of Common Stock of Borga, Inc., expires 5/6/2015)		—
UPH Property Holdings, LLC	Real Estate (Georgia)	Senior Term Loan to United Property REIT Corp. (6.00% (LIBOR + 4.00% with 2.00% LIBOR floor) plus 5.50% PIK, due 4/1/2019)	First priority lien	19,027
		Membership Interest in UPH Property Holdings, LLC		100.00% 5,539
		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 12/31/2017)	First priority lien	10,081
Valley Electric Holdings I, Inc.	Construction & Engineering (Washington)	Senior Secured Note to Valley Electric Company, Inc. (10.00% plus 8.5% PIK, due 12/31/2018)	First priority lien	20,500
		Common Stock of Valley Electric Holdings I, Inc. (100 shares)		100.00% 2,975

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Portfolio Company	Nature of its Principal Business (Location)	Title and Class of Securities Held	Collateral Held	% of Class Held	Fair Value (Equity) (in thousands)	Fair Value (Debt) (in thousands)
Wolf Energy Holdings Inc.	Oil & Gas Production (Kansas)	Senior Secured Promissory Note to Wolf Energy, LLC secured by assets formerly owned by H&M (18.00%, in non-accrual status effective 4/15/2013, due 4/15/2018)	First priority lien			3,386
		Senior Secured Note to Appalachian Energy LLC (8.00%, in non-accrual status effective 1/19/2010, past due)	First priority lien			—
		Senior Secured Note to Appalachian Energy LLC (8.00%, in non-accrual status, past due)	First priority lien			—
		Senior Secured Note to Coalbed, LLC (8.00%, in non-accrual status effective 1/19/2010, past due)	First priority lien			—
		Common Stock of Wolf Energy Holdings Inc. (100 shares)		100.00%		—
		Net Profits Interest in Wolf Energy, LLC (8% of Equity Distributions)				213
Companies 5% to 25% owned						
BNN Holdings Corp. (f/k/a Biotronic NeuroNetwork)	Healthcare (Michigan)	Senior Secured Note (10.00% (LIBOR + 8.00% with 2.00% LIBOR floor), due 12/17/2017)	First priority lien			28,950
		Series A Preferred Stock (9,925.455 shares)		11.68%	3,171	
		Series B Preferred Stock (1,753.636 shares)		9.98%	—	
Companies less than 5% owned						
Aderant North America, Inc.	Software & Computer Services (Georgia)	Second Lien Term Loan (10.00% (LIBOR + 8.75% with 1.25% LIBOR floor), due 6/20/2019)	Second priority lien			7,000
Aircraft Fasteners International, LLC	Machinery (California)	Class A Units (32,500 units)		5.00%	505	
ALG USA Holdings, LLC	Hotels, Restaurants & Leisure	Second Lien Term Loan (10.25% (LIBOR + 9.00%	Second priority lien			12,000



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	(Pennsylvania)	with 1.25% LIBOR floor), due 2/28/2020)			
Allied Defense Group, Inc.	Aerospace & Defense (Virginia)	Common Stock (10,000 shares)	0.12%	—	
American Broadband Holding Company and Cameron Holdings of NC, Inc.	Telecommunication Services (North Carolina)	Senior Secured Term Loan B (11.00% (LIBOR + 9.75% with 1.25% LIBOR floor), due 9/30/2018)			74,654
American Gilsonite Company	Metal Services & Minerals (Utah)	Second Lien Term Loan (11.50%, due 9/1/2017) Membership Interest		Second priority lien 2.59%	3,477 38,500
Apidos CLO IX(1)	Diversified Financial Services (Cayman Islands)	Subordinated Notes (Residual Interest)	52.73%		19,903
Apidos CLO XI(1)	Diversified Financial Services (Cayman Islands)	Subordinated Notes (Residual Interest)	90.00%		37,087
Apidos CLO XII(1)	Diversified Financial Services (Cayman Islands)	Subordinated Notes (Residual Interest)	95.27%		42,499
Apidos CLO XV(1)	Diversified Financial Services (Cayman Islands)	Subordinated Notes (Residual Interest)	83.56%		36,715
Arctic Glacier U.S.A., Inc.	Food Products (Minnesota)	Second Lien Term Loan (10.50% (LIBOR + 9.25% with 1.25% LIBOR floor), due 11/10/2019)		Second priority lien	150,000

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Portfolio Company	Nature of its Principal Business (Location)	Title and Class of Securities Held	Collateral Held	% of Class Held	Fair Value (Equity) (in thousands)	Fair Value (Debt) (in thousands)
		Senior Secured Term Loan A (6.50% (LIBOR + 5.50% with 1.00% LIBOR floor), due 4/8/2019)	First priority lien			26,831
Ark-La-Tex Wireline Services, LLC	Oil and Gas Production (Louisiana)	Senior Secured Term Loan B (10.50% (LIBOR + 9.50% with 1.00% LIBOR floor), due 4/8/2019)	First priority lien			26,831
		Delayed Draw Term Loan – \$5,000 Commitment (, due 4/8/2019)	First priority lien			—
Armor Holding II LLC	Diversified Financial Services (New York)	Second Lien Term Loan (10.25% (LIBOR + 9.00% with 1.25% LIBOR floor), due 12/26/2020)	Second priority lien			6,874
Atlantis Health Care Group (Puerto Rico), Inc.	Healthcare (Puerto Rico)	Revolving Line of Credit – \$3,000 Commitment (13.00% (LIBOR + 11.00% with 2.00% LIBOR floor), due 8/21/2014)	First priority lien			2,350
		Senior Term Loan (10.00% (LIBOR + 8.00% with 2.00% LIBOR floor), due 2/21/2018)	First priority lien			34,102
Babson CLO Ltd. 2011-I(1)	Diversified Financial Services (Cayman Islands)	Subordinated Notes (Residual Interest)		66.16%	33,801	
Babson CLO Ltd. 2012-I(1)	Diversified Financial Services (Cayman Islands)	Subordinated Notes (Residual Interest)		74.41%	26,401	
Babson CLO Ltd. 2012-II(1)	Diversified Financial Services (Cayman Islands)	Subordinated Notes (Residual Interest)		73.58%	27,230	
Blue Coat Systems, Inc.	Software & Computer Services (Massachusetts)	Second Lien Term Loan (9.50% (LIBOR + 8.50% with 1.00% LIBOR floor), due 6/28/2020)	Second priority lien			11,000
Broder Bros., Co.	Textiles, Apparel & Luxury Goods (Pennsylvania)	Senior Secured Notes (10.25% (LIBOR + 9.00% with 1.25% LIBOR floor), due 4/8/2019)	First priority lien			257,575
Brookside Mill CLO Ltd.(1)	Diversified Financial	Subordinated Notes (Residual Interest)		50.86%	25,081	

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Services (Cayman Islands)					
Byrider Systems Acquisition Corp.(1)	Auto Finance (Indiana)	Senior Subordinated Notes (12.00% plus 2.00% PIK, due 11/3/2016)	First priority lien		11,139
	Personal & Nondurable	Membership Interest		2.80%	182
Caleel + Hayden, LLC	Consumer Products (Colorado)	Escrow Receivable			118
		Senior Secured Term Loan A (6.50% (LIBOR + 5.00% with 1.50% LIBOR floor), due 9/16/2016)	First priority lien		92,085
Capstone Logistics, LLC	Commercial Services (Georgia)	Senior Secured Term Loan B (11.50% (LIBOR + 10.00% with 1.50% LIBOR floor), due 9/16/2016)	First priority lien		98,465
Cent CLO 17 Limited(1)	Diversified Financial Services (Cayman Islands)	Subordinated Notes (Residual Interest)		56.14%	23,896
Cent CLO 20 Limited(1)	Diversified Financial Services (Cayman Islands)	Subordinated Notes (Residual Interest)		90.00%	40,259
Cent CLO 21 Limited(1)	Diversified Financial Services (Cayman Islands)	Subordinated Notes (Residual Interest)		89.08%	46,154
CIFC Funding 2011-I, Ltd.(1)	Diversified Financial Services (Cayman Islands)	Class D Senior Secured Notes (5.23% (LIBOR + 5.00%, due 1/19/2023)	First priority lien	100.00%	18,037
		Class E Subordinated Notes (7.23% (LIBOR + 7.00%, due 1/19/2023)	Second priority lien	86.03%	15,162
CIFC Funding 2013-III, Ltd.(1)	Diversified Financial Services (Cayman Islands)	Subordinated Notes (Residual Interest)		90.00%	43,217

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Portfolio Company	Nature of its Principal Business (Location)	Title and Class of Securities Held	Collateral Held	% of Class Held	Fair Value (Equity) (in thousands)	Fair Value (Debt) (in thousands)
CIFC Funding 2013-IV, Ltd.(1)	Diversified Financial Services (Cayman Islands)	Subordinated Notes (Residual Interest)		85.05%	40,934	
Cinedigm DC Holdings, LLC	Software & Computer Services (New York)	Senior Secured Term Loan (11.00% (LIBOR + 9.00% with 2.00% LIBOR floor) plus 2.50% PIK, due 3/31/2021)	First priority lien			68,714
The Copernicus Group, Inc.	Healthcare (North Carolina)	Escrow Receivable			115	
Correctional Healthcare Holding Company, Inc.	Healthcare (Colorado)	Second Lien Term Loan (11.25%, due 1/11/2020)	Second priority lien			27,642
Coverall North America, Inc.	Commercial Services (Florida)	Senior Secured Term Loan (11.50% (LIBOR + 8.50% with 3.00% LIBOR floor), due 12/17/2017)	First priority lien			51,210
Crosman Corporation	Manufacturing (New York)	Second Lien Term Loan (12.00% (LIBOR + 10.50% with 1.50% LIBOR floor), due 12/30/2019)	Second priority lien			39,708
CRT MIDCO, LLC	Media (Wisconsin)	Senior Secured Term Loan (10.50% (LIBOR + 7.50% with 3.00% LIBOR floor), due 6/30/2017)	First priority lien			47,504
Deltek, Inc.	Software & Computer Services (Virginia)	Second Lien Term Loan (10.00% (LIBOR + 8.75% with 1.25% LIBOR floor), due 10/10/2019)	Second priority lien			12,000
Diamondback Operating, LP	Oil & Gas Production (Oklahoma)	Net Profits Interest (15% of Equity Distributions)			—	
Dover Saddlery, Inc.	Retail (Massachusetts)	Common Stock (30,974 shares)		0.58%	168	
Edmentum, Inc. (f/k/a Archipelago Learning, Inc.)	Consumer Services (Minnesota)	Second Lien Term Loan (11.25% (LIBOR + 9.75% with 1.50% LIBOR floor), due 5/17/2019)	Second priority lien			50,000
Empire Today, LLC	Durable Consumer Products (Illinois)	Senior Secured Note (11.375%, due 2/1/2017)	First priority lien			15,700

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Fischbein, LLC	Machinery (North Carolina)	Escrow Receivable		116	
		Senior Secured Term Loan A (6.50% (LIBOR + 5.50% with 1.00% LIBOR floor), due 4/30/2019)	First priority lien		25,000
Fleetwash, Inc.	Business Services (New Jersey)	Senior Secured Term Loan B (10.50% (LIBOR + 9.50% with 1.00% LIBOR floor), due 4/30/2019)	First priority lien		25,000
		Delayed Draw Term Loan – \$15,000 Commitment (9.50% (LIBOR + 8.50% with 1.00% LIBOR floor), due 4/30/2019)	First priority lien		—
Focus Brands, Inc.	Consumer Services (Georgia)	Second Lien Term Loan (10.25% (LIBOR + 9.00% with 1.25% LIBOR floor), due 8/21/2018)	Second priority lien		18,000
Focus Products Group International, LLC (f/k/a FPG, LLC)	Durable Consumer Products (Illinois)	Senior Secured Term Loan (12.00% (LIBOR + 11.00% with 1.00% LIBOR floor), due 1/20/2017)	First priority lien		19,886
		Common Stock (5,638 shares)		0.37%	—
Galaxy XII CLO, Ltd.(1)	Diversified Financial Services (Cayman Islands)	Subordinated Notes (Residual Interest)		51.16%	20,449
Galaxy XV CLO, Ltd.(1)	Diversified Financial Services (Cayman Islands)	Subordinated Notes (Residual Interest)		50.34%	31,824
Galaxy XVI CLO, Ltd.(1)	Diversified Financial Services (Cayman Islands)	Subordinated Notes (Residual Interest)		51.02%	20,573
Galaxy XVII CLO, Ltd.(1)	Diversified Financial Services (Cayman Islands)	Subordinated Notes (Residual Interest)		79.10%	36,589
Global Employment Solutions, Inc.	Business Services (Colorado)	Senior Secured Term Loan (10.00% (LIBOR + 9.00% with 1.00% LIBOR floor), due 3/25/2019)	First priority lien		28,464

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Portfolio Company	Nature of its Principal Business (Location)	Title and Class of Securities Held	Collateral Held	% of Class Held	Fair Value (Equity) (in thousands)	Fair Value (Debt) (in thousands)
Grocery Outlet, Inc.	Retail (California)	Second Lien Term Loan (10.50% (LIBOR + 9.25% with 1.25% LIBOR floor), due 6/17/2019)	Second priority lien			14,457
GTP Operations, LLC (f/k/a CI (Transplace) Holdings, LLC)	Software & Computer Services (Texas)	Senior Secured Term Loan (10.00% (LIBOR + 5.00% with 5.00% LIBOR floor), due 12/11/2018)	First priority lien			112,546
Halcyon Loan Advisors Funding 2012-1 Ltd.(1)	Diversified Financial Services (Cayman Islands)	Subordinated Notes (Residual Interest)		62.88%	22,570	
Halcyon Loan Advisors Funding 2013-1 Ltd.(1)	Diversified Financial Services (Cayman Islands)	Subordinated Notes (Residual Interest)		78.60%	41,509	
Halcyon Loan Advisors Funding 2014-1 Ltd.(1)	Diversified Financial Services (Cayman Islands)	Subordinated Notes (Residual Interest)		63.64%	23,110	
Halcyon Loan Advisors Funding 2014-2 Ltd.(1)	Diversified Financial Services (Cayman Islands)	Subordinated Notes (Residual Interest)		78.37%	38,066	
Harley Marine Services, Inc.	Transportation (Washington)	Second Lien Term Loan (10.50% (LIBOR + 9.25% with 1.25% LIBOR floor), due 12/20/2019)	Second priority lien			8,832
ICON Health & Fitness, Inc.	Durable Consumer Products (Utah)	Senior Secured Note (11.875%, due 10/15/2016)	First priority lien			20,889
ICV-CSI Holdings, LLC (f/k/a Cargo Airport Services USA, LLC)	Transportation (New York)	Membership Units (1.6 units)		4.71%	2,079	
IDQ Holdings, Inc.	Automobile (Texas)	Senior Secured Note (11.50%, due 4/1/2017)	First priority lien			12,500
Ikaria, Inc.	Healthcare (New Jersey)	Second Lien Term Loan (8.75% (LIBOR + 7.75% with 1.00% LIBOR floor), due 2/12/2022)	Second priority lien			25,000

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Injured WorkersHealthcare Pharmacy, LLC (Massachusetts)		Second Lien Term Loan (11.50% (LIBOR + 7.00% with Second priority 4.50% LIBOR floor) plus lien 1.00% PIK, due 5/31/2019)	22,904
		Senior Secured Term Loan A (5.50% (LIBOR + 4.50% with First priority 1.00% LIBOR floor), due lien 3/28/2019)	126,453
Instant Web, Media LLC (Minnesota)		Senior Secured Term Loan B (12.00% (LIBOR + 11.00% First priority with 1.00% LIBOR floor), due lien 3/28/2019)	128,000
		Senior Secured Term Loan C (12.75% (LIBOR + 11.75% First priority with 1.00% LIBOR floor), due lien 3/28/2019)	12,500
InterDent, Inc. Healthcare (California)		Senior Secured Term Loan A (7.25% (LIBOR + 5.75% with First priority 1.50% LIBOR floor), due lien 8/3/2017)	63,225
		Senior Secured Term Loan B (12.25% (LIBOR + 9.25% with First priority 3.00% LIBOR floor), due lien 8/3/2017)	67,625
JHH Holdings, Healthcare Inc. (Texas)		Second Lien Term Loan (11.25% (LIBOR + 10.00% Second priority with 1.25% LIBOR floor) plus lien 0.50% PIK, due 3/30/2019)	35,119
		Revolving Line of Credit – \$5,000 Commitment (10.25% First priority (LIBOR + 8.25% with 2.00% lien LIBOR floor), due 12/21/2014)	—
LaserShip, Inc. Transportation (Virginia)		Senior Secured Term Loan A (10.25% (LIBOR + 8.25% with First priority 2.00% LIBOR floor), due lien 3/18/2019)	36,094
		Senior Secured Term Loan B (10.25% (LIBOR + 8.25% with First priority 2.00% LIBOR floor), due lien 3/18/2019)	22,111
		Delayed Draw Term Loan – \$6,000 Commitment (2.00%, First priority due 12/31/2015) lien	—

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Portfolio Company	Nature of its Principal Business (Location)	Title and Class of Securities Held	Collateral Held	% of Class Held	Fair Value (Equity) (in thousands)	Fair Value (Debt) (in thousands)
LCM XIV Ltd.(1)	Diversified Financial Services (Cayman Islands)	Income Notes (Residual Interest)		84.13%	25,124	
LHC Holdings Corp.	Healthcare (Florida)	Revolving Line of Credit – \$750 Commitment (8.50% (LIBOR + 6.00% with 2.50% LIBOR floor), due 5/31/2015)	First priority lien			—
		Senior Subordinated Debt (10.50%, due 5/31/2015)	Second priority lien			1,865
		Membership Interest (125 units)		2.46%	253	
Madison Park Funding IX, Ltd.(1)	Diversified Financial Services (Cayman Islands)	Subordinated Notes (Residual Interest)		51.00%	27,266	
		Senior Secured Term Loan A (7.50% (LIBOR + 6.00% with 1.50% LIBOR floor), due 8/9/2018)	First priority lien			36,839
Matrixx Initiatives, Inc.	Pharmaceuticals (New Jersey)	Senior Secured Term Loan B (12.50% (LIBOR + 11.00% with 1.50% LIBOR floor), due 8/9/2018)	First priority lien			36,851
Maverick Healthcare Equity, LLC	Healthcare (Arizona)	Preferred Units (1,250,000 units)		1.36%	821	
		Class A Common Units (1,250,000 units)		1.17%	—	
Mountain View CLO 2013-I Ltd.(1)	Diversified Financial Services (Cayman Islands)	Subordinated Notes (Residual Interest)		97.00%	43,555	
NCP Finance Limited Partnership(1)	Consumer Finance (Ohio)	Subordinated Secured Term Loan (11.00% (LIBOR + 9.75% with 1.25% LIBOR floor), due 9/30/2018)	Second priority lien			12,208
		Senior Subordinated Term Loan (12.00% (LIBOR + 10.00% with 2.00% LIBOR floor) plus 4.00% PIK, in non-accrual status effective 4/1/2014, due 2/3/2018)	Second priority lien			—
New Century Transportation, Inc.	Transportation (New Jersey)					
Nixon, Inc.						13,316



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	Durable Consumer Products (California)	Senior Secured Term Loan (8.75% plus 2.75% PIK, due 4/16/2018)	First priority lien	
NRG Manufacturing, Inc.	Manufacturing (Texas)	Escrow Receivable		1,110
Octagon Investment Partners XV, Ltd.(1)	Diversified Financial Services (Cayman Islands)	Income Notes (Residual Interest)	50.12%	26,732
Onyx Payments, Inc. (f/k/a Pegasus Business Intelligence, LP)	Diversified Financial Services (Texas)	Senior Secured Term Loan A (6.75% (LIBOR + 5.50% with 1.25% LIBOR floor), due 4/18/2018)	First priority lien	15,125
		Senior Secured Term Loan B (13.75% (LIBOR + 12.50% with 1.25% LIBOR floor), due 4/18/2018)	First priority lien	15,938
Pelican Products, Inc.	Durable Consumer Products (California)	Second Lien Term Loan (9.25% (LIBOR + 8.25% with 1.00% LIBOR floor), due 4/9/2021)	Second priority lien	17,500
Photonis Technologies SAS(1)	Aerospace & Defense (France)	First Lien Term Loan (8.50% (LIBOR + 7.50% with 1.00% LIBOR floor), due 9/18/2019)	First priority lien	10,339
Pinnacle (US) Acquisition Co. Limited	Software & Computer Services (Texas)	Second Lien Term Loan (10.50% (LIBOR + 9.25% with 1.25% LIBOR floor), due 8/3/2020)	Second priority lien	10,000
		Revolving Line of Credit – \$15,000 Commitment (10.00% (LIBOR + 9.50% with 0.50% LIBOR floor), due 12/23/2014)	First priority lien	—
PrimeSport, Inc.	Hotels, Restaurants & Leisure (Georgia)	Senior Secured Term Loan A (7.50% (LIBOR + 6.50% with 1.00% LIBOR floor), due 12/23/2019)	First priority lien	43,263
		Senior Secured Term Loan B (11.50% (LIBOR + 10.50% with 1.00% LIBOR floor) plus 1.00% PIK, due 12/23/2019)	First priority lien	43,700
Prince Mineral Holding Corp.	Metal Services & Minerals (New York)	Senior Secured Term Loan (11.50%, due 12/15/2019)	First priority lien	10,000

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Portfolio Company	Nature of its Principal Business (Location)	Title and Class of Securities Held	Collateral Held	% of Class Held	Fair Value (Equity) (in thousands)	Fair Value (Debt) (in thousands)
Progrexion Holdings, Inc.	Consumer Services (Utah)	Senior Secured Term Loan (10.50% (LIBOR + 8.50% with 2.00% LIBOR floor), due 9/14/2017)	First priority lien			436,647
Rocket Software, Inc.	Software & Computer Services (Massachusetts)	Second Lien Term Loan (10.25% (LIBOR + 8.75% with 1.50% LIBOR floor), due 2/8/2019)	Second priority lien			20,000
Royal Adhesives & Sealants, LLC	Chemicals (Indiana)	Second Lien Term Loan (9.75% (LIBOR + 8.50% with 1.25% LIBOR floor), due 1/31/2019)	Second priority lien			19,713
Ryan, LLC	Business Services (Texas)	Subordinated Unsecured Notes (12.00% (LIBOR + 9.00% with 3.00% LIBOR floor) plus 3.00% PIK, due 6/30/2018)	None			70,531
Sandow Media, LLC	Media (Florida)	Senior Secured Term Loan (12.00%, due 5/8/2018)	First priority lien			23,524
Small Business Whole Loan Portfolio	Diversified Financial Services (New York)	144 small business loans issued by OnDeck Capital, Inc.	None			4,252
Snacks Parent Corporation	Food Products (Minnesota)	Series A Preferred Stock (4,021.45 shares)		0.37%	—	
		Series B Preferred Stock (1,866.10 shares)		0.37%	—	
		Warrant (to purchase 31,196.52 shares of Common Stock, expires 11/12/2020)			1,819	
Spartan Energy Services, Inc.	Energy (Louisiana)	Senior Secured Term Loan (10.50% (LIBOR + 9.00% with 1.50% LIBOR floor), due 12/28/2017)	First priority lien			35,633
Speedy Group Holdings Corp.(1)	Consumer Finance (Canada)	Senior Unsecured Notes (12.00%, due 11/15/2017)	None			15,000
Sport Helmets Holdings, LLC	Personal & Nondurable Consumer Products (New York)	Escrow Receivable			130	
Stauber Performance	Food Products (California)	Senior Secured Term Loan (10.50% (LIBOR + 7.50% with	First priority lien			12,809

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Ingredients, Inc.		3.00% LIBOR floor), due 1/21/2016)			
		Senior Secured Term Loan	First priority		9,975
		(10.50% (LIBOR + 7.50% with lien 3.00% LIBOR floor), due 5/21/2017)			
		Subordinated Secured Revolving Credit Facility – \$50,300 Commitment (12.25% (LIBOR + 10.75% with 1.50% LIBOR floor) plus 3.75% PIK, in non-accrual status effective 12/1/2011, due 12/1/2015)	Second priority lien		—
Stryker Energy, LLC	Oil & Gas Production (Ohio)	Overriding Royalty Interests			—
	Diversified				
Sudbury Mill CLO Ltd.(1)	Financial Services (Cayman Islands)	Subordinated Notes (Residual Interest)		61.30%	26,140
	Diversified				
Symphony CLO IX Ltd.(1)	Financial Services (Cayman Islands)	Preference Shares (Residual Interest)		71.09%	44,294
	Diversified				
Symphony CLO XIV Ltd.(1)	Financial Services (Cayman Islands)	Subordinated Notes (Residual Interest)		67.47%	49,025
System One Holdings, LLC	Business Services (Pennsylvania)	Senior Secured Term Loan (11.00% (LIBOR + 9.50% with 1.50% LIBOR floor), due 12/31/2018)	First priority lien		44,646
Targus Group International, Inc.	Durable Consumer Products (California)	First Lien Term Loan (11.00% (LIBOR + 9.50% with 1.50% LIBOR floor) plus 1.0% PIK, due 5/24/2016)	First priority lien		19,949
TB Corp.	Hotels, Restaurants & Leisure (Texas)	Senior Subordinated Note (12.00% plus 1.50% PIK, due 12/19/2018)	Second priority lien		23,628
Tectum Holdings, Inc.	Automobile (Michigan)	Second Lien Term Loan (9.00% (LIBOR + 8.00%, due 3/12/2019)	Second priority lien		9,952
Therakos, Inc.	Healthcare (New Jersey)	Second Lien Term Loan (11.25% (LIBOR + 10.00% with 1.25% LIBOR floor), due 6/27/2018)	Second priority lien		13,000

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Portfolio Company	Nature of its Principal Business (Location)	Title and Class of Securities Held	Collateral Held	% of Class Held	Fair Value (Equity) (in thousands)	Fair Value (Debt) (in thousands)
		Senior Secured Term Loan A (7.00% (LIBOR + 6.00% with 1.00% LIBOR floor), due 3/7/2019)	lien			48,705
Tolt Solutions, Inc.	Business Services (South Carolina)	Senior Secured Term Loan B (12.00% (LIBOR + 11.00% with 1.00% LIBOR floor), due 3/7/2019)	lien	First priority		48,900
		Senior Secured Term Loan A (6.50% (LIBOR + 4.50% with 2.00% LIBOR floor), due 6/18/2018)	lien	First priority		29,100
Traeger Pellet Grills LLC	Durable Consumer Products (Oregon)	Senior Secured Term Loan B (11.50% (LIBOR + 9.50% with 2.00% LIBOR floor), due 6/18/2018)	lien	First priority		29,700
		Second Lien Term Loan (9.00% (LIBOR + 8.00% with 1.00% LIBOR floor), due 8/14/2020)	lien	Second priority		5,000
Transaction Network Services, Inc.	Telecommunication Services (Virginia)	Second Lien Term Loan (10.00% (LIBOR + 9.00% with 1.00% LIBOR floor), due 8/11/2019)	lien	Second priority		9,810
TriMark USA, LLC	Hotels, Restaurants & Leisure (Massachusetts)	Second Lien Term Loan (12.75% (LIBOR + 11.00% with 1.75% LIBOR floor), due 5/16/2018)	lien	Second priority		160,000
United Sporting Companies, Inc.	Durable Consumer Products (South Carolina)	Senior Secured Term Loan A (6.50% (LIBOR + 5.50% with 1.00% LIBOR floor), due 3/31/2019)	lien	First priority		23,850
United States Environmental Services, LLC	Commercial Services (Texas)	Senior Secured Term Loan B (11.50% (LIBOR + 10.50% with 1.00% LIBOR floor), due 3/31/2019)	lien	First priority		36,000
Venio LLC (f/k/a LM Keane Acquisition Co.)	Business Services (Pennsylvania)	Second Lien Term Loan (12.00% (LIBOR + 9.50% with 2.50% LIBOR floor), due 2/19/2020)	lien	Second priority		16,726
Voya CLO 2012-2, Ltd. (f/k/a ING IM	Diversified Financial Services (Cayman Islands)	Income Notes (Residual Interest)		95.00%	35,843	

CLO 2012-2, Ltd.)(1) Voya CLO 2012-3, Ltd. (f/k/a ING IM CLO 2012-3, Ltd.)(1) Voya CLO 2012-4, Ltd. (f/k/a ING IM CLO 2012-4, Ltd.)(1) Voya CLO 2014-1, Ltd. (f/k/a ING IM CLO 2014-1, Ltd.)(1) Washington Mill CLO Ltd.(1)	Diversified Financial Services (Cayman Islands)	Income Notes (Residual Interest)	95.01%	43,960	
	Diversified Financial Services (Cayman Islands)	Income Notes (Residual Interest)	95.00%	39,647	
	Diversified Financial Services (Cayman Islands)	Subordinated Notes (Residual Interest)	94.27%	32,949	
	Diversified Financial Services (Cayman Islands)	Subordinated Notes (Residual Interest)	52.87%	21,583	
Water Pik, Inc.	Personal & Nondurable Consumer Products (Colorado)	Second Lien Term Loan (9.75% (LIBOR + 8.75% with 1.00% LIBOR floor), due 1/8/2021)	Second priority lien		10,604
		Senior Subordinated Secured Note (11.00% (LIBOR + 7.00% with 4.00% LIBOR floor), due 6/29/2020)	Second priority lien		12,000
Wheel Pros, LLC	Business Services (Colorado)	Delayed Draw Term Loan – \$3,000 Commitment (11.00% (LIBOR + 7.00% with 4.00% LIBOR floor), due 12/30/2015)	Second priority lien		—
Wind River Resources Corporation	Oil & Gas Production (Utah)	Senior Secured Note (13.00% (LIBOR + 7.50% with 5.50% LIBOR floor) plus 3.00% default interest on principal and 16.00% default interest on lien past due interest, in non-accrual status effective 12/1/2008, past due) Net Profits Interest (5% of Equity Distributions)	First priority lien		—

Certain investments that the Company has determined are not “qualifying” assets” under Section 55(a) of the 1940 Act. Under the 1940 Act, we may not acquire any non-qualifying asset unless, at the time such acquisition is made, (1) qualifying assets represent at least 70% of our total assets. The Company monitors the status of these assets on an ongoing basis

#### DETERMINATION OF NET ASSET VALUE

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

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

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

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

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

Determination of fair values involves subjective judgments and estimates not susceptible to substantiation by auditing procedures. Accordingly, under current accounting standards, the notes to our financial statements will refer to the uncertainty with respect to the possible effect of such valuations, and any change in such valuations, on our financial statements.

#### SALES OF COMMON STOCK BELOW NET ASSET VALUE

At our 2013 annual meeting of stockholders held on December 6, 2013, our stockholders approved our ability to sell, subject to the condition that the maximum number of shares salable below net asset value pursuant to this authority in any particular offering that could result in such dilution is limited to 25% of our then outstanding common stock immediately prior to each such offering, an unlimited number of shares of our common stock at any level of discount from NAV per share during the twelve-month period following such approval. This authority does not apply to any shares offered pursuant hereto, as none of the shares offered pursuant to this registration statement are offered by us. In order to sell shares pursuant to this authorization, a majority of our directors who have no financial interest in the sale and a majority of our independent directors must (a) find that the sale is in our best interests and in the best interests of our stockholders, and (b) in consultation with any underwriter or underwriters or sales manager or sales managers of the offering, make a good faith determination as of a time either immediately prior to the first solicitation by us or on our behalf of firm commitments to purchase such shares, or immediately prior to the issuance of such shares of common stock, that the price at which such shares are to be sold is not less than a price which closely approximates the market value of such shares, less any distributing commission or discount.

We may make sales of our common stock at prices below our most recently determined NAV per share. Pursuant to the approval of our Board of Directors, we have made such sales in the past and we may continue to do so under this prospectus.

In making a determination that an offering below NAV per share is in our and our stockholders' best interests, our Board of Directors considers a variety of factors including matters such as:

- The effect that an offering below NAV per share would have on our stockholders, including the potential dilution they would experience as a result of the offering;
- The amount per share by which the offering price per share and the net proceeds per share are less than the most recently determined NAV per share;
- The relationship of recent market prices of par common stock to NAV per share and the potential impact of the offering on the market price per share of our common stock;
- Whether the estimated offering price would closely approximate the market value of our shares;
- The potential market impact of being able to raise capital during the current financial market difficulties;
- The nature of any new investors anticipated to acquire shares of common stock in the offering;
- The anticipated rate of return on and quality, type and availability of investments; and
- The leverage available to us.

Our Board of Directors also considers the fact that sales of common stock at a discount will benefit our Investment Advisor as the Investment Advisor will earn additional investment management fees on the proceeds of such offerings, as it would from the offering of any other securities of the Company or from the offering of common stock at premium to NAV per share.

We will not sell shares of common stock under a prospectus supplement to a registration statement (the "current registration statement") if the cumulative dilution to our NAV per share from offerings under the current registration statement exceeds 15%. This limit would be measured separately for each offering pursuant to the current registration statement by calculating the percentage dilution or accretion to aggregate NAV from that offering and then summing the percentage from each offering. For example, if our most recently determined NAV per share at the time of the first offering is \$10.54 and we have 350.0 million shares of common stock outstanding, sale of 70.0 million shares of common stock at net proceeds to us of \$5.27 per share (an approximately 50% discount) would produce dilution of 8.33%. If we subsequently determined that our NAV per share increased back to \$9.85 on the then 420.0 million shares of common stock outstanding and then made an additional offering, we could, for example, sell approximately an additional 64.7 million shares of common stock at net proceeds to us of \$4.93 per share, which would produce dilution of 6.67%, before we would reach the aggregate 15% limit. If we file a new post-effective amendment, the threshold would reset.

Sales by us of our common stock at a discount from NAV per share pose potential risks for our existing stockholders whether or not they participate in the offering, as well as for new investors who participate in the offering.



The following three headings and accompanying tables will explain and provide hypothetical examples on the impact of an offering at a price less than NAV per share on three different set of investors:

- existing shareholders who do not purchase any shares of common stock in the offering;
- existing shareholders who purchase a relatively small amount of shares of common stock in the offering or a relatively large amount of shares of common stock in the offering; and
- new investors who become shareholders by purchasing shares of common stock in the offering.

NAV per share used in the tables below is based on Prospect's most recently determined NAV per share as of June 30, 2014, as adjusted to give effect to issuances of Prospect common stock since June 30, 2014. The NAV per share used for purposes of providing information in the table below is thus an estimate and does not necessarily reflect actual NAV per share at the time sales are made. Actual NAV per share may be higher or lower based on potential changes in valuations of Prospect's portfolio securities, accruals of income, expenses and distributions declared and thus may be higher or lower at the assumed sales prices than shown below.

The tables below provide hypothetical examples of the impact that an offering at a price less than NAV per share may have on the NAV per share of shareholders and investors who do and do not participate in such an offering. However, the tables below do not show and are not intended to show any potential changes in market price that may occur from an offering at a price less than NAV per share and it is not possible to predict any potential market price change that may occur from such an offering.

#### Impact On Existing Stockholders Who Do Not Participate in the Offering

Our existing stockholders who do not participate in an offering below NAV per share or who do not buy additional shares of common stock in the secondary market at the same or lower price we obtain in the offering (after expenses and commissions) face the greatest potential risks. These stockholders will experience an immediate decrease (often called dilution) in the NAV of the shares of common stock they hold and their NAV per share. These stockholders will also experience a disproportionately greater decrease in their participation in our earnings and assets and their voting power than the increase we will experience in our assets, potential earning power and voting interests due to the offering. These stockholders may also experience a decline in the market price of their shares of common stock, which often reflects to some degree announced or potential increases and decreases in NAV per share. This decrease could be more pronounced as the size of the offering and level of discounts increases.

The following chart illustrates the level of NAV dilution that would be experienced by a nonparticipating stockholder in three different hypothetical offerings of different sizes and levels of discount from NAV per share. It is not possible to predict the level of market price decline that may occur. Actual sales prices and discounts may differ from the presentation below. There is no maximum level of discount from NAV at which we may sell shares pursuant to the stockholder authority.

The examples assume that the issuer has 350.0 million common shares outstanding, \$6,589,000,000 in total assets and \$2,900,000,000 in total liabilities. The current NAV and NAV per share are thus \$3,689,000,000 and \$10.54. The chart illustrates the dilutive effect on Stockholder A of (1) an offering of 17,500,000 shares of common stock (5% of the outstanding shares of common stock) at \$10.01 per share after offering expenses and commission (a 5% discount from NAV), (2) an offering of 35,000,000 shares of common stock (10% of the outstanding shares of common stock) at \$9.49 per share after offering expenses and commissions (a 10% discount from NAV), (3) an offering of 87,500,000 shares of common stock (25% of the outstanding shares of common stock) at \$7.91 per share after offering expenses and commissions (a 25% discount from NAV), and (4) an offering of 87,500,000 shares of common stock (25% of the outstanding shares of common stock) at \$0.00 per share after offering expenses and commissions (a 100% discount from NAV).

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	Prior to Sale Below NAV	Example 1 5% Offering at 5% Discount		Example 2 10% Offering at 10% Discount		Example 3 25% Offering at 25% Discount		Example 4 25% Offering at 100% Discount	
		Following Sale	% Change	Following Sale	% Change	Following Sale	% Change	Following Sale	% Change
Offering Price									
Price per Share to Public		\$10.45		\$9.89		\$8.24		\$—	
Net Proceeds per Share to Issuer		\$10.01		\$9.49		\$7.91		\$—	
Decrease to NAV									
Total Shares Outstanding	350,000,000	367,500,000	5.00 %	385,000,000	10.00 %	437,500,000	25.00 %	437,500,000	25.00 %
NAV per Share	\$10.54	\$10.51	(0.24)%	\$10.44	(0.91)%	\$10.01	(5.00)%	\$8.43	(20.00)%
Dilution to Nonparticipating Stockholder									
Shares Held by Stockholder A	350,000	350,000	— %	350,000	— %	350,000	— %	350,000	— %
Percentage Held by Stockholder A	0.10 %	0.10 %	(4.76)%	0.09 %	(9.09)%	0.08 %	(20.00)%	0.08 %	(20.00)%
Total NAV Held by Stockholder A	\$3,689,000	\$3,680,217	(0.24)%	\$3,655,464	(0.91)%	\$3,504,550	(5.00)%	\$2,951,200	(20.00)%
Total Investment by Stockholder A (Assumed to be \$10.54 per Share on Shares Held Prior to Sale)		\$3,689,000		\$3,689,000		\$3,689,000		\$3,689,000	
Total Dilution to Stockholder A (Total NAV Less Total Investment)		\$(8,783 )		\$(33,536 )		\$(184,450 )		\$(737,800 )	
NAV per Share Held by Stockholder A		\$10.51		\$10.44		\$10.01		\$8.43	
Investment per Share Held by Stockholder A (Assumed to be \$10.54 per Share on Shares Held Prior to Sale)	\$10.54	\$10.54		\$10.54		\$10.54		\$10.54	
Dilution per Share Held by Stockholder A (NAV per Share Less Investment)		\$(0.03 )		\$(0.10 )		\$(0.53 )		\$(2.11 )	

per Share)				
Percentage				
Dilution to				
Stockholder A				
(Dilution per	(0.24)%	(0.91 )%	(5.00 )%	(20.
Share Divided by				
Investment per				
Share)				

**Impact On Existing Stockholders Who Do Participate in the Offering**

Our existing stockholders who participate in an offering below NAV per share or who buy additional shares of common stock in the secondary market at the same or lower price as we obtain in the offering (after expenses and commissions) will experience the same types of NAV dilution as the nonparticipating stockholders, albeit at a lower level, to the extent they purchase less than the same percentage of the discounted offering as their interest in our shares of common stock immediately prior to the offering. The level of NAV dilution will decrease as the number of shares of common stock such stockholders purchase increases. Existing stockholders who buy more than such percentage will experience NAV dilution on their existing shares but will, in contrast to existing stockholders who purchase less than their proportionate share of the offering, experience an increase (often called accretion) in average NAV per share over their investment per share and will also experience a disproportionately greater increase in their participation in our earnings and assets and their voting power than our increase in assets, potential earning power and voting interests due to the offering. The level of accretion will increase as the excess number of shares of common stock such stockholder purchases increases. Even a stockholder who over-participates will, however, be subject to the risk that we may make additional discounted offerings in which such stockholder does not participate, in which case such a stockholder will experience NAV dilution as described above in such subsequent offerings. These shareholders may also experience a decline in the market price of their shares of common stock, which often reflects to some degree announced or potential decreases in NAV per share. This decrease could be more pronounced as the size of the offering and level of discounts increases. There is no maximum level of discount from NAV at which we may sell shares pursuant to this authority.

The following chart illustrates the level of dilution and accretion in the hypothetical 25% discount offering from the prior chart (Example 3) for a stockholder that acquires shares of common stock equal to (1) 50% of its proportionate share of the offering (i.e., 43,750 shares of common stock, which is 0.05% of an offering of 87,500,000 shares of common stock) rather than its 0.10% proportionate share and (2) 150% of such percentage (i.e., 131,250 shares of common stock, which is 0.15% of an offering of 87,500,000 shares of common stock rather than its 0.10% proportionate share). It is not possible to predict the level

of market price decline that may occur. Actual sales prices and discounts may differ from the presentation below. There is no maximum level of discount from NAV at which we may sell shares pursuant to the stockholder authority.

	Prior to Sale Below NAV	50% Participation		150% Participation	
		Following Sale	% Change	Following Sale	% Change
Offering Price					
Price per Share to Public		\$8.24		\$8.24	
Net Proceeds per Share to Issuer		\$7.91		\$7.91	
Decrease to NAV					
Total Shares Outstanding	350,000,000	437,500,000	25.00 %	437,500,000	25.00 %
NAV per Share	\$10.54	\$10.01	(5.00)%	\$10.01	(5.00)%
Dilution to Nonparticipating Stockholder					
Shares Held by Stockholder A	350,000	393,750	12.50 %	481,250	37.50 %
Percentage Held by Stockholder A	0.10 %	0.09 %	(10.00)%	0.11 %	10.00 %
Total NAV Held by Stockholder A	\$10.54	\$3,942,619	6.87 %	\$4,818,756	30.63 %
Total Investment by Stockholder A (Assumed to be \$10.54 per Share on Shares Held Prior to Sale)		\$4,049,436		\$4,770,309	
Total Dilution to Stockholder A (Total NAV Less Total Investment)		\$(106,817 )		\$48,447	
NAV per Share Held by Stockholder A		\$10.01		\$10.01	
Investment per Share Held by Stockholder A (Assumed to be \$10.54 per Share on Shares Held Prior to Sale)					