

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**  
Washington, D.C. 20549  
**FORM 10-K**

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

For the fiscal year ended **June 30, 2018**

OR

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

Commission File Number: **814-00659**

**PROSPECT CAPITAL CORPORATION**

(Exact name of Registrant as specified in its charter)

**Maryland**

(State or other jurisdiction of  
incorporation or organization)

**10 East 40th Street, 42nd Floor**

**New York, New York**

(Address of principal executive offices)

**43-2048643**

(I.R.S. Employer  
Identification No.)

**10016**

(Zip Code)

**Registrant's telephone number, including area code: (212) 448-0702**

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

<u>Title of each class</u>	<u>Name of each exchange on which registered</u>
Common Stock, par value \$0.001 per share	NASDAQ Global Select Market
6.25% Notes due 2024, par value \$25	New York Stock Exchange
6.25% Notes due 2028, par value \$25	New York Stock Exchange

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

Indicate by check mark if the Registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes  No

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

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

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

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

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

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

(Do not check if a smaller reporting company)

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

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

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

**Documents Incorporated by Reference**

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

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## FORWARD-LOOKING STATEMENTS

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

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

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

## PART I

### Item 1. Business

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

#### General

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

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

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

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

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

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

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

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



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

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

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

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

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

Typically, we concentrate on making investments in companies with annual revenues of less than \$750 million and enterprise values of less than \$1 billion. Our typical investment involves a secured loan of less than \$250 million. We also acquire controlling interests in companies in conjunction with making secured debt investments in such companies. In most cases, companies in which we invest are privately held at the time we invest in them. We refer to these companies as “target” or “middle market” companies and these investments as “middle market investments.”

We seek to maximize total returns to our investors, including both current yield and equity upside, by applying rigorous credit analysis and asset-based and cash-flow based lending techniques to make and monitor our investments. We are constantly pursuing multiple investment opportunities, including purchases of portfolios from private and public companies, as well as originations and secondary purchases of particular securities. We also regularly evaluate control investment opportunities in a range of industries, and some of these investments could be material to us. There can be no assurance that we will successfully consummate any investment opportunity we are currently pursuing. If any of these opportunities are consummated, there can be no assurance that investors will share our view of valuation or that any assets acquired will not be subject to future write downs, each of which could have an adverse effect on our stock price.

## **Our Investment Objective and Policies**

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

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

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

We seek to maximize returns and minimize risk for our investors by applying rigorous analysis to make and monitor our investments. While the structure of our investments varies, we can invest in senior secured debt, senior unsecured debt, subordinated secured debt, subordinated unsecured debt, convertible debt, convertible preferred equity, preferred equity, common equity, warrants and other instruments, many of which generate current yield. While our primary focus is to seek current income through investment in the debt and/or dividend-paying equity securities of eligible privately-held, thinly-traded or distressed companies and long-term capital appreciation by acquiring accompanying warrants, options or other equity securities of such companies, we may invest up to 30% of the portfolio in opportunistic investments in order to seek enhanced returns for stockholders. Such investments may include investments in the debt and equity instruments of broadly-traded public companies. We expect that these public companies generally will have debt securities that are non-investment grade. Such investments may also include purchases (either in the primary or secondary markets) of the equity and junior debt tranches of a type of pools such as CLOs. Structurally, CLOs are entities that are formed to hold a portfolio of senior secured loans made to companies whose debt is rated below investment grade or, in limited circumstances, unrated. The senior secured loans within a CLO are limited to senior secured loans which meet specified credit and diversity criteria and are subject to concentration limitations in order to create an investment portfolio that is diverse by senior secured loan, borrower, and industry, with limitations on non-U.S. borrowers. Within this 30% basket, we have and may make additional investments in debt and equity securities of financial companies and companies located outside of the United States.

Our investments may include other equity investments, such as warrants, options to buy a minority interest in a portfolio company, or contractual payment rights or rights to receive a proportional interest in the operating cash flow or net income of such company. When determined by the Investment Adviser to be in our best interest, we may acquire a controlling interest in a portfolio company. Any warrants we receive with our debt securities may require only a nominal cost to exercise, and thus, as a portfolio company appreciates in value, we may achieve additional investment return from this equity interest. We have structured, and will continue to structure, some warrants to include provisions protecting our rights as a minority-interest or, if applicable, controlling-interest holder, as well as puts, or rights to sell such securities back to the company, upon the occurrence of specified events. In many cases, we obtain registration rights in connection with these equity interests, which may include demand and “piggyback” registration rights.

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

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

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

## **Industry Sectors**

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

## Ongoing Relationships with Portfolio Companies

### *Monitoring*

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

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

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

### *Investment Valuation*

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

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

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

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

*Level 3* : Unobservable inputs for the asset or liability.

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

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

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

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

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

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

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

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

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

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

#### *Managerial Assistance*

As a BDC, we are obligated under the 1940 Act to make available to certain of our portfolio companies significant managerial assistance. “Making available significant managerial assistance” refers to any arrangement whereby we provide significant guidance and counsel concerning the management, operations, or business objectives and policies of a portfolio company. We are also deemed to be providing managerial assistance to all portfolio companies that we control, either by ourselves or in conjunction with others. The nature and extent of significant managerial assistance provided by us to controlled and non-controlled portfolio companies will vary according to the particular needs of each portfolio company. Examples of such activities include (i) advice on recruiting, hiring, management and termination of employees, officers and directors, succession planning and other human resource matters; (ii) advice on capital raising, capital budgeting, and capital expenditures; (iii) advice on advertising, marketing, and sales; (iv) advice on fulfillment, operations, and execution; (v) advice on managing relationships with unions and other personnel organizations, financing sources, vendors, customers, lessors, lessees, lawyers, accountants, regulators and other important counterparties; (vi) evaluating acquisition and divestiture opportunities, plant expansions and closings, and market expansions; (vii) participating in audit committee, nominating committee, board and management meetings; (viii) consulting with and advising board members and officers of portfolio companies (on overall strategy and other matters); and (ix) providing other organizational, operational, managerial and financial guidance.

Prospect Administration, when executing a managerial assistance agreement with each portfolio company to which we provide managerial assistance, arranges for the provision of such managerial assistance on our behalf. When doing so, Prospect Administration utilizes personnel of our Investment Adviser. We, on behalf of Prospect Administration, invoice portfolio companies

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

### **Investment Adviser**

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

### **Investment Advisory Agreement**

#### *Terms*

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

The Investment Adviser’s services under the Investment Advisory Agreement are not exclusive, and it is free to furnish similar services to other entities so long as its services to us are not impaired. For providing these services the Investment Adviser receives a fee from us, consisting of two components: a base management fee and an incentive fee. The base management fee is calculated at an annual rate of 2.00% on our total assets. For services currently rendered under the Investment Advisory Agreement, the base management fee is payable quarterly in arrears. The base management fee is calculated based on the average value of our gross assets at the end of the two most recently completed calendar quarters and appropriately adjusted for any share issuances or repurchases during the current calendar quarter.

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

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

- No incentive fee in any calendar quarter in which our pre-incentive fee net investment income does not exceed the hurdle rate;
- 100.00% of our pre-incentive fee net investment income with respect to that portion of such pre-incentive fee net investment income, if any, that exceeds the hurdle rate but is less than 125.00% of the quarterly hurdle rate in any calendar quarter (8.75% annualized assuming a 7.00% annualized hurdle rate), i.e., the “catch-up”; and
- 20.00% of the amount of our pre-incentive fee net investment income, if any, that exceeds 125.00% of the quarterly hurdle rate in any calendar quarter (8.75% annualized assuming a 7.00% annualized hurdle rate).

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

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

#### *Examples of Quarterly Incentive Fee Calculation*

##### *Example 1: Income Incentive Fee\**

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

#### Alternative 1

##### *Assumptions*

- Investment income (including interest, dividends, fees, etc.) = 1.25%
- Hurdle rate(1) = 1.75%
- Base management fee(2) = 0.50%
- Other expenses (legal, accounting, custodian, transfer agent, etc.)(3) = 0.20%
- Pre-incentive fee net investment income (investment income – (base management fee + other expenses)) = 0.55%

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

## Alternative 2

### *Assumptions*

- Investment income (including interest, dividends, fees, etc.) = 2.70%
- Hurdle rate(1) = 1.75%
- Base management fee(2) = 0.50%
- Other expenses (legal, accounting, custodian, transfer agent, etc.)(3) = 0.20%
- Pre-incentive fee net investment income (investment income – (base management fee + other expenses)) = 2.00%

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

$$\begin{aligned} &= 100\% \times \text{“Catch Up”} + \text{the greater of } 0\% \text{ AND } (20\% \times (\text{pre-incentive fee net investment income} - 2.1875\%)) \\ &= (100\% \times (2.00\% - 1.75\%)) + 0\% \\ &= 100\% \times 0.25\% + 0\% \\ &= 0.25\% \end{aligned}$$

## Alternative 3

### *Assumptions*

- Investment income (including interest, dividends, fees, etc.) = 3.00%
- Hurdle rate(1) = 1.75%
- Base management fee(2) = 0.50%
- Other expenses (legal, accounting, custodian, transfer agent, etc.)(3) = 0.20%
- Pre-incentive fee net investment income (investment income – (base management fee + other expenses)) = 2.30%

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

$$\begin{aligned} &= 100\% \times \text{“Catch Up”} + \text{the greater of } 0\% \text{ AND } (20\% \times (\text{pre-incentive fee net investment income} - 2.1875\%)) \\ &= (100\% \times (2.1875\% - 1.75\%)) + \text{the greater of } 0\% \text{ AND } (20\% \times (2.30\% - 2.1875\%)) \\ &= (100\% \times 0.4375\%) + (20\% \times 0.1125\%) \\ &= 0.4375\% + 0.0225\% \\ &= 0.46\% \end{aligned}$$

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(1) Represents 7% annualized hurdle rate.

(2) Represents 2% annualized base management fee.

(3) Excludes organizational and offering expenses.

## Example 2: Capital Gains Incentive Fee

### Alternative 1

#### *Assumptions*

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

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

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

### Alternative 2

#### *Assumptions*

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

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

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



### Alternative 3

#### *Assumptions*

- Year 1: \$20 million investment made in company A (“Investment A”) and \$20 million investment made in company B (“Investment B”)
- Year 2: FMV of Investment A is determined to be \$21 million and Investment B is sold for \$18 million
- Year 3: Investment A is sold for \$23 million

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

- Year 1: No impact
- Year 2: Decrease base amount on which the second part of the incentive fee is calculated by \$2 million (realized capital loss on Investment B)
- Year 3: Increase base amount on which the second part of the incentive fee is calculated by \$3 million (realized capital gain on Investment A)

### Alternative 4

#### *Assumptions*

- Year 1: \$20 million investment made in company A (“Investment A”) and \$20 million investment made in company B (“Investment B”)
- Year 2: FMV of Investment A is determined to be \$21 million and FMV of Investment B is determined to be \$17 million
- Year 3: FMV of Investment A is determined to be \$18 million and FMV of Investment B is determined to be \$18 million
- Year 4: FMV of Investment A is determined to be \$19 million and FMV of Investment B is determined to be \$21 million
- Year 5: Investment A is sold for \$17 million and Investment B is sold for \$23 million

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

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

### *Duration and Termination*

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

### *Indemnification*

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

### **Administration Agreement**

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

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

### **Payment of Our Expenses**

All investment professionals of the Investment Adviser and its respective staff, when and to the extent engaged in providing investment advisory and management services, and the compensation and routine overhead expenses of such personnel allocable to such services, will be provided and paid for by the Investment Adviser. We bear all other costs and expenses of our operations and transactions, including those relating to: organization and offering; calculation of our net asset value (including the cost and expenses of any independent valuation firm); expenses incurred by Prospect Capital Management payable to third parties, including agents, consultants or other advisers (such as independent valuation firms, accountants and legal counsel), in monitoring our financial and legal affairs and in monitoring our investments and performing due diligence on our prospective portfolio companies; interest payable on debt, if any, and dividends payable on preferred stock, if any, incurred to finance our investments; offerings of our debt, our preferred shares, our common stock and other securities; investment advisory fees; fees payable to third parties, including agents, consultants or other advisors, relating to, or associated with, evaluating and making investments; transfer agent and custodial fees; registration fees; listing fees; taxes; independent directors' fees and expenses; costs of preparing and filing reports or other documents with the SEC; the costs of any reports, proxy statements or other notices to stockholders, including printing costs; our allocable portion of the fidelity bond, directors and officers/errors and omissions liability insurance, and any

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

### **License Agreement**

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

### **Determination of Net Asset Value**

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

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

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

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

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

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

## **Dividend Reinvestment and Direct Stock Purchase Plan**

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

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

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

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

Stockholders who receive dividends or distributions in the form of stock are subject to the same U.S. federal, state and local tax consequences as are stockholders who elect to receive their dividends or distributions in cash. A stockholder’s basis for determining gain or loss upon the sale of stock received in a dividend or distribution from us will be equal to the total dollar amount of the dividend or distribution payable to the stockholder. Any stock received in a dividend or distribution will have a new holding period for tax purposes commencing on the day following the day on which the shares are credited to the U.S. Stockholder’s account (as defined below).

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

since the prior investment of funds to purchase shares of our common stock in the open market. We will not use newly-issued shares of our common stock to implement such purchases. Purchase orders will be submitted daily. The plan administrator may, at its discretion, submit purchase orders less frequently but no later than 30 days after receipt. The plan administrator will charge each stockholder who makes such additional cash payments \$2.50, plus a \$0.10 per share brokerage commission. Cash dividends and distributions payable on all shares credited to your plan account will be automatically reinvested in additional shares pursuant to the terms of the plan. Brokerage charges for some purchases are expected to be less than the usual brokerage charge for such transactions. Instructions sent by a participant to the plan administrator in connection with such participant's cash payment may not be rescinded.

Participants may terminate their accounts under the plan by notifying the plan administrator via its website at [www.amstock.com](http://www.amstock.com) or by filling out the transaction request form located at the bottom of their statement and sending it to the plan administrator at American Stock Transfer & Trust Company, P.O. Box 922, Wall Street Station, New York, NY 10269-0560 or by calling the plan administrator's Interactive Voice Response System at (888) 888-0313. Upon termination, the stockholder will receive certificates for the full shares credited to your plan account. If you elect to receive cash, the plan administrator sells such shares and delivers a check for the proceeds, less the \$0.10 per share commission and the plan administrator's transaction fee of \$15. In every case of termination, fractional shares credited to a terminating plan account are paid in cash at the then-current market price, less any commission and transaction fee.

The plan may be terminated by us upon notice in writing mailed to each participant at least 30 days prior to any payable date for the payment of any dividend by us or distribution pursuant to any additional cash payment made. All correspondence concerning the plan should be directed to the plan administrator by mail at American Stock Transfer and Trust Company LLC, 6201 15th Avenue, Brooklyn, New York 11219, or by telephone at 888-888-0313.

Stockholders who purchased their shares through or hold their shares in the name of a broker or financial institution should consult with a representative of their broker or financial institution with respect to their participation in our dividend reinvestment plan and direct stock purchase plan. Such holders of our stock may not be identified as our registered stockholders with the plan administrator and may not automatically have their cash dividend or distribution reinvested in shares of our common stock by the plan administrator.

### **Material U.S. Federal Income Tax Considerations**

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

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

- A citizen or individual resident of the United States;
- A corporation, or other entity treated as a corporation for U.S. federal income tax purposes, created or organized in or under the laws of the United States or any state thereof or the District of Columbia;
- An estate, the income of which is subject to U.S. federal income taxation regardless of its source; or
- A trust if (1) a U.S. court is able to exercise primary supervision over the administration of such trust and one or more U.S. persons have the authority to control all substantial decisions of the trust or (2) it has a valid election in place to be treated as a U.S. person.

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

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

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

#### *Election to be Taxed as a RIC*

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

#### *Taxation as a RIC*

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

- Qualify to be treated as a business development company or be registered as a management investment company under the 1940 Act at all times during each taxable year;
- Derive in each taxable year at least 90% of our gross income from dividends, interest, payments with respect to certain securities loans, gains from the sale or other disposition of stock or other securities or currencies or other income derived with respect to our business of investing in such stock, securities or currencies and net income derived from an interest in a “qualified publicly traded partnership” (as defined in the Code) (the “90% Income Test”); and
- Diversify our holdings so that at the end of each quarter of the taxable year:
  - At least 50% of the value of our assets consists of cash, cash equivalents, U.S. government securities, securities of other RICs, and other securities if such other securities of any one issuer do not represent more than 5% of the value of our assets or more than 10% of the outstanding voting securities of the issuer (which for these purposes includes the equity securities of a “qualified publicly traded partnership”); and
  - No more than 25% of the value of our assets is invested in the securities, other than U.S. government securities or securities of other RICs, (i) of one issuer (ii) of two or more issuers that are controlled, as determined under applicable tax rules, by us and that are engaged in the same or similar or related trades or businesses or (iii) of one or more “qualified publicly traded partnerships,” (the “Diversification Tests”).

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

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

Provided that we qualify as a RIC and satisfy the Annual Distribution Requirement, we will not be subject to U.S. federal income tax on the portion of our investment company taxable income and net capital gain (which we define as net long-term capital gains in excess of net short-term capital losses) we timely distribute to stockholders. We will be subject to U.S. federal income tax at the regular corporate rates on any income or capital gain not distributed (or deemed distributed) to our stockholders. Any undistributed taxable income is subject to U.S. federal income tax.

We will be subject to a 4% non-deductible U.S. federal excise tax on certain undistributed income of RICs unless we distribute in a timely manner an amount at least equal to the sum of (i) 98% of our ordinary income recognized during the calendar year, (ii) 98.2% of our capital gain net income, as defined by the Code, recognized for the one year period ending October 31 in that calendar year and (iii) any income recognized, but not distributed, in preceding years.

We may be required to recognize taxable income in circumstances in which we do not receive cash. For example, if we hold debt obligations that are treated under applicable tax rules as having original issue discount, we must include in income each year a portion of the original issue discount that accrues over the life of the obligation, regardless of whether cash representing such income is received by us in the same taxable year. Because any original issue discount accrued will be included in our investment company taxable income for the year of accrual, we may be required to make a distribution to our stockholders in order to satisfy the Annual Distribution Requirement, even though we will not have received any corresponding cash amount.

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

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

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

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

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

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

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

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

#### *Taxation of U.S. Stockholders*

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

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

Although we currently intend to distribute any long-term capital gains at least annually, we may in the future decide to retain some or all of our long-term capital gains, and designate the retained amount as a “deemed distribution.” In that case, among other consequences, we will pay tax on the retained amount, each U.S. Stockholder will be required to include his, her or its proportionate share of the deemed distribution in income as if it had been actually distributed to the U.S. Stockholder, and the U.S. Stockholder will be entitled to claim a credit equal to its allocable share of the tax paid thereon by us. The amount of the deemed distribution net of such tax will be added to the U.S. Stockholder’s tax basis for his, her or its common stock. The amount of tax that individual stockholders will be treated as having paid and for which they will receive a credit may exceed the tax they owe on the retained net capital gain. Such excess generally may be claimed as a credit against the U.S. Stockholder’s other U.S. federal income tax obligations or may be refunded to the extent it exceeds a stockholder’s liability for U.S. federal income tax. A stockholder that is not subject to U.S. federal income tax or otherwise required to file a U.S. federal income tax return would be required to file a U.S. federal income tax return on the appropriate form in order to claim a refund for the taxes we paid. In order to utilize the deemed distribution approach, we must provide written notice to our stockholders prior to the expiration of 60 days after the close of the relevant taxable year. We cannot treat any of our investment company taxable income as a “deemed distribution.”

For purposes of determining (1) whether the Annual Distribution Requirement is satisfied for any year and (2) the amount of capital gain dividends paid for that year, we may, under certain circumstances, elect to treat a dividend that is paid during the following taxable year as if it had been paid during the taxable year in question. If we make such an election, the U.S. Stockholder will still be treated as receiving the dividend in the taxable year in which the distribution is made. However, any dividend declared by us in October, November or December of any calendar year, payable to stockholders of record on a specified date in any such month and actually paid during January of the following year, will be treated as if it had been received by our U.S. Stockholders on December 31 of the year in which the dividend was declared.

If a U.S. Stockholder purchases shares of our common stock shortly before the record date of a distribution, the price of the shares will include the value of the distribution and the investor will be subject to tax on the distribution even though it represents a return of its investment.

A U.S. Stockholder generally will recognize taxable gain or loss if such U.S. Stockholder sells or otherwise disposes of its shares of our common stock. Any gain or loss arising from such sale or taxable disposition generally will be treated as long-term capital gain or loss if the U.S. Stockholder has held his, her or its shares for more than one year. Otherwise, it would be classified as short-term capital gain or loss. However, any capital loss arising from the sale or taxable disposition of shares of our common stock held for six months or less will be treated as long-term capital loss to the extent of the amount of capital gain dividends received, or undistributed capital gain deemed received, with respect to such shares. In addition, all or a portion of any loss recognized upon



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

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

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

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

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

#### *Taxation of Non-U.S. Stockholders*

Whether an investment in our common stock is appropriate for a Non-U.S. Stockholder will depend upon that person’s particular circumstances. An investment in our common stock by a Non-U.S. Stockholder may have adverse tax consequences. Non-U.S. Stockholders should consult their tax advisers before investing in our common stock.

Distributions of our “investment company taxable income” to Non-U.S. Stockholders that are not “effectively connected” with a U.S. trade or business conducted by the Non-U.S. Stockholder, will generally be subject to withholding of U.S. federal income tax at a rate of 30% (or lower applicable treaty rate) to the extent of our current and accumulated earnings and profits.

Properly reported distributions to Non-U.S. Stockholders are generally exempt from U.S. federal withholding tax where they (i) are paid in respect of our “qualified net interest income” (generally, our U.S.-source interest income, other than certain contingent interest and interest from obligations of a corporation or partnership in which we are at least a 10% shareholder, reduced by expenses that are allocable to such income) or (ii) are paid in respect of our “qualified short-term capital gains” (generally, the excess of our net short-term capital gain over our long-term capital loss for such taxable year). However, depending on our circumstances, we may report all, some or none of our potentially eligible dividends as such qualified net interest income or as qualified short-term capital gains, and/or treat such dividends, in whole or in part, as ineligible for this exemption from withholding. In order to qualify for this exemption from withholding, a Non-U.S. Stockholder needs to comply with applicable certification requirements relating to its non-U.S. status (including, in general, furnishing an IRS Form W-8BEN, W-8BEN-E or substitute form). In the case of shares held through an intermediary, the intermediary may withhold even if we report the payment as qualified net interest income or qualified short-term capital gain. Non-U.S. Stockholders should contact their intermediaries with respect to the application of these rules to their accounts. There can be no assurance as to what portion of our distributions will qualify for favorable treatment as qualified net interest income or qualified short-term capital gains.

Actual or deemed distributions of our net capital gain to a Non-U.S. Stockholder, and gains recognized by a Non-U.S. Stockholder upon the sale of our common stock, that are not effectively connected with a U.S. trade or business conducted by the Non-U.S. Stockholder, will generally not be subject to U.S. federal withholding tax and generally will not be subject to U.S. federal income tax unless the Non-U.S. Stockholder is a nonresident alien individual and is physically present in the United States for 183 or more days during the taxable year and meets certain other requirements.

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

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

If we distribute our net capital gain in the form of deemed rather than actual distributions (which we may do in the future), a Non-U.S. Stockholder will be entitled to a U.S. federal income tax credit or tax refund equal to the stockholder's allocable share of the tax we pay on the capital gains deemed to have been distributed. In order to obtain the refund, the Non-U.S. Stockholder must obtain a U.S. taxpayer identification number and file a U.S. federal income tax return even if the Non-U.S. Stockholder would not otherwise be required to obtain a U.S. taxpayer identification number or file a U.S. federal income tax return.

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

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

Non-U.S. persons should consult their tax advisors with respect to the U.S. federal income tax and withholding tax, and state, local and foreign tax consequences of an investment in our common stock.

#### *Failure to Obtain RIC Tax Treatment*

If we were unable to obtain tax treatment as a RIC, we would be subject to tax on all of our taxable income at regular corporate rates. We would not be able to deduct distributions to stockholders, nor would they be required to be made. Distributions would generally be taxable to our stockholders as ordinary dividend income eligible for the reduced maximum rate applicable for qualified dividend income to the extent of our current and accumulated earnings and profits. Subject to certain limitations under the Code, corporate distributees would be eligible for the dividends-received deduction.

Distributions in excess of our current and accumulated earnings and profits would be treated first as a return of capital to the extent of the stockholder's tax basis, and any remaining distributions would be treated as a capital gain.

#### *Tax Cuts and Jobs Act*

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

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

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

## **Regulation as a Business Development Company**

### *General*

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

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

### *Qualifying Assets*

Under the 1940 Act, a business development company may not acquire any asset other than assets of the type listed in Section 55(a) of the 1940 Act, which are referred to as qualifying assets, unless, at the time the acquisition is made, qualifying assets represent at least 70% of the company's total assets. The principal categories of qualifying assets relevant to our business are the following:

1. Securities purchased in transactions not involving any public offering from the issuer of such securities, which issuer (subject to certain limited exceptions) is an eligible portfolio company, or from any person who is, or has been during the preceding 13 months, an affiliated person of an eligible portfolio company, or from any other person, subject to such rules as may be prescribed by the SEC. An "eligible portfolio company" is defined in the 1940 Act and rules adopted pursuant thereto as any issuer which:
  - a. is organized under the laws of, and has its principal place of business in, the United States;
  - b. is not an investment company (other than a small business investment company wholly owned by the business development company) or a company that would be an investment company but for certain exclusions under the 1940 Act for certain financial companies such as banks, brokers, commercial finance companies, mortgage companies and insurance companies; and
  - c. satisfies any of the following:
    - i. does not have any class of securities with respect to which a broker or dealer may extend margin credit;

- ii. is controlled by a business development company or a group of companies including a business development company and the business development company has an affiliated person who is a director of the eligible portfolio company;
  - iii. is a small and solvent company having total assets of not more than \$4 million and capital and surplus of not less than \$2 million;
  - iv. does not have any class of securities listed on a national securities exchange; or
  - v. has a class of securities listed on a national securities exchange, but has an aggregate market value of outstanding voting and non-voting common equity of less than \$250 million.
2. Securities in companies that were eligible portfolio companies when we made our initial investment if certain other requirements are satisfied.
  3. Securities of any eligible portfolio company which we control.
  4. Securities purchased in a private transaction from a U.S. issuer that is not an investment company or from an affiliated person of the issuer, or in transactions incident thereto, if the issuer is in bankruptcy and subject to reorganization or if the issuer, immediately prior to the purchase of its securities was unable to meet its obligations as they came due without material assistance other than conventional lending or financing agreements.
  5. Securities of an eligible portfolio company purchased from any person in a private transaction if there is no ready market for such securities and we already own 60% of the outstanding equity of the eligible portfolio company.
  6. Securities received in exchange for or distributed on or with respect to securities described in (1) through (4) above, or pursuant to the exercise of warrants or rights relating to such securities.
  7. Cash, cash equivalents, U.S. government securities or high-quality debt securities maturing in one year or less from the time of investment.

In addition, a business development company must have been organized and have its principal place of business in the United States and must be operated for the purpose of making investments in the types of securities described in (1), (2), (3) or (4) above.

#### *Managerial Assistance to Portfolio Companies*

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

#### *Temporary Investments*

Pending investment in other types of "qualifying assets," as described above, our investments may consist of cash, cash equivalents, including money market funds, U.S. government securities or high quality debt securities maturing in one year or less from the time of investment, which we refer to, collectively, as temporary investments, so that 70% of our assets are qualifying assets. Typically, we will invest in money market funds, U.S. Treasury bills or in repurchase agreements that are fully collateralized by cash or securities issued by the U.S. government or its agencies. A repurchase agreement involves the purchase by an investor, such as us, of a specified security and the simultaneous agreement by the seller to repurchase it at an agreed upon future date and at a price which is greater than the purchase price by an amount that reflects an agreed-upon interest rate. There is no percentage

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

#### *Senior Securities*

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

#### *Code of Ethics*

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

#### *Compliance Policies and Procedures*

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

#### *Proxy Voting Policies and Procedures*

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

#### *Introduction.*

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

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

#### *Proxy policies.*

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

*Elections of directors.*

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

*Appointment of auditors.*

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

*Changes in capital structure.*

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

*Corporate restructurings, mergers and acquisitions.*

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

*Proposals affecting the rights of stockholders.*

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

*Corporate governance.*

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

*Anti-takeover measures.*

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

*Stock splits.*

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

*Limited liability of directors.*

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

*Social and corporate responsibility.*

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

*Proxy voting procedures.*

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

*Proxy voting committee.*

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

*Conflicts of interest.*

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

*Proxy voting.*

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

*Proxy recordkeeping.*

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

- copies of its proxy voting policies and procedures;
- copies of all proxy statements;
- records of all votes cast by Prospect Capital Management;
- copies of all documents created by Prospect Capital Management that were material to making a decision how to vote proxies or that memorializes the basis for that decision; and
- copies of all written client requests for information with regard to how Prospect Capital Management voted proxies on behalf of the client as well as any written responses provided.

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

*Proxy voting records.*

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

*Sarbanes-Oxley Act of 2002*

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

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

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

#### *Available Information*

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

#### **Item 1A. Risk Factors**

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

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

#### **Risks Relating to Our Business**

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

From time to time, capital markets may experience periods of disruption and instability. For example, between 2007 and 2009, the global capital markets experienced an extended period of disruption as evidenced by a lack of liquidity in the debt capital markets, write-offs in the financial services sector, the re-pricing of credit risk and the failure of certain major financial institutions. Despite actions of the United States federal government and foreign governments, these events contributed to worsening general economic conditions that materially and adversely impacted the broader financial and credit markets and reduced the availability of debt and equity capital for the market as a whole and financial services firms in particular. While the adverse effects of these conditions have abated to a degree, global financial markets experienced significant volatility following the downgrade by Standard & Poor’s on August 5, 2011 of the long-term credit rating of U.S. Treasury debt from AAA to AA+. These market conditions have historically and could again have a material adverse effect on debt and equity capital markets in the United States and Europe, which could have a materially negative impact on our business, financial condition and results of operations. We and other companies in the financial services sector may have to access, if available, alternative markets for debt and equity capital. In such circumstances, equity capital may be difficult to raise because subject to some limited exceptions, as a BDC, we are generally not able to issue additional shares of our common stock at a price less than net asset value without general approval by our stockholders, which we currently have, and approval of the specific issuance by our Board of Directors. In addition, our ability to incur indebtedness or issue preferred stock is limited by applicable regulations such that our asset coverage, as defined in the 1940 Act, must equal at least 200% immediately after each time we incur indebtedness or issue preferred stock. The debt capital that may



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

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

The illiquidity of our investments may make it difficult for us to sell such investments, if required. As a result, we may realize significantly less than the value at which we have recorded our investments if forced to liquidate quickly.

Given the extreme volatility and dislocation that the capital markets have historically experienced, many BDCs have faced, and may in the future face, a challenging environment in which to raise capital. We may in the future have difficulty accessing debt and equity capital, and a severe disruption in the global financial markets or deterioration in credit and financing conditions could have a material adverse effect on our business, financial condition and results of operations. In addition, significant changes in the capital markets, including the extreme volatility and disruption, have had, and may in the future have, a negative effect on the valuations of our investments and on the potential for liquidity events involving our investments. An inability to raise capital, and any required sale of our investments for liquidity purposes, could have a material adverse impact on our business, financial condition or results of operations.

The Investment Adviser does not know how long the financial markets will continue to be affected by these events and cannot predict the effects of these or similar events in the future on the United States economy and securities markets or on our investments. The Investment Adviser monitors developments and seeks to manage our investments in a manner consistent with achieving our investment objective, but there can be no assurance that it will be successful in doing so; and the Investment Adviser may not timely anticipate or manage existing, new or additional risks, contingencies or developments, including regulatory developments in the current or future market environment.

We are required to record certain of our assets at fair value, as determined in good faith by our Board of Directors in accordance with our valuation policy. As a result, volatility in the capital markets may have a material adverse effect on our investment valuations and our net asset value, even if we plan to hold investments to maturity.

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

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

In October 2014, the Federal Reserve announced that it was concluding its bond-buying program, or quantitative easing, which was designed to stimulate the economy and expand the Federal Reserve's holdings of long-term securities, suggesting that key economic indicators, such as the unemployment rate, had showed signs of improvement since the inception of the program. In June 2017, the Federal Reserve raised the target range for the federal funds rate, which was the fourth such interest rate hike in nearly a decade. To the extent the Federal Reserve continues to raise rates, and without quantitative easing by the Federal Reserve, there is a risk that the debt markets may experience increased volatility and that the liquidity of certain of our investments may be reduced. These developments, along with the corresponding potential rise in interest rates and borrowing costs, the United States government's credit and deficit concerns and the European sovereign debt crisis, may negatively impact our ability to access the debt markets on favorable terms.

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

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

On June 8, 2017, the U. S. House of Representatives passed the Financial Choice Act, which includes legislation intended to repeal or replace substantial portions of the Dodd-Frank Act. Among other things, the proposed law would repeal the Volcker Rule limiting certain proprietary investment and trading activities by banks, eliminate the authority of regulators to designate asset managers and other large non-bank institutions as "systemically important financial institutions" or "SIFIs," and repeal the Department of Labor ("DOL") "fiduciary rule" governing standards for dealing with retirement plans until the SEC issues standards for similar dealings by broker-dealers and limiting the substance of any subsequent DOL rule to the SEC standards. The bill was referred to the Senate, where it is unlikely to pass as proposed. On November 16, 2017, a bipartisan group of U.S. Senators, led by Senate Banking Committee Chairman, introduced the Economic Growth, Regulatory Relief, and Consumer Protection Act (the "Senate Regulatory Relief Bill"). The Senate Regulatory Relief Bill would revise various post-crisis regulatory requirements and provide targeted regulatory relief to certain financial institutions. Among the most significant of its proposed amendments to the Dodd-Frank Act are a substantial increase in the \$50 billion asset threshold for automatic regulation of bank holding companies as SIFIs, an exemption from the Volcker Rule for insured depository institutions with less than \$10 billion in consolidated assets and lower levels of trading assets and liabilities, as well as amendments to the liquidity leverage ratio and supplementary leverage ratio requirements. On December 5, 2017, the Senate Banking Committee approved the Senate Regulatory Relief Bill. If the legislation is adopted in the Senate, it remains unclear whether and how it would be reconciled with its House-passed counterpart, the Financial Choice Act, which is substantially different in scope and substance, and ultimately approved by both chambers of Congress. At this time it is not possible to determine whether any such particular proposal will become law or its potential impact on us.

***Legislative or other actions relating to taxes could have a negative effect on us.***

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

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

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

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

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

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

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

In the recent past, concerns have been publicized that some of the member banks surveyed by the British Bankers’ Association (“BBA”) in connection with the calculation of LIBOR across a range of maturities and currencies may have been under-reporting or otherwise manipulating the inter-bank lending rate applicable to them in order to profit on their derivatives positions or to avoid an appearance of capital insufficiency or adverse reputational or other consequences that may have resulted from reporting inter-bank lending rates higher than those they actually submitted. A number of BBA member banks entered into settlements with their regulators and law enforcement agencies with respect to alleged manipulation of LIBOR, and investigations by regulators and governmental authorities in various jurisdictions are ongoing.

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

Actions by the BBA, the United Kingdom Financial Conduct Authority or other regulators or law enforcement agencies as a result of these or future events, may result in changes to the manner in which LIBOR is determined. Potential changes, or uncertainty related to such potential changes may adversely affect the market for LIBOR-based securities, including our portfolio of LIBOR-indexed, floating-rate debt securities. In addition, any further changes or reforms to the determination or supervision of LIBOR may result in a sudden or prolonged increase or decrease in reported LIBOR, which could have an adverse impact on the market for LIBOR-based securities or the value of our portfolio of LIBOR-indexed, floating-rate debt securities.

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

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

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

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

The occurrence of events similar to those in recent years, such as the aftermath of the war in Iraq, instability in Afghanistan, Pakistan, Egypt, Libya, Syria, Russia, Ukraine and the Middle East, ongoing epidemics of infectious diseases in certain parts of the world, terrorist attacks in the U.S. and around the world, social and political discord, debt crises (such as the Greek crisis), sovereign debt downgrades, continued tensions between North Korea and the United States and the international community generally, new and continued political unrest in various countries, such as Venezuela, the exit or potential exit of one or more countries from the EU or the Economic and Monetary Union, the change in the U.S. president and the new administration, among others, may result in market volatility, may have long term effects on the U.S. and worldwide financial markets, and may cause further economic uncertainties in the U.S. and worldwide.

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

***We may suffer credit losses.***

Investment in small and middle-market companies is highly speculative and involves a high degree of risk of credit loss. These risks are likely to increase during volatile economic periods. See “Risks Related to Our Investments.”

***Our financial condition and results of operations will depend on our ability to manage our future growth effectively.***

Prospect Capital Management has been registered as an investment adviser since March 31, 2004, and we have been organized as a closed-end investment company since April 13, 2004. Our ability to achieve our investment objective depends on our ability to grow, which depends, in turn, on the Investment Adviser’s ability to continue to identify, analyze, invest in and monitor companies that meet our investment criteria. Accomplishing this result on a cost-effective basis is largely a function of the Investment Adviser’s structuring of investments, its ability to provide competent, attentive and efficient services to us and our access to financing on acceptable terms. As we continue to grow, Prospect Capital Management will need to continue to hire, train, supervise and manage new employees. Failure to manage our future growth effectively could have a materially adverse effect on our business, financial condition and results of operations.

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

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

***We operate in a highly competitive market for investment opportunities.***

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

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

We may lose investment opportunities if we do not match our competitors’ pricing, terms and structure. If we match our competitors’ pricing, terms and structure, we may experience decreased net interest income and increased risk of credit loss. As a result of operating in such a competitive environment, we may make investments that are on less favorable terms than what we may have originally anticipated, which may impact our return on these investments.

***We fund a portion of our investments with borrowed money, which magnifies the potential for gain or loss on amounts invested and may increase the risk of investing in us.***

Borrowings and other types of financing, also known as leverage, magnify the potential for gain or loss on amounts invested and, therefore, increase the risks associated with investing in our securities. Our lenders have fixed dollar claims on our assets that are superior to the claims of our common stockholders or any preferred stockholders. If the value of our assets increases, then leveraging would cause the net asset value to increase more sharply than it would have had we not leveraged. Conversely, if the value of our assets decreases, leveraging would cause net asset value to decline more sharply than it otherwise would have had we not leveraged. Similarly, any increase in our income in excess of consolidated interest payable on the borrowed funds would cause our net income to increase more than it would without the leverage, while any decrease in our income would cause net income to decline more

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

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

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

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

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

***We may experience fluctuations in our quarterly results.***

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

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

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

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

We are substantially dependent on our informal relationships, which we use to help identify and gain access to investment opportunities. If we fail to maintain our relationships with key firms, or if we fail to establish strong referral relationships with other firms or other sources of investment opportunities, we will not be able to grow our portfolio of equity investments and achieve our investment objective. In addition, persons with whom we have informal relationships are not obligated to inform us of investment opportunities, and therefore such relationships may not lead to the origination of equity or other investments. Any loss or diminishment of such relationships could effectively reduce our ability to identify attractive portfolio companies that meet our investment criteria, either for direct equity investments or for investments through private secondary market transactions or other secondary transactions.

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

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

***Potential conflicts of interest could impact our investment returns.***

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

In the course of our investing activities, under the Investment Advisory Agreement we pay base management and incentive fees to Prospect Capital Management and reimburse Prospect Capital Management for certain expenses it incurs. As a result of the Investment Advisory Agreement, there may be times when the senior management team of Prospect Capital Management has interests that differ from those of our stockholders, giving rise to a conflict.

The Investment Adviser receives a quarterly income incentive fee based, in part, on our pre-incentive fee net investment income, if any, for the immediately preceding calendar quarter. This income incentive fee is subject to a fixed quarterly hurdle rate before providing an income incentive fee return to Prospect Capital Management. This fixed hurdle rate was determined when then current interest rates were relatively low on a historical basis. Thus, if interest rates rise, it would become easier for our investment income to exceed the hurdle rate and, as a result, more likely that Prospect Capital Management will receive an income incentive fee than if interest rates on our investments remained constant or decreased. Subject to the receipt of any requisite stockholder approval under the 1940 Act, our Board of Directors may adjust the hurdle rate by amending the Investment Advisory Agreement.

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

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

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

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

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

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

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

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

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

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

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

We are subject to changing rules and regulations of federal and state governments, as well as the stock exchange on which our common stock is listed. These entities, including the Public Company Accounting Oversight Board, the SEC and the NASDAQ Global Select Market, have issued a significant number of new and increasingly complex requirements and regulations over the



course of the last several years and continue to develop additional regulations. In particular, changes in the laws or regulations or the interpretations of the laws and regulations that govern BDCs, RICs or non-depository commercial lenders could significantly affect our operations and our cost of doing business. We are subject to federal, state and local laws and regulations and are subject to judicial and administrative decisions that affect our operations, including our loan originations, maximum interest rates, fees and other charges, disclosures to portfolio companies, the terms of secured transactions, collection and foreclosure procedures and other trade practices. If these laws, regulations or decisions change, or if we expand our business into jurisdictions that have adopted more stringent requirements than those in which we currently conduct business, we may have to incur significant expenses in order to comply, or we might have to restrict our operations. In addition, if we do not comply with applicable laws, regulations and decisions, we may lose licenses needed for the conduct of our business and be subject to civil fines and criminal penalties, any of which could have a material adverse effect upon our business, financial condition and results of operations.

***Foreign and domestic political risk may adversely affect our business.***

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

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

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

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

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

The occurrence of a disaster such as a cyber-attack, a natural catastrophe, an industrial accident, a terrorist attack or war, events unanticipated in our disaster recovery systems, or a support failure from external providers, could have an adverse effect on our ability to conduct business and on our results of operations and financial condition, particularly if those events affect our computer-based data processing, transmission, storage, and retrieval systems or destroy data. If a significant number of our managers were unavailable in the event of a disaster, our ability to effectively conduct our business could be severely compromised.

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

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

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

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

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

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

#### **Risks Relating to Our Operation as a Business Development Company**

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

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

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

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

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

The annual distribution requirement for a RIC will generally be satisfied if we distribute at least 90% of our ordinary income and net short-term capital gains in excess of net long-term capital losses, if any, to our stockholders on an annual basis. Because we use debt financing, we are subject to certain asset coverage ratio requirements under the 1940 Act and financial covenants that could, under certain circumstances, restrict us from making distributions necessary to qualify for RIC tax treatment. If we are unable to obtain cash from other sources, we may fail to qualify for RIC tax treatment and, thus, may be subject to corporate-level income tax on all of our taxable income.

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

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

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

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

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

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

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

As a BDC regulated under provisions of the 1940 Act, we are not generally able to issue and sell our common stock at a price below the current net asset value per share without stockholder approval. If our common stock trades at a discount to net asset value, this restriction could adversely affect our ability to raise capital. We may, however, sell our common stock, or warrants, options or rights to acquire our common stock, at a price below the current net asset value of our common stock in certain circumstances, including if (i) (1) the holders of a majority of our shares (or, if less, at least 67% of a quorum consisting of a majority of our shares) and a similar majority of the holders of our shares who are not affiliated persons of us approve the sale of our common stock at a price that is less than the current net asset value, and (2) a majority of our Directors who have no financial interest in the transaction and a majority of our independent Directors (a) determine that such sale is in our and our stockholders’ best interests and (b) in consultation with any underwriter or underwriters of the offering, make a good faith determination as of a time either immediately prior to the first solicitation by us or on our behalf of firm commitments to purchase such shares, or immediately prior to the issuance of such shares, that the price at which such shares are to be sold is not less than a price which closely approximates the market value of such shares, less any distributing commission or discount or if (ii) a majority of the number of the beneficial holders of our common stock entitled to vote at our annual meeting, without regard to whether a majority of such shares are voted in favor of the proposal, approve the sale of our common stock at a price that is less than the current net asset value per share.

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

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

***Securitization of our assets subjects us to various risks.***

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

An important aspect of most debt securitization transactions is that the sale and/or contribution of assets into the SPE be considered a true sale and/or contribution for accounting purposes and that a reviewing court would not consolidate the SPE with the operations of the originator in the event of the originator’s bankruptcy based on equitable principles. Viewed as a whole, a debt securitization seeks to lower risk to the note purchasers by isolating the assets collateralizing the securitization in an SPE that is not subject to the credit and bankruptcy risks of the originator. As a result of this perceived reduction of risk, debt securitization transactions frequently achieve lower overall leverage costs for originators as compared to traditional secured lending transactions.

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

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

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

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

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

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

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

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

**Risks Relating to Our Investments**

***We may not realize gains or income from our investments.***

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

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

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

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

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

***Price declines and illiquidity in the corporate debt markets have adversely affected, and may in the future adversely affect, the fair value of our portfolio investments, reducing our net asset value through increased net unrealized depreciation.***

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

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

***Our investments in prospective portfolio companies may be risky and we could lose all or part of our investment.***

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

- These companies may have limited financial resources and may be unable to meet their obligations under their securities that we hold, which may be accompanied by a deterioration in the value of their securities or of any collateral with respect to any securities, and a reduction in the likelihood of our realizing on any guarantees we may have obtained in connection with our investment.
- They may have shorter operating histories, narrower product lines and smaller market shares than larger businesses, which tend to render them more vulnerable to competitors' actions and market conditions as well as general economic downturns.
- Because many of these companies are privately held companies, public information is generally not available about these companies. As a result, we will depend on the ability of the Investment Adviser to obtain adequate information to evaluate these companies in making investment decisions. If the Investment Adviser is unable to uncover all material information about these companies, it may not make a fully informed investment decision, and we may lose money on our investments.
- They are more likely to depend on the management talents and efforts of a small group of persons; therefore, the death, disability, resignation or termination of one or more of these persons could have a materially adverse impact on our portfolio company and, in turn, on us.
- They may have less predictable operating results, may from time to time be parties to litigation, may be engaged in changing businesses with products subject to a risk of obsolescence and may require substantial additional capital to support their operations, finance expansion or maintain their competitive position.
- They may have difficulty accessing the capital markets to meet future capital needs.
- Changes in laws and regulations, as well as their interpretations, may adversely affect their business, financial structure or prospects.
- Increased taxes, regulatory expense or the costs of changes to the way they conduct business due to the effects of climate change may adversely affect their business, financial structure or prospects.

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

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

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

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

***Economic recessions or downturns could impair our portfolio companies and harm our operating results.***

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

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

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

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

- Any equity investment we make in a portfolio company could be subject to further dilution as a result of the issuance of additional equity interests and to serious risks as a junior security that will be subordinate to all indebtedness (including trade creditors) or senior securities in the event that the issuer is unable to meet its obligations or becomes subject to a bankruptcy process.
- To the extent that the portfolio company requires additional capital and is unable to obtain it, we may not recover our investment.
- In some cases, equity securities in which we invest will not pay current dividends, and our ability to realize a return on our investment, as well as to recover our investment, will be dependent on the success of the portfolio company. Even if the portfolio company is successful, our ability to realize the value of our investment may be dependent on the occurrence of a liquidity event, such as a public offering or the sale of the portfolio company. It is likely to take a significant amount of time before a liquidity event occurs or we can otherwise sell our investment. In addition, the equity securities we receive or invest in may be subject to restrictions on resale during periods in which it could be advantageous to sell them.

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

- Preferred securities may include provisions that permit the issuer, at its discretion, to defer distributions for a stated period without any adverse consequences to the issuer. If we own a preferred security that is deferring its distributions, we may be required to report income for tax purposes before we receive such distributions.
- Preferred securities are subordinated to debt in terms of priority to income and liquidation payments, and therefore will be subject to greater credit risk than debt.
- Preferred securities may be substantially less liquid than many other securities, such as common stock or U.S. government securities.
- Generally, preferred security holders have no voting rights with respect to the issuing company, subject to limited exceptions.

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

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

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

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

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

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

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

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

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

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

***Our portfolio companies may be highly leveraged.***

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



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

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

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

***Our failure to make follow-on investments in our existing portfolio companies could impair the value of our portfolio.***

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

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

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

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

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

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

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

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

- Our debt investments may be in the form of unsecured loans, therefore our liens on the collateral, if any, are subordinated to those of the senior secured debt of the portfolio companies, if any. As a result, we may not be able to control remedies with respect to the collateral.
- The collateral may not be valuable enough to satisfy all of the obligations under our secured loan, particularly after giving effect to the repayment of secured debt of the portfolio company that ranks senior to our loan.
- Bankruptcy laws may limit our ability to realize value from the collateral and may delay the realization process.
- Our rights in the collateral may be adversely affected by the failure to perfect security interests in the collateral.
- The need to obtain regulatory and contractual consents could impair or impede how effectively the collateral would be liquidated and could affect the value received.

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

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

Our investment strategy contemplates potential investments in securities of foreign companies, including those located in emerging market countries. Investing in foreign companies may expose us to additional risks not typically associated with investing in U.S. companies. These risks include changes in exchange control regulations, political and social instability, expropriation, imposition of foreign taxes, less liquid markets and less available information than is generally the case in the United States, higher transaction costs, less government supervision of exchanges, brokers and issuers, less developed bankruptcy laws, difficulty in enforcing contractual obligations, lack of uniform accounting and auditing standards and greater price volatility. Such risks are more pronounced in emerging market countries.

Although currently substantially all of our investments are, and we expect that most of our investments will be, U.S. dollar-denominated, investments that are denominated in a foreign currency will be subject to the risk that the value of a particular currency will change in relation to one or more other currencies. Among the factors that may affect currency values are trade balances, the level of short-term interest rates, differences in relative values of similar assets in different currencies, long-term opportunities for investment and capital appreciation, and political developments.

***We may expose ourselves to risks if we engage in hedging transactions.***

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

The success of our hedging transactions depends on our ability to correctly predict movements, currencies and interest rates. Therefore, while we may enter into such transactions to seek to reduce currency exchange rate and interest rate risks, unanticipated changes in currency exchange rates or interest rates may result in poorer overall investment performance than if we had not engaged in any such hedging transactions. The degree of correlation between price movements of the instruments used in a hedging strategy and price movements in the portfolio positions being hedged may vary. Moreover, for a variety of reasons, we may not seek to establish a perfect correlation between such hedging instruments and the portfolio holdings being hedged. Any such imperfect correlation may prevent us from achieving the intended hedge and expose us to risk of loss. In addition, it may not be possible to hedge fully or perfectly against currency fluctuations affecting the value of securities denominated in non-U.S. currencies. We have no current intention of engaging in any of the hedging transaction described above, although it reserves the right to do so in the future.

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

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

***Investments in the energy sector are subject to many risks.***

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

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

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

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

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

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

***Our CLO investments are exposed to leveraged credit risk.***

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

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

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

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

Our CLO investment strategy allows investments in foreign CLOs. Investing in foreign entities may expose us to additional risks not typically associated with investing in U.S. issuers. These risks include changes in exchange control regulations, political and social instability, expropriation, imposition of foreign taxes, less liquid markets and less available information than is generally the case in the United States, higher transaction costs, less government supervision of exchanges, brokers and issuers, less developed bankruptcy laws, difficulty in enforcing contractual obligations, lack of uniform accounting and auditing standards and greater price volatility. Further, we, and the CLOs in which we invest, may have difficulty enforcing creditor's rights in foreign jurisdictions. In addition, the underlying companies of the CLOs in which we invest may be foreign, which may create greater exposure for us to foreign economic developments.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

The investments we make in CLOs are thinly traded or have only a limited trading market. CLO investments are typically privately offered and sold, in the primary and secondary markets. As a result, investments in CLOs may be characterized as illiquid securities. In addition to the general risks associated with investing in debt securities, CLOs carry additional risks, including, but not limited to: (i) the possibility that distributions from the underlying senior secured loans will not be adequate to make interest or other payments; (ii) the quality of the underlying senior secured loans may decline in value or default; and (iii) the complex structure of the security may not be fully understood at the time of investment and may produce disputes with the CLO or unexpected investment results. Further, our investments in equity and junior debt tranches of CLOs are subordinate to the senior debt tranches thereof.

Investments in structured vehicles, including equity and junior debt instruments issued by CLOs, involve risks, including credit risk and market risk. Changes in interest rates and credit quality may cause significant price fluctuations. Additionally, changes in the underlying senior secured loans held by a CLO may cause payments on the instruments we hold to be reduced, either temporarily or permanently. Structured investments, particularly the subordinated interests in which we invest, are less liquid than many other types of securities and may be more volatile than the senior secured loans underlying the CLOs in which we invest.

***Non-investment grade debt involves a greater risk of default and higher price volatility than investment grade debt.***

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

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

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

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

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

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

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

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

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

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

***With respect to our online consumer lending initiative, we are dependent on the business performance and competitiveness of marketplace lending facilitators and our ability to assess loan underwriting performance and, if the marketplace lending facilitators from which we currently purchase consumer loans are unable to maintain or increase consumer loan originations, or if such marketplace lending facilitators do not continue to sell consumer loans to us, or we are unable to otherwise purchase additional loans, our business and results of operations will be adversely affected.***

With respect to our online consumer lending initiative, we invest primarily in marketplace loans through marketplace lending facilitators. We do not conduct loan origination activities ourselves. Therefore, our ability to purchase consumer loans, and our ability to grow our portfolio of consumer loans, is directly influenced by the business performance and competitiveness of the marketplace loan origination business of the marketplace lending facilitators from which we purchase consumer loans.

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

With respect to our online consumer lending initiative, we rely on the marketplace lending facilitators to service loans including pursuing collections against borrowers. Personal loans facilitated through the marketplace lending facilitators are not secured by any collateral, are not guaranteed or insured by any third-party and are not backed by any governmental authority in any way. Marketplace lending facilitators are therefore limited in their ability to collect on the loans if a borrower is unwilling or unable to repay. A borrower's ability to repay can be negatively impacted by increases in their payment obligations to other lenders under mortgage, credit card and other loans, including student loans and home equity lines of credit. These changes can result from increases in base lending rates or structured increases in payment obligations and could reduce the ability of the borrowers to meet their payment obligations to other lenders and under the loans purchased by us. If a borrower defaults on a loan, the marketplace lending facilitators may outsource subsequent servicing efforts to third-party collection agencies, which may be unsuccessful in their efforts to collect the amount of the loan. Marketplace lending facilitators make payments ratably on an investor's investment only if they receive the borrower's payments on the corresponding loan. If they do not receive payments on the corresponding loan related to an investment, we are not entitled to any payments under the terms of the investment.

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

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

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

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

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

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

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

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

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

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

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

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

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

***Risks affecting investments in real estate.***

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

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



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

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

- The higher interest rates of OID and PIK instruments reflect the payment deferral and increased credit risk associated with these instruments, and OID and PIK instruments generally represent a significantly higher credit risk than coupon loans.
- Even if the accounting conditions for income accrual are met, the borrower could still default when our actual collection is supposed to occur at the maturity of the obligation.
- OID and PIK instruments may have unreliable valuations because their continuing accruals require continuing judgments about the collectibility of the deferred payments and the value of any associated collateral. OID and PIK income may also create uncertainty about the source of our cash distributions.

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

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

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

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

#### **Risks Relating to Our Securities**

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

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

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

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

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

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

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

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

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

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

<b>Assumed Return on Our Portfolio (net of expenses)</b>	<b>(10.0)%</b>	<b>(5.0)%</b>	<b>— %</b>	<b>5.0%</b>	<b>10.0%</b>
Corresponding Return to Stockholder	(20.1)%	(11.8)%	(3.5)%	4.8%	13.1%

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

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

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

***The Convertible Notes and the Public Notes present other risks to holders of our common stock, including the possibility that such notes could discourage an acquisition of us by a third party and accounting uncertainty.***

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

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

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

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

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

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

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

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

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

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

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

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

The credit facility requires us to pledge assets as collateral in order to borrow under the credit facility. If we are unable to extend our facility or find a new source of borrowing on acceptable terms, we will be required to pay down the amounts outstanding under the facility during the two-year term-out period through one or more of the following: (1) principal collections on our securities pledged under the facility, (2) at our option, interest collections on our securities pledged under the facility and cash collections on our securities not pledged under the facility, or (3) possible liquidation of some or all of our loans and other assets, any of which could have a material adverse effect on our results of operations and financial position and may force us to decrease or stop paying certain expenses and making distributions until the facility is repaid. In addition, our stock price could decline significantly, we would be restricted in our ability to acquire new investments and, in connection with our year-end audit, and our independent registered accounting firm could raise an issue as to our ability to continue as a going concern.

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

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

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

Our publicly issued debt securities may or may not have an established trading market. We cannot assure our noteholders that a trading market for our publicly issued debt securities will ever develop or be maintained if developed. In addition to our creditworthiness, many factors may materially adversely affect the trading market for, and market value of, our publicly issued debt securities. These factors include, but are not limited to, the following:

- the time remaining to the maturity of these debt securities;
- the outstanding principal amount of debt securities with terms identical to these debt securities;
- the ratings assigned by national statistical ratings agencies;
- the general economic environment;
- the supply of debt securities trading in the secondary market, if any;
- the redemption or repayment features, if any, of these debt securities;
- the level, direction and volatility of market interest rates generally; and
- market rates of interest higher or lower than rates borne by the debt securities.

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

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

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

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

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

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

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

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

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

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

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

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

All dividends declared in cash payable to stockholders that are participants in our dividend reinvestment plan are automatically reinvested in shares of our common stock. As a result, our stockholders that opt out of our dividend reinvestment plan will experience dilution in their ownership percentage of our common stock over time. Stockholders who do not elect to receive distributions in shares of common stock may experience accretion to the net asset value of their shares if our shares are trading at a premium and dilution if our shares are trading at a discount. The level of accretion or discount would depend on various factors, including the proportion of our stockholders who participate in the plan, the level of premium or discount at which our shares are trading and the amount of the distribution payable to a stockholder.

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

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

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

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

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

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

On February 10, 2014, we received an exemptive order from the SEC (the “Order”) that gave us the ability to negotiate terms other than price and quantity of co-investment transactions with other funds managed by the Investment Adviser or certain affiliates, including Priority Income Fund, Inc. and Pathway Capital Opportunity Fund, Inc. (f/k/a Pathway Energy Infrastructure Fund, Inc.), subject to the conditions included therein. Under the terms of the relief permitting us to co-invest with other funds managed by our Investment Adviser or its affiliates, a “required majority” (as defined in Section 57(o) of the 1940 Act) of our independent directors must make certain conclusions in connection with a co-investment transaction, including that (1) the terms of the proposed transaction, including the consideration to be paid, are reasonable and fair to us and our stockholders and do not involve overreaching of us or our stockholders on the part of any person concerned and (2) the transaction is consistent with the interests of our stockholders and is consistent with our investment objective and strategies. In certain situations where co-investment with one or more funds managed by the Investment Adviser or its affiliates is not covered by the Order, such as when there is an opportunity to invest in different securities of the same issuer, the personnel of the Investment Adviser or its affiliates will need to decide which fund will proceed with the investment. Such personnel will make these determinations based on policies and procedures, which are designed to reasonably ensure that investment opportunities are allocated fairly and equitably among affiliated funds over time and in a manner that is consistent with applicable laws, rules and regulations. Moreover, except in certain circumstances, when relying on the Order, we will be unable to invest in any issuer in which one or more funds managed by the Investment Adviser or its affiliates has previously invested.

***The market price of our securities may fluctuate significantly.***

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

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

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

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

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

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

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

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

Our charter provides for the classification of our Board of Directors into three classes of directors, serving staggered three-year terms, which may render a change of control or removal of our incumbent management more difficult. Furthermore, any and all vacancies on our Board of Directors will be filled generally only by the affirmative vote of a majority of the remaining directors in office, even if the remaining directors do not constitute a quorum, and any director elected to fill a vacancy will serve for the remainder of the full term until a successor is elected and qualifies.

Our Board of Directors is authorized to create and issue new series of shares, to classify or reclassify any unissued shares of stock into one or more classes or series, including preferred stock and, without stockholder approval, to amend our charter to increase or decrease the number of shares of common stock that we have authority to issue, which could have the effect of diluting a stockholder's ownership interest. Prior to the issuance of shares of common stock of each class or series, including any reclassified series, our Board of Directors is required by our governing documents to set the terms, preferences, conversion or other rights,

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

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

- The Maryland Business Combination Act, which, subject to certain limitations, prohibits certain business combinations between us and an “interested stockholder” (defined generally as any person who beneficially owns 10% or more of the voting power of the common stock or an affiliate thereof) for five years after the most recent date on which the stockholder becomes an interested stockholder and, thereafter, imposes special minimum price provisions and special stockholder voting requirements on these combinations.
- The Maryland Control Share Acquisition Act, which provides that “control shares” of a Maryland corporation (defined as shares of common stock which, when aggregated with other shares of common stock controlled by the stockholder, entitles the stockholder to exercise one of three increasing ranges of voting power in electing directors, as described more fully below) acquired in a “control share acquisition” (defined as the direct or indirect acquisition of ownership or control of “control shares”) have no voting rights except to the extent approved by stockholders by the affirmative vote of at least two-thirds of all the votes entitled to be cast on the matter, excluding all interested shares of common stock.

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

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

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

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

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

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

We may distribute taxable dividends that are payable in part in our stock. In accordance with guidance issued by the Internal Revenue Service, a publicly traded RIC should generally be eligible to treat a distribution of its own stock as fulfilling its RIC distribution requirements if each stockholder is permitted to elect to receive his or her distribution in either cash or stock of the RIC (even where there is a limitation on the percentage of the distribution payable in cash, provided that the limitation is at least 20%), subject to the satisfaction of certain guidelines. If too many stockholders elect to receive cash, each stockholder electing



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

#### Item 1B. Unresolved Staff Comments

Not applicable.

#### Item 2. Properties

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

#### Item 3. Legal Proceedings

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

#### Item 4. Mine Safety Disclosures

Not applicable.

## PART II

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

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

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

Year Ended	Net Asset Value Per Share(1)	Sales Price		Premium (Discount) of High Sales Price to Net Asset Value	Premium (Discount) of Low Sales Price to Net Asset Value
		High	Low		
June 30, 2017					
First quarter	\$ 9.60	\$ 8.65	\$ 7.80	(9.9%)	(18.8%)
Second quarter	9.62	8.50	7.46	(11.6%)	(22.5%)
Third quarter	9.43	9.53	8.42	1.1%	(10.7%)
Fourth quarter	9.32	9.40	7.95	0.9%	(14.7%)
June 30, 2018					
First quarter	\$ 9.12	\$ 8.34	\$ 6.55	(8.6%)	(28.2%)
Second quarter	9.28	7.26	5.56	(21.8%)	(40.1%)
Third quarter	9.23	7.01	6.21	(24.1%)	(32.7%)
Fourth quarter	9.35	6.93	6.30	(25.9%)	(32.6%)

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

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

#### Distribution Policy

Through March 2010, we made quarterly distributions to our stockholders out of assets legally available for distribution. In June 2010, we changed our distribution policy from a quarterly payment to a monthly payment. To the extent prudent and practicable, we currently intend to continue making distributions on a monthly basis. Our ability to pay distributions could be affected by future business performance, liquidity, capital needs, alternative investment opportunities and loan

covenants. Our distributions, if any, will be determined by our Board of Directors. Certain amounts of the monthly distributions may from time to time be paid out of our capital rather than from earnings for the quarter as a result of our deliberate planning or by accounting reclassifications.

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

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

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

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

Declaration Date	Record Date	Payment Date	Amount Per Share	Amount Distributed (in thousands)
5/9/2016	7/29/2016	8/18/2016	\$ 0.083330	\$ 29,783
5/9/2016	8/31/2016	9/22/2016	0.083330	29,809
8/25/2016	9/30/2016	10/20/2016	0.083330	29,837
8/25/2016	10/31/2016	11/17/2016	0.083330	29,863
11/8/2016	11/30/2016	12/22/2016	0.083330	29,890
11/8/2016	12/30/2016	1/19/2017	0.083330	29,915
11/8/2016	1/31/2017	2/16/2017	0.083330	29,940
2/7/2017	2/28/2017	3/23/2017	0.083330	29,963
2/7/2017	3/31/2017	4/20/2017	0.083330	29,989
2/7/2017	4/28/2017	5/18/2017	0.083330	29,994
5/9/2017	5/31/2017	6/22/2017	0.083330	29,999
5/9/2017	6/30/2017	7/20/2017	0.083330	30,005
Total declared and payable for the year ended June 30, 2017				\$ 358,987
5/9/2017	7/31/2017	8/24/2017	\$ 0.083330	\$ 30,011
5/9/2017	8/31/2017	9/21/2017	0.083330	30,017
8/28/2017	9/29/2017	10/19/2017	0.060000	21,619
8/28/2017	10/31/2017	11/22/2017	0.060000	21,623
11/8/2017	11/30/2017	12/21/2017	0.060000	21,630
11/8/2017	12/29/2017	1/18/2018	0.060000	21,659
11/8/2017	1/31/2018	2/15/2018	0.060000	21,691
2/7/2018	2/28/2018	3/22/2018	0.060000	21,724
2/7/2018	3/30/2018	4/19/2018	0.060000	21,759
2/7/2018	4/30/2018	5/24/2018	0.060000	21,797
5/9/2018	5/31/2018	6/21/2018	0.060000	21,829
5/9/2018	6/29/2018	7/19/2018	0.060000	21,865
Total declared and payable for the year ended June 30, 2018				\$ 277,224

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

- \$0.06 per share for July 2018 to holders of record on July 31, 2018 with a payment date of August 23, 2018.
- \$0.06 per share for August 2018 to holders of record on August 31, 2018 with a payment date of September 20, 2018.

#### Dividend Reinvestment Plan

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

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

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

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

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

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

#### **Purchases of equity securities by the issuer and affiliated purchasers**

On August 24, 2011, our Board of Directors approved a share repurchase plan (the "Repurchase Program") under which we may repurchase up to \$100,000 of our common stock at prices below our net asset value per share. Prior to any repurchase, we are required to notify shareholders of our intention to purchase our common stock. Our last notice was delivered with our annual proxy mailing on September 22, 2017.

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

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

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

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

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

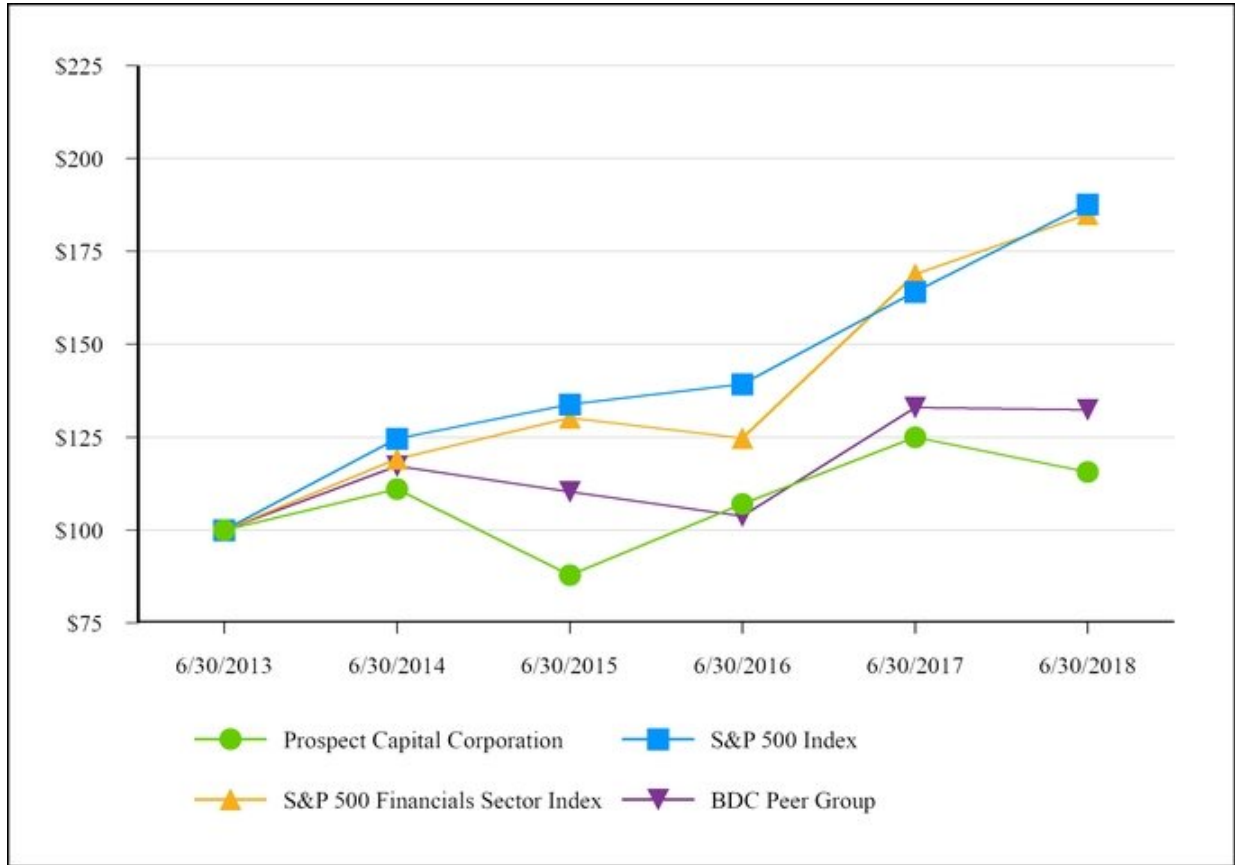
During the year ended June 30, 2018, Prospect officers purchased 12,241,104 shares of our stock, or 3.36% of total outstanding shares as of June 30, 2018, both through the open market transactions and shares issued in connection with our dividend reinvestment plan.

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

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

## Stock Performance Graph

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



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

## Item 6. Selected Financial Data

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

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

- (1) Per share data is based on the weighted average number of common shares outstanding for the years presented (except for dividends to shareholders which is based on actual rate per share).
- (2) Total return based on market value is based on the change in market price per share between the opening and ending market prices per share in each year and assumes that dividends are reinvested in accordance with our dividend reinvestment plan. Total return based on net asset value is based upon the change in net asset value per share between the opening and ending net asset values per share in each year and assumes that dividends are reinvested in accordance with our dividend reinvestment plan.
- (3) Excludes equity investments and non-performing loans.
- (4) We have changed our method of presentation relating to debt issuance costs in accordance with ASU 2015-03, Interest - Imputation of Interest (Subtopic 835-30). Unamortized deferred financing costs of \$40,526, \$44,140, and \$57,010 previously reported as an asset on the Consolidated Statements of Assets and Liabilities as of June 30, 2016, 2015, and 2014 respectively have been reclassified as a direct deduction to the respective Unsecured Notes. See Critical Accounting Policies and Estimates for further discussion.

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

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

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

## Overview

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

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

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

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

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

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

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

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



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

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

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

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

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

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

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

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

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

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

#### **Fourth Quarter Highlights**

##### *Investment Transactions*

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

##### *Debt Issuances and Redemptions*

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

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

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

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

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

On June 7, 2018, we commenced a tender offer to purchase for cash any and all of the \$300,000 aggregate principal amount outstanding of the 5.00% 2019 Notes. On June 20, 2018, \$146,464 aggregate principal amount of the 5.00% 2019 Notes, representing 48.8% of the previously outstanding 5.00% 2019 Notes, were validly tendered and accepted. The transaction resulted in our recognizing a \$3,705 loss during the three months ended June 30, 2018.

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

#### Equity Issuances

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

#### Investment Holdings

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

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

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

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

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

Level of Control	June 30, 2018				June 30, 2017			
	Cost	% of Portfolio	Fair Value	% of Portfolio	Cost	% of Portfolio	Fair Value	% of Portfolio
Control Investments	\$ 2,300,526	39.5%	\$ 2,404,326	42.0%	\$ 1,840,731	30.8%	\$ 1,911,775	32.7%
Affiliate Investments	55,637	0.9%	58,436	1.0%	22,957	0.4%	11,429	0.2%
Non-Control/Non-Affiliate Investments	3,475,295	59.6%	3,264,517	57.0%	4,117,868	68.8%	3,915,101	67.1%
Total Investments	\$ 5,831,458	100.0%	\$ 5,727,279	100.0%	\$ 5,981,556	100.0%	\$ 5,838,305	100.0%

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

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

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

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

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

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

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

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

Industry	June 30, 2018				June 30, 2017			
	Cost	% of Portfolio	Fair Value	% of Portfolio	Cost	% of Portfolio	Fair Value	% of Portfolio
Aerospace & Defense	\$ 69,837	1.2%	\$ 82,278	1.4%	\$ 69,837	1.2%	\$ 71,318	1.2%
Air Freight & Logistics	—	—%	—	—%	51,952	0.9%	51,952	0.9%
Auto Components	12,681	0.2%	12,887	0.2%	30,222	0.5%	30,460	0.5%
Building Products	9,905	0.2%	10,000	0.2%	—	—%	—	—%
Capital Markets	19,799	0.3%	20,000	0.3%	14,796	0.2%	15,000	0.3%
Chemicals	—	—%	—	—%	17,489	0.3%	16,699	0.3%
Commercial Services & Supplies	386,187	6.6%	330,024	5.8%	354,185	5.9%	312,634	5.3%
Communications Equipment	39,860	0.7%	40,000	0.7%	—	—%	—	—%
Construction & Engineering	64,415	1.1%	50,797	0.9%	62,258	1.0%	32,509	0.6%
Consumer Finance	485,381	8.3%	586,978	10.2%	469,869	7.9%	502,941	8.6%
Distributors	470,750	8.1%	402,465	7.0%	140,847	2.4%	83,225	1.4%
Diversified Consumer Services	173,695	3.0%	163,152	2.8%	188,912	3.2%	190,662	3.3%
Diversified Telecommunication Services	—	—%	—	—%	4,395	0.1%	4,410	0.1%
Electronic Equipment, Instruments & Components	54,805	0.9%	62,964	1.1%	37,696	0.6%	51,846	0.9%
Energy Equipment & Services	257,371	4.4%	170,574	3.0%	251,019	4.2%	131,660	2.3%
Equity Real Estate Investment Trusts (REITs)	499,858	8.6%	811,915	14.2%	374,380	6.3%	624,337	10.7%
Food Products	9,884	0.2%	9,886	0.2%	—	—%	—	—%
Health Care Equipment & Supplies	43,279	0.7%	43,279	0.8%	—	—%	—	—%
Health Care Providers & Services	421,198	7.2%	404,130	7.1%	422,919	7.2%	421,389	7.1%
Hotels, Restaurants & Leisure	37,295	0.6%	37,295	0.6%	127,638	2.1%	103,897	1.8%
Hotels & Personal Products	24,938	0.4%	24,938	0.4%	—	—%	—	—%
Household Durables	42,539	0.7%	41,623	0.7%	146,031	2.4%	146,183	2.5%
Insurance	2,986	0.1%	2,986	0.1%	—	—%	—	—%
Internet & Direct Marketing Retail	39,813	0.7%	39,813	0.7%	—	—%	—	—%
Internet Software & Services	229,717	4.0%	229,791	4.0%	219,348	3.7%	219,348	3.8%
IT Services	182,183	3.1%	182,578	3.2%	19,531	0.3%	20,000	0.3%
Leisure Products	45,531	0.8%	45,626	0.8%	44,085	0.7%	44,204	0.8%
Machinery	35,488	0.6%	31,886	0.6%	35,488	0.6%	32,678	0.6%
Marine (1)	—	—%	—	—%	8,919	0.1%	8,800	0.2%
Media	143,063	2.5%	140,365	2.4%	469,108	7.8%	466,500	8.0%
Metals & Mining	—	—%	—	—%	9,953	0.2%	10,000	0.2%
Online Lending	327,159	5.6%	243,078	4.2%	424,350	7.0%	370,931	6.3%
Paper & Forest Products	11,328	0.2%	11,226	0.2%	11,295	0.2%	11,500	0.2%
Personal Products	228,575	3.9%	165,020	2.9%	222,698	3.7%	192,748	3.3%
Pharmaceuticals	11,882	0.2%	12,000	0.2%	117,989	2.0%	117,989	2.0%
Professional Services	74,272	1.3%	76,991	1.3%	64,242	1.1%	64,473	1.1%
Real Estate Management & Development	41,860	0.7%	41,860	0.7%	—	—%	—	—%
Software	66,435	1.1%	67,265	1.2%	56,041	0.9%	55,150	0.9%
Technology Hardware, Storage & Peripherals	12,384	0.2%	12,500	0.2%	—	—%	—	—%
Textiles, Apparel & Luxury Goods	46,429	0.8%	60,220	1.1%	285,180	4.8%	274,206	4.7%
Tobacco	14,392	0.3%	14,392	0.3%	14,365	0.2%	14,431	0.2%
Trading Companies & Distributors	63,863	1.1%	56,199	1.0%	64,513	1.1%	64,513	1.1%
Transportation Infrastructure	27,494	0.5%	28,104	0.5%	—	—%	—	—%
Subtotal	\$ 4,728,531	81.1%	\$ 4,767,085	83.2%	\$ 4,831,550	80.8%	\$ 4,758,593	81.5%
Structured Finance (2)	\$ 1,102,927	18.9%	\$ 960,194	16.8%	\$ 1,150,006	19.2%	\$ 1,079,712	18.5%
Total Investments	\$ 5,831,458	100.0%	\$ 5,727,279	100.0%	\$ 5,981,556	100.0%	\$ 5,838,305	100.0%

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

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

### **Portfolio Investment Activity**

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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



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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

### **Investment Valuation**

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

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

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

The Board of Directors looked at several factors in determining where within the range to value the asset including: recent operating and financial trends for the asset, independent ratings obtained from third parties, comparable multiples for recent sales of companies within the industry and discounted cash flow models for our investments in CLOs. The composite of all these various valuation techniques, applied to each investment, was a total valuation of \$5,727,279.

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

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

#### *CP Energy Services Inc.*

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

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

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

#### *First Tower Finance Company LLC*

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

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

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

#### *Freedom Marine Solutions, LLC*

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

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

#### *InterDent, Inc.*

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

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

*MITY, Inc.*

Prospect owns 100% of the equity of MITY Holdings of Delaware Inc. (“MITY Delaware”), a Consolidated Holding Company. MITY Delaware holds 95.48% of the equity of MITY, Inc. (f/k/a MITY Enterprises, Inc.) (“MITY”), with management of MITY owning the remaining 4.52% of the equity of MITY. MITY owns 100% of each of MITY-Lite, Inc. (“MITY-Lite”); Broda USA, Inc. (f/k/a Broda Enterprises USA, Inc.) (“Broda USA”); and Broda Enterprises ULC (“Broda Canada”). MITY is a designer, manufacturer and seller of multipurpose room furniture and specialty healthcare seating products.

The fair value of our investment in Mity decreased to \$58,894 as of June 30, 2018, a discount of \$5,847 to its amortized cost, compared to a premium of \$11,771 to its amortized cost as of June 30, 2017. The decrease in fair value is driven by a decline in gross profit and operating margins, partially offset by projected revenue growth.

*National Property REIT Corp.*

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

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

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

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

As of June 30, 2018 , based on outstanding principal balance, 6.3% of the portfolio was invested in super prime loans (borrowers with a Fair Isaac Corporation (“FICO”) score, of 720 or greater), 19.5% of the portfolio in prime loans (borrowers with a FICO score of 660 to 719) and 74.2% of the portfolio in near prime loans (borrowers with a FICO score of 580 to 659).

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

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

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

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

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

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

#### *Pacific World*

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

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

#### *Valley Electric Company, Inc.*

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

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

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

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

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

## Capitalization

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

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

	Principal Outstanding	Unamortized Discount & Debt Issuance Costs	Net Carrying Value	Fair Value (1)	Effective Interest Rate
Revolving Credit Facility (2)	\$ 37,000	\$ 2,032	\$ 37,000 (3)	\$ 37,000	1ML+2.25% (6)
2019 Notes	101,647	339	101,308	103,562 (4)	6.51% (7)
2020 Notes	392,000	4,270	387,730	392,529 (4)	5.38% (7)
2022 Notes	328,500	8,465	320,035	320,084 (4)	5.69% (7)
Convertible Notes	822,147		809,073	816,175	
5.00% 2019 Notes	153,536	456	153,080	155,483 (4)	5.29% (7)
2023 Notes	320,000	4,120	315,880	328,909 (4)	6.09% (7)
2024 Notes	199,281	4,559	194,722	202,151 (4)	6.74% (7)
2028 Notes	55,000	1,872	53,128	55,220 (4)	6.72% (7)
Public Notes	727,817		716,810	741,763	
Prospect Capital InterNotes®	760,924	11,998	748,926	779,400 (5)	5.76% (8)
<b>Total</b>	<b>\$ 2,347,888</b>		<b>\$ 2,311,809</b>	<b>\$ 2,374,338</b>	

(1) 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 fair value of these debt obligations are categorized as Level 2 under ASC 820 as of June 30, 2018.

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

- (3) Net Carrying Value excludes deferred financing costs associated with the Revolving Credit Facility. See *Critical Accounting Policies and Estimates* for accounting policy details.
- (4) We use available market quotes to estimate the fair value of the Convertible Notes and Public Notes.
- (5) The fair value of Prospect Capital InterNotes® is estimated by discounting remaining payments using current Treasury rates plus spread based on observable market inputs.
- (6) Represents the rate on drawn down and outstanding balances. Deferred debt issuance costs are amortized on a straight-line method over the stated life of the obligation.
- (7) The effective interest rate is equal to the effect of the stated interest, the accretion of original issue discount and amortization of debt issuance costs. For the 2024 Notes, the rate presented is a combined effective interest rate of the 2024 Notes and 2024 Notes Follow-on Program.
- (8) For the Prospect Capital InterNotes®, the rate presented is the weighted average effective interest rate. Interest expense and deferred debt issuance costs, which are amortized on a straight-line method over the stated life of the obligation, are weighted against the average year-to-date principal balance.

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

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

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

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

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

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



### *Revolving Credit Facility*

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

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

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

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

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

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

### *Convertible Notes*

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

#### *Public Notes*

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

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

On December 10, 2015, we issued \$160,000 aggregate principal amount of unsecured notes that mature on June 15, 2024 (the “2024 Notes”). The 2024 Notes bear interest at a rate of 6.25% per year, payable quarterly on March 15, June 15, September 15 and December 15 of each year, beginning March 15, 2016. Total proceeds from the issuance of the 2024 Notes, net of underwriting discounts and offering costs, were \$155,043. On June 16, 2016, we entered into an at-the-market program with FBR Capital Markets & Co. through which we could sell, by means of at-the-market offerings, from time to time, up to \$100,000 in aggregate principal amount of our existing 2024 Notes. As of June 30, 2018 , we issued \$199,281 in aggregate principal amount of our 2024 Notes for net proceeds of \$193,253 after commissions and offering costs.

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

The 2023 Notes, the 5.00% 2019 Notes, the 2024 Notes, and the 2028 Notes (collectively, the “Public Notes”) are direct unsecured obligations and rank equally with all of our unsecured indebtedness from time to time outstanding.

In connection with the issuance of the 2023 Notes, the 5.00% 2019 Notes, the 2024 Notes, and the 2028 Notes we recorded a discount of \$2,777 and debt issuance costs of \$15,644, which are being amortized over the term of the notes. As of June 30, 2018, \$1,664 of the original issue discount and \$9,343 of the debt issuance costs remain to be amortized and are included as a reduction within Public Notes on the *Consolidated Statement of Assets and Liabilities*.

During the years ended June 30, 2018, 2017 and 2016, we recorded \$44,269, \$43,898 and \$36,859, respectively, of interest costs and amortization of financing costs on the Public Notes as interest expense.

#### *Prospect Capital InterNotes*®

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

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

During the year ended June 30, 2018, we issued \$76,297 aggregate principal amount of Prospect Capital InterNotes® for net proceeds of \$75,159. These notes were issued with stated interest rates ranging from 4.00% to 5.25% with a weighted average interest rate of 4.42%. These notes will mature between July 15, 2022 and May 15, 2026. The following table summarizes the Prospect Capital InterNotes® issued during the year ended June 30, 2018.

<b>Tenor at Origination (in years)</b>	<b>Principal Amount</b>	<b>Interest Rate Range</b>	<b>Weighted Average Interest Rate</b>	<b>Maturity Date Range</b>
5	\$ 46,893	4.00% - 5.00%	4.24%	July 15, 2022 - June 15, 2023
7	4,684	4.75% - 5.25%	5.06%	July 15, 2024 - June 15, 2025
8	24,720	4.50% - 5.25%	4.65%	August 15, 2025 - May 15, 2026
	<u>\$ 76,297</u>			

During the year ended June 30, 2017, we issued \$138,882 aggregate principal amount of our Prospect Capital InterNotes® for net proceeds of \$137,150. The following table summarizes the Prospect Capital InterNotes® issued during the year ended June 30, 2017.

<b>Tenor at Origination (in years)</b>	<b>Principal Amount</b>	<b>Interest Rate Range</b>	<b>Weighted Average Interest Rate</b>	<b>Maturity Date Range</b>
5	\$ 138,882	4.75% - 5.50%	5.08%	July 15, 2021 - June 15, 2022
	<u>\$ 138,882</u>			

During the year ended June 30, 2018, we redeemed, prior to maturity, \$269,375 aggregate principal amount of Prospect Capital InterNotes® at par with a weighted average interest rate of 4.89% in order to replace shorter maturity debt with longer-term debt. During the year ended June 30, 2018, we repaid \$6,899 aggregate principal amount of Prospect Capital InterNotes® at par in accordance with the Survivor’s Option, as defined in the InterNotes® Offering prospectus. As a result of these transactions, we recorded a loss in the amount of the unamortized debt issuance costs. The net loss on the extinguishment of Prospect Capital InterNotes® in the year ended June 30, 2018 was \$1,506. The following table summarizes the Prospect Capital InterNotes® outstanding as of June 30, 2018.

Tenor at Origination (in years)	Principal Amount	Interest Rate Range	Weighted Average Interest Rate	Maturity Date Range
5	\$ 228,835	4.00% – 5.50%	4.92%	July 15, 2020 - June 15, 2023
5.2	4,440	4.63%	4.63%	August 15, 2020 - September 15, 2020
5.3	2,636	4.63%	4.63%	September 15, 2020
5.5	86,097	4.25% – 4.75%	4.61%	May 15, 2020 - November 15, 2020
6	2,182	4.88%	4.88%	April 15, 2021 - May 15, 2021
6.5	38,832	5.10% – 5.25%	5.23%	December 15, 2021 - May 15, 2022
7	147,349	4.00% – 5.75%	5.05%	January 15, 2020 - June 15, 2025
7.5	1,996	5.75%	5.75%	February 15, 2021
8	24,720	4.50% – 5.25%	4.65%	August 15, 2025 - May 15, 2026
10	37,424	5.34% – 7.00%	6.19%	March 15, 2022 - December 15, 2025
12	2,978	6.00%	6.00%	November 15, 2025 - December 15, 2025
15	17,163	5.25% – 6.00%	5.35%	May 15, 2028 - November 15, 2028
18	20,677	4.13% – 6.25%	5.55%	December 15, 2030 - August 15, 2031
20	4,120	5.75% – 6.00%	5.89%	November 15, 2032 - October 15, 2033
25	33,139	6.25% – 6.50%	6.39%	August 15, 2038 - May 15, 2039
30	108,336	5.50% – 6.75%	6.24%	November 15, 2042 - October 15, 2043
	<u>\$ 760,924</u>			

During the year ended June 30, 2017, we redeemed \$49,947 aggregate principal amount of Prospect Capital InterNotes® at par with a weighted average interest rate of 4.87% in order to replace debt with shorter maturity dates. During the year ended June 30, 2017, we repaid \$8,880 aggregate principal amount of Prospect Capital InterNotes® at par in accordance with the Survivor's Option, as defined in the InterNotes® Offering prospectus. As a result of these transactions, we recorded a loss in the amount of the difference between the reacquisition price and the net carrying amount of the notes, net of the proportionate amount of unamortized debt issuance costs. The net gain on the extinguishment of Prospect Capital InterNotes® in the year ended June 30, 2017 was \$525.

The following table summarizes the Prospect Capital InterNotes® outstanding as of June 30, 2017.

Tenor at Origination (in years)	Principal Amount	Interest Rate Range	Weighted Average Interest Rate	Maturity Date Range
4	\$ 39,038	3.75% - 4.00%	3.92%	November 15, 2017 - May 15, 2018
5	354,805	4.25% - 5.50%	5.00%	July 15, 2018 - June 15, 2022
5.2	4,440	4.63%	4.63%	August 15, 2020 - September 15, 2020
5.3	2,686	4.63%	4.63%	September 15, 2020
5.4	5,000	4.75%	4.75%	August 15, 2019
5.5	109,068	4.25% - 5.00%	4.67%	February 15, 2019 - November 15, 2020
6	2,182	4.88%	4.88%	April 15, 2021 - May 15, 2021
6.5	40,702	5.10% - 5.50%	5.24%	February 15, 2020 - May 15, 2022
7	191,356	4.00% - 6.55%	5.38%	June 15, 2019 - December 15, 2022
7.5	1,996	5.75%	5.75%	February 15, 2021
10	37,509	4.27% - 7.00%	6.20%	March 15, 2022 - December 15, 2025
12	2,978	6.00%	6.00%	November 15, 2025 - December 15, 2025
15	17,245	5.25% - 6.00%	5.36%	May 15, 2028 - November 15, 2028
18	21,532	4.13% - 6.25%	5.47%	December 15, 2030 - August 15, 2031
20	4,248	5.63% - 6.00%	5.84%	November 15, 2032 - October 15, 2033
25	34,218	6.25% - 6.50%	6.39%	August 15, 2038 - May 15, 2039
30	111,491	5.50% - 6.75%	6.22%	November 15, 2042 - October 15, 2043
	<u>\$ 980,494</u>			

In connection with the issuance of Prospect Capital InterNotes ® , we incurred \$24,465 of fees which are being amortized over the term of the notes, of which \$11,998 remains to be amortized and is included as a reduction within Prospect Capital InterNotes ® on the *Consolidated Statement of Assets and Liabilities* as of June 30, 2018 .

During the years ended June 30, 2018, 2017 and 2016 , we recorded \$46,580 , \$53,560 and \$48,681 , respectively, of interest costs and amortization of financing costs on the Prospect Capital InterNotes ® as interest expense.

### Net Asset Value

During the year ended June 30, 2018 , our net asset value increased by \$52,095 or \$0.03 per share. This increase is primarily from an increase in net realized and change in unrealized gains (losses) of \$13,013, or \$0.04 per share, driven by increases in the fair values of our controlled companies operating in the consumer finance and real estate industries, partially offset by a decrease in the fair value of our CLO portfolio. (See *Change in Unrealized Gains (Losses)* , Net for further discussion.) Net investment income exceeded distributions to shareholders by \$0.02 per share during the period. These increases were partially offset by a \$0.03 per share decline is related to the effect from reinvestment of our dividends on behalf of our stockholders at current market prices. The following table shows the calculation of net asset value per share as of June 30, 2018 and June 30, 2017 .

	June 30, 2018		June 30, 2017	
Net assets	\$	3,407,047	\$	3,354,952
Shares of common stock issued and outstanding		364,409,938		360,076,933
Net asset value per share	\$	9.35	\$	9.32

### Results of Operations

Net increase in net assets resulting from operations for the years ended June 30, 2018 , 2017 and 2016 was \$299,863 , \$252,906 and \$103,362 , or \$0.83, \$0.70 , and \$0.29 per weighted average share, respectively. During the year ended June 30, 2018 , the \$46,957 increase is primarily due to an increase net realized and change in unrealized gains of \$20,607 recognized during the year ended June 30, 2018 compared to \$46,165 of net realized and unrealized losses recognized during the year ended June 30, 2017 . This fluctuation is primarily due to increased value from increases in the fair values of our controlled companies operating in the consumer finance and real estate industries, partially offset by a decrease in the fair value of our CLO portfolio. The \$66,772 , or \$0.19 per weighted average share, favorable change in net realized and change in unrealized gains (losses) is partially offset by a \$61,705 , or \$0.18 per weighted average share, unfavorable decline in total interest income primarily due to reduced returns from our structured credit investments as a result of lower future expected cash flows and decreases in interest income due to repayments on investments. The unfavorable decline in total interest income is offset by a \$7,367 , or \$0.02 per weighted average share, increase in dividend income which is primarily attributable to \$11,279 dividends received from our investment in NPRC, which was generated from taxable earnings and profits in connection with the gain on the sales of NPRC’s St. Marin and Central Park properties. No such dividends were received from NPRC during the year ended June 30, 2017. The unfavorable decline in total interest income is further offset by a \$11,137 , or \$0.03 per weighted average share, increase in total other income. (See “Investment Income”, “Net Realized Losses” and “Net Change in Unrealized Gains (Losses)” for further discussion).

Net increase in net assets resulting from operations for the year ended June 30, 2017 was \$252,906, an increase of \$149,544 compared to the year ended June 30, 2016. The increase is primarily due to a decrease in net realized and change in unrealized losses of \$46,165 recognized during the year ended June 30, 2017 compared to \$267,990 of net realized and unrealized losses recognized during the year ended June 30, 2016. This fluctuation is primarily due to decreases in market yields and the competitive environment faced by our energy-related companies during the year ended June 30, 2016. This \$221,825, or \$0.62 per weighted average share, favorable decrease in net realized and change in unrealized losses is partially offset by \$62,901 decrease in interest income driven by a decline in returns from CLOs, a reduced interest earning asset base and additional loans on non-accrual status. Additionally, net realized and change in unrealized losses is partially offset by a \$20,822 decline in dividend income primarily a non-recurring dividend received from APRC in the prior year period.

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

## Investment Income

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

Investment income, which consists of interest income, including accretion of loan origination fees and prepayment penalty fees, dividend income and other income, including settlement of net profits interests, overriding royalty interests and structuring fees, was \$ 657,845 , \$ 701,046 and \$791,973 for the years ended June 30, 2018, 2017 and 2016, respectively. Investment income decreased from June 30, 2017 compared to June 30, 2018 primarily due to reduced returns from our structured credit investments due to lower future expected cash flows and decreases in interest income due to less interest earning assets outstanding. Investment income decreased from June 30, 2016 compared to June 30, 2017 primarily due to reduced returns from our structured credit investments due to lower future expected cash flows and a reduced interest earning asset base. Investment income also declined due to dividend income related to our investments in APRC and Echelon.

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

	Year Ended June 30,		
	2018	2017	2016
Interest income	\$ 607,012	\$ 668,717	\$ 731,618
Dividend income	13,046	5,679	26,501
Other income	37,787	26,650	33,854
<b>Total investment income</b>	<b>\$ 657,845</b>	<b>\$ 701,046</b>	<b>\$ 791,973</b>
Average debt principal of performing interest bearing investments <sup>(1)</sup>	\$ 5,474,563	\$ 5,706,090	\$ 6,013,754
Weighted average interest rate earned on performing interest bearing investments <sup>(1)</sup>	11.09%	11.72%	12.17%
Average debt principal of all interest bearing investments <sup>(2)</sup>	\$ 5,792,662	\$ 5,977,050	\$ 6,013,754
Weighted average interest rate earned on all interest bearing investments <sup>(2)</sup>	10.48%	11.19%	12.17%

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

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

Average interest income producing assets decreased from \$5,706,090 for the year ended June 30, 2017 to \$ 5,474,563 for the year ended June 30, 2018. Higher levels of repayments of non-control investments contributed to the decline. The average interest earned on interest bearing performing assets decreased from 11.72% for the year ended June 30, 2017 to 11.09% for the year ended June 30, 2018. The decrease is primarily due to reduced returns from our structured credit investments, an increase in foregone interest due to non-accrual investments and lower levels of performing investments. Average interest income producing assets decreased from \$6,013,754 for the year ended June 30, 2016 to \$5,706,090 for the year ended June 30, 2017. The average interest earned on interest bearing performing assets decreased from 12.17% for the year ended June 30, 2016 to 11.72% for the year ended June 30, 2017. This moderate decrease is primarily due to repayments of lower yielding portfolio investments.

Investment income is also generated from dividends and other income, which is less predictable than interest income. Dividend income increased from \$5,679 for the year ended June 30, 2017 to \$13,046 for the year ended June 30, 2018. The \$7,367 increase in dividend income is primarily attributable to \$11,279 dividends received from our investment in NPRC, which was generated from taxable earnings and profits in connection with the gain on the sales of NPRC's St. Marin and Central Park properties. No such dividends were received from NPRC during the year ended June 30, 2017. This increase was partially offset by a \$3,312 dividend from our investment in NAC, and other less individually significant dividends from our portfolio, received during the year ended June 30, 2017, for which no comparable dividend was received in the current year.

Dividend income decreased from \$26,501 for the year ended June 30, 2016 to \$5,679 for the year ended June 30, 2017. The \$20,822 decrease in dividend income is primarily attributable to an \$11,016 dividend received during the year ended June 30, 2016 from our investment in APRC resulting from the sale of APRC's Vista Palma Sola property. No such dividend was received from NPRC during the year ended June 30, 2017. Additionally, a \$7,250 dividend was received during the year ended June 30, 2016 from our investment in Echelon, whereas only \$200 of dividend was received during the year ended June 30, 2017. Additionally, the level of dividends received from our investment in CCPI and MITY decreased by \$3,073 and \$242, respectively, during the year ended June 30, 2017 as compared to the same period in the prior year. The decrease was partially offset by an increase of \$347 in dividends received from Nationwide for the year ended June 30, 2017.

Other income is comprised of structuring fees, royalty interests, and settlement of net profits interests. Other income increased \$11,137 from \$26,650 for the year ended June 30, 2017 to \$37,787 for the year ended June 30, 2018. The \$11,137 increase is primarily due to a \$4,011 increase in advisory fee income primarily attributable to a \$2,644 advisory fee received from our investment in First Tower related to a recent acquisition and \$1,222 of service fees received for a liquidation fee agreement related to our investment in Wolf. In addition, we received a \$3,233 structuring fee from our investment in Pacific World for services rendered in connection with amending its revolving credit facility. The increase in other income is also attributable to an additional \$651 increase in structuring fees and by a \$1,669 increase in amendment fee income, which are generated from new originations as well as from follow-on investments and amendments to existing portfolio companies.

Other income decreased from \$33,854 for the year ended June 30, 2016 to \$26,650 for the year ended June 30, 2017. The decrease is primarily due to a \$12,632 decrease in advisory fee income, which was generated from the Harbortouch transaction, as well as from follow-on investments in existing portfolio companies. This was offset by a \$4,388 increase in structuring fees and by a \$1,669 increase in amendment fee income, which are generated from new originations as well as from follow-on investments and amendments to existing portfolio companies.

#### *Operating Expenses*

Our primary operating expenses consist of investment advisory fees (base management and income incentive fees), borrowing costs, legal and professional fees and other operating and overhead-related expenses. These expenses include our allocable portion of overhead under the Administration Agreement with Prospect Administration under which Prospect Administration provides administrative services and facilities for us. Our investment advisory fees compensate the Investment Adviser for its work in identifying, evaluating, negotiating, closing and monitoring our investments. We bear all other costs and expenses of our operations and transactions. Operating expenses were \$370,995, \$394,964 and \$420,845 for the years ended June 30, 2018, 2017 and 2016, respectively.

Total gross base management fee was \$118,768, \$124,077 and \$128,416 for the years ended June 30, 2018, 2017 and 2016, respectively. The decrease in total gross base management fee is directly related a decrease in average total assets. The Investment Adviser has entered into a servicing agreement with certain institutions who purchased loans with us, where we serve as the agent and collect a servicing fee on behalf of the Investment Adviser. We received payments of \$722, \$1,203 and \$1,893 from these institutions for the years ended June 30, 2018, 2017 and 2016, respectively, on behalf of the Investment Adviser, for providing such services under the servicing agreement. We were given a credit for these payments as a reduction of base management fee payable by us to the Investment Adviser resulting in net base management fees of \$118,046, \$122,874 and \$126,523 for the years ended June 30, 2018, 2017 and 2016, respectively.

For the years ended June 30, 2018, 2017 and 2016, we incurred \$71,713, \$76,520 and \$92,782 of income incentive fees, respectively (\$0.20, \$0.21 and \$0.26 per weighted average share, respectively). This decrease was driven by a corresponding decrease in pre-incentive fee net investment income from \$382,602 for the year ended June 30, 2017 to \$358,563 for the year ended June 30, 2018 as a result of decreases in interest income due to reduced returns from our structured credit investments and repayments on investments. No capital gains incentive fee has yet been incurred pursuant to the Investment Advisory Agreement.

During the years ended June 30, 2018, 2017 and 2016, we incurred \$155,039, \$164,848 and \$167,719, respectively, of interest expenses related to our Revolving Credit Facility, Convertible Notes, Public Notes and Prospect Capital InterNotes® (collectively, our "Notes"). These expenses are related directly to the leveraging capacity put into place for each of those periods and the levels of indebtedness actually undertaken in those periods.



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

	Year Ended June 30,		
	2018	2017	2016
Interest on borrowings	\$ 134,270	\$ 142,819	\$ 146,659
Amortization of deferred financing costs	12,063	13,013	13,561
Accretion of discount on Public Notes	226	269	200
Facility commitment fees	8,480	8,747	7,299
<b>Total interest and credit facility expenses</b>	<b>\$ 155,039</b>	<b>\$ 164,848</b>	<b>\$ 167,719</b>
Average principal debt outstanding	\$ 2,535,681	\$ 2,683,254	\$ 2,807,125
Weighted average stated interest rate on borrowings <sup>(1)</sup>	5.30%	5.32%	5.22%
Weighted average interest rate on borrowings <sup>(2)</sup>	6.11%	6.14%	5.97%

<sup>(1)</sup> Includes only the stated interest expense.

<sup>(2)</sup> Includes the stated interest expense, amortization of deferred financing costs, accretion of discount on Public Notes and commitment fees on the undrawn portion of our Revolving Credit Facility.

Interest expense decreased during the years ended June 30, 2018 and June 30, 2017. The weighted average stated interest rate on borrowings (excluding amortization, accretion and undrawn facility fees) decreased from 5.32% for the year ended June 30, 2017 to 5.30% for the year ended June 30, 2018 primarily due to the repurchases and maturities of our Convertible Notes and Prospect Capital InterNotes® which bear higher rates than the remaining debt and increased utilization of our Revolving Credit Facility.

The weighted average stated interest rate on borrowings (excluding amortization, accretion and undrawn facility fees) increased from 5.22% for the year ended June 30, 2016 to 5.32% for the year ended June 30, 2017. This increase is primarily due to issuances of the 2024 Notes and Prospect Capital InterNotes® at higher rates, partially offset by the repayment and repurchases of our Convertible Notes.

The allocation of gross overhead expense from Prospect Administration was \$20,715, \$22,882 and \$20,313 for the years ended June 30, 2018, 2017 and 2016, respectively. Prospect Administration received estimated payments of \$10,684, \$8,760 and \$7,445 directly from our portfolio companies and certain funds managed by the Investment Adviser for legal, tax and portfolio level accounting services during the years ended June 30, 2018, 2017 and 2016, respectively. Estimated payments received by Prospect Administration during the year ended June 30, 2018 additionally included \$2,631 received from our insurance carrier. We were given a credit for these payments as a reduction of the administrative services cost payable by us to Prospect Administration. Had Prospect Administration not received these payments, Prospect Administration's charges for its administrative services would have increased by these amounts. During the year ended June 30, 2017, other operating expenses in the amount of \$876 incurred by us, which were attributable to CCPI, have been reimbursed by CCPI and are reflected as an offset to our overhead allocation. No such reimbursements or expenses occurred during the years ended June 30, 2018 or June 30, 2016. During the year ended June 30, 2016, we renegotiated the managerial assistance agreement with First Tower LLC ("First Tower") and reversed \$1,200 of previously accrued managerial assistance at First Tower Delaware, \$600 of which was expensed during the three months ended June 30, 2015, as the fee was paid by First Tower, which decreased our overhead expense. During the year ended June 30, 2016, we also incurred \$379 of overhead expense related to our consolidated entity SB Forging. Net overhead during the years ended June 30, 2018, 2017 and 2016 totaled \$10,031, \$13,246 and \$12,647, respectively.

Total operating expenses, excluding investment advisory fees, interest and credit facility expenses, and allocation of overhead from Prospect Administration ("Other Operating Expenses") were \$16,166, \$17,476 and \$21,174 for the years ended June 30, 2018, 2017 and 2016, respectively. The decrease of \$1,310 during the year ended June 30, 2018 is primarily attributable to a modest decline in general and administrative expense. The decrease of \$3,698 during the year ended June 30, 2017 is primarily due a reversal of excise tax previously accrued due to lower levels of taxable income, offset by a slight increase in audit, compliance and tax related fees.

### *Net Investment Income*

Net investment income represents the difference between investment income and operating expenses. Net investment income was \$286,850, \$306,082 and \$371,128 for the years ended June 30, 2018, 2017, and 2016, respectively. Net investment income for years ended June 30, 2018, 2017, and 2016 was \$0.79, \$0.85 and \$1.04 per weighted average share, respectively. The \$19,232 decrease, or \$0.06 per weighted average share, for the year ended June 30, 2018 compared to the year ended June 30, 2017 is primarily the result of a \$61,705 decline in interest income, or \$0.18 per weighted average share, due to reduced returns from our structured credit investments, an increase in foregone interest due to non-accrual investments and lower levels of performing investments. The decline in interest income was offset by a \$7,367 increase in dividend income, or \$0.02 per weighted average share, that is primarily attributable to \$11,279 dividends received from our investment in NPRC. The decline in interest income was further offset by an increase in other income of \$11,137, or \$0.03 per weighted average share, which is primarily due to a \$4,011 increase in advisory fee income attributable to a \$2,644 advisory fee received from our investment in First Tower. In addition, we received a \$3,233 structuring fee from our investment in Pacific World for services rendered in connection with amending its revolving credit facility. The increase in other income is also attributable to an additional \$651 increase in structuring fees and by a \$1,669 increase in amendment fee income, which are generated from new originations as well as from follow-on investments and amendments to existing portfolio companies. Additionally, the decline in interest income was partially offset by a favorable \$9,635 decrease in advisory fees, or \$0.04 per weighted average share, and a favorable \$9,809 decrease in interest expense, or \$0.03 per weighted average share, primarily due to the repurchases and maturities of our Convertible Notes and Prospect Capital InterNotes® which bear higher rates than the remaining debt and increased utilization of our Revolving Credit Facility.

The \$65,046 decrease, or \$0.19 per weighted average share, for the year ended June 30, 2017 compared to the year ended June 30, 2016 is primarily the result of a \$62,901 decrease in interest income, or \$0.19 per weighted average share, driven primarily by a decline in interest income from reduced returns from our structured credit investments due to lower future expected cash flows, an additional \$248,357 weighted average balance of loans on non-accrual status and a reduced interest earning asset base, and a \$20,822 decrease in dividend income related to APRC, Echelon, CCPI and MITY discussed earlier. In addition to a decrease of \$7,204 of other income, or \$0.03 per weighted average share, due to a decrease of \$12,632 of advisory fee income from the sale of Harbortouch offset by an increase of \$4,888 in structuring fees and by a \$1,669 increase in amendment fee income. These decreases were partially offset by a favorable decrease in advisory fees of \$19,911, or \$0.06 per weighted average share, and a decrease of \$3,698, or \$0.01 per weighted average share, in other operating expenses.

### *Net Realized Gains (Losses)*

During the years ended June 30, 2018, 2017 and 2016, we recognized net realized losses on investments of \$18,464, \$96,306 and \$24,417, respectively. The net realized loss during the year ended June 30, 2018 was primarily related to the write-down of Nixon, Inc. upon restructuring, resulting in a realized loss of \$14,197. We also recognized a net realized loss upon the repayment of our investment in Primesport, Inc. (“Primesport”), for which we agreed to a payment less than the par amount and realized a loss of \$3,019. Additionally, we recognized realized losses of \$2,495 from our call of our investment in Apidos IX CLO. During the year ended June 30, 2018, we repurchased \$98,353 aggregate principal amount of the 2019 Notes, repurchased \$146,464 aggregate principal amount of the 5.00% 2019 Notes, and redeemed \$269,375 aggregate principal amount of Prospect Capital InterNotes® (including amounts repaid in accordance with the Survivor’s Option). As a result of these transactions, we recognized net realized losses on debt extinguishment of \$7,594 in the year ended June 30, 2018.

The net realized loss during the year ended June 30, 2017 was primarily due to the sale of Gulfco assets for which we recognized a total realized loss of \$66,103, of which \$53,063 had been previously recorded as an unrealized loss as of June 30, 2016. Additionally, in conjunction with the restructuring of our investment in Ark-La-Tex, we wrote-down the Term Loan B to its cost basis and realized a loss of \$19,818, of which \$23,239 had been previously recorded as an unrealized loss as of June 30, 2016. Additionally, during the year ended June 30, 2017, four of our CLO investments were redeemed and we recorded a total loss of \$17,242 to write down the amortized cost basis to its fair value. During the year ended June 30, 2017, we repurchased \$78,766 aggregate principal amount of the 2017 Notes, repurchased \$114,581 aggregate principal amount of the 2018 Notes, and redeemed \$58,377 aggregate principal amount of Prospect Capital InterNotes® (including amounts repaid in accordance with the Survivor’s Option). As a result of these transactions, we recognized net realized losses on debt extinguishment of \$7,011 in the year ended June 30, 2017.

The net realized loss during the year ended June 30, 2016 was primarily due to the write-down of our investment in Targus of \$14,194, the sale of our investments in American Gilsonite Company, ICON Health and Fitness, Inc., and Harbortouch for which we recognized total realized losses of \$10,860 and the write-off of defaulted loans in our small business lending portfolio of \$5,986. These losses were partially offset by net realized gains from the sale of two of our CLO investments for which we realized total gains of \$3,911. During the year ended June 30, 2016, we repurchased \$500 aggregate principal amount of the 2017 Notes and repaid \$7,069 aggregate principal amount of Prospect Capital InterNotes® (including amounts repaid in accordance with the Survivor's Option). As a result of these transactions, we recognized net realized gain on debt extinguishment of \$224 in the year ended June 30, 2016.

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

Net change in unrealized gains (losses) was \$39,071, \$50,141 and \$(243,573) for the years ended June 30, 2018, 2017 and 2016, respectively. For the year ended June 30, 2018, the \$39,071 net favorable change in unrealized losses were primarily the result of unrealized gains related to our investments in consumer financing - Credit Central and First Tower - comprising \$72,807 and energy - CP Energy and Spartan Energy - comprising \$47,261. The fair value of our investment in NPRC increased resulting in an unrealized gain of \$30,981 primarily due to the improved property values, partially offset by a decline in our online lending portfolio value resulting from an increase in delinquent loans. Additionally, we reversed previously recorded unrealized losses of \$23,741 and \$14,197 related to our exited investments in PrimeSport and Nixon. The favorable changes in unrealized losses were offset by a \$33,339 decline in value of our investment in Pacific World due to a decrease in revenues and profitability, as well as a decrease in comparable company trading multiples. MITY declined in value by \$17,618 due to poor operating results. Our investment in InterDent also declined in value by \$13,812 due to lower projected future earnings as a result of customer attrition. The value of our investment in USC also decreased by \$10,663 due to both a decline in operating performance and the overall decline in demand for firearms and ammunition. Finally, our portfolio experienced \$72,439 of unrealized losses in our CLO investments due to a decline in the weighted average spread in the underlying senior secured loan portfolios, increase in discount rates, and collateral losses.

For the year ended June 30, 2017, the \$50,141 net change in unrealized gains was primarily the result of \$104,242 unrealized gains in our REITs portfolio due to improved operating performance at the property-level, and \$87,550 of realized losses that were previously unrealized related to our sale of Gulfco and the restructuring of Ark-La-Tex. The remaining \$141,077 increase in unrealized losses is primarily due to USC, energy-related companies, USES and our online lending portfolio. The value of our investment in USC decreased by \$53,443 due to both a decline in operating performance and the overall decline in demand for firearms and ammunition. Our energy-related companies continued to face a competitive market environment and declined in value by \$33,629. USES also declined in value by \$30,214 due to energy-related factors as well as a decline in operating performance. Additionally, the increase in unrealized losses on our online lending portfolio of \$23,791 were due to an increase in delinquent loans for the year ended June 30, 2017.

#### **Financial Condition, Liquidity and Capital Resources**

For the years ended June 30, 2018, 2017 and 2016, our operating activities provided \$369,106, \$376,201 and \$861,869 of cash, respectively. There were no investing activities for the years ended June 30, 2018, 2017 and 2016. Financing activities used \$603,431, \$375,916 and \$654,097 of cash during the years ended June 30, 2018, 2017 and 2016, respectively, which included dividend payments of \$255,911, \$333,623 and \$336,637, respectively.

Our primary uses of funds have been to continue to invest in portfolio companies, through both debt and equity investments, repay outstanding borrowings and to make cash distributions to holders of our common stock.

Our primary sources of funds have historically been issuances of debt and equity. More recently, we have and may continue to fund a portion of our cash needs through repayments and opportunistic sales of our existing investment portfolio. We may also securitize a portion of our investments in unsecured or senior secured loans or other assets. Our objective is to put in place such borrowings in order to enable us to expand our portfolio. During the year ended June 30, 2018, we borrowed \$810,000 and we made repayments totaling \$773,000 under the Revolving Credit Facility. As of June 30, 2018, we had, net of unamortized discount and debt issuance costs, \$809,073 outstanding on the Convertible Notes, \$716,810 outstanding on the Public Notes, \$748,926 outstanding on the Prospect Capital InterNotes®, and \$37,000 outstanding on the Revolving Credit Facility. (See "Capitalization" above.)

Undrawn committed revolvers and delayed draw term loans to our portfolio companies incur commitment and unused fees ranging from 0.00% to 5.00%. As of June 30, 2018 and June 30, 2017, we had \$29,675 and \$22,925, respectively, of undrawn revolver and delayed draw term loan commitments to our portfolio companies. The fair value of our undrawn committed revolvers and delayed draw term loans was zero as of June 30, 2018 and June 30, 2017.

Our shareholders' equity accounts as of June 30, 2018, June 30, 2017 and June 30, 2016 reflect cumulative shares issued, net of shares repurchased, as of those respective dates. Our common stock has been issued through public offerings, a registered direct offering, the exercise of over-allotment options on the part of the underwriters, our dividend reinvestment plan and in connection with the acquisition of certain controlled portfolio companies. When our common stock is issued, the related offering expenses have been charged against paid-in capital in excess of par. All underwriting fees and offering expenses were borne by us.

As part of our Repurchase Program, we delivered a notice with our annual proxy mailing on September 22, 2017. We did not repurchase any shares of our common stock for the year ended June 30, 2018. During the year ended June 30, 2016, we repurchased 4,708,750 shares of our common stock pursuant to our publicly announced Repurchase Program for \$34,140, or approximately \$7.25 weighted average price per share at approximately a 30% discount to net asset value as of June 30, 2015. Our NAV per share was increased by approximately \$0.02 for the year ended June 30, 2016 as a result of the share repurchases.

On August 31, 2016, we filed a registration statement on Form N-2 (File No. 333-213391) with the SEC. We subsequently filed a Pre-Effective Amendment No. 2 thereto on November 1, 2016, which the SEC declared effective on November 3, 2016. On October 26, 2017, we filed Post-Effective Amendment No. 50 to the registration statement, which the SEC declared effective on October 30, 2017. The registration statement permits us to issue, through one or more transactions, up to an aggregate of \$5,000,000 in securities, consisting of common stock, preferred stock, debt securities, subscription rights to purchase our securities, warrants representing rights to purchase our securities or separately tradeable units combining two or more of our securities. As of June 30, 2018, we have the ability to issue up to \$4,386,415 of additional debt and equity securities under the registration statement.

### **Off-Balance Sheet Arrangements**

As of June 30, 2018, we did not have any off-balance sheet liabilities or other contractual obligations that are reasonably likely to have a current or future material effect on our financial condition, other than those which originate from 1) the investment advisory and management agreement and the administration agreement and 2) the portfolio companies.

### **Recent Developments**

On July 2, 2018, we entered into debt distribution agreements with each of B. Riley FBR, Inc. and BB&T Capital Markets, a division of BB&T Securities, LLC (together, the "Agents") pursuant to which we may sell, by means of at-the-market offerings, up to \$100,000 in aggregate principal amount of our 2024 Notes and up to \$100,000 in aggregate principal amount of the 2028 Notes. As of August 28, 2018, we have issued an additional \$10,131 in aggregate principal amount of our 2024 Notes for net proceeds of \$10,070 and have issued an additional \$6,917 in aggregate principal amount of our 2028 Notes for net proceeds of \$6,838.

During the period from July 13, 2018 to July 16, 2018, we made follow-on first lien term loan investments of \$105,000 in Town & Country Holdings, Inc., to support acquisitions.

On August 1, 2018, we completed an extension of the Revolving Credit Facility (the "New Facility") for PCF, extending the term 5.7 years from such date and reducing the interest rate on drawn amounts to one-month Libor plus 2.20%. The New Facility, for which \$770 million of commitments have been closed to date, includes an accordion feature that allows the Facility, at Prospect's discretion, to accept up to a total of \$1.5 billion of commitments. The New Facility matures on March 27, 2024. It includes a revolving period that extends through March 27, 2022, followed by an additional two-year amortization period, with distributions allowed to Prospect after the completion of the revolving period. Pricing for amounts drawn under the Facility is one-month Libor plus 2.20%, which achieves a 5 basis point reduction in the interest rate from the previous facility rate of Libor plus 2.25%. Additionally, the lenders charge a fee on the unused portion of the credit facility equal to either 50 basis points if more than 60% of the credit facility is drawn, or 100 basis points if more than 35% and an amount less than or equal to 60% of the credit facility is drawn, or 150 basis points if an amount less than or equal to 35% of the credit facility is drawn.

On August 1, 2018, we purchased from a third party \$14,000 of First Lien Senior Secured Term Loan A and Term Loan B Notes issued by InterDent, Inc. at par.

On August 6, 2018, we made a \$17,500 senior secured investment in Halyard MD OPCO, LLC, a healthcare IT and advertising technology business that enables targeted advertising campaigns to healthcare providers and patients. Our investment is comprised of a \$12,000 first lien term loan, a \$2,000 unfunded revolving credit facility, and a \$3,500 unfunded delayed draw investment.

During the period from July 1, 2018 through August 28, 2018, we issued \$25,330 aggregate principal amount of Prospect Capital InterNotes® for net proceeds of \$24,919. In addition, we sold \$2,215 aggregate principal amount of Prospect Capital InterNotes® for net proceeds of \$2,176 with expected closing on August 30, 2018.

Pursuant to notice to call provided on July 5, 2018, we redeemed \$2,589 of our Prospect Capital InterNotes® at par maturing on February 15, 2020, with a weighted average rate of 4.0%. Settlement of the call occurred on August 15, 2018. We have provided notice to call on August 8, 2018 with settlement on September 15, 2018, \$26,771 of our Prospect Capital InterNotes® at par maturing between March 15, 2020 and September 15, 2020, with a weighted average rate of 4.77%.

On August 28, 2018, we announced the declaration of monthly dividends in the following amounts and with the following dates:

- \$0.06 per share for September 2018 to holders of record on September 28, 2018 with a payment date of October 18, 2018.
- \$0.06 per share for October 2018 to holders of record on October 31, 2018 with a payment date of November 21, 2018.

## **Critical Accounting Policies and Estimates**

### *Basis of Presentation and Consolidation*

The accompanying consolidated financial statements have been prepared in accordance with United States generally accepted accounting principles (“GAAP”) pursuant to the requirements for reporting on Form 10-K, ASC 946, *Financial Services—Investment Companies* (“ASC 946”), and Articles 3, 6 and 12 of Regulation S-X. Under the 1940 Act, ASC 946, and the regulations pursuant to Article 6 of Regulation S-X, we are precluded from consolidating any entity other than another investment company or an operating company which provides substantially all of its services to benefit us. Our consolidated financial statements include the accounts of Prospect, PCF, PSBL, PYC, and the Consolidated Holding Companies. All intercompany balances and transactions have been eliminated in consolidation. The financial results of our non-substantially wholly-owned holding companies and operating portfolio company investments are not consolidated in the financial statements. Any operating companies owned by the Consolidated Holding Companies are not consolidated.

### *Reclassifications*

Certain reclassifications have been made in the presentation of prior consolidated financial statements and accompanying notes to conform to the presentation as of and for the year ended June 30, 2018 .

### *Use of Estimates*

The preparation of the consolidated financial statements in accordance with GAAP requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the consolidated financial statements and the reported amounts of income, expenses, and gains and losses during the reported period. Changes in the economic environment, financial markets, creditworthiness of the issuers of our investment portfolio and any other parameters used in determining these estimates could cause actual results to differ, and these differences could be material.

### *Investment Classification*

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

As a BDC, we must not acquire any assets other than “qualifying assets” specified in the 1940 Act unless, at the time the acquisition is made, at least 70% of our total assets are qualifying assets (with certain limited exceptions). As of June 30, 2018 and June 30, 2017 , our qualifying assets as a percentage of total assets, stood at 73.20% and 71.75% , respectively.

### *Investment Transactions*

Investments are recognized when we assume an obligation to acquire a financial instrument and assume the risks for gains or losses related to that instrument. Specifically, we record all security transactions on a trade date basis. Investments are derecognized when we assume an obligation to sell a financial instrument and forego the risks for gains or losses related to that instrument. In accordance with ASC 325-40, *Beneficial Interest in Securitized Financial Assets* , investments in CLOs are periodically assessed for other-than-temporary impairment (“OTTI”). When the Company determines that a CLO has OTTI, the amortized cost basis of the CLO is written down to its fair value as of the date of the determination based on events and information evaluated and that

write-down is recognized as a realized loss. Amounts for investments traded but not yet settled are reported in Due to Broker or Due from Broker, in the *Consolidated Statements of Assets and Liabilities*.

#### *Foreign Currency*

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

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

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

#### *Investment Risks*

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

##### *Market Risk*

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

##### *Credit Risk*

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

##### *Liquidity Risk*

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

##### *Interest Rate Risk*

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

##### *Prepayment Risk*

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

##### *Structured Credit Related Risk*

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

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

With respect to our online SME lending initiative, we invest primarily in marketplace loans through marketplace lending facilitators. We do not conduct loan origination activities ourselves. Therefore, our ability to purchase SME loans, and our ability to grow our portfolio of SME loans, is directly influenced by the business performance and competitiveness of the marketplace loan origination business of the marketplace lending facilitators from which we purchase SME loans. In addition, our ability to analyze the risk-return profile of SME loans is significantly dependent on the marketplace facilitators' ability to effectively evaluate a borrower's credit profile and likelihood of default. If we are unable to effectively evaluate borrowers'

credit profiles or the credit decisioning and scoring models implemented by each facilitator, we may incur unanticipated losses which could adversely impact our operating results.

#### *Foreign Currency*

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

#### *Investment Valuation*

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

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

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

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

*Level 3* : Unobservable inputs for the asset or liability.

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

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

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

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

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

Our non-CLO investments are valued utilizing a yield technique, enterprise value (“EV”) technique, net asset value technique, liquidation technique, discounted cash flow technique, or a combination of techniques, as appropriate. The yield technique uses loan spreads for loans and other relevant information implied by market data involving identical or comparable assets or liabilities. Under the EV technique, the EV of a portfolio company is first determined and allocated over the portfolio company’s securities in order of their preference relative to one another (i.e., “waterfall” allocation). To determine the EV, we typically use a market (multiples) valuation approach that considers relevant and applicable market trading data of guideline public companies, transaction metrics from precedent merger and acquisitions transactions, and/or a discounted cash flow technique. The net asset value technique, an income approach, is used to derive a value of an underlying investment (such as real estate property) by dividing a relevant earnings stream by an appropriate capitalization rate. For this purpose, we consider capitalization rates for similar properties as

may be obtained from guideline public companies and/or relevant transactions. The liquidation technique is intended to approximate the net recovery value of an investment based on, among other things, assumptions regarding liquidation proceeds based on a hypothetical liquidation of a portfolio company's assets. The discounted cash flow technique converts future cash flows or earnings to a range of fair values from which a single estimate may be derived utilizing an appropriate discount rate. The fair value measurement is based on the net present value indicated by current market expectations about those future amounts.

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

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

#### *Valuation of Other Financial Assets and Financial Liabilities*

ASC 825, *Financial Instruments*, specifically ASC 825-10-25, permits an entity to choose, at specified election dates, to measure eligible items at fair value (the "Fair Value Option"). We have not elected the Fair Value Option to report selected financial assets and financial liabilities. See Note 8 in the accompanying *Consolidated Financial Statements* for further discussion of our financial liabilities that are measured using another measurement attribute.

#### *Convertible Notes*

We have recorded the Convertible Notes at their contractual amounts. We have determined that the embedded conversion options in the Convertible Unsecured Notes are not required to be separately accounted for as a derivative under ASC 815, *Derivatives and Hedging*. See Note 5 in the accompanying *Consolidated Financial Statements* for further discussion.

#### *Revenue Recognition*

Realized gains or losses on the sale of investments are calculated using the specific identification method.

Interest income, adjusted for amortization of premium and accretion of discount, is recorded on an accrual basis. Loan origination fees, original issue discount, and market discounts are capitalized and accreted into interest income over the respective terms of the applicable loans using the effective interest method or straight-line, as applicable, and adjusted only for material amendments or prepayments. Upon a prepayment of a loan, prepayment premiums, original issue discount, or market discounts are recorded as interest income.

Loans are placed on non-accrual status when there is reasonable doubt that principal or interest will be collected. Unpaid accrued interest is generally reversed when a loan is placed on non-accrual status. Interest payments received on non-accrual loans are either applied to the cost basis or interest income, depending upon management's judgment of the collectibility of the loan receivable. Non-accrual loans are restored to accrual status when past due principal and interest is paid and in management's judgment, is likely to remain current and future principal and interest collections when due are probable. Interest received and applied against cost while a loan is on non-accrual, and PIK interest capitalized but not recognized while on non-accrual, is recognized prospectively on the effective yield basis through maturity of the loan when placed back on accrual status, to the extent deemed collectible by management. As of June 30, 2018, approximately 2.5% of our total assets at fair value are in non-accrual status.

Some of our loans and other investments may have contractual payment-in-kind ("PIK") interest or dividends. PIK income computed at the contractual rate is accrued into income and reflected as receivable up to the capitalization date. PIK investments offer issuers the option at each payment date of making payments in cash or in additional securities. When additional securities are received, they typically have the same terms, including maturity dates and interest rates as the original securities issued. On these payment dates, we capitalize the accrued interest (reflecting such amounts in the basis as additional securities received). PIK



generally becomes due at maturity of the investment or upon the investment being called by the issuer. At the point that we believe PIK is not fully expected to be realized, the PIK investment will be placed on non-accrual status. When a PIK investment is placed on non-accrual status, the accrued, uncapitalized interest or dividends are reversed from the related receivable through interest or dividend income, respectively. We do not reverse previously capitalized PIK interest or dividends. Upon capitalization, PIK is subject to the fair value estimates associated with their related investments. PIK investments on non-accrual status are restored to accrual status if we believe that PIK is expected to be realized.

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

Dividend income is recorded on the ex-dividend date.

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

#### *Federal and State Income Taxes*

We have elected to be treated as a RIC and intend to continue to comply with the requirements of the Code applicable to regulated investment companies. We are required to distribute at least 90% of our investment company taxable income and intend to distribute (or retain through a deemed distribution) all of our investment company taxable income and net capital gains to stockholders; therefore, we have made no provision for income taxes. The character of income and gains that we will distribute is determined in accordance with income tax regulations that may differ from GAAP. Book and tax basis differences relating to stockholder dividends and distributions and other permanent book and tax differences are reclassified to paid-in capital.

If we do not distribute (or are not deemed to have distributed) at least 98% of our annual ordinary income and 98.2% of our capital gains in the calendar year earned, we will generally be required to pay an excise tax equal to 4% of the amount by which 98% of our annual ordinary income and 98.2% of our capital gains exceed the distributions from such taxable income for the year. To the extent that we determine that our estimated current year annual taxable income will be in excess of estimated current year dividend distributions from such taxable income, we accrue excise taxes, if any, on estimated excess taxable income. As of June 30, 2018, we do not expect to have any excise tax due for the 2018 calendar year. Thus, we have not accrued any excise tax for this period.

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

We follow ASC 740, *Income Taxes* (“ASC 740”). ASC 740 provides guidance for how uncertain tax positions should be recognized, measured, presented, and disclosed in the consolidated financial statements. ASC 740 requires the evaluation of tax positions taken or expected to be taken in the course of preparing our tax returns to determine whether the tax positions are “more-likely-than-not” of being sustained by the applicable tax authority. Tax positions not deemed to meet the more-likely-than-not threshold are recorded as a tax benefit or expense in the current year. As of June 30, 2018, we did not record any unrecognized tax benefits or liabilities. Management’s determinations regarding ASC 740 may be subject to review and adjustment at a later date based upon factors including, but not limited to, an on-going analysis of tax laws, regulations and interpretations thereof. Although we file both federal and state income tax returns, our major tax jurisdiction is federal. Our federal tax returns for the tax years ended August 31, 2015 and thereafter remain subject to examination by the Internal Revenue Service.

### *Dividends and Distributions*

Dividends and distributions to common stockholders are recorded on the ex-dividend date. The amount, if any, to be paid as a monthly dividend or distribution is approved by our Board of Directors quarterly and is generally based upon our management's estimate of our future taxable earnings. Net realized capital gains, if any, are distributed at least annually.

### *Financing Costs*

We record origination expenses related to our Revolving Credit Facility and the Unsecured Notes as deferred financing costs. These expenses are deferred and amortized as part of interest expense using the straight-line method over the stated life of the obligation for our Revolving Credit Facility. The same methodology is used to approximate the effective yield method for our Prospect Capital InterNotes® and our 2024 Notes Follow-on Program. The effective interest method is used to amortize deferred financing costs for our remaining Unsecured Notes over the respective expected life or maturity. In the event that we modify or extinguish our debt before maturity, we follow the guidance in ASC 470-50, *Modification and Extinguishments* ("ASC 470-50"). For modifications to or exchanges of our Revolving Credit Facility, any unamortized deferred costs relating to lenders who are not part of the new lending group are expensed. For extinguishments of our Unsecured Notes, any unamortized deferred costs are deducted from the carrying amount of the debt in determining the gain or loss from the extinguishment.

Unamortized deferred financing costs are presented as a direct deduction to the respective Unsecured Notes (see Notes 5, 6, and 7 in the accompanying *Consolidated Financial Statements* for further discussion).

We may record registration expenses related to shelf filings as prepaid expenses. These expenses consist principally of SEC registration fees, legal fees and accounting fees incurred. These prepaid expenses are charged to capital upon the receipt of proceeds from an equity offering or charged to expense if no offering is completed. As of June 30, 2018 and June 30, 2017, there are no prepaid expenses related to registration expenses and all amounts incurred have been expensed.

### *Guarantees and Indemnification Agreements*

We follow ASC 460, *Guarantees* ("ASC 460"). ASC 460 elaborates on the disclosure requirements of a guarantor in its interim and annual consolidated financial statements about its obligations under certain guarantees that it has issued. It also requires a guarantor to recognize, at the inception of a guarantee, for those guarantees that are covered by ASC 460, the fair value of the obligation undertaken in issuing certain guarantees.

### *Per Share Information*

Net increase or decrease in net assets resulting from operations per share is calculated using the weighted average number of common shares outstanding for the period presented. In accordance with ASC 946, convertible securities are not considered in the calculation of net asset value per share.

### *Recent Accounting Pronouncements*

In June 2016, the FASB issued ASU 2016-13, *Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments* ("ASU 2016-13"), which amends the financial instruments impairment guidance so that an entity is required to measure expected credit losses for financial assets based on historical experience, current conditions and reasonable and supportable forecasts. As such, an entity will use forward-looking information to estimate credit losses. ASU 2016-13 also amends the guidance in FASB ASC Subtopic No. 325-40, *Investments—Other, Beneficial Interests in Securitized Financial Assets*, related to the subsequent measurement of accretable yield recognized as interest income over the life of a beneficial interest in securitized financial assets under the effective yield method. ASU 2016-13 is effective for financial statements issued for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. Early adoption is permitted as of the fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. We are currently evaluating the impact, if any, of adopting this ASU on our consolidated financial statements.

In August 2016, the FASB issued ASU 2016-15, *Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments* (“ASU 2016-15”), which addresses certain aspects of cash flow statement classification. One such amendment requires cash payments for debt prepayment or debt extinguishment costs to be classified as cash outflows for financing activities. ASU 2016-15 is effective for financial statements issued for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years. Early adoption is permitted, including adoption in an interim period. If an entity early adopts the amendments in an interim period, any adjustments should be reflected as of the beginning of the fiscal year that includes that interim period. An entity that elects early adoption must adopt all of the amendments in the same period. The adoption of the amended guidance in ASU 2016-15 is not expected to have a significant effect on our consolidated financial statements and disclosures.

In May 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers* (Topic 606), which amends accounting guidance for revenue recognition arising from contracts with customers. Under the new guidance, an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration the entity expects to be entitled to in exchange for those goods or services. In August 2015, the FASB also issued ASU 2015-14, *Revenue from Contracts with Customers* (Topic 606): *Deferral of the Effective Date*, which deferred the effective date of the standard for one year. As a result, the guidance is effective for financial statements issued for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years. Early adoption is permitted as of fiscal years beginning after December 15, 2016, including interim periods within those fiscal years. The application of this guidance is not expected to have a material impact on our financial statements.

#### *Tax Cuts and Jobs Act*

On December 22, 2017, the President signed into law the Tax Cuts and Jobs Act (The “Tax Act”), which significantly changed the Code, including, a reduction in the corporate income tax rate, a new limitation on the deductibility of interest expense, and significant changes to the taxation of income earned from foreign sources and foreign subsidiaries. The Tax Act also authorizes the IRS to issue regulations with respect to the new provisions. We cannot predict how the changes in the Tax and Jobs Act, or regulations or other guidance issued under it, might affect us, our business or the business of our portfolio companies. However, our portfolio companies may or may not make certain elections under the Tax Act that could materially increase their taxable earnings and profits. Any such increase in the earnings and profits of a portfolio company may result in the characterization of certain distributions sourced from sale proceeds as dividend income, which may increase our distributable taxable income. During the year ended June 30, 2018, we received \$11,270 of such dividends from NPRC related to the sale of NPRC’s St. Marin and Central Park properties.

#### **Item 7A. Quantitative and Qualitative Disclosures about Market Risk**

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

Our debt investments may be based on floating rates or fixed rates. For our floating rate loans the rates are determined from the LIBOR, EURO Interbank Offer Rate, the Federal Funds Rate or the Prime Rate. The floating interest rate loans may be subject to a LIBOR floor. Our loans typically have durations of one to three months after which they reset to current market interest rates. As of June 30, 2018, 89.7% of the interest earning investments in our portfolio, at fair value, bore interest at floating rates.

We also have a revolving credit facility and certain Prospect Capital InterNotes® issuances that are based on floating LIBOR rates. Interest on borrowings under the revolving credit facility is one-month LIBOR plus 225 basis points with no minimum LIBOR floor and there is \$37,000 outstanding as of June 30, 2018. Interest on five Prospect Capital InterNotes® is three-month LIBOR plus a range of 300 to 350 basis points with no minimum LIBOR floor. The Convertible Notes, Public Notes and remaining Prospect Capital InterNotes® bear interest at fixed rates.

The following table shows the approximate annual impact on net investment income of base rate changes in interest rates (considering interest rate flows for floating rate instruments, excluding our investments in CLO residual interests) to our loan portfolio and outstanding debt as of June 30, 2018, assuming no changes in our investment and borrowing structure:

<b>(in thousands)</b>				
<b>Basis Point Change</b>	<b>Interest Income</b>	<b>Interest Expense</b>	<b>Net Investment Income</b>	<b>Net Investment Income (1)</b>
Up 300 basis points	\$ 97,878	\$ 44	\$ 97,834	\$ 78,267
Up 200 basis points	65,354	30	65,324	52,259
Up 100 basis points	32,831	15	32,816	26,253
Down 100 basis points	(28,908)	(33)	(28,875)	(23,100)

(1) Includes the impact of income incentive fees. See Note 13 in the accompanying *Consolidated Financial Statements* for more information on income incentive fees.

As of June 30, 2018, one, three and six month LIBOR was 2.09%, 2.34%, and 2.50% respectively.

We may hedge against interest rate fluctuations by using standard hedging instruments such as futures, options and forward contracts subject to the requirements of the 1940 Act. While hedging activities may insulate us against adverse changes in interest rates, they may also limit our ability to participate in the benefits of higher interest rates with respect to our portfolio of investments. During the year ended June 30, 2018, we did not engage in hedging activities.

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## Report of Independent Registered Public Accounting Firm

Shareholders and Board of Directors  
Prospect Capital Corporation  
New York, New York

### Opinion on the Consolidated Financial Statements

We have audited the accompanying consolidated statements of assets and liabilities of Prospect Capital Corporation and subsidiaries (the “Company”), including the consolidated schedules of investments, as of June 30, 2018 and 2017, and the related consolidated statements of operations, changes in net assets, and cash flows for each of the three years in the period ended June 30, 2018, and the related notes, including the financial highlights for each of the five years in the period ended June 30, 2018 (collectively referred to as the “consolidated financial statements”). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company at June 30, 2018 and 2017, and the results of its operations, the changes in its net assets, and its cash flows for each of the three years in the period ended June 30, 2018, and its financial highlights for each of the five years in the period ended June 30, 2018, in conformity with accounting principles generally accepted in the United States of America.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (“PCAOB”), the Company's internal control over financial reporting as of June 30, 2018, based on criteria established in *Internal Control - Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (“COSO”) and our report dated August 28, 2018 expressed an unqualified opinion thereon.

### Basis for Opinion

These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's consolidated financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud.

Our audits included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our procedures included confirmation of securities owned as of June 30, 2018 and 2017 by correspondence with the custodians, brokers and portfolio companies, or by other appropriate auditing procedures where replies were not received. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ BDO USA, LLP

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BDO USA, LLP

We have served as the Company's auditor since 2005.

New York, New York

August 28, 2018

**PROSPECT CAPITAL CORPORATION AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF ASSETS AND LIABILITIES**  
(in thousands, except share and per share data)

	June 30, 2018	June 30, 2017
<b>Assets</b>		
Investments at fair value:		
Control investments (amortized cost of \$2,300,526 and \$1,840,731, respectively)	\$ 2,404,326	\$ 1,911,775
Affiliate investments (amortized cost of \$55,637 and \$22,957, respectively)	58,436	11,429
Non-control/non-affiliate investments (amortized cost of \$3,475,295 and \$4,117,868, respectively)	3,264,517	3,915,101
Total investments at fair value (amortized cost of \$5,831,458 and \$5,981,556, respectively)	5,727,279	5,838,305
Cash	83,758	318,083
Receivables for:		
Interest, net	19,783	9,559
Other	1,867	924
Due from broker	3,029	—
Prepaid expenses	984	1,125
Due from Affiliate	88	14
Deferred financing costs on Revolving Credit Facility (Note 4)	2,032	4,779
<b>Total Assets</b>	<b>5,838,820</b>	<b>6,172,789</b>
<b>Liabilities</b>		
Revolving Credit Facility (Notes 4 and 8)	37,000	—
Convertible Notes (less unamortized debt issuance costs of \$13,074 and \$15,512, respectively) (Notes 5 and 8)	809,073	937,641
Prospect Capital InterNotes® (less unamortized debt issuance costs of \$11,998 and \$14,240, respectively) (Notes 7 and 8)	748,926	966,254
Public Notes (less unamortized discount and debt issuance costs of \$11,007 and \$10,981, respectively) (Notes 6 and 8)	716,810	738,300
Due to Prospect Capital Management (Note 13)	49,045	48,249
Interest payable	33,741	38,630
Dividends payable	21,865	30,005
Due to broker	6,159	50,371
Accrued expenses	5,426	4,380
Due to Prospect Administration (Note 13)	2,212	1,910
Other liabilities	1,516	2,097
<b>Total Liabilities</b>	<b>2,431,773</b>	<b>2,817,837</b>
Commitments and Contingencies (Note 3)	—	—
<b>Net Assets</b>	<b>\$ 3,407,047</b>	<b>\$ 3,354,952</b>
<b>Components of Net Assets</b>		
Common stock, par value \$0.001 per share (1,000,000,000 common shares authorized; 364,409,938 and 360,076,933 issued and outstanding, respectively) (Note 9)	\$ 364	\$ 360
Paid-in capital in excess of par (Note 9)	4,021,541	3,991,317
Accumulated overdistributed net investment income	(45,186)	(54,039)
Accumulated net realized loss	(465,493)	(439,435)
Net unrealized loss	(104,179)	(143,251)
<b>Net Assets</b>	<b>\$ 3,407,047</b>	<b>\$ 3,354,952</b>
<b>Net Asset Value Per Share (Note 16)</b>	<b>\$ 9.35</b>	<b>\$ 9.32</b>

See notes to consolidated financial statements.

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

	Year Ended June 30,		
	2018	2017	2016
<b>Investment Income</b>			
Interest income:			
Control investments	\$ 195,487	\$ 177,496	\$ 207,377
Affiliate investments	553	297	896
Non-control/non-affiliate investments	285,473	342,696	347,132
Structured credit securities	125,499	148,228	176,213
Total interest income	607,012	668,717	731,618
Dividend income:			
Control investments	11,279	5,250	26,435
Non-control/non-affiliate investments	1,767	429	66
Total dividend income	13,046	5,679	26,501
Other income:			
Control investments	15,080	11,470	22,528
Non-control/non-affiliate investments	22,707	15,180	11,326
Total other income (Note 10)	37,787	26,650	33,854
<b>Total Investment Income</b>	<b>657,845</b>	<b>701,046</b>	<b>791,973</b>
<b>Operating Expenses</b>			
Base management fee (Note 13)	118,046	122,874	126,523
Income incentive fee (Note 13)	71,713	76,520	92,782
Interest and credit facility expenses	155,039	164,848	167,719
Allocation of overhead from Prospect Administration (Note 13)	10,031	13,246	12,647
Audit, compliance and tax related fees	5,539	5,088	4,428
Directors' fees	450	454	379
Excise tax	—	(1,100)	2,295
Other general and administrative expenses	10,177	13,034	14,072
<b>Total Operating Expenses</b>	<b>370,995</b>	<b>394,964</b>	<b>420,845</b>
<b>Net Investment Income</b>	<b>286,850</b>	<b>306,082</b>	<b>371,128</b>
<b>Net Realized and Change in Unrealized Gains (Losses) from Investments</b>			
Net realized gains (losses)			
Control investments	13	(65,915)	(5,406)
Affiliate investments	(13,351)	137	(14,194)
Non-control/non-affiliate investments	(5,126)	(30,528)	(4,817)
Net realized losses	(18,464)	(96,306)	(24,417)
Net change in unrealized gains (losses)			
Control investments	55,670	86,817	(88,751)
Affiliate investments	25,671	553	(233)
Non-control/non-affiliate investments	(42,270)	(37,229)	(154,589)
Net change in unrealized gains (losses)	39,071	50,141	(243,573)
<b>Net Realized and Change in Unrealized Gains (Losses) from Investments</b>	<b>20,607</b>	<b>(46,165)</b>	<b>(267,990)</b>
Net realized (losses) gains on extinguishment of debt	(7,594)	(7,011)	224
<b>Net Increase in Net Assets Resulting from Operations</b>	<b>\$ 299,863</b>	<b>\$ 252,906</b>	<b>\$ 103,362</b>
Net increase in net assets resulting from operations per share	\$ 0.83	\$ 0.70	\$ 0.29
Dividends declared per share	\$ (0.77)	\$ (1.00)	\$ (1.00)

See notes to consolidated financial statements.



**PROSPECT CAPITAL CORPORATION AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS**  
(in thousands, except share data)

	Year Ended June 30,		
	2018	2017	2016
<b>Operations</b>			
Net investment income	\$ 286,850	\$ 306,082	\$ 371,128
Net realized losses	(26,058)	(103,317)	(24,193)
Net change in unrealized gains (losses)	39,071	50,141	(243,573)
<b>Net Increase in Net Assets Resulting from Operations</b>	<b>299,863</b>	<b>252,906</b>	<b>103,362</b>
<b>Distributions to Shareholders</b>			
Distribution from net investment income	(277,224)	(358,987)	(356,110)
<b>Net Decrease in Net Assets Resulting from Distributions to Shareholders</b>	<b>(277,224)</b>	<b>(358,987)</b>	<b>(356,110)</b>
<b>Common Stock Transactions</b>			
Offering costs from issuance of common stock	—	—	118
Repurchase of common stock under stock repurchase program	—	—	(34,140)
Value of shares issued through reinvestment of dividends	29,456	25,116	19,638
<b>Net Increase (Decrease) in Net Assets Resulting from Common Stock Transactions</b>	<b>29,456</b>	<b>25,116</b>	<b>(14,384)</b>
<b>Total Increase (Decrease) in Net Assets</b>	<b>52,095</b>	<b>(80,965)</b>	<b>(267,132)</b>
Net assets at beginning of year	3,354,952	3,435,917	3,703,049
<b>Net Assets at End of Year</b> (Accumulated Overdistributed Net Investment Income of \$50,897, \$54,039, and \$3,623, respectively)	<b>\$ 3,407,047</b>	<b>\$ 3,354,952</b>	<b>\$ 3,435,917</b>
<b>Common Stock Activity</b>			
Shares repurchased under stock repurchase program	—	—	(4,708,750)
Shares issued through reinvestment of dividends	4,333,005	2,969,702	2,725,222
Net shares issued (repurchased) due to common stock activity	4,333,005	2,969,702	(1,983,528)
Shares issued and outstanding at beginning of year	360,076,933	357,107,231	359,090,759
<b>Shares Issued and Outstanding at End of Year</b>	<b>364,409,938</b>	<b>360,076,933</b>	<b>357,107,231</b>

See notes to consolidated financial statements.

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

	Year Ended June 30,		
	2018	2017	2016
<b>Operating Activities</b>			
Net increase in net assets resulting from operations	\$ 299,863	\$ 252,906	\$ 103,362
Net realized losses (gains) on extinguishment of debt	7,594	7,011	(224)
Net realized losses on investments	18,464	96,306	24,417
Net change in unrealized (gains) losses on investments	(39,071)	(50,141)	243,573
Amortization of discounts, net	31,005	88,827	84,087
Accretion of discount on Public Notes (Note 6)	226	269	200
Amortization of deferred financing costs	12,063	13,013	13,561
Payment-in-kind interest	(9,404)	(17,808)	(20,531)
Structuring fees	(13,959)	(12,929)	(9,393)
Change in operating assets and liabilities:			
Payments for purchases of investments	(1,707,294)	(1,458,733)	(921,679)
Proceeds from sale of investments and collection of investment principal	1,831,286	1,413,882	1,311,375
(Decrease) increase in due to broker	(44,212)	49,414	(25,821)
(Decrease) increase in due to Prospect Capital Management	796	(5,900)	51,599
(Increase) in due from broker	(3,029)	—	—
(Increase) decrease in interest receivable, net	(10,224)	2,568	8,281
(Decrease) increase in interest payable	(4,889)	(2,174)	1,145
Increase (decrease) in accrued expenses	1,046	2,121	(1,149)
(Decrease) in other liabilities	(581)	(1,536)	(1,080)
(Increase) decrease in other receivables	(943)	(756)	2,717
(Increase) in due from affiliate	(74)	(14)	—
Decrease (increase) in prepaid expenses	141	(270)	(98)
Increase (decrease) in due to Prospect Administration	302	145	(2,473)
<b>Net Cash Provided by Operating Activities</b>	<b>369,106</b>	<b>376,201</b>	<b>861,869</b>
<b>Financing Activities</b>			
Borrowings under Revolving Credit Facility (Note 4)	810,000	635,000	615,000
Principal payments under Revolving Credit Facility (Note 4)	(773,000)	(635,000)	(983,700)
Issuances of Public Notes, net of original issue discount (Note 6)	125,000	37,466	161,364
Repurchase of Public Notes (Note 6)	(146,464)	—	—
Redemptions of Convertible Notes (Note 5)	(234,506)	(366,433)	(150,500)
Issuance of Convertible Notes (Note 5)	103,500	225,000	—
Issuances of Prospect Capital InterNotes® (Note 7)	76,297	138,882	88,435
Redemptions of Prospect Capital InterNotes®, net (Note 7)	(295,867)	(67,196)	(7,069)
Financing costs paid	(12,480)	(10,012)	(6,968)
Cost of shares repurchased under stock repurchase program	—	—	(34,140)
Offering costs from issuance of common stock	—	—	118
Dividends paid	(255,911)	(333,623)	(336,637)
<b>Net Cash Used in Financing Activities</b>	<b>(603,431)</b>	<b>(375,916)</b>	<b>(654,097)</b>
<b>Net (Decrease) Increase in Cash</b>	<b>(234,325)</b>	<b>285</b>	<b>207,772</b>
Cash at beginning of year	318,083	317,798	110,026
<b>Cash at End of year</b>	<b>\$ 83,758</b>	<b>\$ 318,083</b>	<b>\$ 317,798</b>
<b>Supplemental Disclosures</b>			
Cash paid for interest	\$ 147,639	\$ 153,740	\$ 152,817
<b>Non-Cash Financing Activities</b>			
Value of shares issued through reinvestment of dividends	\$ 29,456	\$ 25,116	\$ 19,638
<b>Cost basis of investments written off as worthless</b>	<b>\$ 20,316</b>	<b>\$ 86,605</b>	<b>\$ 25,138</b>

See notes to consolidated financial statements.



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

Portfolio Company	Locale / Industry	Investments(1)(44)	June 30, 2018			
			Principal Value	Amortized Cost	Fair Value(2)	% of Net Assets
<b>LEVEL 3 PORTFOLIO INVESTMENTS</b>						
<b>Control Investments (greater than 25.00% voting control)(47)</b>						
CCPI Inc.(19)	Ohio / Electronic Equipment, Instruments & Components	Senior Secured Term Loan A (10.00%, due 12/31/2020)(3)	\$ 2,881	\$ 2,881	\$ 2,881	0.1%
		Senior Secured Term Loan B (12.00% plus 7.00% PIK, due 12/31/2020)(3)(46)	17,819	17,819	17,819	0.5%
		Common Stock (14,857 shares)(16)	—	6,759	15,056	0.4%
			<b>27,459</b>	<b>35,756</b>	<b>1.0%</b>	
CP Energy Services Inc.(20)	Oklahoma / Energy Equipment & Services	Senior Secured Term Loan (13.31% (LIBOR + 11.00% with 1.00% LIBOR floor), due 12/29/2022)(11)	35,048	35,048	35,048	1.0%
		Series B Convertible Preferred Stock (16.00%, 790 shares) (16)	—	63,225	63,225	1.9%
		Common Stock (102,924 shares)(16)	—	81,203	24,988	0.7%
			<b>179,476</b>	<b>123,261</b>	<b>3.6%</b>	
Credit Central Loan Company, LLC(21)	South Carolina / Consumer Finance	Subordinated Term Loan (10.00% plus 10.00% PIK, due 6/26/2024)(14)(46)	51,855	47,496	51,855	1.5%
		Class A Units (10,640,642 units)(14)(16)	—	13,731	23,196	0.7%
		Net Revenues Interest (25% of Net Revenues)(14)(16)	—	—	1,626	0.1%
			<b>61,227</b>	<b>76,677</b>	<b>2.3%</b>	
Echelon Transportation, LLC (f/a/a Echelon Aviation, LLC)	New York / Aerospace & Defense	Senior Secured Term Loan (11.75% (LIBOR + 9.75% with 2.00% LIBOR floor) plus 2.25% PIK, due 3/31/2022)(13) (46)	31,055	31,055	31,055	0.9%
		Senior Secured Term Loan (11.00% (LIBOR + 9.00% with 2.00% LIBOR floor) plus 1.00% PIK, due 12/7/2024)(13) (46)	16,044	16,044	16,044	0.5%
		Membership Interest (100%)(16)	—	22,738	35,179	1.0%
			<b>69,837</b>	<b>82,278</b>	<b>2.4%</b>	
First Tower Finance Company LLC(23)	Mississippi / Consumer Finance	Subordinated Term Loan to First Tower, LLC (10.00% plus 10.00% PIK, due 6/24/2019)(14)(46)	273,066	273,066	273,066	8.0%
		Class A Units (95,709,910 units)(14)(16)	—	81,146	169,944	5.0%
			<b>354,212</b>	<b>443,010</b>	<b>13.0%</b>	
Freedom Marine Solutions, LLC(24)	Louisiana / Energy Equipment & Services	Membership Interest (100%)(16)	—	43,592	13,037	0.4%
			<b>43,592</b>	<b>13,037</b>	<b>0.4%</b>	
InterDent, Inc. (52)	California / Health Care Providers & Services	Senior Secured Term Loan A (7.59% (LIBOR + 5.50% with 0.75% LIBOR floor), due 12/31/2017, past due)(13)	77,994	77,994	77,994	2.3%
		Senior Secured Term Loan B (8.34% (LIBOR + 6.25% with 0.75% LIBOR floor) plus 4.25% PIK, due 12/31/2017, past due)(13)	131,558	131,558	119,627	3.5%
		Senior Secured Term Loan C (18.00% PIK, due on demand) (46)	3,149	3,149	—	—%
		Warrants (to purchase 4,900 shares of Common Stock, expires 3/22/2030)(16)	—	—	—	—%
			<b>212,701</b>	<b>197,621</b>	<b>5.8%</b>	

See notes to consolidated financial statements.

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

Portfolio Company	Locale / Industry	Investments(1)(44)	June 30, 2018			
			Principal Value	Amortized Cost	Fair Value(2)	% of Net Assets
<b>LEVEL 3 PORTFOLIO INVESTMENTS</b>						
<b>Control Investments (greater than 25.00% voting control)(47)</b>						
MITY, Inc.(25)	Utah / Commercial Services & Supplies	Senior Secured Note A (10.00% (LIBOR + 7.00% with 3.00% LIBOR floor), due 1/30/2020)(3)(11)	\$ 26,250	\$ 26,250	\$ 26,250	0.8%
		Senior Secured Note B (10.00% (LIBOR + 7.00% with 3.00% LIBOR floor) plus 10.00% PIK, due 1/30/2020)(3)(11)(46)	24,442	24,442	24,442	0.7%
		Subordinated Unsecured Note to Broda Enterprises ULC (10.00%, due on demand)(14)	5,563	7,200	5,563	0.1%
		Common Stock (42,053 shares)(16)	—	6,849	2,639	0.1%
			<b>64,741</b>	<b>58,894</b>	<b>58,894</b>	<b>1.7%</b>
National Property REIT Corp.(26)	Various / Equity Real Estate Investment Trusts (REITs) / Online Lending	Senior Secured Term Loan A (6.00% (LIBOR + 4.00% with 2.00% LIBOR floor) plus 10.50% PIK, due 4/1/2019)(13)(46)	293,203	293,203	293,203	8.6%
		Senior Secured Term Loan E (11.00% (LIBOR + 9.00% with 2.00% LIBOR floor) plus 1.50% PIK, due 4/1/2019)(13)(46)	226,180	226,180	226,180	6.7%
		Common Stock (3,042,393 shares)	—	307,604	436,105	12.8%
		Net Operating Income Interest (5% of Net Operating Income)	—	—	99,488	2.9%
			<b>826,987</b>	<b>1,054,976</b>	<b>1,054,976</b>	<b>31.0%</b>
Nationwide Loan Company LLC(27)	Illinois / Consumer Finance	Senior Subordinated Term Loan to Nationwide Acceptance LLC (10.00% plus 10.00% PIK, due 6/18/2019)(14)(46)	17,410	17,410	17,410	0.5%
		Class A Units (32,456,159 units)(14)(16)	—	21,962	16,443	0.5%
			<b>39,372</b>	<b>33,853</b>	<b>33,853</b>	<b>1.0%</b>
NMMB, Inc.(28)	New York / Media	Senior Secured Note (14.00%, due 5/6/2021)(3)	3,714	3,714	3,714	0.1%
		Senior Secured Note to Armed Forces Communications, Inc. (14.00%, due 5/6/2021)(3)	4,900	4,900	4,900	0.2%
		Series A Preferred Stock (7,200 shares)(16)	—	7,200	5,663	0.2%
		Series B Preferred Stock (5,669 shares)(16)	—	5,669	4,458	0.1%
			<b>21,483</b>	<b>18,735</b>	<b>18,735</b>	<b>0.6%</b>
Pacific World Corporation(40)	California / Personal Products	Revolving Line of Credit – \$26,000 Commitment (9.34% (LIBOR + 7.25% with 1.00% LIBOR floor), due 9/26/2020)(13)(15)	20,825	20,825	20,825	0.6%
		Senior Secured Term Loan A (7.34% (LIBOR + 5.25% with 1.00% LIBOR floor), due 9/26/2020)(13)	96,250	96,250	96,250	2.8%
		Senior Secured Term Loan B (11.34% PIK (LIBOR + 9.25% with 1.00% LIBOR floor), in non-accrual status effective 5/21/2018, due 9/26/2020)(13)	96,500	96,500	47,945	1.4%
		Convertible Preferred Equity (100,000 shares)(16)	—	15,000	—	—%
		Common Stock (6,778,414 shares)(16)	—	—	—	—%
			<b>228,575</b>	<b>165,020</b>	<b>165,020</b>	<b>4.8%</b>
R-V Industries, Inc.	Pennsylvania / Machinery	Senior Subordinated Note (11.34% (LIBOR + 9.00% with 1.00% LIBOR floor), due 3/31/2022)(11)	28,622	28,622	28,622	0.8%
		Common Stock (745,107 shares)(16)	—	6,866	3,264	0.1%
			<b>35,488</b>	<b>31,886</b>	<b>31,886</b>	<b>0.9%</b>

See notes to consolidated financial statements.

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

Portfolio Company	Locale / Industry	Investments(1)(44)	June 30, 2018			
			Principal Value	Amortized Cost	Fair Value(2)	% of Net Assets
<b>LEVEL 3 PORTFOLIO INVESTMENTS</b>						
<b>Control Investments (greater than 25.00% voting control)(47)</b>						
SB Forging Company II, Inc. (f/k/a Gulf Coast Machine & Supply Company)(29)	Texas / Energy Equipment & Services	Series A Convertible Preferred Stock (6.50%, 99,000 shares)(16)	\$ —	\$ —	\$ 2,194	0.1%
		Common Stock (100 shares)(16)	—	—	—	—%
				<b>—</b>	<b>2,194</b>	<b>0.1%</b>
USES Corp.(30)	Texas / Commercial Services & Supplies	Senior Secured Term Loan A (9.00% PIK, in non-accrual status effective 4/1/2016, due 7/22/2020)	36,964	31,601	16,319	0.5%
		Senior Secured Term Loan B (15.50% PIK, in non-accrual status effective 4/1/2016, due 7/22/2020)	47,866	35,568	—	—%
		Common Stock (268,962 shares)(16)	—	—	—	—%
				<b>67,169</b>	<b>16,319</b>	<b>0.5%</b>
Valley Electric Company, Inc.(31)	Washington / Construction & Engineering	Senior Secured Note to Valley Electric Co. of Mt. Vernon, Inc. (8.00% (LIBOR + 5.00% with 3.00% LIBOR floor) plus 2.50% PIK, due 12/31/2024)(3)(11)(46)	10,430	10,430	10,430	0.3%
		Senior Secured Note (8.00% plus 10.00% PIK, due 6/23/2024)(46)	27,781	27,781	27,781	0.8%
		Consolidated Revenue Interest (2.0%)	—	—	—	—%
		Common Stock (50,000 shares)(16)	—	26,204	12,586	0.4%
				<b>64,415</b>	<b>50,797</b>	<b>1.5%</b>
Wolf Energy, LLC(32)	Kansas / Energy Equipment & Services	Membership Interest (100%)(16)	—	—	—	—%
		Membership Interest in Wolf Energy Services Company, LLC (100%)(16)	—	3,792	—	—%
		Net Profits Interest (8% of Equity Distributions)(4)(16)	—	—	12	—%
				<b>3,792</b>	<b>12</b>	<b>—%</b>
<b>Total Control Investments (Level 3)</b>			<b>\$ 2,300,526</b>	<b>\$ 2,404,326</b>	<b>\$ 2,404,326</b>	<b>70.6%</b>

See notes to consolidated financial statements.

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

Portfolio Company	Locale / Industry	Investments(1)(44)	June 30, 2018			
			Principal Value	Amortized Cost	Fair Value(2)	% of Net Assets
<b>LEVEL 3 PORTFOLIO INVESTMENTS</b>						
<b>Affiliate Investments (5.00% to 24.99% voting control)(48)</b>						
Edmentum Ultimate Holdings, LLC(22)	Minnesota / Diversified Consumer Services	Second Lien Revolving Credit Facility to Edmentum, Inc. – \$7,834 Commitment (5.00%, due 12/9/2021)(15)	\$ 7,834	\$ 7,834	\$ 7,834	0.2%
		Unsecured Senior PIK Note (8.50% PIK, due 12/9/2021) (46)	7,520	7,520	7,520	0.2%
		Unsecured Junior PIK Note (10.00% PIK, in non-accrual status effective 1/1/2017, due 12/9/2021)	35,226	23,828	19,862	0.6%
		Class A Units (370,964 units)(16)	—	6,577	—	—%
			<b>45,759</b>	<b>35,216</b>	<b>35,216</b>	<b>1.0%</b>
Nixon, Inc.(39)	California / Textiles, Apparel & Luxury Goods	Common Stock (857 units)(16)	—	—	—	—%
			—	—	—	—%
Targus International, LLC(33)	California / Textiles, Apparel & Luxury Goods	Common Stock (7,383,395 shares)(16)	—	9,878	23,220	0.7%
			—	<b>9,878</b>	<b>23,220</b>	<b>0.7%</b>
<b>Total Affiliate Investments (Level 3)</b>			<b>\$ 55,637</b>	<b>\$ 58,436</b>	<b>\$ 58,436</b>	<b>1.7%</b>

See notes to consolidated financial statements.

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

Portfolio Company	Locale / Industry	Investments(1)(44)	June 30, 2018			
			Principal Value	Amortized Cost	Fair Value(2)	% of Net Assets
<b>LEVEL 3 PORTFOLIO INVESTMENTS</b>						
<b>Non-Control/Non-Affiliate Investments (less than 5.00% voting control)</b>						
ACE Cash Express, Inc.	Texas / Consumer Finance	Senior Secured Note (12.00%, due 12/15/2022)(8)(14)	\$ 20,000	\$ 19,733	\$ 21,594	0.6%
				<b>19,733</b>	<b>21,594</b>	<b>0.6%</b>
AgaMatrix, Inc.	New Hampshire / Healthcare Equipment and Supplies	Senior Secured Term Loan (11.33% (LIBOR + 9.00% with 1.25% LIBOR floor), due 9/29/2022)(3)(11)	35,815	35,815	35,815	1.1%
				<b>35,815</b>	<b>35,815</b>	<b>1.1%</b>
American Gilsonite Company(34)	Utah / Chemicals	Membership Interest (0.05%, 131 shares)(16)	—	—	—	—%
				—	—	—%
Apidos CLO IX	Cayman Islands / Structured Finance	Subordinated Notes (Residual Interest, current yield 0.00%, due 7/15/2023)(5)(14)(17)	23,525	21	76	—%
				<b>21</b>	<b>76</b>	<b>—%</b>
Apidos CLO XI	Cayman Islands / Structured Finance	Subordinated Notes (Residual Interest, current yield 7.80%, due 1/17/2028)(5)(14)	40,500	32,397	25,000	0.7%
				<b>32,397</b>	<b>25,000</b>	<b>0.7%</b>
Apidos CLO XII	Cayman Islands / Structured Finance	Subordinated Notes (Residual Interest, current yield 15.35%, due 4/15/2031)(5)(14)	52,203	35,014	26,518	0.8%
				<b>35,014</b>	<b>26,518</b>	<b>0.8%</b>
Apidos CLO XV	Cayman Islands / Structured Finance	Subordinated Notes (Residual Interest, current yield 14.14%, due 4/20/2031)(5)(14)	48,515	35,776	26,960	0.8%
				<b>35,776</b>	<b>26,960</b>	<b>0.8%</b>
Apidos CLO XXII	Cayman Islands / Structured Finance	Subordinated Notes (Residual Interest, current yield 12.65%, due 10/20/2027)(5)(6)(14)	31,350	27,496	25,047	0.7%
				<b>27,496</b>	<b>25,047</b>	<b>0.7%</b>
Ark-La-Tex Wireline Services, LLC	Louisiana / Energy Equipment & Services	Senior Secured Term Loan B (13.59% (LIBOR + 11.50% with 1.00% LIBOR floor), in non-accrual status effective 4/1/2016, due 4/8/2019)(13)	25,595	1,145	787	—%
				<b>1,145</b>	<b>787</b>	<b>—%</b>
Armor Holding II LLC	New York / Commercial Services & Supplies	Second Lien Term Loan (11.10% (LIBOR + 9.00% with 1.25% LIBOR floor), due 12/26/2020)(3)(8)(13)	7,000	6,949	7,000	0.2%
				<b>6,949</b>	<b>7,000</b>	<b>0.2%</b>
Atlantis Health Care Group (Puerto Rico), Inc.	Puerto Rico / Health Care Providers & Services	Revolving Line of Credit – \$7,000 Commitment (10.81% (LIBOR + 8.50% with 1.50% LIBOR floor), due 8/21/2019) (11)(15)	7,000	7,000	6,900	0.2%
		Senior Term Loan (10.81% (LIBOR + 8.50% with 1.50% LIBOR floor), due 2/21/2020)(3)(11)	77,713	77,713	76,607	2.2%
				<b>84,713</b>	<b>83,507</b>	<b>2.4%</b>

See notes to consolidated financial statements.



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

Portfolio Company	Locale / Industry	Investments(1)(44)	June 30, 2018			
			Principal Value	Amortized Cost	Fair Value(2)	% of Net Assets
<b>LEVEL 3 PORTFOLIO INVESTMENTS</b>						
<b>Non-Control/Non-Affiliate Investments (less than 5.00% voting control)</b>						
ATS Consolidated, Inc.	Arizona / Electronic Equipment, Instruments & Components	Second Lien Term Loan (9.84% (LIBOR + 7.75%, due 2/27/2026)(8)(13)	\$ 15,000	\$ 14,856	\$ 14,873	0.4%
				<b>14,856</b>	<b>14,873</b>	<b>0.4%</b>
Autodata, Inc. / Autodata Solutions, Inc.(9)	Canada / Software	Second Lien Term Loan (9.34% (LIBOR + 7.25% with 1.00% LIBOR floor), due 12/12/2025)(8)(13)	6,000	5,972	5,972	0.2%
				<b>5,972</b>	<b>5,972</b>	<b>0.2%</b>
Barings CLO 2018-III (f/k/a Babson CLO Ltd. 2014-III)	Cayman Islands / Structured Finance	Subordinated Notes (Residual Interest, current yield 11.35%, due 7/20/2029)(5)(6)(14)	83,098	49,688	46,933	1.4%
				<b>49,688</b>	<b>46,933</b>	<b>1.4%</b>
Broder Bros., Co.	Pennsylvania / Textiles, Apparel & Luxury Goods	Senior Secured Note (10.33% (LIBOR + 8.00% with 1.25% LIBOR floor), due 12/02/2022)(3)(11)	274,009	274,009	274,009	8.0%
				<b>274,009</b>	<b>274,009</b>	<b>8.0%</b>
Brookside Mill CLO Ltd.	Cayman Islands / Structured Finance	Subordinated Notes (Residual Interest, current yield 8.73%, due 1/18/2028)(5)(14)	36,300	19,287	13,466	0.4%
				<b>19,287</b>	<b>13,466</b>	<b>0.4%</b>
California Street CLO IX Ltd. (f/k/a Symphony CLO IX Ltd.)	Cayman Islands / Structured Finance	Preference Shares (Residual Interest, current yield 12.20%, due 10/16/2028)(5)(14)	58,915	41,645	35,852	1.1%
				<b>41,645</b>	<b>35,852</b>	<b>1.1%</b>
Candle-Lite Company, LLC	Ohio / Household & Personal Products	Senior Secured Term Loan A (7.81% (LIBOR + 5.50% with 1.25% LIBOR floor), due 1/23/2023)(3)(11)	12,438	12,438	12,438	0.3%
		Senior Secured Term Loan B (11.81% (LIBOR + 9.50% with 1.25% LIBOR floor), due 1/23/2023)(3)(11)	12,500	12,500	12,500	0.4%
				<b>24,938</b>	<b>24,938</b>	<b>0.7%</b>
Capstone Logistics Acquisition, Inc.	Georgia / Commercial Services & Supplies	Second Lien Term Loan (10.34% (LIBOR + 8.25% with 1.00% LIBOR floor), due 10/7/2022)(3)(8)(13)	101,030	100,669	100,136	2.9%
				<b>100,669</b>	<b>100,136</b>	<b>2.9%</b>
Carlyle Global Market Strategies CLO 2014-4-R, Ltd.	Cayman Islands / Structured Finance	Subordinated Notes (Residual Interest, current yield 20.73%, due 7/15/2030)(5)(6)(14)	25,534	17,832	18,807	0.6%
				<b>17,832</b>	<b>18,807</b>	<b>0.6%</b>
Carlyle Global Market Strategies CLO 2016-3, Ltd.	Cayman Islands / Structured Finance	Subordinated Notes (Residual Interest, current yield 18.00%, due 10/20/2029)(5)(6)(14)	32,200	32,364	29,080	0.9%
				<b>32,364</b>	<b>29,080</b>	<b>0.9%</b>
Carlyle C17 CLO Limited (f/k/a Cent CLO 17 Limited)	Cayman Islands / Structured Finance	Subordinated Notes (Residual Interest, current yield 18.34%, due 4/30/2031)(5)(14)	24,870	15,140	15,196	0.4%
				<b>15,140</b>	<b>15,196</b>	<b>0.4%</b>

See notes to consolidated financial statements.

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

Portfolio Company	Locale / Industry	Investments(1)(44)	June 30, 2018			
			Principal Value	Amortized Cost	Fair Value(2)	% of Net Assets
<b>LEVEL 3 PORTFOLIO INVESTMENTS</b>						
<b>Non-Control/Non-Affiliate Investments (less than 5.00% voting control)</b>						
Cent CLO 20 Limited	Cayman Islands / Structured Finance	Subordinated Notes (Residual Interest, current yield 15.40%, due 1/25/2026)(5)(14)	\$ 40,275	\$ 31,692	\$ 28,269	0.8%
				<b>31,692</b>	<b>28,269</b>	<b>0.8%</b>
Cent CLO 21 Limited	Cayman Islands / Structured Finance	Subordinated Notes (Residual Interest, current yield 17.56%, due 7/27/2026)(5)(6)(14)	48,528	36,311	33,703	1.0%
				<b>36,311</b>	<b>33,703</b>	<b>1.0%</b>
Centerfield Media Holding Company(35)	California / Internet Software & Services	Senior Secured Term Loan A (9.31% (LIBOR + 7.00% with 2.00% LIBOR floor), due 1/17/2022)(3)(11)	66,300	66,300	66,300	1.9%
		Senior Secured Term Loan B (14.81% (LIBOR + 12.50% with 2.00% LIBOR floor), due 1/17/2022)(11)	68,000	68,000	68,000	2.0%
				<b>134,300</b>	<b>134,300</b>	<b>3.9%</b>
CIFC Funding 2013-III-R, Ltd. (f/k/a CIFC Funding 2013-III, Ltd.)	Cayman Islands / Structured Finance	Subordinated Notes (Residual Interest, current yield 14.43%, due 4/24/2031)(5)(14)	44,100	27,624	25,250	0.7%
				<b>27,624</b>	<b>25,250</b>	<b>0.7%</b>
CIFC Funding 2013-IV, Ltd.	Cayman Islands / Structured Finance	Subordinated Notes (Residual Interest, current yield 14.31%, due 4/28/2031)(5)(14)	45,500	31,503	27,697	0.8%
				<b>31,503</b>	<b>27,697</b>	<b>0.8%</b>
CIFC Funding 2014-IV Investor, Ltd.	Cayman Islands / Structured Finance	Income Notes (Residual Interest, current yield 8.46%, due 10/19/2026)(5)(6)(14)	41,500	28,512	23,715	0.7%
				<b>28,512</b>	<b>23,715</b>	<b>0.7%</b>
CIFC Funding 2016-I, Ltd.	Cayman Islands / Structured Finance	Income Notes (Residual Interest, current yield 13.11%, due 10/21/2028)(5)(6)(14)	34,000	31,179	27,998	0.8%
				<b>31,179</b>	<b>27,998</b>	<b>0.8%</b>
Cinedigm DC Holdings, LLC	New York / Media	Senior Secured Term Loan (11.31% (LIBOR + 9.00% with 2.00% LIBOR floor) plus 2.50% PIK, due 3/31/2021)(11)(46)	31,460	31,410	31,460	0.9%
				<b>31,410</b>	<b>31,460</b>	<b>0.9%</b>
Class Appraisal, LLC	Michigan / Real Estate Management & Development	Revolving Line of Credit – \$1,500 Commitment (10.58% (LIBOR + 8.25% with 1.50% LIBOR floor), due 3/12/2020)(11)(15)	—	—	—	—%
		Senior Secured Term Loan (10.58% (LIBOR + 8.25% with 1.50% LIBOR floor), due 3/10/2023)(3)(11)	41,860	41,860	41,860	1.2%
				<b>41,860</b>	<b>41,860</b>	<b>1.2%</b>
Coverall North America, Inc.	Florida / Commercial Services & Supplies	Senior Secured Term Loan A (8.31% (LIBOR + 6.00% with 1.00% LIBOR floor), due 11/02/2020)(3)(11)	19,100	19,100	19,100	0.6%
		Senior Secured Term Loan B (13.31% (LIBOR + 11.00% with 1.00% LIBOR floor), due 11/02/2020)(3)(11)	24,750	24,750	24,750	0.7%
				<b>43,850</b>	<b>43,850</b>	<b>1.3%</b>

See notes to consolidated financial statements.

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

Portfolio Company	Locale / Industry	Investments(1)(44)	June 30, 2018			
			Principal Value	Amortized Cost	Fair Value(2)	% of Net Assets
<b>LEVEL 3 PORTFOLIO INVESTMENTS</b>						
<b>Non-Control/Non-Affiliate Investments (less than 5.00% voting control)</b>						
CP VI Bella Midco	Pennsylvania / IT Services	Second Lien Term Loan (8.84% (LIBOR + 6.75%, due 12/29/2025)(8)(13)	\$ 2,000	\$ 1,990	\$ 1,990	0.1%
				<b>1,990</b>	<b>1,990</b>	<b>0.1%</b>
CURO Financial Technologies Corp.	Canada / Consumer Finance	Senior Secured Notes (12.00%, due 3/1/2022)(8)(14)	10,896	10,837	11,844	0.3%
				<b>10,837</b>	<b>11,844</b>	<b>0.3%</b>
Digital Room, LLC	California / Commercial Services & Supplies	First Lien Term Loan (7.10% (LIBOR + 5.00% with 1.00% LIBOR floor), due 12/29/2023)(3)(8)(13)	9,950	9,857	9,925	0.3%
		Second Lien Term Loan (10.85% (LIBOR + 8.75% with 1.00% LIBOR floor), due 12/29/2024)(3)(8)(13)	57,100	56,295	57,100	1.7%
				<b>66,152</b>	<b>67,025</b>	<b>2.0%</b>
Dunn Paper, Inc.	Georgia / Paper & Forest Products	Second Lien Term Loan (10.84% (LIBOR + 8.75% with 1.00% LIBOR floor), due 8/26/2023)(3)(8)(13)	11,500	11,328	11,226	0.3%
				<b>11,328</b>	<b>11,226</b>	<b>0.3%</b>
Easy Gardener Products, Inc.	Texas / Household Durables	Senior Secured Term Loan (12.31% (LIBOR + 10.00% with 0.25% LIBOR floor), due 09/30/2020)(11)	16,894	16,894	15,728	0.5%
				<b>16,894</b>	<b>15,728</b>	<b>0.5%</b>
Engine Group, Inc.(7)	California / Media	Senior Secured Term Loan (7.08% (LIBOR + 4.75% with 1.00% LIBOR floor), due 9/15/2022)(8)(11)	4,813	4,813	4,813	0.1%
		Second Lien Term Loan (11.08% (LIBOR + 8.75% with 1.00% LIBOR floor), due 9/15/2023)(3)(8)(11)	35,000	35,000	35,000	1.0%
				<b>39,813</b>	<b>39,813</b>	<b>1.1%</b>
EXC Holdings III Corp	Massachusetts / Technology Hardware, Storage & Peripherals	Second Lien Term Loan (9.97% (LIBOR + 7.50% with 1.00% LIBOR floor), due 12/01/2025)(8)(10)	12,500	12,384	12,500	0.4%
				<b>12,384</b>	<b>12,500</b>	<b>0.4%</b>
Fleetwash, Inc.	New Jersey / Commercial Services & Supplies	Senior Secured Term Loan B (11.31% (LIBOR + 9.00% with 1.00% LIBOR floor), due 4/30/2022)(3)(11)	21,544	21,544	21,544	0.6%
		Delayed Draw Term Loan – \$15,000 Commitment (10.31% (LIBOR + 8.00% with 1.00% LIBOR floor), expires 4/30/2022)(11)(15)	—	—	—	—%
				<b>21,544</b>	<b>21,544</b>	<b>0.6%</b>
Galaxy XV CLO, Ltd.	Cayman Islands / Structured Finance	Subordinated Notes (Residual Interest, current yield 12.42%, due 10/15/2030)(5)(14)	50,525	34,853	30,457	0.9%
				<b>34,853</b>	<b>30,457</b>	<b>0.9%</b>
Galaxy XXVII CLO, Ltd. (f/k/a Galaxy XVI CLO, Ltd.)	Cayman Islands / Structured Finance	Subordinated Notes (Residual Interest, current yield 13.57%, due 5/16/2031)(5)(14)	24,575	16,936	13,688	0.4%
				<b>16,936</b>	<b>13,688</b>	<b>0.4%</b>

See notes to consolidated financial statements.

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

Portfolio Company	Locale / Industry	Investments(1)(44)	June 30, 2018			
			Principal Value	Amortized Cost	Fair Value(2)	% of Net Assets
<b>LEVEL 3 PORTFOLIO INVESTMENTS</b>						
<b>Non-Control/Non-Affiliate Investments (less than 5.00% voting control)</b>						
Galaxy XXVIII CLO, Ltd. (f/k/a Galaxy XVII CLO, Ltd.)	Cayman Islands / Structured Finance	Subordinated Notes (Residual Interest, current yield 10.89%, due 7/15/2031)(5)(6)(14)	\$ 39,905	\$ 28,009	\$ 22,335	0.7%
				<b>28,009</b>	<b>22,335</b>	<b>0.7%</b>
Galaxy XXVIII CLO, Ltd.	Cayman Islands / Structured Finance	Class F Junior Notes (LIBOR + 8.48%, due 7/15/2031)(6)(11)(14)(53)	6,658	6,159	6,159	0.2%
				<b>6,159</b>	<b>6,159</b>	<b>0.2%</b>
H.I.G. ECI Merger Sub, Inc.	Massachusetts / IT Services	Revolving Line of Credit – \$5,000 Commitment (9.81% (LIBOR + 7.50% with 1.50% LIBOR floor), due 9/30/2018)(11)	—	—	—	—%
		Senior Secured Term Loan A (7.81% (LIBOR + 5.50% with 1.50% LIBOR floor), due 5/31/2023)(11)	44,688	44,688	44,688	1.3%
		Senior Secured Term Loan B (12.81% (LIBOR + 10.50% with 1.50% LIBOR floor), due 5/31/2023)(11)	29,900	29,900	29,900	0.9%
				<b>74,588</b>	<b>74,588</b>	<b>2.2%</b>
Halcyon Loan Advisors Funding 2012-1 Ltd.	Cayman Islands / Structured Finance	Subordinated Notes (Residual Interest, current yield 0.00%, due 8/15/2023)(5)(14)(17)	23,188	3,869	3,125	0.1%
				<b>3,869</b>	<b>3,125</b>	<b>0.1%</b>
Halcyon Loan Advisors Funding 2013-1 Ltd.	Cayman Islands / Structured Finance	Subordinated Notes (Residual Interest, current yield 0.00%, due 4/15/2025)(5)(14)(17)	40,400	22,057	11,017	0.3%
				<b>22,057</b>	<b>11,017</b>	<b>0.3%</b>
Halcyon Loan Advisors Funding 2014-1 Ltd.	Cayman Islands / Structured Finance	Subordinated Notes (Residual Interest, current yield 10.30%, due 4/18/2026)(5)(14)	24,500	14,007	11,647	0.3%
				<b>14,007</b>	<b>11,647</b>	<b>0.3%</b>
Halcyon Loan Advisors Funding 2014-2 Ltd.	Cayman Islands / Structured Finance	Subordinated Notes (Residual Interest, current yield 8.64%, due 4/28/2025)(5)(6)(14)	41,164	24,290	19,050	0.6%
				<b>24,290</b>	<b>19,050</b>	<b>0.6%</b>
Halcyon Loan Advisors Funding 2015-3 Ltd.	Cayman Islands / Structured Finance	Subordinated Notes (Residual Interest, current yield 19.80%, due 10/18/2027)(5)(6)(14)	39,598	34,675	32,513	1.0%
				<b>34,675</b>	<b>32,513</b>	<b>1.0%</b>
Harbortouch Payments, LLC	Pennsylvania / Commercial Services & Supplies	Escrow Receivable		—	917	—%
				—	<b>917</b>	<b>—%</b>
HarbourView CLO VII-R, Ltd. (f/k/a HarbourView CLO VII, Ltd.)	Cayman Islands / Structured Finance	Subordinated Notes (Residual Interest, current yield 18.94%, due 7/18/2031)(5)(6)(14)	19,025	13,411	13,689	0.4%
				<b>13,411</b>	<b>13,689</b>	<b>0.4%</b>
Help/Systems Holdings, Inc.	Minnesota / Software	Second Lien Term Loan (9.84% (LIBOR + 7.75%, due 3/27/2026)(8)(13)	11,293	11,244	11,293	0.3%
				<b>11,244</b>	<b>11,293</b>	<b>0.3%</b>

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**PROSPECT CAPITAL CORPORATION AND SUBSIDIARIES**  
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Portfolio Company	Locale / Industry	Investments(1)(44)	June 30, 2018			
			Principal Value	Amortized Cost	Fair Value(2)	% of Net Assets
<b>LEVEL 3 PORTFOLIO INVESTMENTS</b>						
<b>Non-Control/Non-Affiliate Investments (less than 5.00% voting control)</b>						
Ingenio, LLC	California / Internet Software & Services	Senior Secured Term Loan (9.82% (LIBOR + 7.50% with 1.25% LIBOR floor), due 9/26/2022)(3)(8)(11)	\$ 9,647	\$ 9,647	\$ 9,647	0.3%
				<b>9,647</b>	<b>9,647</b>	<b>0.3%</b>
Inpatient Care Management Company, LLC	Florida / Health Care Providers & Services	Senior Secured Term Loan (10.31% (LIBOR + 8.00% with 1.00% LIBOR floor), due 6/8/2021)(3)(11)	23,698	23,698	23,698	0.7%
				<b>23,698</b>	<b>23,698</b>	<b>0.7%</b>
Janus International Group, LLC	Georgia / Building Products	Second Lien Term Loan (9.84% (LIBOR + 7.75% with 1.00% LIBOR floor), due 2/12/2026)(8)(13)	10,000	9,905	10,000	0.3%
				<b>9,905</b>	<b>10,000</b>	<b>0.3%</b>
JD Power and Associates	California / Capital Markets	Second Lien Term Loan (10.59% (LIBOR + 8.50% with 1.00% LIBOR floor), due 9/7/2024)(3)(8)(13)	20,000	19,799	20,000	0.6%
				<b>19,799</b>	<b>20,000</b>	<b>0.6%</b>
Jefferson Mill CLO Ltd.	Cayman Islands / Structured Finance	Subordinated Notes (Residual Interest, current yield 7.20%, due 7/20/2027)(5)(6)(14)	19,500	16,078	12,392	0.4%
				<b>16,078</b>	<b>12,392</b>	<b>0.4%</b>
K&N Parent, Inc.	California / Auto Components	Second Lien Term Loan (11.08% (LIBOR + 8.75% with 1.00% LIBOR floor), due 10/21/2024)(3)(8)(11)	12,887	12,681	12,887	0.4%
				<b>12,681</b>	<b>12,887</b>	<b>0.4%</b>
Keystone Acquisition Corp. (36)	Pennsylvania / Health Care Providers & Services	Second Lien Term Loan (11.58% (LIBOR + 9.25% with 1.00% LIBOR floor), due 5/1/2025)(3)(8)(11)	50,000	50,000	50,000	1.5%
				<b>50,000</b>	<b>50,000</b>	<b>1.5%</b>
LCM XIV Ltd.	Cayman Islands / Structured Finance	Income Notes (Residual Interest, current yield 16.28%, due 7/21/2031)(5)(14)	49,934	26,516	24,257	0.7%
				<b>26,516</b>	<b>24,257</b>	<b>0.7%</b>
Madison Park Funding IX, Ltd.	Cayman Islands / Structured Finance	Subordinated Notes (Residual Interest, current yield 57.45%, due 8/15/2022)(5)(14)	43,110	2,058	2,200	0.1%
				<b>2,058</b>	<b>2,200</b>	<b>0.1%</b>
Maverick Healthcare Equity, LLC	Arizona / Health Care Providers & Services	Preferred Units (10.00%, 1,250,000 units)(16) Class A Common Units (1,250,000 units)(16)		1,252	446	—%
				<b>—</b>	<b>—</b>	<b>—%</b>
				<b>1,252</b>	<b>446</b>	<b>—%</b>
MedMark Services, Inc.(51)	Texas / Health Care Providers & Services	Second Lien Term Loan (10.55% (LIBOR + 8.25% with 1.00% LIBOR floor), due 3/1/2025)(3)(8)(11)	7,000	6,933	6,933	0.2%
				<b>6,933</b>	<b>6,933</b>	<b>0.2%</b>
Memorial MRI & Diagnostic, LLC	Texas / Health Care Providers & Services	Senior Secured Term Loan (10.83% (LIBOR + 8.50% with 1.00% LIBOR floor), due 3/16/2022)(11)	36,925	36,925	36,925	1.1%
				<b>36,925</b>	<b>36,925</b>	<b>1.1%</b>

See notes to consolidated financial statements.

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

Portfolio Company	Locale / Industry	Investments(1)(44)	June 30, 2018			
			Principal Value	Amortized Cost	Fair Value(2)	% of Net Assets
<b>LEVEL 3 PORTFOLIO INVESTMENTS</b>						
<b>Non-Control/Non-Affiliate Investments (less than 5.00% voting control)</b>						
Mobile Posse, Inc.	Virginia / Media	First Lien Term Loan (10.83% (LIBOR + 8.50% with 2.00% LIBOR floor), due 4/3/2023)(3)(11)	\$ 27,700	\$ 27,700	\$ 27,700	0.8%
				<b>27,700</b>	<b>27,700</b>	<b>0.8%</b>
Mountain View CLO 2013-I Ltd.	Cayman Islands / Structured Finance	Subordinated Notes (Residual Interest, current yield 13.66%, due 10/15/2030)(5)(14)	43,650	28,357	23,267	0.7%
				<b>28,357</b>	<b>23,267</b>	<b>0.7%</b>
Mountain View CLO IX Ltd.	Cayman Islands / Structured Finance	Subordinated Notes (Residual Interest, current yield 17.63%, due 7/15/2031)(5)(6)(14)	47,830	31,528	37,333	1.1%
				<b>31,528</b>	<b>37,333</b>	<b>1.1%</b>
MRP Holdco, Inc.	Massachusetts / IT Services	Senior Secured Term Loan A (6.59% (LIBOR + 4.50% with 1.50% LIBOR floor), due 4/17/2024)(3)(13)	43,000	43,000	43,000	1.3%
		Senior Secured Term Loan B (10.59% (LIBOR + 8.50% with 1.50% LIBOR floor), due 4/17/2024)(13)	43,000	43,000	43,000	1.3%
				<b>86,000</b>	<b>86,000</b>	<b>2.6%</b>
Octagon Investment Partners XV, Ltd.	Cayman Islands / Structured Finance	Income Notes (Residual Interest, current yield 14.58%, due 7/19/2030)(5)(14)	42,063	31,734	26,350	0.8%
				<b>31,734</b>	<b>26,350</b>	<b>0.8%</b>
Octagon Investment Partners 18-R Ltd. (f/k/a Octagon Investment Partners XVIII, Ltd.)	Cayman Islands / Structured Finance	Income Notes (Residual Interest, current yield 17.26%, due 4/16/2031)(5)(6)(14)	46,016	27,295	26,420	0.8%
				<b>27,295</b>	<b>26,420</b>	<b>0.8%</b>
Pearl Intermediate Parent LLC	Connecticut / Health Care Providers & Services	Second Lien Term Loan (8.33% (LIBOR + 6.25%, due 2/15/2026)(8)(13)	5,000	4,976	5,000	0.1%
				<b>4,976</b>	<b>5,000</b>	<b>0.1%</b>
PeopleConnect Intermediate, LLC (f/k/a Intelius, Inc.)	Washington / Internet Software & Services	Revolving Line of Credit – \$1,000 Commitment (11.81% (LIBOR + 9.50% with 1.00% LIBOR floor), due 8/11/2020)(11)(15)	500	500	500	—%
		Senior Secured Term Loan A (8.81% (LIBOR + 6.50% with 1.00% LIBOR floor), due 7/1/2020)(3)(11)	18,828	18,828	18,828	0.6%
		Senior Secured Term Loan B (14.81% (LIBOR + 12.50% with 1.00% LIBOR floor), due 7/1/2020)(3)(11)	20,163	20,163	20,163	0.6%
				<b>39,491</b>	<b>39,491</b>	<b>1.2%</b>
PGX Holdings, Inc.	Utah / Diversified Consumer Services	Second Lien Term Loan (11.09% (LIBOR + 9.00% with 1.00% LIBOR floor), due 9/29/2021)(3)(13)	118,289	118,289	118,289	3.5%
				<b>118,289</b>	<b>118,289</b>	<b>3.5%</b>
PharMerica Corporation	Kentucky / Pharmaceuticals	Second Lien Term Loan (9.80% (LIBOR + 7.75% with 1.00% LIBOR floor), due 12/7/2025)(8)(13)	12,000	11,882	12,000	0.4%
				<b>11,882</b>	<b>12,000</b>	<b>0.4%</b>

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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)(44)	June 30, 2018			
			Principal Value	Amortized Cost	Fair Value(2)	% of Net Assets
<b>LEVEL 3 PORTFOLIO INVESTMENTS</b>						
<b>Non-Control/Non-Affiliate Investments (less than 5.00% voting control)</b>						
Photonis Technologies SAS	France / Electronic Equipment, Instruments & Components	First Lien Term Loan (9.83% (LIBOR + 7.50% with 1.00% LIBOR floor), due 9/18/2019)(8)(11)(14)	\$ 12,872	\$ 12,490	\$ 12,335	0.4%
				<b>12,490</b>	<b>12,335</b>	<b>0.4%</b>
PlayPower, Inc.	North Carolina / Leisure Products	Second Lien Term Loan (11.08% (LIBOR + 8.75% with 1.00% LIBOR floor), due 6/23/2022)(3)(8)(11)	11,000	10,904	11,000	0.3%
				<b>10,904</b>	<b>11,000</b>	<b>0.3%</b>
Research Now Group, Inc.	Connecticut / Professional Services	First Lien Term Loan (7.86% (LIBOR + 5.50% with 1.00% LIBOR floor), due 12/20/2024)(8)(10)	9,950	9,468	9,608	0.3%
		Second Lien Term Loan (11.82% (LIBOR + 9.50% with 1.00% LIBOR floor), due 12/20/2025)(8)(11)	50,000	46,738	47,382	1.4%
				<b>56,206</b>	<b>56,990</b>	<b>1.7%</b>
RGIS Services, LLC	Michigan / Commercial Services & Supplies	Senior Secured Term Loan (9.59% (LIBOR + 7.50% with 1.00% LIBOR floor), due 3/31/2023)(3)(8)(13)	15,173	15,113	14,339	0.4%
				<b>15,113</b>	<b>14,339</b>	<b>0.4%</b>
RME Group Holding Company	Florida / Media	Senior Secured Term Loan A (8.33% (LIBOR + 6.00% with 1.00% LIBOR floor), due 5/4/2022)(3)(11)	35,146	35,146	35,146	1.0%
		Senior Secured Term Loan B (13.33% (LIBOR + 11.00% with 1.00% LIBOR floor), due 5/4/2022)(3)(11)	24,349	24,349	24,349	0.7%
				<b>59,495</b>	<b>59,495</b>	<b>1.7%</b>
Rocket Software, Inc.	Massachusetts / Software	Second Lien Term Loan (11.83% (LIBOR + 9.50% with 1.00% LIBOR floor), due 10/14/2024)(3)(8)(11)	50,000	49,219	50,000	1.5%
				<b>49,219</b>	<b>50,000</b>	<b>1.5%</b>
Romark WM-R Ltd. (f/k/a Washington Mill CLO Ltd.)	Cayman Islands / Structured Finance	Subordinated Notes (Residual Interest, current yield 12.41%, due 4/20/2031)(5)(6)(14)	27,724	21,494	17,961	0.5%
				<b>21,494</b>	<b>17,961</b>	<b>0.5%</b>
Rosa Mexicano	New York / Hotels, Restaurants & Leisure	Revolving Line of Credit – \$2,500 Commitment (9.83% (LIBOR + 7.50% with 1.50% LIBOR floor), due 3/29/2023)(11)(15)	—	—	—	—%
		Senior Secured Term Loan (9.83% (LIBOR + 7.50% with 1.50% LIBOR floor), due 3/29/2023)(3)(11)	29,813	29,813	29,813	0.9%
				<b>29,813</b>	<b>29,813</b>	<b>0.9%</b>
SCS Merger Sub, Inc.	Texas / IT Services	Second Lien Term Loan (11.59% (LIBOR + 9.50% with 1.00% LIBOR floor), due 10/30/2023)(3)(8)(13)	20,000	19,605	20,000	0.6%
				<b>19,605</b>	<b>20,000</b>	<b>0.6%</b>
Securus Technologies Holdings, Inc.	Texas / Communications Equipment	Second Lien Term Loan (10.34% (LIBOR + 8.25% with 1.00% LIBOR floor), due 11/01/2025)(8)(13)	40,000	39,860	40,000	1.2%
				<b>39,860</b>	<b>40,000</b>	<b>1.2%</b>

See notes to consolidated financial statements.

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

Portfolio Company	Locale / Industry	Investments(1)(44)	June 30, 2018			
			Principal Value	Amortized Cost	Fair Value(2)	% of Net Assets
<b>LEVEL 3 PORTFOLIO INVESTMENTS</b>						
<b>Non-Control/Non-Affiliate Investments (less than 5.00% voting control)</b>						
SEOTownCenter, Inc	Utah / Internet Software & Services	Senior Secured Term Loan A (9.84% (LIBOR + 7.50% with 2.00% LIBOR floor), due 4/07/2023)(3)(11)	\$ 25,000	\$ 25,000	\$ 25,000	0.7%
		Senior Secured Term Loan B (14.84% (LIBOR + 12.50% with 2.00% LIBOR floor), due 4/07/2023)(3)(11)	17,000	17,000	17,000	0.5%
				<b>42,000</b>	<b>42,000</b>	<b>1.2%</b>
SESAC Holdco II LLC	Tennessee / Media	Second Lien Term Loan (9.34% (LIBOR + 7.25% with 1.00% LIBOR floor), due 2/23/2025)(8)(13)	3,000	2,975	2,975	0.1%
				<b>2,975</b>	<b>2,975</b>	<b>0.1%</b>
Small Business Whole Loan Portfolio(41)	New York / Online Lending	124 Small Business Loans purchased from On Deck Capital, Inc.	30	30	17	—%
				<b>30</b>	<b>17</b>	<b>—%</b>
SMG US Midco	Pennsylvania / Hotels, Restaurants & Leisure	Second Lien Term Loan (9.09% (LIBOR + 7.00%, due 1/23/2026)(8)(13)	7,500	7,482	7,482	0.2%
				<b>7,482</b>	<b>7,482</b>	<b>0.2%</b>
Spartan Energy Services, Inc.	Louisiana / Energy Equipment & Services	Senior Secured Term Loan A (7.98% (LIBOR + 6.00% with 1.00% LIBOR floor), due 12/28/2018)(13)	13,156	12,528	13,046	0.4%
		Senior Secured Term Loan B (13.98% PIK (LIBOR + 12.00% with 1.00% LIBOR floor), due 12/28/2018)(13)(46)	18,237	16,838	18,237	0.5%
				<b>29,366</b>	<b>31,283</b>	<b>0.9%</b>
Spectrum Holdings III Corp	Georgia / Health Care Equipment & Supplies	Second Lien Term Loan (9.09% (LIBOR + 7.00% with 1.00% LIBOR floor), due 1/31/2026)(8)(13)	7,500	7,464	7,464	0.2%
				<b>7,464</b>	<b>7,464</b>	<b>0.2%</b>
Strategic Materials	Texas / Household Durables	Second Lien Term Loan (10.10% (LIBOR + 7.75% with 1.00% LIBOR floor), due 11/1/2025)(8)(11)	7,000	6,936	6,936	0.2%
				<b>6,936</b>	<b>6,936</b>	<b>0.2%</b>
Stryker Energy, LLC	Louisiana / Energy Equipment & Services	Overriding Royalty Interests (43)		—	—	—%
				—	—	—%
Sudbury Mill CLO Ltd.	Cayman Islands / Structured Finance	Subordinated Notes (Residual Interest, current yield 5.47%, due 1/17/2026)(5)(14)	28,200	18,183	14,218	0.4%
				<b>18,183</b>	<b>14,218</b>	<b>0.4%</b>
Symphony CLO XIV Ltd.	Cayman Islands / Structured Finance	Subordinated Notes (Residual Interest, current yield 3.78%, due 7/14/2026)(5)(6)(14)	49,250	34,297	27,478	0.8%
				<b>34,297</b>	<b>27,478</b>	<b>0.8%</b>
Symphony CLO XV, Ltd.	Cayman Islands / Structured Finance	Subordinated Notes (Residual Interest, current yield 7.30%, due 10/17/2026)(5)(14)	50,250	39,512	32,433	1.0%
				<b>39,512</b>	<b>32,433</b>	<b>1.0%</b>

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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)(44)	June 30, 2018			
			Principal Value	Amortized Cost	Fair Value(2)	% of Net Assets
<b>LEVEL 3 PORTFOLIO INVESTMENTS</b>						
<b>Non-Control/Non-Affiliate Investments (less than 5.00% voting control)</b>						
TGP HOLDINGS III LLC	Oregon / Household Durables	Second Lien Term Loan (10.83% (LIBOR + 8.50% with 1.00% LIBOR floor), due 9/25/2025)(8)(11)	\$ 3,000	\$ 2,959	\$ 2,959	0.1%
				<b>2,959</b>	<b>2,959</b>	<b>0.1%</b>
TouchTunes Interactive Networks, Inc.	New York / Internet Software & Services	Second Lien Term Loan (10.25% (LIBOR + 8.25% with 1.00% LIBOR floor), due 5/29/2022)(3)(8)(13)	14,000	13,926	14,000	0.4%
				<b>13,926</b>	<b>14,000</b>	<b>0.4%</b>
Town & Country Holdings, Inc.	New York / Distributors	First Lien Term Loan (11.33% (LIBOR + 9.00% with 1.25% LIBOR floor), due 1/26/2023)(3)(11)	69,650	69,650	69,650	2.0%
				<b>69,650</b>	<b>69,650</b>	<b>2.0%</b>
Transplace Holdings, Inc.	Texas / Transportation Infrastructure	Second Lien Term Loan (10.79% (LIBOR + 8.75% with 1.00% LIBOR floor), due 10/6/2025)(8)(13)	28,104	27,494	28,104	0.8%
				<b>27,494</b>	<b>28,104</b>	<b>0.8%</b>
Turning Point Brands, Inc. (42)	Kentucky / Tobacco	Second Lien Term Loan (9.04% (LIBOR + 7.00% with 0.00% LIBOR floor), due 3/7/2024)(3)(8)(13)	14,500	14,392	14,392	0.4%
				<b>14,392</b>	<b>14,392</b>	<b>0.4%</b>
United Sporting Companies, Inc. (18)	South Carolina / Distributors	Second Lien Term Loan (13.09% (LIBOR + 11.00% with 1.75% LIBOR floor) plus 2.00% PIK, in non-accrual status effective 4/1/2017, due 11/16/2019)(13)(46) Common Stock (24,967 shares)(16)	149,126	127,091	58,806	1.7%
				—	—	—%
				<b>127,091</b>	<b>58,806</b>	<b>1.7%</b>
Universal Fiber Systems, LLC	Virginia / Textiles, Apparel & Luxury Goods	Second Lien Term Loan (11.60% (LIBOR + 9.50% with 1.00% LIBOR floor), due 10/02/2022)(3)(8)(12)	37,000	36,551	37,000	1.1%
				<b>36,551</b>	<b>37,000</b>	<b>1.1%</b>
Universal Turbine Parts, LLC	Alabama / Trading Companies & Distributors	Senior Secured Term Loan A (8.06% (LIBOR + 5.75% with 1.00% LIBOR floor), due 7/22/2021)(3)(11) Senior Secured Term Loan B (14.06% (LIBOR + 11.75% with 1.00% LIBOR floor), due 7/22/2021)(11)	31,363	31,363	27,926	0.8%
			32,500	32,500	28,273	0.8%
				<b>63,863</b>	<b>56,199</b>	<b>1.6%</b>
USG Intermediate, LLC	Texas / Leisure Products	Revolving Line of Credit – \$2,500 Commitment (11.34% (LIBOR + 9.25% with 1.00% LIBOR floor), due 8/24/2018) (13)(15) Senior Secured Term Loan A (8.84% (LIBOR + 6.75% with 1.00% LIBOR floor), due 8/24/2022)(3)(13) Senior Secured Term Loan B (13.84% (LIBOR + 11.75% with 1.00% LIBOR floor), due 8/24/2022)(3)(13) Equity(16)	2,500	2,500	2,500	0.1%
			11,385	11,385	11,385	0.3%
			20,741	20,741	20,741	0.6%
				1	—	—%
				<b>34,627</b>	<b>34,626</b>	<b>1.0%</b>
UTZ Quality Foods, LLC	Pennsylvania / Food Products	Second Lien Term Loan (9.34% (LIBOR + 7.25%, due 11/21/2025)(8)(13)	10,000	9,884	9,886	0.3%
				<b>9,884</b>	<b>9,886</b>	<b>0.3%</b>

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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)(44)	June 30, 2018			
			Principal Value	Amortized Cost	Fair Value(2)	% of Net Assets
<b>LEVEL 3 PORTFOLIO INVESTMENTS</b>						
<b>Non-Control/Non-Affiliate Investments (less than 5.00% voting control)</b>						
VC GB Holdings, Inc.	Illinois / Household Durables	Subordinated Secured Term Loan (10.09% (LIBOR + 8.00% with 1.00% LIBOR floor), due 2/28/2025)(3)(8)(13)	\$ 16,000	\$ 15,750	\$ 16,000	0.5%
				<b>15,750</b>	<b>16,000</b>	<b>0.5%</b>
Venio LLC	Pennsylvania / Professional Services	Second Lien Term Loan (4.00% plus PIK 10.00% (LIBOR + 7.50% with 2.50% LIBOR floor), due 2/19/2020)(11)(46)	22,048	18,066	20,001	0.6%
				<b>18,066</b>	<b>20,001</b>	<b>0.6%</b>
Voya CLO 2012-2, Ltd.	Cayman Islands / Structured Finance	Income Notes (Residual Interest, current yield 0.00%, due 10/15/2022)(5)(14)(17)	38,070	450	595	—%
				<b>450</b>	<b>595</b>	<b>—%</b>
Voya CLO 2012-3, Ltd.	Cayman Islands / Structured Finance	Income Notes (Residual Interest, current yield 0.00%, due 10/15/2022)(5)(14)(17)	46,632	—	585	—%
				<b>—</b>	<b>585</b>	<b>—%</b>
Voya CLO 2012-4, Ltd.	Cayman Islands / Structured Finance	Income Notes (Residual Interest, current yield 11.96%, due 10/16/2028)(5)(14)	40,613	30,893	28,264	0.8%
				<b>30,893</b>	<b>28,264</b>	<b>0.8%</b>
Voya CLO 2014-1, Ltd.	Cayman Islands / Structured Finance	Subordinated Notes (Residual Interest, current yield 16.47%, due 4/18/2031)(5)(6)(14)	40,773	28,205	26,931	0.8%
				<b>28,205</b>	<b>26,931</b>	<b>0.8%</b>
Voya CLO 2016-3, Ltd.	Cayman Islands / Structured Finance	Subordinated Notes (Residual Interest, current yield 12.68%, due 10/18/2027)(5)(6)(14)	28,100	27,180	22,912	0.7%
				<b>27,180</b>	<b>22,912</b>	<b>0.7%</b>
Voya CLO 2017-3, Ltd.	Cayman Islands / Structured Finance	Subordinated Notes (Residual Interest, current yield 12.26%, due 7/20/2030)(5)(6)(14)	44,885	47,400	43,351	1.3%
				<b>47,400</b>	<b>43,351</b>	<b>1.3%</b>
Wink Holdco, Inc.	Texas / Insurance	Second Lien Term Loan (8.85% (LIBOR + 6.75% with 1.00% LIBOR floor), due 12/1/2025)(8)(13)	3,000	2,986	2,986	0.1%
				<b>2,986</b>	<b>2,986</b>	<b>0.1%</b>
<b>Total Non-Control/Non-Affiliate Investments (Level 3)</b>			<b>\$ 3,475,295</b>	<b>\$ 3,264,517</b>	<b>\$ 3,264,517</b>	<b>95.8%</b>
<b>Total Portfolio Investments (Level 3)</b>			<b>\$ 5,831,458</b>	<b>\$ 5,727,279</b>	<b>\$ 5,727,279</b>	<b>168.1%</b>

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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)(45)	June 30, 2017			
			Principal Value	Amortized Cost	Fair Value(2)	% of Net Assets
<b>LEVEL 3 PORTFOLIO INVESTMENTS</b>						
<b>Control Investments (greater than 25.00% voting control)(49)</b>						
Arctic Energy Services, LLC(37)	Wyoming / Energy Equipment & Services	Class D Units (32,915 units)(16)	\$ 31,640	\$ 17,370	0.5%	
		Class E Units (21,080 units)(16)	20,230	—	—%	
		Class A Units (700 units)(16)	9,006	—	—%	
		Class C Units (10 units)(16)	—	—	—%	
			<b>60,876</b>	<b>17,370</b>	<b>0.5%</b>	
CCPI Inc.(19)	Ohio / Electronic Equipment, Instruments & Components	Senior Secured Term Loan A (10.00%, due 12/31/2020)(3)	\$ 2,966	2,966	2,966	0.1%
		Senior Secured Term Loan B (12.00% plus 7.00% PIK, due 12/31/2020)(3)(46)	18,216	18,216	18,216	0.5%
		Common Stock (14,857 shares)		6,759	21,870	0.7%
			<b>27,941</b>	<b>43,052</b>	<b>1.3%</b>	
CP Energy Services, Inc. (20)	Oklahoma / Energy Equipment & Services	Series B Convertible Preferred Stock (1,043 shares)(16)		98,273	72,216	2.2%
		Common Stock (2,924 shares)(16)		15,227	—	—%
				<b>113,500</b>	<b>72,216</b>	<b>2.2%</b>
Credit Central Loan Company, LLC(21)	South Carolina / Consumer Finance	Subordinated Term Loan (10.00% plus 10.00% PIK, due 6/26/2019)(14)(46)	51,855	45,255	51,855	1.5%
		Class A Units (10,640,642 units)(14)(16)		13,731	9,881	0.3%
		Net Revenues Interest (25% of Net Revenues)(14)(16)		—	2,699	0.1%
			<b>58,986</b>	<b>64,435</b>	<b>1.9%</b>	
Echelon Aviation LLC	New York / Aerospace & Defense	Senior Secured Term Loan (11.75% (LIBOR + 9.75% with 2.00% LIBOR floor) plus 2.25% PIK, due 3/31/2022)(13)(46)	31,055	31,055	31,055	0.9%
		Senior Secured Term Loan (11.00% (LIBOR + 9.00% with 2.00% LIBOR floor) plus 1.00% PIK, due 12/7/2024)(13)(46)	16,044	16,044	16,044	0.5%
		Membership Interest (99%)		22,738	24,219	0.7%
			<b>69,837</b>	<b>71,318</b>	<b>2.1%</b>	
Edmentum Ultimate Holdings, LLC(22)	Minnesota / Diversified Consumer Services	Second Lien Revolving Credit Facility to Edmentum, Inc. – \$7,834 Commitment (5.00%, due 6/9/2020)(15)	7,834	7,834	7,834	0.2%
		Unsecured Senior PIK Note (8.50% PIK, due 6/9/2020)(46)	6,905	6,905	6,905	0.2%
		Unsecured Junior PIK Note (10.00% PIK, in non-accrual status effective 1/1/2017, due 6/9/2020)	31,870	23,829	31,870	1.0%
		Class A Units (370,964 units)(16)		6,577	286	—%
			<b>45,145</b>	<b>46,895</b>	<b>1.4%</b>	
First Tower Finance Company LLC(23)	Mississippi / Consumer Finance	Subordinated Term Loan to First Tower, LLC (10.00% plus 7.00% PIK, due 6/24/2019)(14)(46)	261,114	261,114	261,114	7.8%
		Class A Units (93,997,533 units)(14)(16)		78,481	104,474	3.1%
			<b>339,595</b>	<b>365,588</b>	<b>10.9%</b>	

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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)(45)	June 30, 2017			
			Principal Value	Amortized Cost	Fair Value(2)	% of Net Assets
<b>LEVEL 3 PORTFOLIO INVESTMENTS</b>						
<b>Control Investments (greater than 25.00% voting control)(49)</b>						
Freedom Marine Solutions, LLC(24)	Louisiana / Energy Equipment & Services	Membership Interest (100%)(16)		\$ 42,610	\$ 23,994	0.7%
				<b>42,610</b>	<b>23,994</b>	<b>0.7%</b>
MITY, Inc.(25)	Utah / Commercial Services & Supplies	Senior Secured Note A (10.00% (LIBOR + 7.00% with 3.00% LIBOR floor), due 1/30/2020)(3)(11)	\$ 26,250	26,250	26,250	0.8%
		Senior Secured Note B (10.00% (LIBOR + 7.00% with 3.00% LIBOR floor) plus 10.00% PIK, due 1/30/2020)(3)(11)(46)	24,442	24,442	24,442	0.7%
		Subordinated Unsecured Note to Broda Enterprises ULC (10.00%, due on demand)(14)	5,659	7,200	5,659	0.2%
		Common Stock (42,053 shares)		6,849	20,161	0.6%
				<b>64,741</b>	<b>76,512</b>	<b>2.3%</b>
National Property REIT Corp.(26)	Various / Equity Real Estate Investment Trusts (REITs) / Online Lending	Senior Secured Term Loan A (6.00% (LIBOR + 4.00% with 2.00% LIBOR floor) plus 5.50% PIK, due 4/1/2019)(11)(46)	291,315	291,315	291,315	8.7%
		Senior Secured Term Loan E (11.00% (LIBOR + 9.00% with 2.00% LIBOR floor) plus 5.00% PIK, due 4/1/2019)(11)(46)	122,314	122,314	122,314	3.6%
		Senior Secured Term Loan C to ACL Loan Holdings, Inc. (11.00% (LIBOR + 9.00% with 2.00% LIBOR floor) plus 5.00% PIK, due 4/1/2019)(11)(14)(46)	59,722	59,722	59,722	1.8%
		Senior Secured Term Loan C to American Consumer Lending Limited (11.00% (LIBOR + 9.00% with 2.00% LIBOR floor) plus 5.00% PIK, due 12/15/2020)(11)(14)(46)	87,130	87,130	87,130	2.6%
		Common Stock (2,280,992 shares)(16)		229,815	338,046	10.1%
		Net Operating Income Interest (5% of Net Operating Income)		—	88,777	2.6%
				<b>790,296</b>	<b>987,304</b>	<b>29.4%</b>
Nationwide Loan Company LLC(27)	Illinois / Consumer Finance	Senior Subordinated Term Loan to Nationwide Acceptance LLC (10.00% plus 10.00% PIK, due 6/18/2019)(14)(46)	16,819	16,819	16,819	0.5%
		Class A Units (32,456,159 units)(14)		18,183	20,126	0.6%
				<b>35,002</b>	<b>36,945</b>	<b>1.1%</b>
NMMB, Inc.(28)	New York / Media	Senior Secured Note (14.00%, due 5/6/2021)	3,714	3,714	3,714	0.1%
		Senior Secured Note to Armed Forces Communications, Inc. (14.00%, due 5/6/2021)	6,900	6,900	6,900	0.2%
		Series A Preferred Stock (7,200 shares)(16)		7,200	5,713	0.2%
		Series B Preferred Stock (5,669 shares)(16)		5,669	4,498	0.1%
				<b>23,483</b>	<b>20,825</b>	<b>0.6%</b>
R-V Industries, Inc.	Pennsylvania / Machinery	Senior Subordinated Note (10.30% (LIBOR + 9.00% with 1.00% LIBOR floor), due 3/31/2022)(3)(11)	28,622	28,622	28,622	0.9%
		Common Stock (745,107 shares)		6,866	4,056	0.1%
				<b>35,488</b>	<b>32,678</b>	<b>1.0%</b>

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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)(45)	June 30, 2017			
			Principal Value	Amortized Cost	Fair Value(2)	% of Net Assets
<b>LEVEL 3 PORTFOLIO INVESTMENTS</b>						
<b>Control Investments (greater than 25.00% voting control)(49)</b>						
SB Forging Company II, Inc. (f/k/a Gulf Coast Machine & Supply Company)(29)	Texas / Energy Equipment & Services	Series A Convertible Preferred Stock (99,900 shares)(16)	\$	—	\$ 1,940	0.1%
		Common Stock (100 shares)(16)		—	—	—%
				—	<b>1,940</b>	<b>0.1%</b>
USES Corp.(30)	Texas / Commercial Services & Supplies	Senior Secured Term Loan A (9.00% PIK, in non-accrual status effective 4/1/2016, due 7/22/2020)	\$ 31,068	28,604	12,517	0.4%
		Senior Secured Term Loan B (15.50% PIK, in non-accrual status effective 4/1/2016, due 7/22/2020)	41,475	35,568	—	—%
		Common Stock (268,962 shares)(16)	—	—	—	—%
				<b>64,172</b>	<b>12,517</b>	<b>0.4%</b>
Valley Electric Company, Inc.(31)	Washington / Construction & Engineering	Senior Secured Note to Valley Electric Co. of Mt. Vernon, Inc. (8.00% (LIBOR + 5.00% with 3.00% LIBOR floor) plus 2.50% PIK, due 12/31/2024)(3)(11)(46)	10,430	10,430	10,430	0.3%
		Senior Secured Note (10.00% plus 8.50% PIK, due 6/23/2024)(46)	25,624	25,624	22,079	0.7%
		Common Stock (50,000 shares)(16)		26,204	—	—%
				<b>62,258</b>	<b>32,509</b>	<b>1.0%</b>
Wolf Energy, LLC(32)	Kansas / Energy Equipment & Services	Membership Interest (100%)(16)		—	—	—%
		Membership Interest in Wolf Energy Services Company, LLC (100%)(16)		6,801	5,662	0.1%
		Net Profits Interest (8% of Equity Distributions)(4)(16)		—	15	—%
				<b>6,801</b>	<b>5,677</b>	<b>0.1%</b>
<b>Total Control Investments (Level 3)</b>			<b>\$ 1,840,731</b>	<b>\$ 1,911,775</b>		<b>57.0%</b>
<b>Affiliate Investments (5.00% to 24.99% voting control)(50)</b>						
Nixon, Inc.(39)	California / Textiles, Apparel & Luxury Goods	Senior Secured Term Loan (11.50% PIK, in non-accrual status effective 7/1/2016, due 11/12/2022)(8)	\$ 16,499	\$ 14,197	\$ —	—%
		Common Stock (857 units)(16)	—	—	—	—%
				<b>14,197</b>	<b>—</b>	<b>—%</b>
Targus International, LLC(33)	California / Textiles, Apparel & Luxury Goods	Senior Secured Term Loan A (15.00% PIK, due 12/31/2019)(8)(46)	1,532	1,320	1,532	—%
		Senior Secured Term Loan B (15.00% PIK, due 12/31/2019)(8)(46)	4,596	3,961	4,596	0.1%
		Common Stock (1,262,737 shares)(16)	—	3,479	5,301	0.2%
				<b>8,760</b>	<b>11,429</b>	<b>0.3%</b>
<b>Total Affiliate Investments (Level 3)</b>			<b>\$ 22,957</b>	<b>\$ 11,429</b>		<b>0.3%</b>

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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)(45)	June 30, 2017				
			Principal Value	Amortized Cost	Fair Value(2)	% of Net Assets	
<b>LEVEL 3 PORTFOLIO INVESTMENTS</b>							
<b>Non-Control/Non-Affiliate Investments (less than 5.00% voting control)</b>							
American Gilsonite Company(34)	Utah / Chemicals	Membership Interest (1.93%)(16)	\$	—	\$	—	—%
				—		—	—%
Apidos CLO IX	Cayman Islands / Structured Finance	Subordinated Notes (Residual Interest, current yield 0.00%, due 7/15/2023)(5)(14)(17)	\$ 23,525	7,597	7,597		0.2%
				<b>7,597</b>	<b>7,597</b>		<b>0.2%</b>
Apidos CLO XI	Cayman Islands / Structured Finance	Subordinated Notes (Residual Interest, current yield 9.54%, due 10/17/2028)(5)(14)	40,500	30,494	24,777		0.7%
				<b>30,494</b>	<b>24,777</b>		<b>0.7%</b>
Apidos CLO XII	Cayman Islands / Structured Finance	Subordinated Notes (Residual Interest, current yield 5.73%, due 4/15/2025)(5)(14)	44,063	30,745	26,047		0.8%
				<b>30,745</b>	<b>26,047</b>		<b>0.8%</b>
Apidos CLO XV	Cayman Islands / Structured Finance	Subordinated Notes (Residual Interest, current yield 12.29%, due 10/20/2025)(5)(14)	36,515	29,491	26,083		0.8%
				<b>29,491</b>	<b>26,083</b>		<b>0.8%</b>
Apidos CLO XXII	Cayman Islands / Structured Finance	Subordinated Notes (Residual Interest, current yield 14.51%, due 10/20/2027)(5)(6)(14)	31,350	26,991	25,432		0.8%
				<b>26,991</b>	<b>25,432</b>		<b>0.8%</b>
Ark-La-Tex Wireline Services, LLC(32)	Louisiana / Energy Equipment & Services	Senior Secured Term Loan B (12.73% (LIBOR + 11.50% with 1.00% LIBOR floor), in non-accrual status effective 4/1/2016, due 4/8/2019)(13)	26,080	1,630	1,630		—%
				<b>1,630</b>	<b>1,630</b>		—%
Armor Holding II LLC	New York / Commercial Services & Supplies	Second Lien Term Loan (10.30% (LIBOR + 9.00% with 1.25% LIBOR floor), due 12/26/2020)(3)(8)(11)	7,000	6,928	7,000		0.2%
				<b>6,928</b>	<b>7,000</b>		<b>0.2%</b>
Atlantis Health Care Group (Puerto Rico), Inc.	Puerto Rico / Health Care Providers & Services	Revolving Line of Credit – \$7,000 Commitment (9.50% (LIBOR + 8.00% with 1.50% LIBOR floor), due 8/21/2018)(11)(15)	3,850	3,850	3,850		0.1%
		Senior Term Loan (9.50% (LIBOR + 8.00% with 1.50% LIBOR floor), due 2/21/2020)(3)(11)	79,560	79,560	79,560		2.4%
				<b>83,410</b>	<b>83,410</b>		<b>2.5%</b>
Babson CLO Ltd. 2014-III	Cayman Islands / Structured Finance	Subordinated Notes (Residual Interest, current yield 15.01%, due 1/15/2026)(5)(6)(14)	52,250	42,101	39,001		1.2%
				<b>42,101</b>	<b>39,001</b>		<b>1.2%</b>
Broder Bros., Co.	Pennsylvania / Textiles, Apparel & Luxury Goods	Senior Secured Term Loan A (7.05% (LIBOR + 5.75% with 1.25% LIBOR floor), due 6/03/2021)(3)(11)	110,876	110,876	110,876		3.3%
		Senior Secured Term Loan B (13.55% (LIBOR + 12.25% with 1.25% LIBOR floor), due 6/03/2021)(11)	114,901	114,901	114,901		3.4%
				<b>225,777</b>	<b>225,777</b>		<b>6.7%</b>

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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)(45)	June 30, 2017			
			Principal Value	Amortized Cost	Fair Value(2)	% of Net Assets
<b>LEVEL 3 PORTFOLIO INVESTMENTS</b>						
<b>Non-Control/Non-Affiliate Investments (less than 5.00% voting control)</b>						
Brookside Mill CLO Ltd.	Cayman Islands / Structured Finance	Subordinated Notes (Residual Interest, current yield 1.29%, due 4/17/2025)(5)(14)	\$ 26,000	\$ 17,178	\$ 14,022	0.4%
				<b>17,178</b>	<b>14,022</b>	<b>0.4%</b>
California Street CLO IX Ltd. (f/k/a Symphony CLO IX Ltd.)	Cayman Islands / Structured Finance	Preference Shares (Residual Interest, current yield 13.82%, due 10/16/2028)(5)(14)	58,915	40,792	35,758	1.1%
				<b>40,792</b>	<b>35,758</b>	<b>1.1%</b>
Capstone Logistics Acquisition, Inc.	Georgia / Commercial Services & Supplies	Second Lien Term Loan (9.48% (LIBOR + 8.25% with 1.00% LIBOR floor), due 10/7/2022)(3)(8)(13)	101,517	101,071	98,468	2.9%
				<b>101,071</b>	<b>98,468</b>	<b>2.9%</b>
Carlyle Global Market Strategies CLO 2014-4, Ltd.	Cayman Islands / Structured Finance	Subordinated Notes (Residual Interest, current yield 21.61%, due 10/15/2026)(5)(6)(14)	25,534	19,494	19,757	0.6%
				<b>19,494</b>	<b>19,757</b>	<b>0.6%</b>
Carlyle Global Market Strategies CLO 2016-3, Ltd.	Cayman Islands / Structured Finance	Subordinated Notes (Residual Interest, current yield 15.04%, due 10/20/2029)(5)(6)(14)	32,200	31,449	26,745	0.8%
				<b>31,449</b>	<b>26,745</b>	<b>0.8%</b>
Cent CLO 17 Limited	Cayman Islands / Structured Finance	Subordinated Notes (Residual Interest, current yield 10.00%, due 1/30/2025)(5)(14)	24,870	18,100	16,708	0.5%
				<b>18,100</b>	<b>16,708</b>	<b>0.5%</b>
Cent CLO 20 Limited	Cayman Islands / Structured Finance	Subordinated Notes (Residual Interest, current yield 15.81%, due 1/25/2026)(5)(14)	40,275	32,105	32,148	1.0%
				<b>32,105</b>	<b>32,148</b>	<b>1.0%</b>
Cent CLO 21 Limited	Cayman Islands / Structured Finance	Subordinated Notes (Residual Interest, current yield 15.47%, due 7/27/2026)(5)(6)(14)	48,528	36,659	36,178	1.1%
				<b>36,659</b>	<b>36,178</b>	<b>1.1%</b>
Centerfield Media Holding Company(35)	California / Internet Software and Services	Senior Secured Term Loan A (8.30% (LIBOR + 7.00% with 1.00% LIBOR floor), due 1/17/2022)(3)(8)(11)	67,320	67,320	67,320	2.0%
		Senior Secured Term Loan B (13.80% (LIBOR + 12.50% with 1.00% LIBOR floor), due 1/17/2022)(8)(11)	68,000	68,000	68,000	2.0%
				<b>135,320</b>	<b>135,320</b>	<b>4.0%</b>
CIFC Funding 2013-III, Ltd.	Cayman Islands / Structured Finance	Subordinated Notes (Residual Interest, current yield 15.42%, due 10/24/2025)(5)(14)	44,100	31,233	30,265	0.9%
				<b>31,233</b>	<b>30,265</b>	<b>0.9%</b>
CIFC Funding 2013-IV, Ltd.	Cayman Islands / Structured Finance	Subordinated Notes (Residual Interest, current yield 16.16%, due 11/27/2024)(5)(14)	45,500	32,859	32,708	1.0%
				<b>32,859</b>	<b>32,708</b>	<b>1.0%</b>
CIFC Funding 2014-IV Investor, Ltd.	Cayman Islands / Structured Finance	Income Notes (Residual Interest, current yield 13.85%, due 10/17/2026)(5)(6)(14)	41,500	30,002	29,139	0.9%
				<b>30,002</b>	<b>29,139</b>	<b>0.9%</b>

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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)(45)	June 30, 2017			
			Principal Value	Amortized Cost	Fair Value(2)	% of Net Assets
<b>LEVEL 3 PORTFOLIO INVESTMENTS</b>						
<b>Non-Control/Non-Affiliate Investments (less than 5.00% voting control)</b>						
CIFC Funding 2016-I, Ltd.	Cayman Islands / Structured Finance	Income Notes (Residual Interest, current yield 16.33%, due 10/21/2028)(5)(6)(14)	\$ 34,000	\$ 31,780	\$ 29,513	0.9%
				<b>31,780</b>	<b>29,513</b>	<b>0.9%</b>
Cinedigm DC Holdings, LLC	New York / Media	Senior Secured Term Loan (11.00% (LIBOR + 9.00% with 2.00% LIBOR floor) plus 2.50% PIK, due 3/31/2021)(11)(46)	49,156	49,106	49,156	1.5%
				<b>49,106</b>	<b>49,156</b>	<b>1.5%</b>
Coverall North America, Inc.	Florida / Commercial Services & Supplies	Senior Secured Term Loan A (7.30% (LIBOR + 6.00% with 1.00% LIBOR floor), due 11/02/2020)(3)(11)	22,658	22,658	22,658	0.7%
		Senior Secured Term Loan B (12.30% (LIBOR + 11.00% with 1.00% LIBOR floor), due 11/02/2020)(3)(11)	24,938	24,938	24,938	0.7%
				<b>47,596</b>	<b>47,596</b>	<b>1.4%</b>
CURO Financial Technologies Corp.	Canada / Consumer Finance	Senior Secured Notes (12.00%, due 3/1/2022)(8)(14)	10,000	9,831	10,000	0.3%
				<b>9,831</b>	<b>10,000</b>	<b>0.3%</b>
Digital Room LLC	California / Commercial Services & Supplies	Second Lien Term Loan (11.23% (LIBOR + 10.00% with 1.00% LIBOR floor), due 5/21/2023)(3)(8)(13)	34,000	33,389	33,389	1.0%
				<b>33,389</b>	<b>33,389</b>	<b>1.0%</b>
Dunn Paper, Inc.	Georgia / Paper & Forest Products	Second Lien Term Loan (9.98% (LIBOR + 8.75% with 1.00% LIBOR floor), due 8/26/2023)(3)(8)(13)	11,500	11,295	11,500	0.3%
				<b>11,295</b>	<b>11,500</b>	<b>0.3%</b>
Easy Gardener Products, Inc.	Texas / Household Durables	Senior Secured Term Loan (11.30% (LIBOR + 10.00% with .25% LIBOR floor), due 9/30/2020)(3)(11)	17,194	17,194	17,066	0.5%
				<b>17,194</b>	<b>17,066</b>	<b>0.5%</b>
EZShield Parent, Inc.	Maryland / Internet Software & Services	Senior Secured Term Loan A (7.98% (LIBOR + 6.75% with 1.00% LIBOR floor), due 2/26/2021)(3)(13)	14,963	14,963	14,963	0.4%
		Senior Secured Term Loan B (12.98% (LIBOR + 11.75% with 1.00% LIBOR floor), due 2/26/2021)(3)(13)	15,000	15,000	15,000	0.5%
				<b>29,963</b>	<b>29,963</b>	<b>0.9%</b>
Fleetwash, Inc.	New Jersey / Commercial Services & Supplies	Senior Secured Term Loan B (10.30% (LIBOR + 9.00% with 1.00% LIBOR floor), due 4/30/2022)(3)(11)	21,544	21,544	21,544	0.6%
		Delayed Draw Term Loan – \$15,000 Commitment (9.80% (LIBOR + 8.50% with 1.00% LIBOR floor) expires 4/30/2022)(11)(15)	—	—	—	—%
				<b>21,544</b>	<b>21,544</b>	<b>0.6%</b>
Galaxy XV CLO, Ltd.	Cayman Islands / Structured Finance	Subordinated Notes (Residual Interest, current yield 12.14%, due 4/15/2025)(5)(14)	50,525	33,887	33,794	1.0%
				<b>33,887</b>	<b>33,794</b>	<b>1.0%</b>

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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)(45)	June 30, 2017			
			Principal Value	Amortized Cost	Fair Value(2)	% of Net Assets
<b>LEVEL 3 PORTFOLIO INVESTMENTS</b>						
<b>Non-Control/Non-Affiliate Investments (less than 5.00% voting control)</b>						
Galaxy XVI CLO, Ltd.	Cayman Islands / Structured Finance	Subordinated Notes (Residual Interest, current yield 11.71%, due 11/16/2025)(5)(14)	\$ 24,575	\$ 17,854	\$ 16,611	0.5%
				<b>17,854</b>	<b>16,611</b>	<b>0.5%</b>
Galaxy XVII CLO, Ltd.	Cayman Islands / Structured Finance	Subordinated Notes (Residual Interest, current yield 10.14%, due 7/15/2026)(5)(6)(14)	39,905	29,502	26,833	0.8%
				<b>29,502</b>	<b>26,833</b>	<b>0.8%</b>
Global Employment Solutions, Inc.	Colorado / Professional Services	Senior Secured Term Loan (10.48% (LIBOR + 9.25% with 1.00% LIBOR floor), due 6/26/2020)(3)(13)	48,131	48,131	48,131	1.4%
				<b>48,131</b>	<b>48,131</b>	<b>1.4%</b>
Halcyon Loan Advisors Funding 2012-1 Ltd.	Cayman Islands / Structured Finance	Subordinated Notes (Residual Interest, current yield 0.00%, due 8/15/2023)(5)(14)(17)	23,188	5,086	5,086	0.2%
				<b>5,086</b>	<b>5,086</b>	<b>0.2%</b>
Halcyon Loan Advisors Funding 2013-1 Ltd.	Cayman Islands / Structured Finance	Subordinated Notes (Residual Interest, current yield 5.76%, due 4/15/2025)(5)(14)	40,400	26,949	23,937	0.7%
				<b>26,949</b>	<b>23,937</b>	<b>0.7%</b>
Halcyon Loan Advisors Funding 2014-1 Ltd.	Cayman Islands / Structured Finance	Subordinated Notes (Residual Interest, current yield 9.70%, due 4/18/2026)(5)(14)	24,500	15,982	15,984	0.5%
				<b>15,982</b>	<b>15,984</b>	<b>0.5%</b>
Halcyon Loan Advisors Funding 2014-2 Ltd.	Cayman Islands / Structured Finance	Subordinated Notes (Residual Interest, current yield 14.39%, due 4/28/2025)(5)(6)(14)	41,164	27,617	27,869	0.8%
				<b>27,617</b>	<b>27,869</b>	<b>0.8%</b>
Halcyon Loan Advisors Funding 2015-3 Ltd.	Cayman Islands / Structured Finance	Subordinated Notes (Residual Interest, current yield 15.09%, due 10/18/2027)(5)(6)(14)	39,598	34,205	34,938	1.0%
				<b>34,205</b>	<b>34,938</b>	<b>1.0%</b>
Harbortouch Payments, LLC	Pennsylvania / Commercial Services & Supplies	Escrow Receivable	—	—	864	—%
				—	<b>864</b>	—%
HarbourView CLO VII, Ltd.	Cayman Islands / Structured Finance	Subordinated Notes (Residual Interest, current yield 19.25%, due 11/18/2026)(5)(6)(14)	19,025	14,955	14,047	0.4%
				<b>14,955</b>	<b>14,047</b>	<b>0.4%</b>
Harley Marine Services, Inc.	Washington / Marine	Second Lien Term Loan (10.50% (LIBOR + 9.25% with 1.25% LIBOR floor), due 12/20/2019)(3)(8)(11)	9,000	8,919	8,800	0.3%
				<b>8,919</b>	<b>8,800</b>	<b>0.3%</b>
Inpatient Care Management Company, LLC	Florida / Health Care Providers & Services	Senior Secured Term Loan (10.30% (LIBOR + 9.00% with 1.00% LIBOR floor), due 6/8/2021)(3)(11)	25,467	25,467	25,467	0.8%
				<b>25,467</b>	<b>25,467</b>	<b>0.8%</b>

See notes to consolidated financial statements.

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

Portfolio Company	Locale / Industry	Investments(1)(45)	June 30, 2017			
			Principal Value	Amortized Cost	Fair Value(2)	% of Net Assets
<b>LEVEL 3 PORTFOLIO INVESTMENTS</b>						
<b>Non-Control/Non-Affiliate Investments (less than 5.00% voting control)</b>						
Instant Web, LLC	Minnesota / Media	Senior Secured Term Loan A (5.80% (LIBOR + 4.50% with 1.00% LIBOR floor), due 3/28/2019)(11)	\$ 120,948	\$ 120,948	\$ 120,948	3.6%
		Senior Secured Term Loan B (12.30% (LIBOR + 11.00% with 1.00% LIBOR floor), due 3/28/2019)(3)(11)	158,100	158,100	158,100	4.7%
		Senior Secured Term Loan C-1 (13.05% (LIBOR + 11.75% with 1.00% LIBOR floor), due 3/28/2019)(11)	27,000	27,000	27,000	0.8%
		Senior Secured Term Loan C-2 (13.80% (LIBOR + 12.50% with 1.00% LIBOR floor), due 3/28/2019)(11)	25,000	25,000	25,000	0.8%
			<b>331,048</b>	<b>331,048</b>	<b>9.9%</b>	
InterDent, Inc.	California / Health Care Providers & Services	Senior Secured Term Loan A (6.73% (LIBOR + 5.50% with 0.75% LIBOR floor), due 8/3/2017)(13)	78,656	78,656	78,656	2.3%
		Senior Secured Term Loan B (11.73% (LIBOR + 10.50% with 0.75% LIBOR floor), due 8/3/2017)(3)(13)	131,125	131,125	129,857	3.9%
			<b>209,781</b>	<b>208,513</b>	<b>6.2%</b>	
JD Power and Associates	California / Capital Markets	Second Lien Term Loan (9.80% (LIBOR + 8.50% with 1.00% LIBOR floor), due 9/7/2024)(3)(8)(11)	15,000	14,796	15,000	0.4%
			<b>14,796</b>	<b>15,000</b>	<b>0.4%</b>	
Jefferson Mill CLO Ltd.	Cayman Islands / Structured Finance	Subordinated Notes (Residual Interest, current yield 10.45%, due 7/20/2027)(5)(6)(14)	19,500	16,501	13,507	0.4%
			<b>16,501</b>	<b>13,507</b>	<b>0.4%</b>	
K&N Parent, Inc.	California / Auto Components	Second Lien Term Loan (9.98% (LIBOR + 8.75% with 1.00% LIBOR floor), due 10/20/2024)(3)(8)(13)	13,000	12,762	13,000	0.4%
			<b>12,762</b>	<b>13,000</b>	<b>0.4%</b>	
Keystone Acquisition Corp. (36)	Pennsylvania / Health Care Providers & Services	Second Lien Term Loan (10.55% (LIBOR + 9.25% with 1.00% LIBOR floor), due 5/1/2025)(3)(8)(11)	50,000	50,000	50,000	1.5%
			<b>50,000</b>	<b>50,000</b>	<b>1.5%</b>	
LaserShip, Inc.	Virginia / Air Freight & Logistics	Senior Secured Term Loan A (10.25% (LIBOR + 8.25% with 2.00% LIBOR floor), due 3/18/2019)(3)(13)	32,184	32,184	32,184	1.0%
		Senior Secured Term Loan B (10.25% (LIBOR + 8.25% with 2.00% LIBOR floor), due 3/18/2019)(3)(13)	19,768	19,768	19,768	0.5%
			<b>51,952</b>	<b>51,952</b>	<b>1.5%</b>	
LCM XIV Ltd.	Cayman Islands / Structured Finance	Income Notes (Residual Interest, current yield 14.99%, due 7/15/2025)(5)(14)	30,500	21,243	21,567	0.6%
			<b>21,243</b>	<b>21,567</b>	<b>0.6%</b>	
Madison Park Funding IX, Ltd.	Cayman Islands / Structured Finance	Subordinated Notes (Residual Interest, current yield 11.49%, due 8/15/2022)(5)(14)	43,110	8,558	8,472	0.3%
			<b>8,558</b>	<b>8,472</b>	<b>0.3%</b>	

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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)(45)	June 30, 2017			
			Principal Value	Amortized Cost	Fair Value(2)	% of Net Assets
<b>LEVEL 3 PORTFOLIO INVESTMENTS</b>						
<b>Non-Control/Non-Affiliate Investments (less than 5.00% voting control)</b>						
Matrixx Initiatives, Inc.	New Jersey / Pharmaceuticals	Senior Secured Term Loan A (7.80% (LIBOR + 6.50% with 1.00% LIBOR floor), due 2/24/2020)(3)(11)	\$ 65,427	\$ 65,427	\$ 65,427	2.0%
		Senior Secured Term Loan B (12.80% (LIBOR + 11.50% with 1.00% LIBOR floor), due 2/24/2020)(3)(11)	52,562	52,562	52,562	1.6%
			<b>117,989</b>	<b>117,989</b>	<b>3.6%</b>	
Maverick Healthcare Equity, LLC	Arizona / Health Care Providers & Services	Preferred Units (1,250,000 units)(16)	—	1,252	782	—%
		Class A Common Units (1,250,000 units)(16)	—	—	—	—%
			<b>1,252</b>	<b>782</b>	<b>—%</b>	
Memorial MRI & Diagnostic, LLC	Texas / Health Care Providers & Services	Senior Secured Term Loan (9.80% (LIBOR + 8.50% with 1.00% LIBOR floor), due 3/16/2022)(11)	37,810	37,810	37,810	1.1%
			<b>37,810</b>	<b>37,810</b>	<b>1.1%</b>	
Mountain View CLO 2013-I Ltd.	Cayman Islands / Structured Finance	Subordinated Notes (Residual Interest, current yield 9.43%, due 4/12/2024)(5)(14)	43,650	28,554	26,314	0.8%
			<b>28,554</b>	<b>26,314</b>	<b>0.8%</b>	
Mountain View CLO IX Ltd.	Cayman Islands / Structured Finance	Subordinated Notes (Residual Interest, current yield 14.70%, due 7/15/2027)(5)(6)(14)	47,830	40,832	39,857	1.2%
			<b>40,832</b>	<b>39,857</b>	<b>1.2%</b>	
National Home Healthcare Corp.	Michigan / Health Care Providers & Services	Second Lien Term Loan (10.08% (LIBOR + 9.00% with 1.00% LIBOR floor), due 12/8/2022)(3)(8)(13)	15,407	15,199	15,407	0.5%
			<b>15,199</b>	<b>15,407</b>	<b>0.5%</b>	
NCP Finance Limited Partnership(38)	Ohio / Consumer Finance	Subordinated Secured Term Loan (11.00% (LIBOR + 9.75% with 1.25% LIBOR floor), due 9/30/2018)(3)(8)(13)(14)	26,880	26,455	25,973	0.8%
			<b>26,455</b>	<b>25,973</b>	<b>0.8%</b>	
Octagon Investment Partners XV, Ltd.	Cayman Islands / Structured Finance	Income Notes (Residual Interest, current yield 13.13%, due 1/19/2025)(5)(14)	42,064	29,704	24,250	0.7%
			<b>29,704</b>	<b>24,250</b>	<b>0.7%</b>	
Octagon Investment Partners XVIII, Ltd.	Cayman Islands / Structured Finance	Income Notes (Residual Interest, current yield 15.36%, due 12/16/2024)(5)(6)(14)	28,200	18,468	17,415	0.5%
			<b>18,468</b>	<b>17,415</b>	<b>0.5%</b>	
Pacific World Corporation	California / Personal Products	Revolving Line of Credit – \$15,000 Commitment (8.23% (LIBOR + 7.00% with 1.00% LIBOR floor), due 9/26/2020)(13)(15)	14,725	14,725	14,725	0.4%
		Senior Secured Term Loan A (6.23% (LIBOR + 5.00% with 1.00% LIBOR floor), due 9/26/2020)(3)(13)	97,250	97,250	94,834	2.8%
		Senior Secured Term Loan B (10.23% (LIBOR + 9.00% with 1.00% LIBOR floor), due 9/26/2020)(3)(13)	97,250	97,250	69,450	2.1%
			<b>209,225</b>	<b>179,009</b>	<b>5.3%</b>	
Pelican Products, Inc.	California / Chemicals	Second Lien Term Loan (9.55% (LIBOR + 8.25% with 1.00% LIBOR floor), due 4/9/2021)(3)(8)(11)	17,500	17,489	16,699	0.5%
			<b>17,489</b>	<b>16,699</b>	<b>0.5%</b>	

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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)(45)	June 30, 2017			
			Principal Value	Amortized Cost	Fair Value(2)	% of Net Assets
<b>LEVEL 3 PORTFOLIO INVESTMENTS</b>						
<b>Non-Control/Non-Affiliate Investments (less than 5.00% voting control)</b>						
PeopleConnect Intermediate, LLC (f/k/a Intelius, Inc.)	Washington / Internet Software & Services	Revolving Line of Credit – \$1,000 Commitment (9.80% (LIBOR + 8.50% with 1.00% LIBOR floor), due 8/11/2017)(11)(15)	\$ —	\$ —	\$ —	—%
		Senior Secured Term Loan A (6.80% (LIBOR + 5.50% with 1.00% LIBOR floor), due 7/1/2020)(3)(11)	19,606	19,606	19,606	0.6%
		Senior Secured Term Loan B (12.80% (LIBOR + 11.50% with 1.00% LIBOR floor), due 7/1/2020)(3)(11)	20,552	20,552	20,552	0.6%
			<b>40,158</b>	<b>40,158</b>	<b>40,158</b>	<b>1.2%</b>
PGX Holdings, Inc.	Utah / Diversified Consumer Services	Second Lien Term Loan (10.23% (LIBOR + 9.00% with 1.00% LIBOR floor), due 9/29/2021)(3)(13)	143,767	143,767	143,767	4.3%
					<b>143,767</b>	<b>143,767</b>
Photonis Technologies SAS	France / Electronic Equipment, Instruments & Components	First Lien Term Loan (8.80% (LIBOR + 7.50% with 1.00% LIBOR floor), due 9/18/2019)(8)(11)(14)	9,872	9,755	8,794	0.3%
					<b>9,755</b>	<b>8,794</b>
Pinnacle (US) Acquisition Co. Limited	Texas / Software	Second Lien Term Loan (10.55% (LIBOR + 9.25% with 1.25% LIBOR floor), due 8/3/2020)(8)(11)	7,037	6,947	5,150	0.2%
					<b>6,947</b>	<b>5,150</b>
PlayPower, Inc.	North Carolina / Leisure Products	Second Lien Term Loan (10.05% (LIBOR + 8.75% with 1.00% LIBOR floor), due 6/23/2022)(3)(8)(11)	11,000	10,880	11,000	0.3%
					<b>10,880</b>	<b>11,000</b>
PrimeSport, Inc.	Georgia / Hotels, Restaurants & Leisure	Senior Secured Term Loan A (8.30% (LIBOR + 7.00% with 1.00% LIBOR floor), due 2/11/2021)(3)(11)	53,138	53,138	49,312	1.5%
		Senior Secured Term Loan B (13.30% (LIBOR + 12.00% with 1.00% LIBOR floor), due 2/11/2021)(3)(11)	74,500	74,500	54,585	1.6%
					<b>127,638</b>	<b>103,897</b>
Prince Mineral Holding Corp.	New York / Metals & Mining	Senior Secured Term Loan (11.50%, due 12/15/2019)(8)	10,000	9,953	10,000	0.3%
					<b>9,953</b>	<b>10,000</b>
RGIS Services, LLC	Michigan / Commercial Services & Supplies	Senior Secured Term Loan (8.80% (LIBOR + 7.50% with 1.00% LIBOR floor), due 3/31/2023)(8)(11)	14,963	14,744	14,744	0.4%
					<b>14,744</b>	<b>14,744</b>
RME Group Holding Company	Florida / Media	Revolving Line of Credit – \$2,000 Commitment (9.30% (LIBOR + 8.00% with 1.00% LIBOR floor), due 8/4/2017)(11)(15)	—	—	—	—%
		Senior Secured Term Loan A (7.30% (LIBOR + 6.00% with 1.00% LIBOR floor), due 5/4/2022)(3)(11)	37,500	37,500	37,500	1.1%
		Senior Secured Term Loan B (12.30% (LIBOR + 11.00% with 1.00% LIBOR floor), due 5/4/2022)(3)(11)	25,000	25,000	25,000	0.8%
			<b>62,500</b>	<b>62,500</b>	<b>62,500</b>	<b>1.9%</b>

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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)(45)	June 30, 2017			
			Principal Value	Amortized Cost	Fair Value(2)	% of Net Assets
<b>LEVEL 3 PORTFOLIO INVESTMENTS</b>						
<b>Non-Control/Non-Affiliate Investments (less than 5.00% voting control)</b>						
Rocket Software, Inc.	Massachusetts / Software	Second Lien Term Loan (10.80% (LIBOR + 9.50% with 1.00% LIBOR floor), due 10/14/2024)(3)(8)(11)	\$ 50,000	\$ 49,094	\$ 50,000	1.5%
				<b>49,094</b>	<b>50,000</b>	<b>1.5%</b>
SCS Merger Sub, Inc.	Texas / IT Services	Second Lien Term Loan (10.73% (LIBOR + 9.50% with 1.00% LIBOR floor), due 10/30/2023)(3)(8)(13)	20,000	19,531	20,000	0.6%
				<b>19,531</b>	<b>20,000</b>	<b>0.6%</b>
SESAC Holdco II LLC	Tennessee / Media	Second Lien Term Loan (8.37% (LIBOR + 7.25% with 1.00% LIBOR floor), due 2/23/2025)(8)(12)	3,000	2,971	2,971	0.1%
				<b>2,971</b>	<b>2,971</b>	<b>0.1%</b>
Small Business Whole Loan Portfolio(41)	New York / Online Lending	781 Small Business Loans purchased from On Deck Capital, Inc.	8,434	8,434	7,964	0.2%
				<b>8,434</b>	<b>7,964</b>	<b>0.2%</b>
Spartan Energy Services, Inc.	Louisiana / Energy Equipment & Services	Senior Secured Term Loan A (7.23% (LIBOR + 6.00% with 1.00% LIBOR floor), in non-accrual status effective 4/1/2016, due 12/28/2018)(13)	13,156	11,933	8,833	0.3%
		Senior Secured Term Loan B (13.23% (LIBOR + 12.00% with 1.00% LIBOR floor), in non-accrual status effective 4/1/2016, due 12/28/2018)(13)	16,101	13,669	—	—%
				<b>25,602</b>	<b>8,833</b>	<b>0.3%</b>
Stryker Energy, LLC	Ohio / Oil, Gas & Consumable Fuels	Overriding Royalty Interests(43)	—	—	—	—%
				—	—	—%
Sudbury Mill CLO Ltd.	Cayman Islands / Structured Finance	Subordinated Notes (Residual Interest, current yield 10.70%, due 1/17/2026)(5)(14)	28,200	19,519	17,304	0.5%
				<b>19,519</b>	<b>17,304</b>	<b>0.5%</b>
Symphony CLO XIV Ltd.	Cayman Islands / Structured Finance	Subordinated Notes (Residual Interest, current yield 10.41%, due 7/14/2026)(5)(6)(14)	49,250	36,668	33,744	1.0%
				<b>36,668</b>	<b>33,744</b>	<b>1.0%</b>
Symphony CLO XV, Ltd.	Cayman Islands / Structured Finance	Subordinated Notes (Residual Interest, current yield 13.68%, due 10/17/2026)(5)(14)	50,250	41,383	38,123	1.1%
				<b>41,383</b>	<b>38,123</b>	<b>1.1%</b>
TouchTunes Interactive Networks, Inc.	New York / Internet Software & Services	Second Lien Term Loan (9.47% (LIBOR + 8.25% with 1.00% LIBOR floor), due 5/29/2022)(3)(8)(11)	14,000	13,907	13,907	0.4%
				<b>13,907</b>	<b>13,907</b>	<b>0.4%</b>
Traeger Pellet Grills LLC	Oregon / Household Durables	Senior Secured Term Loan A (6.50% (LIBOR + 4.50% with 2.00% LIBOR floor), due 6/18/2019)(3)(11)	53,094	53,094	53,094	1.6%
		Senior Secured Term Loan B (11.50% (LIBOR + 9.50% with 2.00% LIBOR floor), due 6/18/2019)(3)(11)	56,031	56,031	56,031	1.6%
				<b>109,125</b>	<b>109,125</b>	<b>3.2%</b>

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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)(45)	June 30, 2017			
			Principal Value	Amortized Cost	Fair Value(2)	% of Net Assets
<b>LEVEL 3 PORTFOLIO INVESTMENTS</b>						
<b>Non-Control/Non-Affiliate Investments (less than 5.00% voting control)</b>						
Transaction Network Services, Inc.	Virginia / Diversified Telecommunication Services	Second Lien Term Loan (9.23% (LIBOR + 8.00% with 1.00% LIBOR floor), due 8/14/2020)(3)(8)(13)	\$ 4,410	\$ 4,395	\$ 4,410	0.1%
				<b>4,395</b>	<b>4,410</b>	<b>0.1%</b>
Turning Point Brands, Inc. (42)	Kentucky / Tobacco	Second Lien Term Loan (11.00%, due 8/17/2022)(3)(8)	14,500	14,365	14,431	0.4%
				<b>14,365</b>	<b>14,431</b>	<b>0.4%</b>
United Sporting Companies, Inc.(18)	South Carolina / Distributors	Second Lien Term Loan (12.75% (LIBOR + 11.00% with 1.75% LIBOR floor) plus 2.00% PIK, in non-accrual status effective 4/1/2017, due 11/16/2019)(3)(13) Common Stock (24,967 shares)(16)	141,559 —	140,847 —	83,225 —	2.5% —%
				<b>140,847</b>	<b>83,225</b>	<b>2.5%</b>
Universal Fiber Systems, LLC	Virginia / Textiles, Apparel & Luxury Goods	Second Lien Term Loan (10.76% (LIBOR + 9.50% with 1.00% LIBOR floor), due 10/02/2022)(3)(8)(12)	37,000	36,446	37,000	1.1%
				<b>36,446</b>	<b>37,000</b>	<b>1.1%</b>
Universal Turbine Parts, LLC	Alabama / Trading Companies & Distributors	Senior Secured Term Loan A (6.98% (LIBOR + 5.75% with 1.00% LIBOR floor), due 7/22/2021)(3)(13) Senior Secured Term Loan B (12.98% (LIBOR + 11.75% with 1.00% LIBOR floor), due 7/22/2021)(3)(13)	32,013 32,500	32,013 32,500	32,013 32,500	1.0% 0.9%
				<b>64,513</b>	<b>64,513</b>	<b>1.9%</b>
USG Intermediate, LLC	Texas / Leisure Products	Revolving Line of Credit – \$2,500 Commitment (10.98% (LIBOR + 9.75% with 1.00% LIBOR floor), due 4/15/2018)(13)(15) Senior Secured Term Loan A (8.48% (LIBOR + 7.25% with 1.00% LIBOR floor), due 4/15/2020)(3)(13) Senior Secured Term Loan B (13.48% (LIBOR + 12.25% with 1.00% LIBOR floor), due 4/15/2020)(3)(13) Equity(16)	1,000 13,307 18,897 —	1,000 13,307 18,897 1	1,000 13,307 18,897 —	—% 0.4% 0.6% —%
				<b>33,205</b>	<b>33,204</b>	<b>1.0%</b>
VC GB Holdings, Inc.	Illinois / Household Durables	Subordinated Secured Term Loan (9.23% (LIBOR + 8.00% with 1.00% LIBOR floor), due 2/28/2025)(8)(13)	20,000	19,712	19,992	0.6%
				<b>19,712</b>	<b>19,992</b>	<b>0.6%</b>
Venio LLC	Pennsylvania / Professional Services	Second Lien Term Loan (4.00% plus PIK 10.00% (LIBOR + 7.50% with 2.50% LIBOR floor), in non-accrual status effective 12/31/15, due 2/19/2020)(11)	20,442	16,111	16,342	0.5%
				<b>16,111</b>	<b>16,342</b>	<b>0.5%</b>
Voya CLO 2012-2, Ltd.	Cayman Islands / Structured Finance	Income Notes (Residual Interest, current yield 0.00%, due 10/15/2022)(5)(14)(17)	38,070	22,667	22,667	0.7%
				<b>22,667</b>	<b>22,667</b>	<b>0.7%</b>
Voya CLO 2012-3, Ltd.	Cayman Islands / Structured Finance	Income Notes (Residual Interest, current yield 0.00%, due 10/15/2022)(5)(14)(17)	46,632	26,445	26,445	0.8%
				<b>26,445</b>	<b>26,445</b>	<b>0.8%</b>

See notes to consolidated financial statements.

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

Portfolio Company	Locale / Industry	Investments(1)(45)	June 30, 2017			
			Principal Value	Amortized Cost	Fair Value(2)	% of Net Assets
<b>LEVEL 3 PORTFOLIO INVESTMENTS</b>						
<b>Non-Control/Non-Affiliate Investments (less than 5.00% voting control)</b>						
Voya CLO 2012-4, Ltd.	Cayman Islands / Structured Finance	Income Notes (Residual Interest, current yield 14.13%, due 10/15/2028)(5)(14)	\$ 40,613	\$ 31,018	\$ 30,544	0.9%
				<b>31,018</b>	<b>30,544</b>	<b>0.9%</b>
Voya CLO 2014-1, Ltd.	Cayman Islands / Structured Finance	Subordinated Notes (Residual Interest, current yield 15.96%, due 4/18/2026)(5)(6)(14)	32,383	24,613	26,177	0.8%
				<b>24,613</b>	<b>26,177</b>	<b>0.8%</b>
Voya CLO 2016-3, Ltd.	Cayman Islands / Structured Finance	Subordinated Notes (Residual Interest, current yield 12.55%, due 10/18/2027)(5)(6)(14)	28,100	27,130	23,497	0.7%
				<b>27,130</b>	<b>23,497</b>	<b>0.7%</b>
Voya CLO 2017-3, Ltd.	Cayman Islands / Structured Finance	Subordinated Notes (Residual Interest, current yield 14.89%, due 7/20/2030)(5)(6)(14)	44,885	44,885	44,670	1.3%
				<b>44,885</b>	<b>44,670</b>	<b>1.3%</b>
Washington Mill CLO Ltd.	Cayman Islands / Structured Finance	Subordinated Notes (Residual Interest, current yield 8.53%, due 4/20/2026)(5)(6)(14)	22,600	16,711	14,182	0.4%
				<b>16,711</b>	<b>14,182</b>	<b>0.4%</b>
Water Pik, Inc.	Colorado / Personal Products	Second Lien Term Loan (10.05% (LIBOR + 8.75% with 1.00% LIBOR floor), due 1/8/2021)(3)(8)(11)	13,739	13,473	13,739	0.4%
				<b>13,473</b>	<b>13,739</b>	<b>0.4%</b>
Wheel Pros, LLC	Colorado / Auto Components	Senior Subordinated Secured Note (11.00% (LIBOR + 7.00% with 4.00% LIBOR floor), due 6/29/2020)(3)(11)	12,000	12,000	12,000	0.4%
		Senior Subordinated Secured Note (11.00% (LIBOR + 7.00% with 4.00% LIBOR floor), due 6/29/2020)(3)(11)	5,460	5,460	5,460	0.2%
				<b>17,460</b>	<b>17,460</b>	<b>0.6%</b>
<b>Total Non-Control/Non-Affiliate Investments (Level 3)</b>			<b>\$ 4,117,868</b>	<b>\$ 3,915,101</b>	<b>\$ 3,915,101</b>	<b>116.7%</b>
<b>Total Portfolio Investments (Level 3)</b>			<b>\$ 5,981,556</b>	<b>\$ 5,838,305</b>	<b>\$ 5,838,305</b>	<b>174.0%</b>

See notes to consolidated financial statements.

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

**Endnote Explanations as of June 30, 2018 and June 30, 2017**

- (1) The terms “Prospect,” “we,” “us” and “our” mean Prospect Capital Corporation and its subsidiaries unless the context specifically requires otherwise. The securities in which Prospect has invested were acquired in transactions that were exempt from registration under the Securities Act of 1933, as amended (the “Securities Act”). These securities may be resold only in transactions that are exempt from registration under the Securities Act.
- (2) Fair value is determined by or under the direction of our Board of Directors. As of June 30, 2018 and June 30, 2017, all of our investments were valued using significant unobservable inputs. In accordance with ASC 820, such investments are classified as Level 3 within the fair value hierarchy. See Notes 2 and 3 within the accompanying notes to consolidated financial statements for further discussion.
- (3) Security, or a portion thereof, is held by Prospect Capital Funding LLC (“PCF”), our wholly-owned subsidiary and a bankruptcy remote special purpose entity, and is pledged as collateral for the Revolving Credit Facility and such security is not available as collateral to our general creditors (see Note 4). The fair values of the investments held by PCF at June 30, 2018 and June 30, 2017 were \$1,307,955 and \$1,513,413, respectively, representing 22.8% and 25.9% of our total investments, respectively.
- (4) In addition to the stated returns, the net profits interest held will be realized upon sale of the borrower or a sale of the interests.
- (5) This investment is in the equity class of the collateralized loan obligation (“CLO”) security. The CLO equity investments are entitled to recurring distributions which are generally equal to the excess cash flow generated from the underlying investments after payment of the contractual payments to debt holders and fund expenses. The current estimated yield, calculated using amortized cost, is based on the current projections of this excess cash flow taking into account assumptions which have been made regarding expected prepayments, losses and future reinvestment rates. These assumptions are periodically reviewed and adjusted. Ultimately, the actual yield may be higher or lower than the estimated yield if actual results differ from those used for the assumptions.
- (6) Co-investment with another fund managed by an affiliate of our investment adviser, Prospect Capital Management L.P. See Note 13 for further discussion.
- (7) Engine Group, Inc., Clearstream TV, Inc., and ORC International, Inc., are joint borrowers on the senior secured and the second lien term loans.
- (8) Syndicated investment which was originated by a financial institution and broadly distributed.
- (9) Autodata, Inc. and Autodata Solutions, Inc. are joint borrowers.
- (10) The interest rate on these investments is subject to the base rate of 6-Month LIBOR, which was 2.50% and 1.45% at June 30, 2018 and June 30, 2017, respectively. The current base rate for each investment may be different from the reference rate on June 30, 2018 and June 30, 2017.
- (11) The interest rate on these investments is subject to the base rate of 3-Month LIBOR, which was 2.34% and 1.30% at June 30, 2018 and June 30, 2017, respectively. The current base rate for each investment may be different from the reference rate on June 30, 2018 and June 30, 2017.
- (12) The interest rate on these investments is subject to the base rate of 2-Month LIBOR, which was 2.17% and 1.25% at June 30, 2018 and June 30, 2017, respectively. The current base rate for each investment may be different from the reference rate on June 30, 2018 and June 30, 2017.
- (13) The interest rate on these investments is subject to the base rate of 1-Month LIBOR, which was 2.09% and 1.23% at June 30, 2018 and June 30, 2017, respectively. The current base rate for each investment may be different from the reference rate on June 30, 2018 and June 30, 2017.
- (14) Investment has been designated as an investment not “qualifying” under Section 55(a) of the Investment Company Act of 1940 (the “1940 Act”). Under the 1940 Act, we may not acquire any non-qualifying asset unless, at the time such acquisition is made, qualifying assets represent at least 70% of our total assets. As of June 30, 2018 and June 30, 2017, our qualifying assets as a percentage of total assets, stood at 73.20% and 71.75%, respectively. We monitor the status of these assets on an ongoing basis.
- (15) Undrawn committed revolvers and delayed draw term loans to our portfolio companies incur commitment and unused fees ranging from 0.00% to 5.00%. As of June 30, 2018 and June 30, 2017, we had \$29,675 and \$22,925, respectively, of undrawn revolver and delayed draw term loan commitments to our portfolio companies.

See notes to consolidated financial statements.



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

**Endnote Explanations as of June 30, 2018 and June 30, 2017 (Continued)**

- (16) Represents non-income producing security that has not paid a dividend in the year preceding the reporting date.
- (17) The effective yield has been estimated to be 0% as expected future cash flows are anticipated to not be sufficient to repay the investment at cost. If the expected investment proceeds increase, there is a potential for future investment income from the investment. Distributions, once received, will be recognized as return of capital with any remaining unamortized investment costs written off if the actual distributions are less than the amortized investment cost.
- (18) Ellett Brothers, LLC, Evans Sports, Inc., Jerry's Sports, Inc., Simmons Gun Specialties, Inc., Bonitz Brothers, Inc., and Outdoor Sports Headquarters, Inc. are joint borrowers on the second lien term loan. United Sporting Companies, Inc. is a parent guarantor of this debt investment.
- (19) CCPI Holdings Inc., a consolidated entity in which we own 100% of the common stock, owns 94.59% of CCPI Inc. ("CCPI"), the operating company, as of June 30, 2018 and June 30, 2017. We report CCPI as a separate controlled company.
- (20) CP Holdings of Delaware LLC, a consolidated entity in which we own 100% of the membership interests, owns 99.8% of CP Energy Services Inc. ("CP Energy") as of June 30, 2018, which is an increase from 82.3% as of June 30, 2017. CP Energy owns directly or indirectly 100% of each of CP Well Testing, LLC; Wright Foster Disposals, LLC; Foster Testing Co., Inc.; ProHaul Transports, LLC; and Wright Trucking, Inc. We report CP Energy as a separate controlled company. On October 1, 2017 we restructured our investment in CP Energy. Concurrent with the restructuring, we exchanged \$35,048 of Series B Convertible Preferred Stock for \$35,048 of senior secured debt. On January 18, 2018, CP Energy redeemed common shares belonging to senior management, which increased our ownership percentage from 82.3% to 94.2% as of March 31, 2018. Our ownership percentage in CP Energy further increased to 99.8% as of June 30, 2018 following the April 6, 2018 merger between Arctic Oilfield Equipment USA, Inc. ("Arctic Equipment"), a controlled portfolio company, and CP Energy. (See endnote #37 and Note 14)
- (21) Credit Central Holdings of Delaware, LLC ("Credit Central Delaware"), a consolidated entity in which we own 100% of the membership interests, owns 98.26% of Credit Central Loan Company, LLC (f/k/a Credit Central Holdings, LLC ("Credit Central")) as of June 30, 2018 and June 30, 2017. Credit Central owns 100% of each of Credit Central, LLC; Credit Central South, LLC; Credit Central of Texas, LLC; and Credit Central of Tennessee, LLC, the operating companies. We report Credit Central as a separate controlled company.
- (22) As of June 30, 2017, Prospect held a 37.1% membership interest in Edmentum Ultimate Holdings, LLC ("Edmentum Holdings"), which owns 100% of the equity of Edmentum, Inc. On February 23, 2018, certain participating members of Edmentum Holdings increased their revolving credit commitment and extended additional credit to Edmentum, Inc. in exchange for additional common units of Edmentum Holdings. As a result, Prospect's equity ownership was diluted to 11.51% and the investment was transferred from control to affiliate investment classification as of March 31, 2018.
- (23) First Tower Holdings of Delaware LLC, a consolidated entity in which we own 100% of the membership interests, owns 80.1% of First Tower Finance Company LLC ("First Tower Finance"), which owns 100% of First Tower, LLC, the operating company as of June 30, 2018 and June 30, 2017. We report First Tower Finance as a separate controlled company.
- (24) Energy Solutions Holdings Inc., a consolidated entity in which we own 100% of equity, owns 100% of Freedom Marine Solutions, LLC ("Freedom Marine"), which owns Vessel Company, LLC, Vessel Company II, LLC and Vessel Company III, LLC. We report Freedom Marine as a separate controlled company.
- (25) MITY Holdings of Delaware Inc. ("MITY Delaware"), a consolidated entity in which we own 100% of the common stock, owns 95.48% of the equity of MITY, Inc. (f/k/a MITY Enterprises, Inc.) ("MITY"), as of June 30, 2018 and June 30, 2017. MITY owns 100% of each of MITY-Lite, Inc. ("Mity-Lite"); Broda Enterprises USA, Inc.; and Broda Enterprises ULC ("Broda Canada"). We report MITY as a separate controlled company. MITY Delaware has a subordinated unsecured note issued and outstanding to Broda Canada that is denominated in Canadian Dollars ("CAD"). As of June 30, 2018 and June 30, 2017, the principal balance of this note was CAD 7,371. In accordance with ASC 830, *Foreign Currency Matters* ("ASC 830"), this note was remeasured into our functional currency, US Dollars (USD), and is presented on our Consolidated Schedule of Investments in USD. We formed a separate legal entity domiciled in the United States, MITY FSC, Inc., ("MITY FSC") in which Prospect owns 96.88% of the equity, and MITY-Lite management owns the remaining portion. MITY FSC does not have material operations. This entity earns commission payments from MITY-Lite based on its sales to foreign customers, and distribute it to its shareholders based on pro-rata ownership. During the three months ended December 31, 2016, we received \$406 of such commission, which we recognized as other income. On January 17, 2017, we invested an additional \$8,000 of Senior Secured Term Loan A and \$8,000 of Senior Secured Term Loan B debt investments in MITY, to fund an acquisition.

See notes to consolidated financial statements.

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

**Endnote Explanations as of June 30, 2018 and June 30, 2017 (Continued)**

- (26) NPH Property Holdings, LLC, a consolidated entity in which we own 100% of the membership interests, owns 100% of the common equity of National Property REIT Corp. (“NPRC”) (f/k/a National Property Holdings Corp.), a property REIT which holds investments in several real estate properties. Additionally, NPRC invests in online consumer loans through ACL Loan Holdings, Inc. (“ACLLH”) and American Consumer Lending Limited (“ACLL”), its wholly-owned subsidiaries. We report NPRC as a separate controlled company. See Note 3 for further discussion of the properties held by NPRC. On August 1, 2016, we made an investment into ACLL, under the ACLL credit agreement, for senior secured term loans, Term Loan C, with the same terms as the existing ACLLH Term Loan C due to us. On January 1, 2017, we restructured our investment in NPRC and exchanged \$55,000 of Senior Secured Term Loan E for common stock. During the quarter ended March 31, 2018, we restructured our investment in NPRC and exchanged \$14,274 of ACLLH Senior Secured Term Loan C and \$97,578 of ACLL Senior Secured Term Loan C for \$111,852 of Senior Secured Term Loan E. On March 31, 2018, Prospect contributed \$48,832 to NPRC as an increase to the NPRC Senior Secured Term Loan E. On the same day, NPRC distributed \$48,832 as a return of capital to Prospect.
- (27) Nationwide Acceptance Holdings LLC, a consolidated entity in which we own 100% of the membership interests, owns 94.48% of Nationwide Loan Company LLC (f/k/a Nationwide Acceptance LLC), the operating company, as of June 30, 2018 and June 30, 2017. We report Nationwide Loan Company LLC as a separate controlled company. On June 1, 2015, Nationwide Acceptance LLC completed a reorganization and was renamed Nationwide Loan Company LLC (“Nationwide”) and formed two new wholly-owned subsidiaries: Pelican Loan Company LLC (“Pelican”) and Nationwide Consumer Loans LLC. Nationwide assigned 100% of the equity interests in its other subsidiaries to Pelican which, in turn, assigned these interests to a new operating company wholly-owned by Pelican named Nationwide Acceptance LLC (“New Nationwide”). New Nationwide also assumed the existing senior subordinated term loan due to Prospect.
- (28) NMMB Holdings, a consolidated entity in which we own 100% of the equity, owns 91.52% and 96.33% of the fully diluted equity of NMMB, Inc. (“NMMB”) as of June 30, 2018 and June 30, 2017, respectively. NMMB owns 100% of Refuel Agency, Inc., which owns 100% of Armed Forces Communications, Inc. We report NMMB as a separate controlled company.
- (29) On June 3, 2017, Gulf Coast Machine & Supply Company (“Gulf Coast”) sold all of its assets to a third party, for total consideration of \$10,250, including escrowed amounts. The proceeds from the sale were primarily used to repay a \$6,115 third party revolving credit facility, and the remainder was used to pay other legal and administrative costs incurred by Gulf Coast. As no proceeds were allocated to Prospect our debt and equity investment in Gulfco was written-off and we recorded a realized loss of \$66,103 during the year ended June 30, 2017. In June 2018, Gulf Coast received escrow proceeds of \$2,050 related to the sale. On June 28, 2017, Gulf Coast was renamed to SB Forging Company II, Inc.
- (30) Prospect owns 99.96% of the equity of USES Corp. as of June 30, 2018 and June 30, 2017.
- (31) Valley Electric Holdings I, Inc., a consolidated entity in which we own 100% of the common stock, owns 100% of Valley Electric Holdings II, Inc. (“Valley Holdings II”), another consolidated entity. Valley Holdings II owns 94.99% of Valley Electric Company, Inc. (“Valley Electric”). Valley Electric owns 100% of the equity of VE Company, Inc., which owns 100% of the equity of Valley Electric Co. of Mt. Vernon, Inc. We report Valley Electric as a separate controlled company.
- (32) On March 14, 2017, assets previously held by Ark-La-Tex Wireline Services, LLC (“Ark-La-Tex”) were assigned to Wolf Energy Services Company, LLC, a new wholly-owned subsidiary of Wolf Energy Holdings, in exchange for a full reduction of Ark-La-Tex’s Senior Secured Term Loan A and a partial reduction of the Senior Secured Term Loan B cost basis, in total equal to \$22,145. The cost basis of the transferred assets is equal to the appraised fair value of assets at the time of transfer. During the three months ended June 30, 2017, Ark-La-Tex Term Loan B was written-off and a loss of \$19,818 was realized. On June 30, 2017, the 18.00% Senior Secured Promissory Note, due April 15, 2018, in Wolf Energy, LLC was contributed to equity of Wolf Energy LLC. There was no impact from the transaction due to the note being on non-accrual status and having zero cost basis.
- (33) Prospect owns 16.04% and 12.63% of the equity in Targus Cayman HoldCo Limited, the parent company of Targus International LLC (“Targus”) as of June 30, 2018 and June 30, 2017, respectively. On September 25, 2017, Prospect exchanged \$1,600 of Senior Secured Term Loan A and \$4,799 of Senior Secured Term Loan B investments in Targus into 6,120,658 of common shares, and recorded a realized gain of \$846, as a result of this transaction.
- (34) We own 99.9999% of AGC/PEP, LLC (“AGC/PEP”). As of September 30, 2016, AGC/PEP, LLC owned 2,038 out of a total of 93,485 shares (including 7,456 vested and unvested management options) of American Gilsonite Holding Company (“AGC Holdco”), which owns 100% of American Gilsonite Company (“AGC”). On October 24, 2016, AGC filed for a joint prepackaged plan of reorganization under Chapter 11 of the bankruptcy code. During the year ended June 30, 2017, AGC emerged from bankruptcy and AGC Holdco was dissolved. AGC/PEP received a total of 131 shares, representing a total ownership stake of 0.05% in AGC.

See notes to consolidated financial statements.

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

**Endnote Explanations as of June 30, 2018 and June 30, 2017 (Continued)**

- (35) Centerfield Media Holding Company and Oology Direct Holdings, Inc. are joint borrowers and guarantors on the senior secured loan facilities.
- (36) Keystone Acquisition Corp. is the parent borrower on the second lien term loan. Other joint borrowers on this debt investment include Keystone Peer Review Organization, Inc., KEPRO Acquisitions, Inc., APS Healthcare Bethesda, Inc., Ohio KEPRO, Inc., and APS Healthcare Quality Review, Inc.
- (37) Arctic Oilfield Equipment USA, Inc., a consolidated entity in which we own 100% of the common equity, owns 70% of the equity units of Arctic Energy Services, LLC (“Arctic Energy”), the operating company. Our ownership of Arctic Energy as of June 30, 2017 includes a preferred interest in their holdings of all the Class D, Class E, Class C, and Class A Units (in order of priority returns). These unit classes are senior to management’s interests in the F and B Units. As of June 30, 2017, we reported Arctic Energy as a separate controlled company. On April 6, 2018, Arctic Equipment merged with CP Energy, with CP Energy continuing as the surviving corporation. As a result of the transaction, our equity interest in Arctic Equipment was exchanged for newly issued common shares of CP Energy (See Note 14).
- (38) NCP Finance Limited Partnership, NCP Finance Ohio, LLC, and certain affiliates thereof are joint borrowers on the subordinated secured term loan.
- (39) As of June 30, 2018 and June 30, 2017, Prospect owns 8.57% of the equity in Encinitas Watches Holdco, LLC (f/k/a Nixon Holdco, LLC), the parent company of Nixon, Inc. On February 26, 2018, Prospect entered into a debt forgiveness agreement with Nixon, Inc., which terminated \$17,472 Senior Secured Term Loan receivable due to us. We recorded a realized loss of \$14,197 in our *Consolidated Statement of Operations* for the year ended June 30, 2018 as a result of this transaction.
- (40) On May 29, 2018, Prospect exercised its rights and remedies under its loan documents to exercise the shareholder voting rights in respect of the stock of Pacific World Corporation (“Pacific World”) and to appoint a new Board of Directors of Pacific World. As a result, as of June 30, 2018, Prospect’s investment in Pacific World is classified as a control investment.
- (41) Our wholly-owned subsidiary Prospect Small Business Lending, LLC purchases small business whole loans from small business loan originators, including On Deck Capital, Inc.
- (42) Turning Point Brands, Inc. and North Atlantic Trading Company, Inc. are joint borrowers and guarantors on the secured loan facility.
- (43) The overriding royalty interests held receive payments at the stated rates based upon operations of the borrower.
- (44) The following shows the composition of our investment portfolio at cost by control designation, investment type, and by industry as of June 30, 2018 :

Industry	1st Lien Term Loan	2nd Lien Term Loan	CLO (C)	Unsecured Debt	Equity (B)	Cost Total
<b>Control Investments</b>						
Aerospace & Defense	\$ 47,099	\$ —	\$ —	\$ —	\$ 22,738	\$ 69,837
Commercial Services & Supplies	117,861	—	—	7,200	6,849	131,910
Construction & Engineering	38,211	—	—	—	26,204	64,415
Consumer Finance	—	337,972	—	—	116,839	454,811
Electronic Equipment, Instruments & Components	20,700	—	—	—	6,759	27,459
Energy Equipment & Services	35,048	—	—	—	191,812	226,860
Equity Real Estate Investment Trusts (REITs)	293,203	—	—	—	206,655	499,858
Health Care Providers & Services	212,701	—	—	—	—	212,701
Machinery	—	28,622	—	—	6,866	35,488
Media	8,614	—	—	—	12,869	21,483
Online Lending	226,180	—	—	—	100,949	327,129
Personal Products	213,575	—	—	—	15,000	228,575
<b>Total Control Investments</b>	<b>\$ 1,213,192</b>	<b>\$ 366,594</b>	<b>\$ —</b>	<b>\$ 7,200</b>	<b>\$ 713,540</b>	<b>\$ 2,300,526</b>
<b>Affiliate Investments</b>						
Diversified Consumer Services	\$ —	\$ 7,834	\$ —	\$ 31,348	\$ 6,577	\$ 45,759

See notes to consolidated financial statements.

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

**Endnote Explanations as of June 30, 2018 and June 30, 2017 (Continued)**

Industry	1st Lien Term Loan	2nd Lien Term Loan	CLO (C)	Unsecured Debt	Equity (B)	Cost Total
Textiles, Apparel & Luxury Goods	—	—	—	—	9,878	9,878
<b>Total Affiliate Investments</b>	\$ —	\$ 7,834	\$ —	\$ 31,348	\$ 16,455	\$ 55,637
<b>Non-Control/Non-Affiliate Investments</b>						
Auto Components	\$ —	\$ 12,681	\$ —	\$ —	\$ —	\$ 12,681
Building Products	—	9,905	—	—	—	9,905
Capital Markets	—	19,799	—	—	—	19,799
Commercial Services & Supplies	90,364	163,913	—	—	—	254,277
Communications Equipment	—	39,860	—	—	—	39,860
Consumer Finance	30,570	—	—	—	—	30,570
Distributors	343,659	127,091	—	—	—	470,750
Diversified Consumer Services	9,647	118,289	—	—	—	127,936
Electronic Equipment, Instruments & Components	12,490	14,856	—	—	—	27,346
Energy Equipment & Services	30,511	—	—	—	—	30,511
Food Products	—	9,884	—	—	—	9,884
Health Care Equipment & Supplies	35,815	7,464	—	—	—	43,279
Health Care Providers & Services	145,336	61,909	—	—	1,252	208,497
Hotels, Restaurants & Leisure	29,813	7,482	—	—	—	37,295
Household & Personal Products	24,938	—	—	—	—	24,938
Household Durables	16,894	25,645	—	—	—	42,539
Insurance	—	2,986	—	—	—	2,986
Internet & Direct Marketing Retail	4,813	35,000	—	—	—	39,813
Internet Software & Services	215,791	13,926	—	—	—	229,717
IT Services	160,588	21,595	—	—	—	182,183
Leisure Products	34,626	10,904	—	—	1	45,531
Media	118,605	2,975	—	—	—	121,580
Online Lending	—	—	—	30	—	30
Paper & Forest Products	—	11,328	—	—	—	11,328
Pharmaceuticals	—	11,882	—	—	—	11,882
Professional Services	9,468	64,804	—	—	—	74,272
Real Estate Management & Development	41,860	—	—	—	—	41,860
Software	—	66,435	—	—	—	66,435
Technology Hardware, Storage & Peripherals	—	12,384	—	—	—	12,384
Textiles, Apparel & Luxury Goods	—	36,551	—	—	—	36,551
Tobacco	—	14,392	—	—	—	14,392
Trading Companies & Distributors	63,863	—	—	—	—	63,863
Transportation Infrastructure	—	27,494	—	—	—	27,494
Structured Finance (A)	—	—	1,102,927	—	—	1,102,927
<b>Total Non-Control/ Non-Affiliate</b>	\$ 1,419,651	\$ 951,434	\$ 1,102,927	\$ 30	\$ 1,253	\$ 3,475,295
<b>Total Portfolio Investment Cost</b>	\$ 2,632,843	\$ 1,325,862	\$ 1,102,927	\$ 38,578	\$ 731,248	\$ 5,831,458

The following shows the composition of our investment portfolio at fair value by control designation, investment type, and by industry as of June 30, 2018 :

Industry	1st Lien Term Loan	2nd Lien Term Loan	CLO (C)	Unsecured Debt	Equity (B)	Fair Value Total	Fair Value % of Net Assets
<b>Control Investments</b>							
Aerospace & Defense	\$ 47,099	\$ —	\$ —	\$ —	\$ 35,179	\$ 82,278	2.4%
Commercial Services & Supplies	67,011	—	—	5,563	2,639	75,213	2.2%

See notes to consolidated financial statements.

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

Endnote Explanations as of June 30, 2018 and June 30, 2017 (Continued)

Industry	1st Lien Term Loan	2nd Lien Term Loan	CLO (C)	Unsecured Debt	Equity (B)	Fair Value Total	Fair Value % of Net Assets
Construction & Engineering	38,211	—	—	—	12,586	50,797	1.5%
Consumer Finance	—	342,331	—	—	211,209	553,540	16.2%
Electronic Equipment, Instruments & Components	20,700	—	—	—	15,056	35,756	1.1%
Energy Equipment & Services	35,048	—	—	—	103,456	138,504	4.1%
Equity Real Estate Investment Trusts (REITs)	293,203	—	—	—	518,712	811,915	23.8%
Health Care Providers & Services	197,621	—	—	—	—	197,621	5.8%
Machinery	—	28,622	—	—	3,264	31,886	0.9%
Media	8,614	—	—	—	10,121	18,735	0.6%
Online Lending	226,180	—	—	—	16,881	243,061	7.1%
Personal Products	165,020	—	—	—	—	165,020	4.9%
<b>Total Control Investments</b>	<b>\$ 1,098,707</b>	<b>\$ 370,953</b>	<b>\$ —</b>	<b>\$ 5,563</b>	<b>\$ 929,103</b>	<b>\$ 2,404,326</b>	<b>70.6%</b>
<b>Fair Value % of Net Assets</b>	<b>32.2%</b>	<b>10.9%</b>	<b>—%</b>	<b>0.2%</b>	<b>27.3%</b>	<b>70.6%</b>	
<b>Affiliate Investments</b>							
Diversified Consumer Services	—	7,834	—	27,382	—	35,216	1.0%
Textiles, Apparel & Luxury Goods	—	—	—	—	23,220	23,220	0.7%
<b>Total Affiliate Investments</b>	<b>\$ —</b>	<b>\$ 7,834</b>	<b>\$ —</b>	<b>\$ 27,382</b>	<b>\$ 23,220</b>	<b>\$ 58,436</b>	<b>1.7%</b>
<b>Fair Value % of Net Assets</b>	<b>—%</b>	<b>0.2%</b>	<b>—%</b>	<b>0.8%</b>	<b>0.7%</b>	<b>1.7%</b>	
<b>Non-Control/Non-Affiliate Investments</b>							
Auto Components	\$ —	\$ 12,887	\$ —	\$ —	\$ —	\$ 12,887	0.4%
Building Products	—	10,000	—	—	—	10,000	0.3%
Capital Markets	—	20,000	—	—	—	20,000	0.6%
Commercial Services & Supplies	89,658	164,236	—	—	917	254,811	7.5%
Communications Equipment	—	40,000	—	—	—	40,000	1.2%
Consumer Finance	33,438	—	—	—	—	33,438	1.0%
Distributors	343,659	58,806	—	—	—	402,465	11.8%
Diversified Consumer Services	9,647	118,289	—	—	—	127,936	3.8%
Electronic Equipment, Instruments & Components	12,335	14,873	—	—	—	27,208	0.8%
Energy Equipment & Services	32,070	—	—	—	—	32,070	0.9%
Food Products	—	9,886	—	—	—	9,886	0.3%
Health Care Equipment & Supplies	35,815	7,464	—	—	—	43,279	1.3%
Health Care Providers & Services	144,130	61,933	—	—	446	206,509	6.0%
Hotels, Restaurants & Leisure	29,813	7,482	—	—	—	37,295	1.1%
Household & Personal Products	24,938	—	—	—	—	24,938	0.7%
Household Durables	15,728	25,895	—	—	—	41,623	1.2%
Insurance	—	2,986	—	—	—	2,986	0.1%
Internet & Direct Marketing Retail	4,813	35,000	—	—	—	39,813	1.2%
Internet Software & Services	215,791	14,000	—	—	—	229,791	6.7%
IT Services	160,588	21,990	—	—	—	182,578	5.4%
Leisure Products	34,626	11,000	—	—	—	45,626	1.3%
Media	118,655	2,975	—	—	—	121,630	3.6%
Online Lending	—	—	—	17	—	17	—%
Paper & Forest Products	—	11,226	—	—	—	11,226	0.3%
Pharmaceuticals	—	12,000	—	—	—	12,000	0.3%
Professional Services	9,608	67,383	—	—	—	76,991	2.3%
Real Estate Management & Development	41,860	—	—	—	—	41,860	1.2%
Software	—	67,265	—	—	—	67,265	2.0%

See notes to consolidated financial statements.

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

**Endnote Explanations as of June 30, 2018 and June 30, 2017 (Continued)**

Industry	1st Lien Term Loan	2nd Lien Term Loan	CLO (C)	Unsecured Debt	Equity (B)	Fair Value Total	Fair Value % of Net Assets
Technology Hardware, Storage & Peripherals	—	12,500	—	—	—	12,500	0.4%
Textiles, Apparel & Luxury Goods	—	37,000	—	—	—	37,000	1.1%
Tobacco	—	14,392	—	—	—	14,392	0.4%
Trading Companies & Distributors	56,199	—	—	—	—	56,199	1.6%
Transportation Infrastructure	—	28,104	—	—	—	28,104	0.8%
Structured Finance (A)	—	—	960,194	—	—	960,194	28.2%
<b>Total Non-Control/ Non-Affiliate</b>	<b>\$ 1,413,371</b>	<b>\$ 889,572</b>	<b>\$ 960,194</b>	<b>\$ 17</b>	<b>\$ 1,363</b>	<b>\$ 3,264,517</b>	<b>95.8%</b>
<b>Fair Value % of Net Assets</b>	<b>41.5%</b>	<b>26.1%</b>	<b>28.2%</b>	<b>—%</b>	<b>—%</b>	<b>95.8%</b>	
<b>Total Portfolio</b>	<b>\$ 2,512,078</b>	<b>\$ 1,268,359</b>	<b>\$ 960,194</b>	<b>\$ 32,962</b>	<b>\$ 953,686</b>	<b>\$ 5,727,279</b>	<b>168.1%</b>
<b>Fair Value % of Net Assets</b>	<b>73.7%</b>	<b>37.2%</b>	<b>28.2%</b>	<b>1.0%</b>	<b>28.0%</b>	<b>168.1%</b>	

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

(B) Equity, unless specifically stated otherwise, includes our investments in preferred stock, common stock, membership interests, net profits interests, net operating income interests, net revenue interests, overriding royalty interests, escrows receivable, and warrants.

(C) We hold one CLO debt investment in the Class F Subordinated Notes of Galaxy XXVIII CLO, Ltd. As of June 30, 2018 the cost and fair value are \$ 6,159 and \$ 6,159, respectively, and makes up 0.2% of our net assets. Our remaining CLO investments are held in CLO equity tranches which earn residual interest. As of June 30, 2018 the cost and fair value of our investment in the equity tranches are \$ 1,096,768 and \$ 954,035, respectively, and make up 28.0% of our net assets.

(45) The following shows the composition of our investment portfolio at cost by control designation, investment type, and by industry as of June 30, 2017:

Industry	1st Lien	2nd Lien	CLO Residual Interest	Unsecured Debt	Equity (C)	Cost Total
<b>Control Investments</b>						
Aerospace & Defense	\$ 47,099	\$ —	\$ —	\$ —	\$ 22,738	\$ 69,837
Commercial Services & Supplies	114,864	—	—	7,200	6,849	128,913
Construction & Engineering	36,054	—	—	—	26,204	62,258
Consumer Finance	—	323,188	—	—	110,395	433,583
Diversified Consumer Services	—	7,834	—	30,734	6,577	45,145
Electronic Equipment, Instruments & Components	21,182	—	—	—	6,759	27,941
Energy Equipment & Services	—	—	—	—	223,787	223,787
Equity Real Estate Investment Trusts (REITs)	291,315	—	—	—	83,065	374,380
Machinery	—	28,622	—	—	6,866	35,488
Media	10,614	—	—	—	12,869	23,483
Online Lending	269,166	—	—	—	146,750	415,916
<b>Total Control Investments</b>	<b>\$ 790,294</b>	<b>\$ 359,644</b>	<b>\$ —</b>	<b>\$ 37,934</b>	<b>\$ 652,859</b>	<b>\$ 1,840,731</b>
<b>Affiliate Investments</b>						
Textiles, Apparel & Luxury Goods	\$ 19,478	\$ —	\$ —	\$ —	\$ 3,479	\$ 22,957
<b>Total Affiliate Investments</b>	<b>\$ 19,478</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ 3,479</b>	<b>\$ 22,957</b>
<b>Non-Control/Non-Affiliate Investments</b>						
Air Freight & Logistics	\$ 51,952	\$ —	\$ —	\$ —	\$ —	\$ 51,952
Auto Components	—	30,222	—	—	—	30,222
Capital Markets	—	14,796	—	—	—	14,796
Chemicals	—	17,489	—	—	—	17,489
Commercial Services & Supplies	83,884	141,388	—	—	—	225,272
Consumer Finance	9,831	26,455	—	—	—	36,286
Distributors	—	140,847	—	—	—	140,847
Diversified Consumer Services	—	143,767	—	—	—	143,767

See notes to consolidated financial statements.

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

**Endnote Explanations as of June 30, 2018 and June 30, 2017 (Continued)**

Industry	1st Lien	2nd Lien	CLO Residual Interest	Unsecured Debt	Equity (C)	Cost Total
Diversified Telecommunication Services	—	4,395	—	—	—	4,395
Electronic Equipment, Instruments & Components	9,755	—	—	—	—	9,755
Energy Equipment & Services	27,232	—	—	—	—	27,232
Health Care Providers & Services	356,468	65,199	—	—	1,252	422,919
Hotels, Restaurants & Leisure	127,638	—	—	—	—	127,638
Household Durables	126,319	19,712	—	—	—	146,031
Internet Software & Services	205,441	13,907	—	—	—	219,348
IT Services	—	19,531	—	—	—	19,531
Leisure Products	33,204	10,880	—	—	1	44,085
Marine	—	8,919	—	—	—	8,919
Media	442,654	2,971	—	—	—	445,625
Metals & Mining	9,953	—	—	—	—	9,953
Online Lending	—	—	—	8,434	—	8,434
Paper & Forest Products	—	11,295	—	—	—	11,295
Personal Products	209,225	13,473	—	—	—	222,698
Pharmaceuticals	117,989	—	—	—	—	117,989
Professional Services	48,131	16,111	—	—	—	64,242
Software	—	56,041	—	—	—	56,041
Textiles, Apparel & Luxury Goods	225,777	36,446	—	—	—	262,223
Tobacco	—	14,365	—	—	—	14,365
Trading Companies & Distributors	64,513	—	—	—	—	64,513
Structured Finance (B)	—	—	1,150,006	—	—	1,150,006
<b>Total Non-Control/ Non-Affiliate</b>	<b>\$ 2,149,966</b>	<b>\$ 808,209</b>	<b>\$ 1,150,006</b>	<b>\$ 8,434</b>	<b>\$ 1,253</b>	<b>\$ 4,117,868</b>
<b>Total Portfolio Investment Cost</b>	<b>\$ 2,959,738</b>	<b>\$ 1,167,853</b>	<b>\$ 1,150,006</b>	<b>\$ 46,368</b>	<b>\$ 657,591</b>	<b>\$ 5,981,556</b>

The following shows the composition of our investment portfolio at fair value by control designation, investment type, and by industry as of June 30, 2017 :

Industry	1st Lien Term Loan	2nd Lien Term Loan	CLO Residual Interest	Unsecured Debt	Equity (C)	Fair Value Total	Fair Value % of Net Assets
<b>Control Investments</b>							
Aerospace & Defense	\$ 47,099	\$ —	\$ —	\$ —	\$ 24,219	\$ 71,318	2.1%
Commercial Services & Supplies	63,209	—	—	5,659	20,161	89,029	2.7%
Construction & Engineering	32,509	—	—	—	—	32,509	1.0%
Consumer Finance	—	329,788	—	—	137,180	466,968	13.9%
Diversified Consumer Services	—	7,834	—	38,775	286	46,895	1.4%
Electronic Equipment, Instruments & Components	21,182	—	—	—	21,870	43,052	1.3%
Energy Equipment & Services	—	—	—	—	121,197	121,197	3.6%
Equity Real Estate Investment Trusts (REITs)	291,315	—	—	—	333,022	624,337	18.6%
Machinery	—	28,622	—	—	4,056	32,678	1.0%
Media	10,614	—	—	—	10,211	20,825	0.6%
Online Lending	269,166	—	—	—	93,801	362,967	10.8%
<b>Total Control Investments</b>	<b>\$ 735,094</b>	<b>\$ 366,244</b>	<b>\$ —</b>	<b>\$ 44,434</b>	<b>\$ 766,003</b>	<b>\$ 1,911,775</b>	<b>57.0%</b>
<b>Fair Value % of Net Assets</b>	<b>21.9%</b>	<b>10.9%</b>	<b>—%</b>	<b>1.3%</b>	<b>22.8%</b>	<b>57.0%</b>	
<b>Affiliate Investments</b>							
Textiles, Apparel & Luxury Goods	\$ 6,128	\$ —	\$ —	\$ —	\$ 5,301	\$ 11,429	0.3%
<b>Total Affiliate Investments</b>	<b>\$ 6,128</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ 5,301</b>	<b>\$ 11,429</b>	<b>0.3%</b>
<b>Fair Value % of Net Assets</b>	<b>0.2%</b>	<b>—%</b>	<b>—%</b>	<b>—%</b>	<b>0.2%</b>	<b>0.3%</b>	

See notes to consolidated financial statements.

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

**Endnote Explanations as of June 30, 2018 and June 30, 2017 (Continued)**

Industry	1st Lien Term Loan	2nd Lien Term Loan	CLO Residual Interest	Unsecured Debt	Equity (C)	Fair Value Total	Fair Value % of Net Assets
<b>Non-Control/Non-Affiliate Investments</b>							
Air Freight & Logistics	\$ 51,952	\$ —	\$ —	\$ —	\$ —	\$ 51,952	1.5%
Auto Components	—	30,460	—	—	—	30,460	0.9%
Capital Markets	—	15,000	—	—	—	15,000	0.4%
Chemicals	—	16,699	—	—	—	16,699	0.5%
Commercial Services & Supplies	83,884	138,857	—	—	864	223,605	6.7%
Consumer Finance	10,000	25,973	—	—	—	35,973	1.1%
Distributors	—	83,225	—	—	—	83,225	2.5%
Diversified Consumer Services	—	143,767	—	—	—	143,767	4.3%
Diversified Telecommunication Services	—	4,410	—	—	—	4,410	0.1%
Electronic Equipment, Instruments & Components	8,794	—	—	—	—	8,794	0.3%
Energy Equipment & Services	10,463	—	—	—	—	10,463	0.3%
Health Care Providers & Services	355,200	65,407	—	—	782	421,389	12.6%
Hotels, Restaurants & Leisure	103,897	—	—	—	—	103,897	3.1%
Household Durables	126,191	19,992	—	—	—	146,183	4.4%
Internet Software & Services	205,441	13,907	—	—	—	219,348	6.5%
IT Services	—	20,000	—	—	—	20,000	0.6%
Leisure Products	33,204	11,000	—	—	—	44,204	1.3%
Marine (A)	—	8,800	—	—	—	8,800	0.3%
Media	442,704	2,971	—	—	—	445,675	13.3%
Metals & Mining	10,000	—	—	—	—	10,000	0.3%
Online Lending	—	—	—	7,964	—	7,964	0.2%
Paper & Forest Products	—	11,500	—	—	—	11,500	0.3%
Personal Products	179,009	13,739	—	—	—	192,748	5.7%
Pharmaceuticals	117,989	—	—	—	—	117,989	3.5%
Professional Services	48,131	16,342	—	—	—	64,473	1.9%
Software	—	55,150	—	—	—	55,150	1.6%
Textiles, Apparel & Luxury Goods	225,777	37,000	—	—	—	262,777	7.8%
Tobacco	—	14,431	—	—	—	14,431	0.4%
Trading Companies & Distributors	64,513	—	—	—	—	64,513	1.9%
Structured Finance (B)	—	—	1,079,712	—	—	1,079,712	32.2%
<b>Total Non-Control/ Non-Affiliate</b>	<b>\$ 2,077,149</b>	<b>\$ 748,630</b>	<b>\$ 1,079,712</b>	<b>\$ 7,964</b>	<b>\$ 1,646</b>	<b>\$ 3,915,101</b>	<b>116.7%</b>
<b>Fair Value % of Net Assets</b>	<b>61.9%</b>	<b>22.3%</b>	<b>32.2%</b>	<b>0.2%</b>	<b>—%</b>	<b>116.7%</b>	
<b>Total Portfolio</b>	<b>\$ 2,818,371</b>	<b>\$ 1,114,874</b>	<b>\$ 1,079,712</b>	<b>\$ 52,398</b>	<b>\$ 772,950</b>	<b>\$ 5,838,305</b>	<b>174%</b>
<b>Fair Value % of Net Assets</b>	<b>84.0%</b>	<b>33.2%</b>	<b>32.2%</b>	<b>1.6%</b>	<b>23.0%</b>	<b>174.0%</b>	

(A) Industry includes exposure to the energy markets through our investments in Harley Marine Services, Inc. Including this investment, our overall fair value exposure to the broader energy industry, including energy equipment and services as noted above, as of June 30, 2017 is \$140,460 .

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

(C) Equity, unless specifically stated otherwise, includes our investments in preferred stock, common stock, membership interests, net profits interests, net operating income interests, net revenue interests, overriding royalty interests, escrows receivable, and warrants.

See notes to consolidated financial statements.



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

**Endnote Explanations as of June 30, 2018 and June 30, 2017 (Continued)**

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

The following table provides additional details on these PIK investments, including the maximum annual PIK interest rate allowed under the existing credit agreements, as of and for three months ended June 30, 2018 :

Security Name	PIK Rate - Capitalized	PIK Rate - Paid as cash	Maximum Current PIK Rate
CCPI Inc.	—%	7.00%	7.00%
Cinedigm DC Holdings, LLC	—%	2.50%	2.50%
Credit Central Loan Company	—%	10.00%	10.00%
Echelon Transportation, LLC (f/k/a Echelon Aviation LLC)	N/A	N/A	2.25% (A)
Echelon Transportation, LLC (f/k/a Echelon Aviation LLC)	N/A	N/A	1.00% (A)
Edmentum Ultimate Holdings, LLC - Unsecured Senior PIK Note	8.50%	—%	8.50%
First Tower Finance Company LLC	1.45%	8.55%	10.00%
InterDent, Inc. - Senior Secured Team Loan B	4.25%	—%	4.25%
InterDent, Inc. - Senior Secured Team Loan C	18.00%	—%	18.00%
MITY, Inc.	—%	10.00%	10.00%
National Property REIT Corp. - Senior Secured Term Loan A	—%	10.50%	10.50%
National Property REIT Corp. - Senior Secured Term Loan E	—%	1.50%	1.50%
Nationwide Loan Company LLC	—%	10.00%	10.00%
Spartan Energy Services, Inc.	13.98%	—%	13.98%
Valley Electric Co. of Mt. Vernon, Inc.	—%	2.50%	2.50%
Valley Electric Company, Inc.	7.17%	2.83%	10.00%
Venio LLC	10.00%	—%	10.00%

(A) Next PIK payment/capitalization date is July 31, 2018.

See notes to consolidated financial statements.

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

**Endnote Explanations as of June 30, 2018 and June 30, 2017 (Continued)**

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

Security Name	PIK Rate - Capitalized	PIK Rate - Paid as cash	Maximum Current PIK Rate	
CCPI Inc.	—%	7.00%	7.00%	
Cinedigm DC Holdings, LLC	—%	2.50%	2.50%	
Credit Central Loan Company	—%	10.00%	10.00%	
Echelon Aviation LLC	N/A	N/A	2.25%	(C)
Echelon Aviation LLC	N/A	N/A	1.00%	(D)
Edmentum Ultimate Holdings, LLC - Unsecured Senior PIK Note	8.50%	—%	8.50%	
First Tower Finance Company LLC	3.92%	3.08%	7.00%	
MITY, Inc.	—%	10.00%	10.00%	
National Property REIT Corp. - Senior Secured Term Loan A	—%	5.50%	5.50%	
National Property REIT Corp. - Senior Secured Term Loan E	—%	5.00%	5.00%	
National Property REIT Corp. - Senior Secured Term Loan C to ACL Loan Holdings, Inc.	—%	5.00%	5.00%	
National Property REIT Corp. - Senior Secured Term Loan C to American Consumer Lending Limited	—%	5.00%	5.00%	
Nationwide Loan Company LLC	—%	10.00%	10.00%	
Targus International, LLC - Senior Secured Term Loan A	15.00%	—%	15.00%	
Targus International, LLC - Senior Secured Term Loan B	15.00%	—%	15.00%	
Valley Electric Co. of Mt. Vernon, Inc.	—%	2.50%	2.50%	
Valley Electric Company, Inc.	8.50%	—%	8.50%	

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

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

See notes to consolidated financial statements.

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

**Endnote Explanations as of June 30, 2018 and June 30, 2017 (Continued)**

(47) As defined in the 1940 Act, we are deemed to “Control” these portfolio companies because we own more than 25% of the portfolio company’s outstanding voting securities. Transactions during the year ended June 30, 2018 with these controlled investments were as follows:

Portfolio Company	Fair Value at June 30, 2017	Gross Additions (Cost)*	Gross Reductions (Cost)**	Net change in unrealized gains (losses)	Fair Value at June 30, 2018	Interest income	Dividend income	Other income	Net realized gains (losses)
Arctic Energy Services, LLC ***	\$ 17,370	\$ —	\$ (60,876)	\$ 43,506	\$ —	\$ —	\$ —	\$ —	\$ —
CCPI Inc.	43,052	—	(482)	(6,814)	35,756	3,704	—	—	—
CP Energy Services Inc. ***	72,216	65,976	—	(14,931)	123,261	3,394	—	228	—
Credit Central Loan Company, LLC	64,435	2,240	—	10,002	76,677	12,755	—	903	—
Echelon Transportation, LLC (f/k/a Echelon Aviation LLC)	71,318	—	—	10,960	82,278	6,360	—	—	—
Edmentum Ultimate Holdings, LLC ****	46,895	5,394	(39,196)	(13,093)	—	572	—	—	—
First Tower Finance Company LLC	365,588	21,352	(6,735)	62,805	443,010	47,422	—	2,664	—
Freedom Marine Solutions, LLC	23,994	982	—	(11,939)	13,037	—	—	—	—
Interdent, Inc. *****	—	209,120	—	(11,499)	197,621	4,775	—	—	—
MITY, Inc.	76,512	—	—	(17,618)	58,894	8,206	—	1,093	13
National Property REIT Corp.	987,304	160,769	(124,078)	30,981	1,054,976	90,582	11,279	8,834	—
Nationwide Loan Company LLC	36,945	4,370	—	(7,462)	33,853	3,485	—	—	—
NMMB, Inc.	20,825	—	(1,999)	(91)	18,735	1,455	—	—	—
Pacific World Corporation *****	—	198,149	(250)	(32,879)	165,020	3,742	—	—	—
R-V Industries, Inc.	32,678	—	—	(792)	31,886	3,064	—	—	—
SB Forging Company II, Inc. (f/k/a Gulf Coast Machine & Supply Company)	1,940	—	—	254	2,194	—	—	—	—
USES Corp.	12,517	3,000	(3)	805	16,319	—	—	—	—
Valley Electric Company, Inc.	32,509	2,157	—	16,131	50,797	5,971	—	138	—
Wolf Energy, LLC	5,677	—	(3,009)	(2,656)	12	—	—	1,220	—
<b>Total</b>	<b>\$ 1,911,775</b>	<b>\$ 673,509</b>	<b>\$ (236,628)</b>	<b>\$ 55,670</b>	<b>\$ 2,404,326</b>	<b>\$ 195,487</b>	<b>\$ 11,279</b>	<b>\$ 15,080</b>	<b>\$ 13</b>

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

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

\*\*\* Arctic Energy Services, LLC cost basis was transferred to CP Energy Services Inc. on April 6, 2018 as a result of the merger between these controlled portfolio companies. There were no realized gain or loss recognized by us since this was a merger amongst two portfolio companies under our control. Refer to endnote #37.

\*\*\*\* The investment was transferred to affiliate investment classification at \$31,362, the fair market value of the investment at the beginning of the three month period ended March 31, 2018. Refer to endnote #22.

\*\*\*\*\* The investment was transferred to control investment classification at \$208,549, the fair market value of the investment at the beginning of the three month period ended June 30, 2018. Refer to endnote #52.

\*\*\*\*\* The investment was transferred from non-control/ non-affiliate to control investment classification at \$183,151, the fair market value of the investment at the beginning of the three month period ended June 30, 2018. Refer to endnote #40.

See notes to consolidated financial statements.

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

**Endnote Explanations as of June 30, 2018 and June 30, 2017 (Continued)**

(48) As defined in the 1940 Act, we are deemed to be an “Affiliated company” of these portfolio companies because we own more than 5% of the portfolio company’s outstanding voting securities. Transactions during the year ended June 30, 2018 with these affiliated investments were as follows:

Portfolio Company	Fair Value at June 30, 2017	Gross Additions (Cost)*	Gross Reductions (Cost)**	Net unrealized gains (losses)	Fair Value at June 30, 2018	Interest income	Dividend income	Other income	Net realized gains (losses)
Edmentum Ultimate Holdings, LLC ***	\$ —	\$ 34,416	\$ —	\$ 800	\$ 35,216	\$ 348	\$ —	\$ —	\$ —
Nixon, Inc.	—	—	(14,197)	14,197	—	—	—	—	(14,197)
Targus International, LLC	11,429	1,117	—	10,674	23,220	205	—	—	846
<b>Total</b>	<b>\$ 11,429</b>	<b>\$ 35,533</b>	<b>\$ (14,197)</b>	<b>\$ 25,671</b>	<b>\$ 58,436</b>	<b>\$ 553</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ (13,351)</b>

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

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

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

(49) As defined in the 1940 Act, we are deemed to “Control” these portfolio companies because we own more than 25% of the portfolio company’s outstanding voting securities. Transactions during the year ended June 30, 2017 with these controlled investments were as follows:

Portfolio Company	Fair Value at June 30, 2016	Gross Additions (Cost)*	Gross Reductions (Cost)**	Net unrealized gains (losses)	Fair Value at June 30, 2017	Interest income	Dividend income	Other income	Net realized gains (losses)
Arctic Energy Services, LLC	\$ 38,340	\$ —	\$ —	\$ (20,970)	\$ 17,370	\$ —	\$ —	\$ —	\$ —
CCPI Inc.	41,356	—	(327)	2,023	43,052	2,992	123	153	—
CP Energy Services Inc.	76,002	—	—	(3,786)	72,216	—	—	—	—
Credit Central Loan Company, LLC	52,254	10,826	(403)	1,758	64,435	10,873	—	—	—
Echelon Aviation LLC	60,821	18,875	(6,800)	(1,578)	71,318	5,734	200	1,121	—
Edmentum Ultimate Holdings, LLC	44,346	9,892	(6,424)	(919)	46,895	1,726	—	—	—
First Tower Finance Company LLC	352,666	15,577	(2,220)	(435)	365,588	51,116	—	—	—
Freedom Marine Solutions, LLC	26,618	1,801	—	(4,425)	23,994	—	—	—	—
MITY, Inc.	54,049	16,000	—	6,463	76,512	6,848	468	886	16
National Property REIT Corp.	843,933	237,851	(174,931)	80,451	987,304	84,777	—	9,186	—
Nationwide Loan Company LLC	35,813	2,104	—	(972)	36,945	3,406	4,310	—	—
NMMB, Inc.	10,007	—	(100)	10,918	20,825	1,518	—	—	—
R-V Industries, Inc.	36,877	—	96	(4,295)	32,678	2,877	149	124	172
SB Forging II	7,312	8,750	(69,125)	55,003	1,940	—	—	—	(66,103)
United States Environmental Services, LLC	40,286	2,599	(154)	(30,214)	12,517	—	—	—	—
Valley Electric Company, Inc.	31,091	1,821	—	(403)	32,509	5,629	—	—	—
Wolf Energy, LLC	678	22,145	(15,344)	(1,802)	5,677	—	—	—	—
<b>Total</b>	<b>\$ 1,752,449</b>	<b>\$ 348,241</b>	<b>\$ (275,732)</b>	<b>\$ 86,817</b>	<b>\$ 1,911,775</b>	<b>\$ 177,496</b>	<b>\$ 5,250</b>	<b>\$ 11,470</b>	<b>\$ (65,915)</b>

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

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

See notes to consolidated financial statements.

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

**Endnote Explanations as of June 30, 2018 and June 30, 2017 (Continued)**

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

Portfolio Company	Fair Value at June 30, 2016	Gross Additions (Cost)*	Gross Reductions (Cost)**	Net unrealized gains (losses)	Fair Value at June 30, 2017	Interest income	Dividend income	Other income	Net realized gains (losses)
BNN Holdings Corp.	\$ 2,842	\$ —	\$ (2,227)	\$ (615)	\$ —	\$ —	\$ —	\$ —	\$ 137
Nixon, Inc.***	—	1,552	—	(1,552)	—	—	—	—	—
Targus International LLC	8,478	231	—	2,720	11,429	297	—	—	—
<b>Total</b>	<b>\$ 11,320</b>	<b>\$ 1,783</b>	<b>\$ (2,227)</b>	<b>\$ 553</b>	<b>\$ 11,429</b>	<b>\$ 297</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ 137</b>

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

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

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

(51) BAART Programs, Inc. and MedMark Services, Inc. are joint borrowers of the second lien term loan.

(52) Prospect exercised its rights and remedies under its loan documents to exercise the shareholder voting rights in respect of the stock of InterDent, Inc. (“InterDent”) and to appoint a new Board of Directors of InterDent. As a result, Prospect’s investment in InterDent is classified as a control investment as of June 30, 2018.

(53) This investment is in the debt class of a CLO security. The all-in interest rate has not been determined as the investment is unsettled as of June 30, 2018.

See notes to consolidated financial statements.

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

**Note 1. Organization**

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

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

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

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

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

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

**Note 2. Significant Accounting Policies**

*Basis of Presentation and Consolidation*

The accompanying consolidated financial statements have been prepared in accordance with United States generally accepted accounting principles (“GAAP”) pursuant to the requirements for reporting on Form 10-K, ASC 946, *Financial Services—Investment Companies* (“ASC 946”), and Articles 3, 6 and 12 of Regulation S-X. Under the 1940 Act, ASC 946, and the regulations pursuant to Article 6 of Regulation S-X, we are precluded from consolidating any entity other than another investment company or an operating company which provides substantially all of its services to benefit us. Our consolidated financial statements include the accounts of Prospect, PCF, PSBL, PYC, and the Consolidated Holding Companies. All intercompany balances and transactions have been eliminated in consolidation. The financial results of our non-substantially wholly-owned holding companies and operating portfolio company investments are not consolidated in the financial statements. Any operating companies owned by the Consolidated Holding Companies are not consolidated.

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

*Reclassifications*

Certain reclassifications have been made in the presentation of prior consolidated financial statements and accompanying notes to conform to the presentation as of and for the year ended June 30, 2018 .

*Use of Estimates*

The preparation of the consolidated financial statements in accordance with GAAP requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the consolidated financial statements and the reported amounts of income, expenses, and gains and losses during the reported period. Changes in the economic environment, financial markets, creditworthiness of the issuers of our investment portfolio and any other parameters used in determining these estimates could cause actual results to differ, and these differences could be material.

*Investment Classification*

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

As a BDC, we must not acquire any assets other than "qualifying assets" specified in the 1940 Act unless, at the time the acquisition is made, at least 70% of our total assets are qualifying assets (with certain limited exceptions). As of June 30, 2018 and June 30, 2017 , our qualifying assets as a percentage of total assets, stood at 73.20% and 71.75% , respectively.

*Investment Transactions*

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

*Foreign Currency*

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

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

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

*Investment Risks*

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

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*Market Risk*

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

*Credit Risk*

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

*Liquidity Risk*

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

*Interest Rate Risk*

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

*Prepayment Risk*

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

*Structured Credit Related Risk*

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

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

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

*Foreign Currency*

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

*Investment Valuation*

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



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

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

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

*Level 3* : Unobservable inputs for the asset or liability.

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

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

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

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

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

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

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

Our investments in CLOs are classified as Level 3 fair value measured securities under ASC 820 and are valued using a discounted multi-path cash flow model. The CLO structures are analyzed to identify the risk exposures and to determine an appropriate call date (i.e., expected maturity). These risk factors are sensitized in the multi-path cash flow model using Monte Carlo simulations, which is a simulation used to model the probability of different outcomes, to generate probability-weighted (i.e., multi-path) cash flows from the underlying assets and liabilities. These cash flows are discounted using appropriate market discount rates, and relevant data in the CLO market as well as certain benchmark credit indices are considered, to determine the value of each CLO

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investment. In addition, we generate a single-path cash flow utilizing our best estimate of expected cash receipts, and assess the reasonableness of the implied discount rate that would be effective for the value derived from the multi-path cash flows. We are not responsible for and have no influence over the asset management of the portfolios underlying the CLO investments we hold, as those portfolios are managed by non-affiliated third party CLO collateral managers. The main risk factors are default risk, prepayment risk, interest rate risk, downgrade risk, and credit spread risk.

*Valuation of Other Financial Assets and Financial Liabilities*

ASC 825, *Financial Instruments*, specifically ASC 825-10-25, permits an entity to choose, at specified election dates, to measure eligible items at fair value (the "Fair Value Option"). We have not elected the Fair Value Option to report selected financial assets and financial liabilities. See Note 8 for the disclosure of the fair value of our outstanding debt and the market observable inputs used in determining fair value.

*Convertible Notes*

We have recorded the Convertible Notes at their contractual amounts. We have determined that the embedded conversion options in the Convertible Unsecured Notes are not required to be separately accounted for as a derivative under ASC 815, *Derivatives and Hedging*. See Note 5 for further discussion.

*Revenue Recognition*

Realized gains or losses on the sale of investments are calculated using the specific identification method.

Interest income, adjusted for amortization of premium and accretion of discount, is recorded on an accrual basis. Loan origination fees, original issue discount, and market discounts are capitalized and accreted into interest income over the respective terms of the applicable loans using the effective interest method or straight-line, as applicable, and adjusted only for material amendments or prepayments. Upon a prepayment of a loan, prepayment premiums, original issue discount, or market discounts are recorded as interest income.

Loans are placed on non-accrual status when there is reasonable doubt that principal or interest will be collected. Unpaid accrued interest is generally reversed when a loan is placed on non-accrual status. Interest payments received on non-accrual loans are either applied to the cost basis or interest income, depending upon management's judgment of the collectibility of the loan receivable. Non-accrual loans are restored to accrual status when past due principal and interest is paid and in management's judgment, is likely to remain current and future principal and interest collections when due are probable. Interest received and applied against cost while a loan is on non-accrual, and PIK interest capitalized but not recognized while on non-accrual, is recognized prospectively on the effective yield basis through maturity of the loan when placed back on accrual status, to the extent deemed collectible by management. As of June 30, 2018, approximately 2.5% of our total assets at fair value are in non-accrual status.

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

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

Dividend income is recorded on the ex-dividend date.

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Other income generally includes amendment fees, commitment fees, administrative agent fees and structuring fees which are recorded when earned. Excess deal deposits, net profits interests and overriding royalty interests are included in other income. See Note 10 for further discussion.

*Federal and State Income Taxes*

We have elected to be treated as a RIC and intend to continue to comply with the requirements of the Code applicable to regulated investment companies. We are required to distribute at least 90% of our investment company taxable income and intend to distribute (or retain through a deemed distribution) all of our investment company taxable income and net capital gains to stockholders; therefore, we have made no provision for income taxes. The character of income and gains that we will distribute is determined in accordance with income tax regulations that may differ from GAAP. Book and tax basis differences relating to stockholder dividends and distributions and other permanent book and tax differences are reclassified to paid-in capital.

If we do not distribute (or are not deemed to have distributed) at least 98% of our annual ordinary income and 98.2% of our capital gains in the calendar year earned, we will generally be required to pay an excise tax equal to 4% of the amount by which 98% of our annual ordinary income and 98.2% of our capital gains exceed the distributions from such taxable income for the year. To the extent that we determine that our estimated current year annual taxable income will be in excess of estimated current year dividend distributions from such taxable income, we accrue excise taxes, if any, on estimated excess taxable income. As of June 30, 2018, we do not expect to have any excise tax due for the 2018 calendar year. Thus, we have not accrued any excise tax for this period.

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

We follow ASC 740, *Income Taxes* (“ASC 740”). ASC 740 provides guidance for how uncertain tax positions should be recognized, measured, presented, and disclosed in the consolidated financial statements. ASC 740 requires the evaluation of tax positions taken or expected to be taken in the course of preparing our tax returns to determine whether the tax positions are “more-likely-than-not” of being sustained by the applicable tax authority. Tax positions not deemed to meet the more-likely-than-not threshold are recorded as a tax benefit or expense in the current year. As of June 30, 2018, we did not record any unrecognized tax benefits or liabilities. Management’s determinations regarding ASC 740 may be subject to review and adjustment at a later date based upon factors including, but not limited to, an on-going analysis of tax laws, regulations and interpretations thereof. Although we file both federal and state income tax returns, our major tax jurisdiction is federal. Our federal tax returns for the tax years ended August 31, 2015 and thereafter remain subject to examination by the Internal Revenue Service.

*Dividends and Distributions*

Dividends and distributions to common stockholders are recorded on the ex-dividend date. The amount, if any, to be paid as a monthly dividend or distribution is approved by our Board of Directors quarterly and is generally based upon our management’s estimate of our future taxable earnings. Net realized capital gains, if any, are distributed at least annually.

*Financing Costs*

We record origination expenses related to our Revolving Credit Facility, and Convertible Notes, Public Notes and Prospect Capital InterNotes® (collectively, our “Unsecured Notes”) as deferred financing costs. These expenses are deferred and amortized as part of interest expense using the straight-line method over the stated life of the obligation for our Revolving Credit Facility. The same methodology is used to approximate the effective yield method for our Prospect Capital InterNotes® and our at-the-market offering of our existing unsecured notes that mature on June 15, 2024 (“2024 Notes Follow-on Program”). The effective interest method is used to amortize deferred financing costs for our remaining Unsecured Notes over the respective expected life or maturity. In the event that we modify or extinguish our debt before maturity, we follow the guidance in ASC 470-50, *Modification and Extinguishments* (“ASC 470-50”). For modifications to or exchanges of our Revolving Credit Facility, any unamortized deferred

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costs relating to lenders who are not part of the new lending group are expensed. For extinguishments of our Unsecured Notes, any unamortized deferred costs are deducted from the carrying amount of the debt in determining the gain or loss from the extinguishment.

Unamortized deferred financing costs are presented as a direct deduction to the respective Unsecured Notes (see Notes 5, 6, and 7).

We may record registration expenses related to shelf filings as prepaid expenses. These expenses consist principally of the Securities and Exchange Commission (“SEC”) registration fees, legal fees and accounting fees incurred. These prepaid expenses are charged to capital upon the receipt of proceeds from an equity offering or charged to expense if no offering is completed. As of June 30, 2018 and June 30, 2017, there are no prepaid expenses related to registration expenses and all amounts incurred have been expensed.

*Guarantees and Indemnification Agreements*

We follow ASC 460, *Guarantees* (“ASC 460”). ASC 460 elaborates on the disclosure requirements of a guarantor in its interim and annual consolidated financial statements about its obligations under certain guarantees that it has issued. It also requires a guarantor to recognize, at the inception of a guarantee, for those guarantees that are covered by ASC 460, the fair value of the obligation undertaken in issuing certain guarantees.

*Per Share Information*

Net increase or decrease in net assets resulting from operations per share is calculated using the weighted average number of common shares outstanding for the period presented. In accordance with ASC 946, convertible securities are not considered in the calculation of net asset value per share.

*Recent Accounting Pronouncements*

In June 2016, the FASB issued ASU 2016-13, *Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments* (“ASU 2016-13”), which amends the financial instruments impairment guidance so that an entity is required to measure expected credit losses for financial assets based on historical experience, current conditions and reasonable and supportable forecasts. As such, an entity will use forward-looking information to estimate credit losses. ASU 2016-13 also amends the guidance in FASB ASC Subtopic No. 325-40, *Investments—Other, Beneficial Interests in Securitized Financial Assets*, related to the subsequent measurement of accretible yield recognized as interest income over the life of a beneficial interest in securitized financial assets under the effective yield method. ASU 2016-13 is effective for financial statements issued for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. Early adoption is permitted as of the fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. We are currently evaluating the impact, if any, of adopting this ASU on our consolidated financial statements.

In August 2016, the FASB issued ASU 2016-15, *Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments* (“ASU 2016-15”), which addresses certain aspects of cash flow statement classification. One such amendment requires cash payments for debt prepayment or debt extinguishment costs to be classified as cash outflows for financing activities. ASU 2016-15 is effective for financial statements issued for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years. Early adoption is permitted, including adoption in an interim period. If an entity early adopts the amendments in an interim period, any adjustments should be reflected as of the beginning of the fiscal year that includes that interim period. An entity that elects early adoption must adopt all of the amendments in the same period. The adoption of the amended guidance in ASU 2016-15 is not expected to have a significant effect on our consolidated financial statements and disclosures.

In May 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*, which amends accounting guidance for revenue recognition arising from contracts with customers. Under the new guidance, an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration the entity expects to be entitled to in exchange for those goods or services. In August 2015, the FASB also issued ASU 2015-14, *Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date*, which deferred the effective date of the standard for one year. As a result, the guidance is effective for financial statements issued for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years. Early adoption is permitted as of fiscal years beginning after December 15, 2016, including interim periods within those fiscal years. The application of this guidance is not expected to have a material impact on our financial statements.

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*Tax Cuts and Jobs Act*

On December 22, 2017, the President signed into law the Tax Cuts and Jobs Act (The “Tax Act”), which significantly changed the Code, including, a reduction in the corporate income tax rate, a new limitation on the deductibility of interest expense, and significant changes to the taxation of income earned from foreign sources and foreign subsidiaries. The Tax Act also authorizes the IRS to issue regulations with respect to the new provisions. We cannot predict how the changes in the Tax and Jobs Act, or regulations or other guidance issued under it, might affect us, our business or the business of our portfolio companies. However, our portfolio companies may or may not make certain elections under the Tax Act that could materially increase their taxable earnings and profits. Any such increase in the earnings and profits of a portfolio company may result in the characterization of certain distributions sourced from sale proceeds as dividend income, which may increase our distributable taxable income. During the year ended June 30, 2018, we received \$11,270 of such dividends from NPRC related to the sale of NPRC’s St. Marin and Central Park properties.

**Note 3. Portfolio Investments**

At June 30, 2018 , we had investments in 135 long-term portfolio investments, which had an amortized cost of \$5,831,458 and a fair value of \$5,727,279 . At June 30, 2017 , we had investments in 121 long-term portfolio investments, which had an amortized cost of \$5,981,556 and a fair value of \$5,838,305 .

The original cost basis of debt placement and equity securities acquired, including follow-on investments for existing portfolio companies, payment-in-kind interest, and structuring fees, totaled \$1,730,657 and \$1,489,470 during the years ended June 30, 2018 and June 30, 2017 , respectively. Debt repayments and considerations from sales of equity securities of approximately \$1,831,286 and \$1,413,882 were received during the years ended June 30, 2018 and June 30, 2017 , respectively.

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

	June 30, 2018		June 30, 2017	
	Cost	Fair Value	Cost	Fair Value
Revolving Line of Credit	\$ 38,659	\$ 38,559	\$ 27,409	\$ 27,409
Senior Secured Debt	2,602,018	2,481,353	2,940,163	2,798,796
Subordinated Secured Debt	1,318,028	1,260,525	1,160,019	1,107,040
Subordinated Unsecured Debt	38,548	32,945	37,934	44,434
Small Business Loans	30	17	8,434	7,964
CLO Debt	6,159	6,159	—	—
CLO Residual Interest	1,096,768	954,035	1,150,006	1,079,712
Equity	731,248	953,686	657,591	772,950
Total Investments	\$ 5,831,458	\$ 5,727,279	\$ 5,981,556	\$ 5,838,305

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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:

- Revolving Line of Credit includes our investments in delayed draw term loans.
- Senior Secured Debt includes investments listed on the SOI such as senior secured term loans, senior term loans, secured promissory notes, senior demand notes, and first lien term loans.
- Subordinated Secured Debt includes investments listed on the SOI such as subordinated secured term loans, subordinated term loans, senior subordinated notes, and second lien term loans.
- Subordinated Unsecured Debt includes investments listed on the SOI such as subordinated unsecured notes and senior unsecured notes.
- Small Business Loans includes our investments in SME whole loans purchased from OnDeck.
- CLO Debt includes our investments in the “debt” class of security of CLO funds.
- CLO Residual Interest includes our investments in the “equity” security class of CLO funds such as income notes, preference shares, and subordinated notes.
- Equity, unless specifically stated otherwise, includes our investments in preferred stock, common stock, membership interests, net profits interests, net operating income interests, net revenue interests, overriding royalty interests, escrows receivable, and warrants.

The following table shows the fair value of our investments disaggregated into the three levels of the ASC 820 valuation hierarchy as of June 30, 2018 :

	Level 1	Level 2	Level 3	Total
Revolving Line of Credit	\$ —	\$ —	\$ 38,559	\$ 38,559
Senior Secured Debt	—	—	2,481,353	2,481,353
Subordinated Secured Debt	—	—	1,260,525	1,260,525
Subordinated Unsecured Debt	—	—	32,945	32,945
Small Business Loans	—	—	17	17
CLO Debt	—	—	6,159	6,159
CLO Residual Interest	—	—	954,035	954,035
Equity	—	—	953,686	953,686
<b>Total Investments</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ 5,727,279</b>	<b>\$ 5,727,279</b>

The following table shows the fair value of our investments disaggregated into the three levels of the ASC 820 valuation hierarchy as of June 30, 2017 :

	Level 1	Level 2	Level 3	Total
Revolving Line of Credit	\$ —	\$ —	\$ 27,409	\$ 27,409
Senior Secured Debt	—	—	2,798,796	2,798,796
Subordinated Secured Debt	—	—	1,107,040	1,107,040
Subordinated Unsecured Debt	—	—	44,434	44,434
Small Business Loans	—	—	7,964	7,964
CLO Residual Interest	—	—	1,079,712	1,079,712
Equity	—	—	772,950	772,950
<b>Total Investments</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ 5,838,305</b>	<b>\$ 5,838,305</b>

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The following tables show the aggregate changes in the fair value of our Level 3 investments during the year ended June 30, 2018 :

	<b>Fair Value Measurements Using Unobservable Inputs (Level 3)</b>			
	<b>Control Investments</b>	<b>Affiliate Investments</b>	<b>Non-Control/ Non-Affiliate Investments</b>	<b>Total</b>
Fair value as of June 30, 2017	\$ 1,911,775	\$ 11,429	\$ 3,915,101	\$ 5,838,305
Net realized gains (losses) on investments	13	(13,351)	(6,036)	(19,374)
Net change in unrealized gains (losses)	55,670	25,671	(42,270)	39,071
Net realized and unrealized gains (losses)	55,683	12,320	(48,306)	19,697
Purchases of portfolio investments	212,531	3,588	1,505,134	1,721,253
Payment-in-kind interest	6,164	583	2,657	9,404
Accretion (amortization) of discounts and premiums, net	2,240	—	(33,245)	(31,005)
Repayments and sales of portfolio investments	(144,405)	(846)	(1,685,124)	(1,830,375)
Transfers within Level 3(1)	360,338	31,362	(391,700)	—
Transfers in (out) of Level 3(1)	—	—	—	—
Fair value as of June 30, 2018	\$ 2,404,326	\$ 58,436	\$ 3,264,517	\$ 5,727,279

	<b>Revolving Line of Credit</b>	<b>Senior Secured Debt</b>	<b>Subordinated Secured Debt</b>	<b>Subordinated Unsecured Debt</b>	<b>Small Business Loans</b>	<b>CLO Debt</b>	<b>CLO Residual Interest</b>	<b>Equity</b>	<b>Total</b>
Fair value as of June 30, 2017	\$ 27,409	\$ 2,798,796	\$ 1,107,040	\$ 44,434	\$ 7,964	\$ —	\$ 1,079,712	\$ 772,950	\$ 5,838,305
Net realized (losses) gains on investments	—	(16,795)	—	13	(357)	—	(2,275)	40	(19,374)
Net change in unrealized gains (losses)	(100)	20,701	(4,524)	(12,103)	456	—	(72,439)	107,080	39,071
Net realized and unrealized (losses) gains	(100)	3,906	(4,524)	(12,090)	99	—	(74,714)	107,120	19,697
Purchases of portfolio investments	19,308	1,138,304	365,845	—	7,552	6,159	48,187	135,898	1,721,253
Payment-in-kind interest	—	5,360	3,429	615	—	—	—	—	9,404
Accretion (amortization) of discounts and premiums	—	3,307	5,756	—	—	—	(40,068)	—	(31,005)
Repayments and sales of portfolio investments	(8,058)	(1,511,024)	(217,021)	(14)	(15,598)	—	(59,082)	(19,578)	(1,830,375)
Transfers within Level 3(1)	—	42,704	—	—	—	—	—	(42,704)	—
Transfers in (out) of Level 3(1)	—	—	—	—	—	—	—	—	—
Fair value as of June 30, 2018	\$ 38,559	\$ 2,481,353	\$ 1,260,525	\$ 32,945	\$ 17	\$ 6,159	\$ 954,035	\$ 953,686	\$ 5,727,279

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

The following tables show the aggregate changes in the fair value of our Level 3 investments during the year ended June 30, 2017 :

	<b>Fair Value Measurements Using Unobservable Inputs (Level 3)</b>			
	<b>Control Investments</b>	<b>Affiliate Investments</b>	<b>Non-Control/ Non-Affiliate Investments</b>	<b>Total</b>
Fair value as of June 30, 2016	\$ 1,752,449	\$ 11,320	\$ 4,133,939	\$ 5,897,708
Net realized (losses) gains on investments	(65,915)	137	(32,625)	(98,403)
Net change in unrealized gains (losses)	86,817	553	(37,229)	50,141
Net realized and unrealized gains (losses)	20,902	690	(69,854)	(48,262)
Purchases of portfolio investments	310,922	—	1,160,740	1,471,662
Payment-in-kind interest	14,252	231	3,325	17,808
Accretion (amortization) of discounts and premiums, net	922	—	(89,749)	(88,827)
Repayments and sales of portfolio investments	(209,817)	(2,364)	(1,199,603)	(1,411,784)
Transfers within Level 3(1)	22,145	1,552	(23,697)	—
Transfers in (out) of Level 3(1)	—	—	—	—
Fair value as of June 30, 2017	\$ 1,911,775	\$ 11,429	\$ 3,915,101	\$ 5,838,305





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	Revolving Line of Credit	Senior Secured Debt	Subordinated Secured Debt	Subordinated Unsecured Debt	Small Business Loans	CLO Debt	CLO Residual Interest	Equity	Total
Fair value as of June 30, 2016	\$ 13,274	\$ 2,941,722	\$ 1,209,604	\$ 68,358	\$ 14,215	\$ —	\$ 1,009,696	\$ 640,839	\$ 5,897,708
Net realized (losses) gains on investments	—	(59,730)	(382)	6	(3,013)	—	(17,239)	(18,045)	(98,403)
Net change in unrealized (losses) gains	—	(10,245)	(33,990)	14,020	(83)	—	3,550	76,889	50,141
Net realized and unrealized (losses) gains	—	(69,975)	(34,372)	14,026	(3,096)	—	(13,689)	58,844	(48,262)
Purchases of portfolio investments	21,559	762,505	378,793	—	51,802	—	178,452	78,551	1,471,662
Payment-in-kind interest	—	5,127	10,624	2,057	—	—	—	—	17,808
Accretion (amortization) of discounts and premiums	—	531	5,389	—	—	—	(94,747)	—	(88,827)
Repayments and sales of portfolio investments	(7,424)	(763,969)	(462,998)	(40,007)	(54,957)	—	—	(82,429)	(1,411,784)
Transfers within Level 3(1)	—	(77,145)	—	—	—	—	—	77,145	—
Transfers in (out) of Level 3(1)	—	—	—	—	—	—	—	—	—
Fair value as of June 30, 2017	<u>\$ 27,409</u>	<u>\$ 2,798,796</u>	<u>\$ 1,107,040</u>	<u>\$ 44,434</u>	<u>\$ 7,964</u>	<u>\$ —</u>	<u>\$ 1,079,712</u>	<u>\$ 772,950</u>	<u>\$ 5,838,305</u>

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

The net change in unrealized gains on the investments that use Level 3 inputs was \$12,075 and \$10,082 for investments still held as of June 30, 2018 and June 30, 2017, respectively.

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The ranges of unobservable inputs used in the fair value measurement of our Level 3 investments as of June 30, 2018 were as follows:

Asset Category	Fair Value	Primary Valuation Approach or Technique	Unobservable Input		Weighted Average
			Input	Range	
Senior Secured Debt	\$ 1,409,584	Discounted Cash Flow (Yield analysis)	Market yield	7.0% - 21.2%	11.3%
Senior Secured Debt	361,720	Enterprise Value Waterfall (Market approach)	EBITDA multiple	4.0x - 10.3x	8.3x
Senior Secured Debt	181,339	Enterprise Value Waterfall (Market approach)	Revenue multiple	0.3x - 1.6x	1.4x
Senior Secured Debt	47,099	Enterprise Value Waterfall (Discounted cash flow)	Discount rate	7.5% - 16.1%	10.7%
Senior Secured Debt	787	Liquidation Analysis	N/A	N/A	N/A
Senior Secured Debt (1)	226,180	Enterprise Value Waterfall	Loss-adjusted discount rate	3.0% - 14.2%	11.0%
Senior Secured Debt (2)	293,203	Enterprise Value Waterfall (NAV Analysis)	Capitalization Rate	3.3% - 8.7%	6.0%
Senior Secured Debt (2)	—	Discounted Cash Flow	Discount rate	6.5% - 7.5%	7.0%
Subordinated Secured Debt	830,766	Discounted Cash Flow (Yield analysis)	Market yield	7.6% - 22.5%	11.7%
Subordinated Secured Debt	28,622	Enterprise Value Waterfall (Market approach)	EBITDA multiple	6.5x - 7.5x	7.0x
Subordinated Secured Debt	58,806	Enterprise Value Waterfall (Market approach)	Revenue multiple	0.3x - 0.4x	0.4x
Subordinated Secured Debt (3)	342,331	Enterprise Value Waterfall (Market approach)	Book value multiple	0.8x - 3.1x	2.5x
Subordinated Secured Debt (3)	—	Enterprise Value Waterfall (Market approach)	Earnings multiple	7.5x - 13.0x	11.9x
Subordinated Unsecured Debt	32,945	Enterprise Value Waterfall (Market approach)	EBITDA multiple	5.8x - 11.5x	9.7%
Small Business Loans (4)	17	Discounted Cash Flow	Loss-adjusted discount rate	13.0% - 24.3%	15.5%
CLO Interests	960,194	Discounted Cash Flow	Discount rate (6)	2.33% - 24.28%	17.24%
Preferred Equity	73,792	Enterprise Value Waterfall (Market approach)	EBITDA multiple	4.0x - 9.0x	7.9x
Preferred Equity	2,194	Liquidation Analysis	N/A	N/A	N/A
Common Equity/Interests/Warrants	81,753	Enterprise value waterfall (Market approach)	EBITDA multiple	5.0x - 9.0x	6.8x
Common Equity/Interests/Warrants (1)	16,881	Enterprise value waterfall	Loss-adjusted discount rate	3.0% - 14.2%	11.0%
Common Equity/Interests/Warrants (2)	419,224	Enterprise value waterfall (NAV analysis)	Capitalization Rate	3.3% - 8.7%	6.0%
Common Equity/Interests/Warrants (2)	—	Discounted cash flow	Discount rate	6.5% - 7.5%	7.0%
Common Equity/Interests/Warrants (3)	209,583	Enterprise value waterfall (Market approach)	Book value multiple	0.8x - 3.1x	2.4x
Common Equity/Interests/Warrants (3)	—	Enterprise value waterfall (Market approach)	Earnings multiple	7.5x - 13.0x	11.9x
Common Equity/Interests/Warrants (5)	99,488	Discounted cash flow	Discount rate	6.5% - 7.5%	7.0%
Common Equity/Interests/Warrants	36,805	Discounted cash flow	Discount rate	7.5% - 15.5%	8.8%
Common Equity/Interests/Warrants	13,049	Liquidation analysis	N/A	N/A	N/A
Escrow Receivable	917	Discounted cash flow	Discount rate	7.3% - 8.4%	7.9%
<b>Total Level 3 Investments</b>	<b>\$ 5,727,279</b>				

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- (1) Represents an investment in a Real Estate Investment subsidiary. The Enterprise Value analysis includes the fair value of our investments in such indirect subsidiary's consumer loans purchased from online consumer lending platforms, which are valued using a discounted cash flow valuation technique. The key unobservable input to the discounted cash flow analysis is noted above. In addition, the valuation also used projected loss rates as an unobservable input ranging from 0.0%-20.7%, with a weighted average of 4.2%.
- (2) Represents our REIT investments. EV waterfall methodology uses both the net asset value analysis and discounted cash flow technique, which are weighted equally (50%).
- (3) Represents investments in consumer finance subsidiaries. The enterprise value waterfall methodology utilizes book value and earnings multiples, as noted above. In addition, the valuation of certain consumer finance companies utilizes the discounted cash flow technique whereby the significant unobservable input is the discount rate. For these companies each valuation technique (book value multiple, earnings multiple and discount rate) is weighted equally. For these companies the discount rate ranged from 13.5% to 15.5% with a weighted average of 14.2%.
- (4) Includes our investments in small business whole loans purchased from OnDeck. Valuation also used projected loss rates as an unobservable input ranging from 0.00%-0.06%, with a weighted average of 0.01%.
- (5) Represents net operating income interests in our REIT investments.
- (6) Represents the implied discount rate based on our internally generated single-cash flows that is derived from the fair value estimated by the corresponding multi-path cash flow model utilized by the independent valuation firm.

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The ranges of unobservable inputs used in the fair value measurement of our Level 3 investments as of June 30, 2017 were as follows:

Asset Category	Fair Value	Primary Valuation Approach or Technique	Unobservable Input		Weighted Average
			Input	Range	
Senior Secured Debt	\$ 1,977,660	Discounted Cash Flow (Yield analysis)	Market Yield	5.1%-27.0%	10.7%
Senior Secured Debt	211,856	Enterprise Value Waterfall (Market approach)	EBITDA Multiple	4.0x-9.0x	6.7x
Senior Secured Debt	27,479	Enterprise Value Waterfall (Market approach)	Revenue Multiple	0.3x-0.6x	0.4x
Senior Secured Debt	47,099	Enterprise Value Waterfall (Discounted cash flow)	Discount Rate	7.3%-15.9%	11.6%
Senior Secured Debt	1,630	Liquidation Analysis	N/A	N/A	N/A
Senior Secured Debt (1)	269,166	Enterprise Value Waterfall	Loss-adjusted discount rate	3.0%-14.2%	10.6%
Senior Secured Debt (2)	291,315	Enterprise Value Waterfall (NAV Analysis)	Capitalization Rate	3.4%-8.0%	6.1%
Senior Secured Debt (2)		Discounted Cash Flow	Discount Rate	6.5%-7.5%	7.0%
Subordinated Secured Debt	665,405	Discounted Cash Flow (Yield analysis)	Market Yield	5.9%-27.0%	11.4%
Subordinated Secured Debt	111,847	Enterprise Value Waterfall (Market approach)	EBITDA Multiple	6.3x-8.0x	7.3x
Subordinated Secured Debt (3)	329,788	Enterprise Value Waterfall (Market approach)	Book Value Multiple	1.2x-2.8x	2.4x
Subordinated Secured Debt (3)		Enterprise Value Waterfall (Market approach)	Earnings Multiple	7.5x-12.0x	11.0x
Subordinated Unsecured Debt	44,434	Enterprise Value Waterfall (Market approach)	EBITDA Multiple	5.8x-8.5x	7.7x
Small Business Loans (4)	7,964	Discounted Cash Flow	Loss-adjusted Discount Rate	3.0%-25.9%	25.9%
CLO Residual Interest	1,079,712	Discounted Cash Flow	Discount Rate	12.0%-21.9%	15.7%
Preferred Equity	10,992	Enterprise Value Waterfall (Market approach)	EBITDA Multiple	4.0x-9.0x	4.8x
Preferred Equity	72,216	Enterprise Value Waterfall (Market approach)	Revenue Multiple	2.3x-2.8x	2.6x
Common Equity/Interests/Warrants	46,373	Enterprise Value Waterfall (Market approach)	EBITDA Multiple	4.0x-8.5x	6.0x
Common Equity/Interests/Warrants	22,671	Enterprise Value Waterfall (Market approach)	Revenue Multiple	0.3x-2.8x	1.2x
Common Equity/Interests/Warrants (1)	93,801	Enterprise Value Waterfall	Loss-adjusted discount rate	3.0%-14.2%	10.6%
Common Equity/Interests/Warrants (2)	244,245	Enterprise Value Waterfall (NAV analysis)	Capitalization Rate	3.4%-8.0%	6.1%
Common Equity/Interests/Warrants (2)		Discounted Cash Flow	Discount Rate	6.5%-7.5%	0.07
Common Equity/Interests/Warrants (2)	134,481	Enterprise Value Waterfall (Market approach)	Book Value Multiple	1.2x-2.8x	2.3x
Common Equity/Interests/Warrants (2)		Enterprise Value Waterfall (Market approach)	Earnings Multiple	7.5x-12.0x	10.8x
Common Equity/Interests/Warrants (5)	88,777	Discounted Cash Flow	Discount Rate	6.5%-7.5%	7.0%
Common Equity/Interests/Warrants	28,858	Discounted Cash Flow	Discount Rate	6.4%-18.0%	11.8%
Common Equity/Interests/Warrants	29,672	Liquidation Analysis	N/A	N/A	N/A
Escrow Receivable	864	Discounted Cash Flow	Discount Rate	6.4%-7.5%	7.0%
<b>Total Level 3 Investments</b>	<b>\$ 5,838,305</b>				

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- (1) Represents an investment in a subsidiary of our controlled investment NPRC. The Enterprise Value Waterfall analysis of NPRC includes the fair value of the investments in such indirect subsidiary's consumer loans purchased from online consumer lending platforms, which are valued using a discounted cash flow valuation technique. The key unobservable input to the discounted cash flow analysis is noted in the table. In addition, the valuation also used projected loss rates as an unobservable input ranging from 0.16-18.46%, with a weighted average of 8.57%.
- (2) Represents our REIT investments. EV waterfall methodology uses both the net asset value analysis and discounted cash flow analysis, which are weighted equally (50%).
- (3) Represents investments in consumer finance subsidiaries. The enterprise value waterfall methodology utilizes book value and earnings multiples, as noted above. In addition, the valuation of certain consumer finance companies utilizes the discounted cash flow technique whereby the significant unobservable input is the discount rate. For these companies each valuation technique (book value multiple, earnings multiple and discount rate) is weighted equally. For these companies the discount rate ranged from 13.5% to 18.0% with a weighted average of 14.7%.
- (4) Includes our investments in small business whole loans purchased from OnDeck. Valuation also used projected loss rates as an unobservable input ranging from 0.01%-1.16%, with a weighted average of 0.88%.
- (5) Represents net operating income interests in our REIT investments.

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

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

Our portfolio consists of residual interests in CLOs, which involve a number of significant risks. CLOs are typically very highly levered (10 - 14 times), and therefore the residual interest tranches that we invest in are subject to a higher degree of risk of total loss. In particular, investors in CLO residual interests indirectly bear risks of the underlying loan investments held by such CLOs. We generally have the right to receive payments only from the CLOs, and generally do not have direct rights against the underlying borrowers or the entity that sponsored the CLOs. While the CLOs we target generally enable the investor to acquire interests in a pool of senior loans without the expenses associated with directly holding the same investments, the prices of indices and securities underlying our CLOs will rise or fall. These prices (and, therefore, the prices of the CLOs) will be influenced by the same types of political and economic events that affect issuers of securities and capital markets generally. The failure by a CLO investment in which we invest to satisfy financial covenants, including with respect to adequate collateralization and/or interest coverage tests, could lead to a reduction in its payments to us. In the event that a CLO fails certain tests, holders of debt senior to us would be entitled to additional payments that would, in turn, reduce the payments we would otherwise be entitled to receive. Separately, we may incur expenses to the extent necessary to seek recovery upon default or to negotiate new terms with a defaulting CLO or any other investment we may make. If any of these occur, it could materially and adversely affect our operating results and cash flows.

The interests we have acquired in CLOs are generally thinly traded or have only a limited trading market. CLOs are typically privately offered and sold, even in the secondary market. As a result, investments in CLOs may be characterized as illiquid securities. In addition to the general risks associated with investing in debt securities, CLO residual interests carry additional risks, including, but not limited to: (i) the possibility that distributions from collateral securities will not be adequate to make interest or other payments; (ii) the quality of the collateral may decline in value or default; (iii) our investments in CLO tranches will likely be subordinate to other senior classes of note tranches thereof; and (iv) the complex structure of the security may not be fully understood at the time of investment and may produce disputes with the CLO investment or unexpected investment results. Our net asset value may also decline over time if our principal recovery with respect to CLO residual interests is less than the cost of those investments.

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Our CLO investments and/or the CLOs' underlying senior secured loans may prepay more quickly than expected, which could have an adverse impact on our value.

An increase in LIBOR would materially increase the CLO's financing costs. Since most of the collateral positions within the CLOs have LIBOR floors, there may not be corresponding increases in investment income (if LIBOR increases but stays below the LIBOR floor rate of such investments) resulting in materially smaller distribution payments to the residual interest investors.

On July 27, 2017, the Financial Conduct Authority ("FCA") announced that it will no longer persuade or compel banks to submit rates for the calculation of the LIBOR rates after 2021 (the "FCA Announcement"). Furthermore, in the United States, efforts to identify a set of alternative U.S. dollar reference interest rates include proposals by the Alternative Reference Rates Committee of the Federal Reserve Board and the Federal Reserve Bank of New York. On August 24, 2017, the Federal Reserve Board requested public comment on a proposal by the Federal Reserve Bank of New York, in cooperation with the Office of Financial Research, to produce three new reference rates intended to serve as alternatives to LIBOR. These alternative rates are based on overnight repurchase agreement transactions secured by U.S. Treasury Securities. On December 12, 2017, following consideration of public comments, the Federal Reserve Board concluded that the public would benefit if the Federal Reserve Bank of New York published the three proposed reference rates as alternatives to LIBOR (the "Federal Reserve Board Notice"). The Federal Reserve Bank of New York said that the publication of these alternative rates is targeted to commence by mid-2018.

At this time, it is not possible to predict the effect of the FCA Announcement, the Federal Reserve Board Notice, or other regulatory changes or announcements, any establishment of alternative reference rates or any other reforms to LIBOR that may be enacted in the United Kingdom, the United States or elsewhere. As such, the potential effect of any such event on our net investment income cannot yet be determined. The CLOs in which the Company is invested generally contemplate a scenario where LIBOR is no longer available by requiring the CLO administrator to calculate a replacement rate primarily through dealer polling on the applicable measurement date. However, there is uncertainty regarding the effectiveness of the dealer polling processes, including the willingness of banks to provide such quotations, which could adversely impact our net investment income. In addition, the effect of a phase out of LIBOR on U.S. senior secured loans, the underlying assets of the CLOs in which we invest, is currently unclear. To the extent that any replacement rate utilized for senior secured loans differs from that utilized for a CLO that holds those loans, the CLO would experience an interest rate mismatch between its assets and liabilities which could have an adverse impact on the Company's net investment income and portfolio returns.

We hold more than a 10% interest in certain foreign corporations that are treated as controlled foreign corporations ("CFC") for U.S. federal income tax purposes (including our residual interest tranche investments in CLOs). Therefore, we are treated as receiving a deemed distribution (taxable as ordinary income) each year from such foreign corporations in an amount equal to our pro rata share of the corporation's income for that tax year (including both ordinary earnings and capital gains). We are required to include such deemed distributions from a CFC in our taxable income and we are required to distribute at least 90% of such income to maintain our RIC status, regardless of whether or not the CFC makes an actual distribution during such year.

If we acquire shares in "passive foreign investment companies" ("PFICs") (including residual interest tranche investments in CLOs that are PFICs), we may be subject to federal income tax on a portion of any "excess distribution" or gain from the disposition of such shares even if such income is distributed as a taxable dividend to our stockholders. Certain elections may be available to mitigate or eliminate such tax on excess distributions, but such elections (if available) will generally require us to recognize our share of the PFIC's income for each year regardless of whether we receive any distributions from such PFICs. We must nonetheless distribute such income to maintain our status as a RIC.

Legislation enacted in 2010 imposes a withholding tax of 30% on payments of U.S. source interest and dividends paid after December 31, 2013, or gross proceeds from the disposition of an instrument that produces U.S. source interest or dividends paid after December 31, 2016, to certain non-U.S. entities, including certain non-U.S. financial institutions and investment funds, unless such non-U.S. entity complies with certain reporting requirements regarding its United States account holders and its United States owners. Most CLOs in which we invest will be treated as non-U.S. financial entities for this purpose, and therefore will be required to comply with these reporting requirements to avoid the 30% withholding. If a CLO in which we invest fails to properly comply with these reporting requirements, it could reduce the amounts available to distribute to residual interest and junior debt holders in such CLO vehicle, which could materially and adversely affect our operating results and cash flows.

If we are required to include amounts in income prior to receiving distributions representing such income, we may have to sell some of our investments at times and/or at prices management would not consider advantageous, raise additional debt or equity capital or forgo new investment opportunities for this purpose.

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The significant unobservable input used to value our investments based on the yield technique and discounted cash flow technique is the market yield (or applicable discount rate) used to discount the estimated future cash flows expected to be received from the underlying investment, which includes both future principal and interest/dividend payments. Increases or decreases in the market yield (or applicable discount rate) would result in a decrease or increase, respectively, in the fair value measurement. Management and the independent valuation firms consider the following factors when selecting market yields or discount rates: risk of default, rating of the investment and comparable company investments, and call provisions.

The significant unobservable inputs used to value our investments based on the EV analysis may include market multiples of specified financial measures such as EBITDA, net income, or book value of identified guideline public companies, implied valuation multiples from precedent M&A transactions, and/or discount rates applied in a discounted cash flow technique. The independent valuation firm identifies a population of publicly traded companies with similar operations and key attributes to that of the portfolio company. Using valuation and operating metrics of these guideline public companies and/or as implied by relevant precedent transactions, a range of multiples of the latest twelve months EBITDA, or other measure such as net income or book value, is typically calculated. The independent valuation firm utilizes the determined multiples to estimate the portfolio company's EV generally based on the latest twelve months EBITDA of the portfolio company (or other meaningful measure). Increases or decreases in the multiple would result in an increase or decrease, respectively, in EV which would result in an increase or decrease in the fair value measurement of the debt of controlled companies and/or equity investment, as applicable. In certain instances, a discounted cash flow analysis may be considered in estimating EV, in which case, discount rates based on a weighted average cost of capital and application of the capital asset pricing model may be utilized.

The significant unobservable input used to value our private REIT investments based on the net asset value analysis is the capitalization rate applied to the earnings measure of the underlying property. Increases or decreases in the capitalization rate would result in a decrease or increase, respectively, in the fair value measurement.

Changes in market yields, discount rates, capitalization rates or EBITDA multiples, each in isolation, may change the fair value measurement of certain of our investments. Generally, an increase in market yields, discount rates or capitalization rates, or a decrease in EBITDA (or other) multiples may result in a decrease in the fair value measurement of certain of our investments.

Due to the inherent uncertainty of determining the fair value of investments that do not have a readily available market value, the fair value of our investments may fluctuate from period to period. Additionally, the fair value of our investments may differ significantly from the values that would have been used had a ready market existed for such investments and may differ materially from the values that we may ultimately realize. Further, such investments are generally subject to legal and other restrictions on resale or otherwise are less liquid than publicly traded securities. If we were required to liquidate a portfolio investment in a forced or liquidation sale, we could realize significantly less than the value at which we have recorded it.

In addition, changes in the market environment and other events that may occur over the life of the investments may cause the gains or losses ultimately realized on these investments to be different than the unrealized gains or losses reflected in the currently assigned valuations.

During the year ended June 30, 2018, the valuation methodology for Spartan Energy Services, Inc. ("Spartan") changed to remove the waterfall and liquidation analysis and incorporated an income method approach. As a result of the company's improved performance and current market conditions, the fair value of our investment in Spartan increased to \$31,283 as of June 30, 2018, a premium of \$1,917 from its amortized cost, compared to the \$16,769 unrealized depreciation recorded at June 30, 2017.

As of June 30, 2018, Prospect's investment in InterDent is classified as a control investment. As a result, the valuation methodology changed to remove the income method approach and incorporate the waterfall approach. The fair value of our investment in InterDent decreased to \$197,621 as of June 30, 2018, a discount of \$15,080 to its amortized cost, compared to a discount of \$1,268 to its amortized cost as of June 30, 2017. The decline in fair value was due to lower projected future earnings as a result of customer attrition.

As of June 30, 2018, Prospect's investment in Pacific World is classified as a control investment. As a result, the valuation methodology for the TLA changed to remove the income method approach and incorporate the waterfall approach. The fair value of our investment in Pacific World decreased to \$165,020 as of June 30, 2018, a discount of \$63,555 to its amortized cost, compared to a discount of \$30,216 to its amortized cost as of June 30, 2017. Our investment in Pacific World declined in value due to a decrease in revenues and profitability, as well as a decrease in comparable company trading multiples.

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During the year ended June 30, 2018, one of our CLO investments was deemed to have an other-than-temporary loss. In accordance with ASC 325-40, we recorded a total loss of \$2,495 related to these investments for the amount our amortized cost exceeded fair value as of the respective determination dates. During the year ended June 30, 2017, four of our CLO investments were deemed to have an other-than-temporary loss. In accordance with ASC 325-40, we recorded a total loss of \$17,239 related to these investments for the amount our amortized cost exceeded fair value as of the respective determination dates.

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

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

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

As of June 30, 2018, based on outstanding principal balance, 6.3% of the portfolio was invested in super prime loans (borrowers with a Fair Isaac Corporation ("FICO") score, of 720 or greater), 19.5% of the portfolio in prime loans (borrowers with a FICO score of 660 to 719) and 74.2% of the portfolio in near prime loans (borrowers with a FICO score of 580 to 659).

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

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

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

No.	Property Name	City	Acquisition Date	Purchase Price	Mortgage Outstanding
1	Filet of Chicken	Forest Park, GA	10/24/2012	\$ 7,400	\$ —
2	5100 Live Oaks Blvd, LLC	Tampa, FL	1/17/2013	63,400	46,426
3	Lofton Place, LLC	Tampa, FL	4/30/2013	26,000	20,273
4	Arlington Park Marietta, LLC	Marietta, GA	5/8/2013	14,850	9,650
5	NPRC Carroll Resort, LLC	Pembroke Pines, FL	6/24/2013	225,000	175,885
6	Cordova Regency, LLC	Pensacola, FL	11/15/2013	13,750	11,375
7	Crestview at Oakleigh, LLC	Pensacola, FL	11/15/2013	17,500	13,845
8	Inverness Lakes, LLC	Mobile, AL	11/15/2013	29,600	24,700
9	Kings Mill Pensacola, LLC	Pensacola, FL	11/15/2013	20,750	17,550
10	Plantations at Pine Lake, LLC	Tallahassee, FL	11/15/2013	18,000	14,092
11	Verandas at Rocky Ridge, LLC	Birmingham, AL	11/15/2013	15,600	10,205



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No.	Property Name	City	Acquisition Date	Purchase Price	Mortgage Outstanding
12	Matthews Reserve II, LLC	Matthews, NC	11/19/2013	22,063	19,765
13	City West Apartments II, LLC	Orlando, FL	11/19/2013	23,562	23,084
14	Vinings Corner II, LLC	Smyrna, GA	11/19/2013	35,691	32,649
15	Atlanta Eastwood Village LLC	Stockbridge, GA	12/12/2013	25,957	22,546
16	Atlanta Monterey Village LLC	Jonesboro, GA	12/12/2013	11,501	10,969
17	Atlanta Hidden Creek LLC	Morrow, GA	12/12/2013	5,098	4,696
18	Atlanta Meadow Springs LLC	College Park, GA	12/12/2013	13,116	12,914
19	Atlanta Meadow View LLC	College Park, GA	12/12/2013	14,354	12,968
20	Atlanta Peachtree Landing LLC	Fairburn, GA	12/12/2013	17,224	15,361
21	APH Carroll Bartram Park, LLC	Jacksonville, FL	12/31/2013	38,000	27,157
22	Crestview at Cordova, LLC	Pensacola, FL	1/17/2014	8,500	7,785
23	APH Carroll Atlantic Beach, LLC	Atlantic Beach, FL	1/31/2014	13,025	8,443
24	Taco Bell, OK	Yukon, OK	6/4/2014	1,719	—
25	Taco Bell, MO	Marshall, MO	6/4/2014	1,405	—
26	23 Mile Road Self Storage, LLC	Chesterfield, MI	8/19/2014	5,804	4,350
27	36th Street Self Storage, LLC	Wyoming, MI	8/19/2014	4,800	3,600
28	Ball Avenue Self Storage, LLC	Grand Rapids, MI	8/19/2014	7,281	5,460
29	Ford Road Self Storage, LLC	Westland, MI	8/29/2014	4,642	3,480
30	Ann Arbor Kalamazoo Self Storage, LLC	Ann Arbor, MI	8/29/2014	4,458	3,345
31	Ann Arbor Kalamazoo Self Storage, LLC	Ann Arbor, MI	8/29/2014	8,927	6,695
32	Ann Arbor Kalamazoo Self Storage, LLC	Kalamazoo, MI	8/29/2014	2,363	1,775
33	Canterbury Green Apartments Holdings LLC	Fort Wayne, IN	9/29/2014	85,500	74,046
34	Abbie Lakes OH Partners, LLC	Canal Winchester, OH	9/30/2014	12,600	13,055
35	Kengary Way OH Partners, LLC	Reynoldsburg, OH	9/30/2014	11,500	13,502
36	Lakeview Trail OH Partners, LLC	Canal Winchester, OH	9/30/2014	26,500	23,256
37	Lakepoint OH Partners, LLC	Pickerington, OH	9/30/2014	11,000	14,480
38	Sunbury OH Partners, LLC	Columbus, OH	9/30/2014	13,000	14,115
39	Heatherbridge OH Partners, LLC	Blacklick, OH	9/30/2014	18,416	18,328
40	Jefferson Chase OH Partners, LLC	Blacklick, OH	9/30/2014	13,551	17,200
41	Goldenstrand OH Partners, LLC	Hilliard, OH	10/29/2014	7,810	9,600
42	Jolly Road Self Storage, LLC	Okemos, MI	1/16/2015	7,492	5,620
43	Eaton Rapids Road Self Storage, LLC	Lansing West, MI	1/16/2015	1,741	1,305
44	Haggerty Road Self Storage, LLC	Novi, MI	1/16/2015	6,700	5,025
45	Waldon Road Self Storage, LLC	Lake Orion, MI	1/16/2015	6,965	5,225
46	Tyler Road Self Storage, LLC	Ypsilanti, MI	1/16/2015	3,507	2,630
47	SSIL I, LLC	Aurora, IL	11/5/2015	34,500	26,450
48	Vesper Tuscaloosa, LLC	Tuscaloosa, AL	9/28/2016	54,500	43,120
49	Vesper Iowa City, LLC	Iowa City, IA	9/28/2016	32,750	24,825
50	Vesper Corpus Christi, LLC	Corpus Christi, TX	9/28/2016	14,250	10,800
51	Vesper Campus Quarters, LLC	Corpus Christi, TX	9/28/2016	18,350	14,175
52	Vesper College Station, LLC	College Station, TX	9/28/2016	41,500	32,057
53	Vesper Kennesaw, LLC	Kennesaw, GA	9/28/2016	57,900	48,668
54	Vesper Statesboro, LLC	Statesboro, GA	9/28/2016	7,500	6,076
55	Vesper Manhattan KS, LLC	Manhattan, KS	9/28/2016	23,250	15,145

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No.	Property Name	City	Acquisition Date	Purchase Price	Mortgage Outstanding
56	JSIP Union Place, LLC	Franklin, MA	12/7/2016	64,750	51,800
57	9220 Old Lantern Way, LLC	Laurel, MD	1/30/2017	187,250	153,580
58	7915 Baymeadows Circle Owner, LLC	Jacksonville, FL	10/31/2017	95,700	76,560
59	8025 Baymeadows Circle Owner, LLC	Jacksonville, FL	10/31/2017	15,300	12,240
60	23275 Riverside Drive Owner, LLC	Southfield, MI	11/8/2017	52,000	44,044
61	23741 Pond Road Owner, LLC	Southfield, MI	11/8/2017	16,500	14,185
62	150 Steeplechase Way Owner, LLC	Largo, MD	1/10/2018	44,500	36,668
63	Laurel Pointe Holdings, LLC	Forest Park, GA	5/9/2018	33,005	26,400
64	Bradford Ridge Holdings, LLC	Forest Park, GA	5/9/2018	12,500	10,000
65	Olentangy Commons Owner LLC	Columbus, OH	6/1/2018	113,000	92,876
				<u>\$ 1,866,627</u>	<u>\$ 1,528,099</u>

On July 1, 2016, BNN Holdings Corp. was sold. The sale provided net proceeds for our minority position of \$2,365, resulting in a realized gain of \$137. During the three months ended December 31, 2016 we received remaining escrow proceeds, realizing an additional gain of \$50.

On August 17, 2016, we made a \$5,000 investment in BCD Acquisition, Inc. (“Big Tex”). On August 18, 2016, we sold our \$5,000 investment in Big Tex and realized a gain of \$138 on the sale.

On August 19, 2016, we sold our investment in Nathan’s Famous, Inc. for net proceeds of \$3,240 and realized a gain of \$240 on the sale.

On September 27, 2016, we received additional bankruptcy proceeds for our previously impaired investment in New Century Transportation, Inc., and recorded a realized gain of \$936, offsetting the previously recognized loss.

On October 18, 2016, we received additional proceeds of \$434 related to the May 31, 2016 sale of Harbortouch Payments, LLC. We realized a gain for the same amount.

On December 27, 2016, we exercised our warrants in R-V Industries, Inc. (“R-V”) to purchase additional common stock in R-V. As a result, we realized a gain of \$172 on this transaction.

On March 14, 2017, assets previously held by Ark-La-Tex Wireline Services, LLC (“Ark-La-Tex”) were assigned to Wolf Energy Services, a new wholly-owned subsidiary of Wolf Energy Holdings, in exchange for a full reduction of Ark-La-Tex’s Senior Secured Term Loan A and a partial reduction of the Senior Secured Term Loan B cost basis, in total equal to \$22,145. The cost basis of the transferred assets is equal to the appraised fair value of assets at the time of transfer.

On April 3, 2017, AFI Shareholder, LLC was sold. The sale provided net proceeds for our minority position of \$965, resulting in a realized gain of \$693.

On June 3, 2017, SB Forging Company II, Inc. (f/k/a Gulf Coast Machine & Supply Company) (“Gulfc”) sold all of its assets to a third party, for total consideration of \$10,250, including escrowed amounts. The proceeds from the sale were primarily used to repay a \$6,115 third party revolving credit facility, and the remainder was used to pay other legal and administrative costs incurred by Gulfc. As no proceeds were allocated to Prospect, our debt and equity investment in Gulfc was written-off for tax purposes and we recorded a realized loss of \$66,103. In June 2018, Gulfc received escrow proceeds of \$2,050 related to the sale.

On June 30, 2017, Mineral Fusion Natural Brands was sold. The sale provided net proceeds for our minority position of \$490, resulting in a realized gain of the same amount.

On June 30, 2017, we received \$169 of escrow proceeds related to SB Forging, realizing a gain of the same amount.

During the three months ended June 30, 2017, Ark-La-Tex Term Loan B was partially written-off for tax purposes and a loss of \$19,818 was realized.

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During the year ended June 30, 2017, we received additional proceeds of \$6,287 related to the May 31, 2016 sale of Harbortouch, \$4,286 of which are from an escrow release. We realized a gain for the same amount.

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

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

On February 26, 2018, we entered into a debt forgiveness agreement with Nixon, Inc., which terminated the \$17,472 Senior Secured Term Loan receivable due to us. We recorded a realized loss of \$14,197 as a result of this transaction.

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

As of June 30, 2018, \$3,323,420 of our loans to portfolio companies, at fair value, bear interest at floating rates and have LIBOR floors ranging from 0.0% to 3.0%. As of June 30, 2018, \$489,962 of our loans to portfolio companies, at fair value, bear interest at fixed rates ranging from 5.0% to 20.0%. As of June 30, 2017, \$3,488,678 of our loans to portfolio companies, at fair value, bore interest at floating rates and have LIBOR floors ranging from 0.3% to 4.0%. As of June 30, 2017, \$489,007 of our loans to portfolio companies, at fair value, bore interest at fixed rates ranging from 5.0% to 20.0%.

At June 30, 2018, five loan investments were on non-accrual status: Ark-La-Tex, Edmentum Ultimate Holdings, LLC Unsecured Junior PIK Note, Pacific World Corporation Senior Secured Term Loan B, USC, and USES. At June 30, 2017, seven loan investments were on non-accrual status: Ark-La-Tex, Edmentum Ultimate Holdings, LLC Unsecured Junior PIK Note, Nixon, Spartan, USC, USES, and Venio. Cost balances of these loans amounted to \$315,733 and \$286,388 as of June 30, 2018 and June 30, 2017, respectively. The fair value of these loans amounted to \$143,719 and \$154,417 as of June 30, 2018 and June 30, 2017, respectively. The fair values of these investments represent approximately 2.5% and 2.5% of our total assets at fair value as of June 30, 2018 and June 30, 2017, respectively.

Undrawn committed revolvers and delayed draw term loans to our portfolio companies incur commitment and unused fees ranging from 0.00% to 5.00%. As of June 30, 2018 and June 30, 2017, we had \$29,675 and \$22,925, respectively, of undrawn revolver and delayed draw term loan commitments to our portfolio companies. The fair value of our undrawn committed revolvers and delayed draw term loans was zero as of June 30, 2018 and June 30, 2017.

*Unconsolidated Significant Subsidiaries*

Our investments are generally in small and mid-sized companies in a variety of industries. In accordance with Rules 3-09 and 4-08(g) of Regulation S-X, we must determine which of our unconsolidated controlled portfolio companies are considered “significant subsidiaries”, if any. In evaluating these investments, there are three tests utilized to determine if any of our controlled investments are considered significant subsidiaries: the asset test, the income test and the investment test. Rule 3-09 of Regulation S-X requires separate audited financial statements of an unconsolidated subsidiary in an annual report if any of the three tests exceed 20%. Rule 4-08(g) of Regulation S-X requires summarized financial information in an annual report if any of the three tests exceeds 10%.

The following table summarizes the results of our analysis for the three tests for the years ended June 30, 2018, 2017 and 2016:

	Asset Test		Income Test		Investment Test	
	Greater than 10% but Less than 20%	Greater than 20%	Greater than 10% but Less than 20%	Greater than 20%	Greater than 10% but Less than 20%	Greater than 20%
Year Ended June 30, 2018	-	NPRC	Arctic (1)	First Tower Finance NPRC	NPRC	-
Year Ended June 30, 2017	-	NPRC	USES	First Tower Finance NPRC	NPRC	-
Year Ended June 30, 2016	-	NPRC	First Tower Finance	NPRC	NPRC	-

(1) On April 6, 2018, our common equity investment in Arctic Equipment was exchanged for newly issued common shares of CP Energy as a result of a merger between the two companies.

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Income, consisting of interest, dividends, fees, other investment income and realization of gains or losses, can fluctuate upon repayment or sale of an investment or the marking to fair value of an investment in any given year can be highly concentrated among several investments. After performing the income analysis for the year ended June 30, 2018, as currently promulgated by the SEC, we determined that two of our controlled investments individually generated more than 20% of our income. We do not believe that the calculation promulgated by the SEC correctly identifies significant subsidiaries but have included First Tower Finance Company LLC (“First Tower Finance”) and NPRC as significant subsidiaries. NPRC, an unconsolidated majority-owned portfolio company, was considered a significant subsidiary at the 20% level as of and during the years ended June 30, 2018, June 30, 2017 and June 30, 2016. We included the audited financial statements of NPRC, and its subsidiaries, for the year ended December 31, 2017 as Exhibit 99.1 and for the years ended December 31, 2016 and 2015 as Exhibit 99.2. First Tower Finance was considered a significant subsidiary at the 20% level for the years ended June 30, 2018 and 2017 and at the 10%-20% level for the year ended June 30, 2016; therefore, we have included the audited financial statement for the years ended December 31, 2017 and 2016 Exhibit 99.3 and audited financial statements for the year ended December 31, 2015 as Exhibit 99.4.

The following tables show summarized financial information for Arctic, which met the 10% income test for the year ended June 30, 2018:

	<b>December 31, 2017</b>	
<b>Balance Sheet Data</b>		
Cash and cash equivalents	\$	1,815
Accounts receivable, net		3,991
Property, plant and equipment, net		28,438
Intangibles, including goodwill		8,041
Other assets		576
Notes payable, due to Prospect or Affiliate		3,040
Other liabilities		2,213
Total equity		(37,608)
<b>Summary of Operations</b>		
	<b>Year Ended December 31, 2017</b>	
Total revenue	\$	23,155
Total expenses		26,179
Net (loss)	\$	(3,024)

The following tables show summarized financial information for USES, which met the 10% income test for the year ended June 30, 2017:

	<b>December 31, 2017</b>		<b>December 31, 2016</b>	
<b>Balance Sheet Data</b>				
Cash and cash equivalents	\$	41	\$	168
Accounts receivable, net		19,774		15,609
Property, plant and equipment, net		20,694		25,727
Intangibles, including goodwill		15,792		15,959
Other assets		3,053		1,700
Notes payable, due to Prospect or Affiliate		78,767		61,726
Other liabilities		14,888		6,469
Total equity		(34,301)		(9,032)

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	Year Ended December 31,		
	2017	2016	2015
<b>Summary of Operations</b>			
Total revenue	\$ 72,355	\$ 68,287	\$ 106,248
Total expenses	97,624	92,496	130,416
Net (loss)	\$ (25,269)	\$ (24,209)	\$ (24,168)

The SEC has requested comments on the proper mechanics of how the calculations related to Rules 3-09 and 4-08(g) of Regulation S-X should be completed. There is currently diversity in practice for the calculations. We expect that the SEC will clarify the calculation methods in the future.

**Note 4. Revolving Credit Facility**

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

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

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

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

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

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

**Note 5. Convertible Notes**

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

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

On April 16, 2012, we issued \$130,000 aggregate principal amount of convertible notes that matured on October 15, 2017 (the “2017 Notes”). The 2017 Notes bore interest at a rate of 5.375% per year, payable semi-annually on April 15 and October 15 of each year, beginning October 15, 2012. Total proceeds from the issuance of the 2017 Notes, net of underwriting discounts and offering costs, were \$126,035. On March 28, 2016, we repurchased \$500 aggregate principal amount of the 2017 Notes at a price of 98.25, including commissions. The transaction resulted in our recognizing a \$9 gain for the period ended March 31, 2016. On April 6, 2017, we repurchased \$78,766 aggregate principal amount of the 2017 Notes at a price of 102.0, including commissions. The transaction resulted in our recognizing a \$1,786 loss during the three months ended June 30, 2017. On October 15, 2017, we repaid the outstanding principal amount of \$50,734 of the 2017 Notes, plus interest. No gain or loss was realized on the transaction.

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

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

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

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

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

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

- (1) Conversion rates denominated in shares of common stock per \$1 principal amount of the Convertible Notes converted.
- (2) Represents conversion rate and conversion price, as applicable, taking into account certain de minimis adjustments that will be made on the conversion date.
- (3) The conversion price will increase only if the current monthly dividends (per share) exceed the dividend threshold amount (per share).
- (4) The conversion rate is increased if monthly cash dividends paid to common shares exceed the monthly dividend threshold amount, subject to adjustment. Current dividend rates are at or below the minimum dividend threshold amount for further conversion rate adjustments for all bonds.

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

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

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

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

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

**Note 6. Public Notes**

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



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underwriting discounts, were \$69,403. Following the issuance of the Additional 2023 Notes, the outstanding aggregate principal amount of our 5.875% Senior Notes due 2023 is \$320,000.

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

On December 10, 2015, we issued \$160,000 aggregate principal amount of unsecured notes that mature on June 15, 2024 (the “2024 Notes”). The 2024 Notes bear interest at a rate of 6.25% per year, payable quarterly on March 15, June 15, September 15 and December 15 of each year, beginning March 15, 2016. Total proceeds from the issuance of the 2024 Notes, net of underwriting discounts and offering costs, were \$155,043. On June 16, 2016, we entered into an at-the-market program with FBR Capital Markets & Co. through which we could sell, by means of at-the-market offerings, from time to time, up to \$100,000 in aggregate principal amount of our existing 2024 Notes. As of June 30, 2018, we issued \$199,281 in aggregate principal amount of our 2024 Notes for net proceeds of \$193,253 after commissions and offering costs.

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

The 2023 Notes, the 5.00% 2019 Notes, the 2024 Notes, and the 2028 Notes (collectively, the “Public Notes”) are direct unsecured obligations and rank equally with all of our unsecured indebtedness from time to time outstanding.

In connection with the issuance of the 2023 Notes, the 5.00% 2019 Notes, the 2024 Notes, and the 2028 Notes we recorded a discount of \$2,777 and debt issuance costs of \$15,644, which are being amortized over the term of the notes. As of June 30, 2018, \$1,664 of the original issue discount and \$9,343 of the debt issuance costs remain to be amortized and are included as a reduction within Public Notes on the *Consolidated Statement of Assets and Liabilities*.

During the years ended June 30, 2018, 2017 and 2016, we recorded \$44,269, \$43,898 and \$36,859, respectively, of interest costs and amortization of financing costs on the Public Notes as interest expense.

**Note 7. Prospect Capital InterNotes®**

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

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

During the year ended June 30, 2018, we issued \$76,297 aggregate principal amount of Prospect Capital InterNotes® for net proceeds of \$75,159. These notes were issued with stated interest rates ranging from 4.00% to 5.25% with a weighted average interest rate of 4.42%. These notes will mature between July 15, 2022 and May 15, 2026. The following table summarizes the Prospect Capital InterNotes® issued during the year ended June 30, 2018.

Tenor at Origination (in years)	Principal Amount	Interest Rate Range	Weighted Average Interest Rate	Maturity Date Range
5	\$ 46,893	4.00% - 5.00%	4.24%	July 15, 2022 - June 15, 2023
7	4,684	4.75% - 5.25%	5.06%	July 15, 2024 - June 15, 2025
8	24,720	4.50% - 5.25%	4.65%	August 15, 2025 - May 15, 2026
	<u>\$ 76,297</u>			



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During the year ended June 30, 2017, we issued \$138,882 aggregate principal amount of our Prospect Capital InterNotes® for net proceeds of \$137,150. The following table summarizes the Prospect Capital InterNotes® issued during the year ended June 30, 2017.

Tenor at Origination (in years)	Principal Amount	Interest Rate Range	Weighted Average Interest Rate	Maturity Date Range
5	\$ 138,882	4.75% - 5.50%	5.08%	July 15, 2021 - June 15, 2022
	<u>\$ 138,882</u>			

During the year ended June 30, 2018, we redeemed, prior to maturity, \$269,375 aggregate principal amount of Prospect Capital InterNotes® at par with a weighted average interest rate of 4.89% in order to replace shorter maturity debt with longer-term debt. During the year ended June 30, 2018, we repaid \$6,899 aggregate principal amount of Prospect Capital InterNotes® at par in accordance with the Survivor's Option, as defined in the InterNotes® Offering prospectus. As a result of these transactions, we recorded a loss in the amount of the unamortized debt issuance costs. The net loss on the extinguishment of Prospect Capital InterNotes® in the year ended June 30, 2018 was \$1,506. The following table summarizes the Prospect Capital InterNotes® outstanding as of June 30, 2018.

Tenor at Origination (in years)	Principal Amount	Interest Rate Range	Weighted Average Interest Rate	Maturity Date Range
5	\$ 228,835	4.00% – 5.50%	4.92%	July 15, 2020 - June 15, 2023
5.2	4,440	4.63%	4.63%	August 15, 2020 - September 15, 2020
5.3	2,636	4.63%	4.63%	September 15, 2020
5.5	86,097	4.25% – 4.75%	4.61%	May 15, 2020 - November 15, 2020
6	2,182	4.88%	4.88%	April 15, 2021 - May 15, 2021
6.5	38,832	5.10% – 5.25%	5.23%	December 15, 2021 - May 15, 2022
7	147,349	4.00% – 5.75%	5.05%	January 15, 2020 - June 15, 2025
7.5	1,996	5.75%	5.75%	February 15, 2021
8	24,720	4.50% – 5.25%	4.65%	August 15, 2025 - May 15, 2026
10	37,424	5.34% – 7.00%	6.19%	March 15, 2022 - December 15, 2025
12	2,978	6.00%	6.00%	November 15, 2025 - December 15, 2025
15	17,163	5.25% – 6.00%	5.35%	May 15, 2028 - November 15, 2028
18	20,677	4.13% – 6.25%	5.55%	December 15, 2030 - August 15, 2031
20	4,120	5.75% – 6.00%	5.89%	November 15, 2032 - October 15, 2033
25	33,139	6.25% – 6.50%	6.39%	August 15, 2038 - May 15, 2039
30	108,336	5.50% – 6.75%	6.24%	November 15, 2042 - October 15, 2043
	<u>\$ 760,924</u>			

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During the year ended June 30, 2017, we redeemed \$49,947 aggregate principal amount of Prospect Capital InterNotes® at par with a weighted average interest rate of 4.87% in order to replace debt with shorter maturity dates. During the year ended June 30, 2017, we repaid \$8,880 aggregate principal amount of Prospect Capital InterNotes® at par in accordance with the Survivor's Option, as defined in the InterNotes® Offering prospectus. As a result of these transactions, we recorded a loss in the amount of the difference between the reacquisition price and the net carrying amount of the notes, net of the proportionate amount of unamortized debt issuance costs. The net gain on the extinguishment of Prospect Capital InterNotes® in the year ended June 30, 2017 was \$525. The following table summarizes the Prospect Capital InterNotes® outstanding as of June 30, 2017.

Tenor at Origination (in years)	Principal Amount	Interest Rate Range	Weighted Average Interest Rate	Maturity Date Range
4	\$ 39,038	3.75% - 4.00%	3.92%	November 15, 2017 - May 15, 2018
5	354,805	4.25% - 5.50%	5.00%	July 15, 2018 - June 15, 2022
5.2	4,440	4.63%	4.63%	August 15, 2020 - September 15, 2020
5.3	2,686	4.63%	4.63%	September 15, 2020
5.4	5,000	4.75%	4.75%	August 15, 2019
5.5	109,068	4.25% - 5.00%	4.67%	February 15, 2019 - November 15, 2020
6	2,182	4.88%	4.88%	April 15, 2021 - May 15, 2021
6.5	40,702	5.10% - 5.50%	5.24%	February 15, 2020 - May 15, 2022
7	191,356	4.00% - 6.55%	5.38%	June 15, 2019 - December 15, 2022
7.5	1,996	5.75%	5.75%	February 15, 2021
10	37,509	4.27% - 7.00%	6.20%	March 15, 2022 - December 15, 2025
12	2,978	6.00%	6.00%	November 15, 2025 - December 15, 2025
15	17,245	5.25% - 6.00%	5.36%	May 15, 2028 - November 15, 2028
18	21,532	4.13% - 6.25%	5.47%	December 15, 2030 - August 15, 2031
20	4,248	5.63% - 6.00%	5.84%	November 15, 2032 - October 15, 2033
25	34,218	6.25% - 6.50%	6.39%	August 15, 2038 - May 15, 2039
30	111,491	5.50% - 6.75%	6.22%	November 15, 2042 - October 15, 2043
	<u>\$ 980,494</u>			

In connection with the issuance of Prospect Capital InterNotes®, we incurred \$24,465 of fees which are being amortized over the term of the notes, of which \$11,998 remains to be amortized and is included as a reduction within Prospect Capital InterNotes® on the *Consolidated Statement of Assets and Liabilities* as of June 30, 2018.

During the years ended June 30, 2018, 2017 and 2016, we recorded \$46,580, \$53,560 and \$48,681, respectively, of interest costs and amortization of financing costs on the Prospect Capital InterNotes® as interest expense.

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

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

	<b>Principal Outstanding</b>	<b>Unamortized Discount &amp; Debt Issuance Costs</b>	<b>Net Carrying Value</b>	<b>Fair Value (1)</b>	<b>Effective Interest Rate</b>
Revolving Credit Facility (2)	\$ 37,000	\$ 2,032	\$ 37,000	(3) \$ 37,000	1ML+2.25% (6)
2019 Notes	101,647	339	101,308	103,562	(4) 6.51% (7)
2020 Notes	392,000	4,270	387,730	392,529	(4) 5.38% (7)
2022 Notes	328,500	8,465	320,035	320,084	(4) 5.69% (7)
Convertible Notes	822,147		809,073	816,175	
5.00% 2019 Notes	153,536	456	153,080	155,483	(4) 5.29% (7)
2023 Notes	320,000	4,120	315,880	328,909	(4) 6.09% (7)
2024 Notes	199,281	4,559	194,722	202,151	(4) 6.74% (7)
2028 Notes	55,000	1,872	53,128	55,220	(4) 6.72% (7)
Public Notes	727,817		716,810	741,763	
Prospect Capital InterNotes®	760,924	11,998	748,926	779,400	(5) 5.76% (8)
<b>Total</b>	<b>\$ 2,347,888</b>		<b>\$ 2,311,809</b>	<b>\$ 2,374,338</b>	

- (1) 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 fair value of these debt obligations are categorized as Level 2 under ASC 820 as of June 30, 2018 .
- (2) The maximum draw amount of the Revolving Credit facility as of June 30, 2018 is \$885,000 .
- (3) Net Carrying Value excludes deferred financing costs associated with the Revolving Credit Facility. See Note 2 for accounting policy details.
- (4) We use available market quotes to estimate the fair value of the Convertible Notes and Public Notes.
- (5) The fair value of Prospect Capital InterNotes® is estimated by discounting remaining payments using current Treasury rates plus spread based on observable market inputs.
- (6) Represents the rate on drawn down and outstanding balances. Deferred debt issuance costs are amortized on a straight-line method over the stated life of the obligation.
- (7) The effective interest rate is equal to the effect of the stated interest, the accretion of original issue discount and amortization of debt issuance costs. For the 2024 Notes, the rate presented is a combined effective interest rate of the 2024 Notes and 2024 Notes Follow-on Program.
- (8) For the Prospect Capital InterNotes®, the rate presented is the weighted average effective interest rate. Interest expense and deferred debt issuance costs, which are amortized on a straight-line method over the stated life of the obligation, are weighted against the average year-to-date principal balance.

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The following table shows our outstanding debt as of June 30, 2017 .

	Principal Outstanding	Unamortized Discount & Debt Issuance Costs	Net Carrying Value	Fair Value (1)	Effective Interest Rate
Revolving Credit Facility (2)	\$ —	\$ 4,779	\$ — (3)	\$ —	1ML+2.25% (6)
2017 Notes	50,734	77	50,657	51,184 (4)	5.91% (7)
2018 Notes	85,419	394	85,025	87,660 (4)	6.42% (7)
2019 Notes	200,000	1,846	198,154	206,614 (4)	6.51% (7)
2020 Notes	392,000	6,458	385,542	394,689 (4)	5.38% (7)
2022 Notes	225,000	6,737	218,263	223,875 (4)	5.63% (7)
Convertible Notes	953,153		937,641	964,022	
5.00% 2019 Notes	300,000	1,705	298,295	308,439 (4)	5.29% (7)
2023 Notes	250,000	4,087	245,913	258,045 (4)	6.22% (7)
2024 Notes	199,281	5,189	194,092	207,834 (4)	6.72% (7)
Public Notes	749,281		738,300	774,318	
Prospect Capital InterNotes®	980,494	14,240	966,254	1,003,852 (5)	5.55% (8)
<b>Total</b>	<b>\$ 2,682,928</b>		<b>\$ 2,642,195</b>	<b>\$ 2,742,192</b>	

- (1) 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 fair value of these debt obligations are categorized as Level 2 under ASC 820 as of June 30, 2017 .
- (2) The maximum draw amount of the Revolving Credit facility as of June 30, 2017 is \$885,000 .
- (3) Net Carrying Value excludes deferred financing costs associated with the Revolving Credit Facility. See Note 2 for accounting policy details.
- (4) We use available market quotes to estimate the fair value of the Convertible Notes and Public Notes.
- (5) The fair value of Prospect Capital InterNotes® is estimated by discounting remaining payments using current Treasury rates plus spread based on observable market inputs.
- (6) Represents the rate on drawn down and outstanding balances. Deferred debt issuance costs are amortized on a straight-line method over the stated life of the obligation.
- (7) The effective interest rate is equal to the effect of the stated interest, the accretion of original issue discount and amortization of debt issuance costs. For the 2024 Notes, the rate presented is a combined effective interest rate of the 2024 Notes and 2024 Notes Follow-on Program.
- (8) For the Prospect Capital InterNotes®, the rate presented is the weighted average effective interest rate. Interest expense and deferred debt issuance costs, which are amortized on a straight-line method over the stated life of the obligation, are weighted against the average year-to-date principal balance.

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

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

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

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

**Note 9. Stock Repurchase Program, Equity Offerings, Offering Expenses, and Distributions**

On August 24, 2011, our Board of Directors approved a share repurchase plan (the “Repurchase Program”) under which we may repurchase up to \$100,000 of our common stock at prices below our net asset value per share. Prior to any repurchase, we are required to notify shareholders of our intention to purchase our common stock. Our last notice was delivered with our annual proxy mailing on September 22, 2017.

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

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

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

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

Excluding dividend reinvestments, during the years ended June 30, 2018 , June 30, 2017 , and June 30, 2016, we did not issue any shares of our common stock.

Our shareholders’ equity accounts as of June 30, 2018 , June 30, 2017 and June 30, 2016 reflect cumulative shares issued, net of shares repurchased, as of those respective dates. Our common stock has been issued through public offerings, a registered direct offering, the exercise of over-allotment options on the part of the underwriters, our dividend reinvestment plan and in connection with the acquisition of certain controlled portfolio companies. When our common stock is issued, the related offering expenses have been charged against paid-in capital in excess of par. All underwriting fees and offering expenses were borne by us.

On August 31, 2016, we filed a registration statement on Form N-2 (File No. 333-213391) with the SEC. We subsequently filed a Pre-Effective Amendment No. 2 thereto on November 1, 2016, which the SEC declared effective on November 3, 2016. On October 26, 2017, we filed Post-Effective Amendment No. 50 to the registration statement, which the SEC declared effective on October 30, 2017. The registration statement permits us to issue, through one or more transactions, up to an aggregate of \$5,000,000 in securities, consisting of common stock, preferred stock, debt securities, subscription rights to purchase our securities, warrants representing rights to purchase our securities or separately tradeable units combining two or more of our securities. As of June 30, 2018, we have the ability to issue up to \$4,386,415 of additional debt and equity securities under the registration statement.

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During the years ended June 30, 2018 and June 30, 2017, we distributed approximately \$277,224 and \$358,987, respectively, to our stockholders. The following table summarizes our distributions declared and payable for the years ended June 30, 2017 and June 30, 2018.

<b>Declaration Date</b>	<b>Record Date</b>	<b>Payment Date</b>	<b>Amount Per Share</b>	<b>Amount Distributed (in thousands)</b>
5/9/2016	7/29/2016	8/18/2016	\$ 0.083330	\$ 29,783
5/9/2016	8/31/2016	9/22/2016	0.083330	29,809
8/25/2016	9/30/2016	10/20/2016	0.083330	29,837
8/25/2016	10/31/2016	11/17/2016	0.083330	29,863
11/8/2016	11/30/2016	12/22/2016	0.083330	29,890
11/8/2016	12/30/2016	1/19/2017	0.083330	29,915
11/8/2016	1/31/2017	2/16/2017	0.083330	29,940
2/7/2017	2/28/2017	3/23/2017	0.083330	29,963
2/7/2017	3/31/2017	4/20/2017	0.083330	29,989
2/7/2017	4/28/2017	5/18/2017	0.083330	29,994
5/9/2017	5/31/2017	6/22/2017	0.083330	29,999
5/9/2017	6/30/2017	7/20/2017	0.083330	30,005
Total declared and payable for the year ended June 30, 2017				\$ 358,987
5/9/2017	7/31/2017	8/24/2017	\$ 0.083330	\$ 30,011
5/9/2017	8/31/2017	9/21/2017	0.083330	30,017
8/28/2017	9/29/2017	10/19/2017	0.060000	21,619
8/28/2017	10/31/2017	11/22/2017	0.060000	21,623
11/8/2017	11/30/2017	12/21/2017	0.060000	21,630
11/8/2017	12/29/2017	1/18/2018	0.060000	21,659
11/8/2017	1/31/2018	2/15/2018	0.060000	21,691
2/7/2018	2/28/2018	3/22/2018	0.060000	21,724
2/7/2018	3/30/2018	4/19/2018	0.060000	21,759
2/7/2018	4/30/2018	5/24/2018	0.060000	21,797
5/9/2018	5/31/2018	6/21/2018	0.060000	21,829
5/9/2018	6/29/2018	7/19/2018	0.060000	21,865
Total declared and payable for the year ended June 30, 2018				\$ 277,224

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

- \$0.06 per share for July 2018 to holders of record on July 31, 2018 with a payment date of August 23, 2018.
- \$0.06 per share for August 2018 to holders of record on August 31, 2018 with a payment date of September 20, 2018.

During the years ended June 30, 2018 and June 30, 2017, we issued 4,333,005 and 2,969,702 shares of our common stock, respectively, in connection with the dividend reinvestment plan.

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

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

As of June 30, 2018, we have reserved 39,736,566 shares of our common stock for issuance upon conversion of the Convertible Notes (see Note 5).

**Note 10. Other Income**

Other income consists of structuring fees, overriding royalty interests, revenue receipts related to net profit interests, deal deposits, administrative agent fees, and other miscellaneous and sundry cash receipts. The following table shows income from such sources during the years ended June 30, 2018, 2017 and 2016.

	<b>Year Ended June 30,</b>		
	<b>2018</b>	<b>2017</b>	<b>2016</b>
Structuring and amendment fees (refer to Note 3)	\$ 29,658	\$ 20,419	\$ 26,207
Royalty and Net Revenue interests	7,652	5,547	6,853
Administrative agent fees	477	684	794
Total Other Income	<u>\$ 37,787</u>	<u>\$ 26,650</u>	<u>\$ 33,854</u>

**Note 11. Net Increase in Net Assets per Share**

The following information sets forth the computation of net increase in net assets resulting from operations per share during the years ended June 30, 2018, 2017, and 2016.

	<b>Year Ended June 30,</b>		
	<b>2018</b>	<b>2017</b>	<b>2016</b>
Net increase in net assets resulting from operations	\$ 299,863	\$ 252,906	\$ 103,362
Weighted average common shares outstanding	361,456,075	358,841,714	356,134,297
Net increase in net assets resulting from operations per share	<u>\$ 0.83</u>	<u>\$ 0.70</u>	<u>\$ 0.29</u>

**Note 12. Income Taxes**

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

For income tax purposes, dividends paid and distributions made to shareholders are reported as ordinary income, capital gains, non-taxable return of capital, or a combination thereof. The tax character of dividends paid to shareholders during the tax years ended August 31, 2017, 2016 and 2015 were as follows:

	<b>Tax Year Ended August 31,</b>		
	<b>2017</b>	<b>2016</b>	<b>2015</b>
Ordinary income	\$ 359,215	\$ 355,985	\$ 413,640
Capital gain	—	—	—
Return of capital	—	—	—
Total distributions paid to shareholders	<u>\$ 359,215</u>	<u>\$ 355,985</u>	<u>\$ 413,640</u>

We generate certain types of income that may be exempt from U.S. withholding tax when distributed to non-U.S. shareholders. Under IRC Section 871(k), a RIC is permitted to designate distributions of qualified interest income and short-term capital gains as exempt from U.S. withholding tax when paid to non-U.S. shareholders with proper documentation. For the 2018 calendar year, 48.33% of our distributions as of June 30, 2018 qualified as interest related dividends which are exempt from U.S. withholding tax applicable to non U.S. shareholders.

For the tax year ending August 31, 2018, the tax character of dividends paid to shareholders through June 30, 2018 is expected to be ordinary income. Because of the difference between our fiscal and tax year ends, the final determination of the tax character of dividends will not be made until we file our tax return for the tax year ending August 31, 2018.

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Taxable income generally differs from net increase in net assets resulting from operations for financial reporting purposes due to temporary and permanent differences in the recognition of income and expenses, and generally excludes net unrealized gains or losses, as unrealized gains or losses are generally not included in taxable income until they are realized. The following reconciles the net increase in net assets resulting from operations to taxable income for the tax years ended August 31, 2017, 2016 and 2015:

	<b>Tax Year Ended August 31,</b>		
	<b>2017</b>	<b>2016</b>	<b>2015</b>
Net increase in net assets resulting from operations	\$ 254,904	\$ 262,831	\$ 360,572
Net realized loss on investments	100,765	22,666	164,230
Net unrealized (gains) losses on investments	(61,939)	73,181	(157,745)
Other temporary book-to-tax differences	(32,117)	(56,036)	98,289
Permanent differences	(772)	2,489	2,436
Taxable income before deductions for distributions	<u>\$ 260,841</u>	<u>\$ 305,131</u>	<u>\$ 467,782</u>

Capital losses in excess of capital gains earned in a tax year may generally be carried forward and used to offset capital gains, subject to certain limitations. The Regulated Investment Company Modernization Act (the "RIC Modernization Act") was enacted on December 22, 2010. Under the RIC Modernization Act, capital losses incurred by taxpayers in taxable years beginning after the date of enactment will be allowed to be carried forward indefinitely and are allowed to retain their character as either short-term or long-term losses. As such, the capital loss carryforwards generated by us after the August 31, 2011 tax year will not be subject to expiration. Any losses incurred in post-enactment tax years will be required to be utilized prior to the losses incurred in pre-enactment tax years. As of August 31, 2017, we had capital loss carryforwards of approximately \$302,590 available for use in later tax years. Of the amount available as of August 31, 2017, \$46,156 will expire on August 31, 2018, and \$256,434 is not subject to expiration. The unused balance each year will be carried forward and utilized as gains are realized, subject to limitations. While our ability to utilize losses in the future depends upon a variety of factors that cannot be known in advance, some of our capital loss carryforwards may become permanently unavailable due to limitations by the Code.

For the tax year ended August 31, 2017, we had no cumulative taxable income in excess of cumulative distributions.

As of June 30, 2018, the cost basis of investments for tax purposes was \$5,871,043 resulting in estimated gross unrealized gains and losses of \$476,197 and \$619,961, respectively. As of June 30, 2017, the cost basis of investments for tax purposes was \$5,999,218 resulting in estimated gross unrealized gains and losses of \$337,903 and \$498,816, respectively. Due to the difference between our fiscal year end and tax year end, the cost basis of our investments for tax purposes as of June 30, 2018 and June 30, 2017 was calculated based on the book cost of investments as of June 30, 2018 and June 30, 2017, respectively, with cumulative book-to-tax adjustments for investments through August 31, 2017 and 2016, respectively.

In general, we may make certain adjustments to the classification of net assets as a result of permanent book-to-tax differences, which may include merger-related items, differences in the book and tax basis of certain assets and liabilities, and nondeductible federal excise taxes, among other items. During the tax year ended August 31, 2017, we increased overdistributed net investment income by \$772 and increased capital in excess of par value by \$772. During the tax year ended August 31, 2016, we decreased overdistributed net investment income by \$2,489, increased accumulated net realized loss on investments by \$1,296 and decreased capital in excess of par value by 1,193. Due to the difference between our fiscal and tax year end, the reclassifications for the taxable year ended August 31, 2017 is being recorded in the fiscal year ended June 30, 2018 and the reclassifications for the taxable year ended August 31, 2016 were recorded in the fiscal year ended June 30, 2017.

**Note 13. Related Party Agreements and Transactions**

*Investment Advisory Agreement*

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

The Investment Adviser's services under the Investment Advisory Agreement are not exclusive, and it is free to furnish similar services to other entities so long as its services to us are not impaired. For providing these services the Investment Adviser receives



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a fee from us, consisting of two components: a base management fee and an incentive fee. The base management fee is calculated at an annual rate of 2.00% on our total assets. For services currently rendered under the Investment Advisory Agreement, the base management fee is payable quarterly in arrears. The base management fee is calculated based on the average value of our gross assets at the end of the two most recently completed calendar quarters and appropriately adjusted for any share issuances or repurchases during the current calendar quarter.

The total gross base management fee incurred to the favor of the Investment Adviser was \$118,768 , \$124,077 and \$128,416 during the years ended June 30, 2018 , 2017 , and 2016 , respectively.

The Investment Adviser has entered into a servicing agreement with certain institutions that purchased loans with us, where we serve as the agent and collect a servicing fee on behalf of the Investment Adviser. During the years ended June 30, 2018 , 2017 and 2016 , we received payments of \$722 , \$1,203 and \$1,893 , respectively, from these institutions, on behalf of the Investment Adviser, for providing such services under the servicing agreement. We were given a credit for these payments, which reduced the base management fees to \$118,046 , \$122,874 and \$126,523 for the years ended June 30, 2018 , 2017 , and 2016 , respectively.

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

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

- No incentive fee in any calendar quarter in which our pre-incentive fee net investment income does not exceed the hurdle rate;
- 100.00% of our pre-incentive fee net investment income with respect to that portion of such pre-incentive fee net investment income, if any, that exceeds the hurdle rate but is less than 125.00% of the quarterly hurdle rate in any calendar quarter (8.75% annualized assuming a 7.00% annualized hurdle rate); and
- 20.00% of the amount of our pre-incentive fee net investment income, if any, that exceeds 125.00% of the quarterly hurdle rate in any calendar quarter (8.75% annualized assuming a 7.00% annualized hurdle rate).

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

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

The total income incentive fee incurred was \$71,713, \$76,520 and \$92,782 during the years ended June 30, 2018, 2017 and 2016, respectively. No capital gains incentive fee was incurred during the years ended June 30, 2018, 2017 and 2016.

*Administration Agreement*

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

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

The allocation of gross overhead expense from Prospect Administration was \$20,715, \$22,882 and \$20,313 for the years ended June 30, 2018, 2017 and 2016, respectively. Prospect Administration received estimated payments of \$10,684, \$8,760 and \$7,445 directly from our portfolio companies and certain funds managed by the Investment Adviser for legal, tax and portfolio level accounting services during the years ended June 30, 2018, 2017 and 2016, respectively. Estimated payments received by Prospect Administration during the year ended June 30, 2018 additionally included \$2,631 received from our insurance carrier. We were given a credit for these payments as a reduction of the administrative services cost payable by us to Prospect Administration. Had Prospect Administration not received these payments, Prospect Administration’s charges for its administrative services would have increased by these amounts. During the year ended June 30, 2017, other operating expenses in the amount of \$876 incurred by us, which were attributable to CCPI Inc. (“CCPI”), have been reimbursed by CCPI and are reflected as an offset to our overhead allocation. No such reimbursements or expenses occurred during the years ended June 30, 2018 or June 30, 2016. During the year ended June 30, 2016, we renegotiated the managerial assistance agreement with First Tower LLC (“First Tower”) and reversed \$1,200 of previously accrued managerial assistance at First Tower Delaware, \$600 of which was expensed during the three months

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ended June 30, 2015, as the fee was paid by First Tower, which decreased our overhead expense. During the year ended June 30, 2016, we also incurred \$379 of overhead expense related to our consolidated entity SB Forging. Net overhead during the years ended June 30, 2018, 2017 and 2016 totaled \$10,031, \$13,246 and \$12,647, respectively.

*Managerial Assistance*

As a BDC, we are obligated under the 1940 Act to make available to certain of our portfolio companies significant managerial assistance. “Making available significant managerial assistance” refers to any arrangement whereby we provide significant guidance and counsel concerning the management, operations, or business objectives and policies of a portfolio company. We are also deemed to be providing managerial assistance to all portfolio companies that we control, either by ourselves or in conjunction with others. The nature and extent of significant managerial assistance provided by us to controlled and non-controlled portfolio companies will vary according to the particular needs of each portfolio company. Examples of such activities include (i) advice on recruiting, hiring, management and termination of employees, officers and directors, succession planning and other human resource matters; (ii) advice on capital raising, capital budgeting, and capital expenditures; (iii) advice on advertising, marketing, and sales; (iv) advice on fulfillment, operations, and execution; (v) advice on managing relationships with unions and other personnel organizations, financing sources, vendors, customers, lessors, lessees, lawyers, accountants, regulators and other important counterparties; (vi) evaluating acquisition and divestiture opportunities, plant expansions and closings, and market expansions; (vii) participating in audit committee, nominating committee, board and management meetings; (viii) consulting with and advising board members and officers of portfolio companies (on overall strategy and other matters); and (ix) providing other organizational, operational, managerial and financial guidance.

Prospect Administration, when performing a managerial assistance agreement executed with each portfolio company to which we provide managerial assistance, arranges for the provision of such managerial assistance on our behalf. When doing so, Prospect Administration utilizes personnel of our Investment Adviser. We, on behalf of Prospect Administration, invoice portfolio companies receiving and paying for managerial assistance, and we remit to Prospect Administration its cost of providing such services, including the charges deemed appropriate by our Investment Adviser for providing such managerial assistance. No income is recognized by Prospect.

During the years ended June 30, 2018, 2017 and 2016, we received payments of \$6,343, \$6,923 and \$6,102, respectively, from our portfolio companies for managerial assistance and subsequently remitted these amounts to Prospect Administration. During the year ended June 30, 2016, we reversed \$1,200 of managerial assistance expense related to our consolidated entity First Tower Delaware which was included within allocation from Prospect Administration on our *Consolidated Statement of Operations* for the year ended June 30, 2016. The \$1,200 was subsequently paid to Prospect Administration by First Tower LLC, the operating company. See Note 14 for further discussion.

*Co-Investments*

On February 10, 2014, we received an exemptive order from the SEC (the “Order”) that gave us the ability to negotiate terms other than price and quantity of co-investment transactions with other funds managed by the Investment Adviser or certain affiliates, including Priority Income Fund, Inc. and Pathway Capital Opportunity Fund, Inc. (f/k/a Pathway Energy Infrastructure Fund, Inc.), subject to the conditions included therein. Under the terms of the relief permitting us to co-invest with other funds managed by our Investment Adviser or its affiliates, a “required majority” (as defined in Section 57(o) of the 1940 Act) of our independent directors must make certain conclusions in connection with a co-investment transaction, including that (1) the terms of the proposed transaction, including the consideration to be paid, are reasonable and fair to us and our stockholders and do not involve overreaching of us or our stockholders on the part of any person concerned and (2) the transaction is consistent with the interests of our stockholders and is consistent with our investment objective and strategies. In certain situations where co-investment with one or more funds managed by the Investment Adviser or its affiliates is not covered by the Order, such as when there is an opportunity to invest in different securities of the same issuer, the personnel of the Investment Adviser or its affiliates will need to decide which fund will proceed with the investment. Such personnel will make these determinations based on policies and procedures, which are designed to reasonably ensure that investment opportunities are allocated fairly and equitably among affiliated funds over time and in a manner that is consistent with applicable laws, rules and regulations. Moreover, except in certain circumstances, when relying on the Order, we will be unable to invest in any issuer in which one or more funds managed by the Investment Adviser or its affiliates has previously invested.

We reimburse CLO investment valuation services fees initially incurred by Priority Income Fund, Inc. During the years ended June 30, 2018, 2017 and 2016, we recognized expenses that were reimbursed for valuation services of \$207, \$117 and \$113, respectively. Conversely, Priority Income Fund, Inc. and Pathway Capital Opportunity Fund, Inc. reimburse us for software fees, expenses which were initially incurred by Prospect. As of June 30, 2018 and June 30, 2017, we accrued a receivable from Priority

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Income Fund, Inc. and Pathway Capital Opportunity Fund, Inc. for software fees of \$88 and \$14, respectively, that will be reimbursed to us. No such payable was recorded as of June 30, 2016.

As of June 30, 2018, we had co-investments with Priority Income Fund, Inc. in the following CLO funds: Apidos CLO XXII, Barings CLO Ltd. 2018-III (f/k/a Babson CLO Ltd. 2014-III), Carlyle Global Market Strategies CLO 2016-3, Ltd., Cent CLO 21 Limited, CIFC Funding 2014-IV Investor, Ltd., CIFC Funding 2016-I, Ltd., Galaxy XXVIII CLO, Ltd. (f/k/a Galaxy XVII CLO, Ltd.), Halcyon Loan Advisors Funding 2014-2 Ltd., Halcyon Loan Advisors Funding 2015-3 Ltd., HarbourView CLO VII-R, Ltd. (f/k/a HarbourView CLO VII, Ltd.), Jefferson Mill CLO Ltd., Mountain View CLO IX Ltd., Octagon Investment Partners 18-R Ltd. (f/k/a Octagon Investment Partners XVIII, Ltd.), Symphony CLO XIV Ltd., Voya IM CLO 2014-1 Ltd., Voya CLO 2016-3, Ltd., Voya CLO 2017-3, Ltd. and Romark WM-R Ltd. (f/k/a Washington Mill CLO Ltd); however HarbourView CLO VII-R, Ltd. and Octagon Investment Partners 18-R Ltd. are not considered co-investments pursuant to the Order as they were purchased on the secondary market.

As of June 30, 2018, we had a co-investment with Pathway Capital Opportunity Fund, Inc. in Carlyle Global Market Strategies CLO 2014-4-R, Ltd. (f/k/a Carlyle Global Market Strategies CLO 2014-4, Ltd.); however, this investment is not considered a co-investment pursuant to the Order as it was purchased on the secondary market.

**Note 14. Transactions with Controlled Companies**

The descriptions below detail the transactions which we have entered into with each of our controlled companies. Certain of the controlled entities discussed below were consolidated effective July 1, 2014 (see Note 1). As such, transactions with these Consolidated Holding Companies are presented on a consolidated basis.

*Airmall Inc.*

Prospect owned 100% of the equity of AMU Holdings Inc. (“AMU”), a Consolidated Holding Company. AMU owned 98% of Airmall Inc. (f/k/a Airmall USA Holdings, Inc.) (“Airmall”). Airmall is a developer and manager of airport retail operations.

On August 1, 2014, Prospect sold its investments in Airmall. On August 2, 2016, Prospect received the remaining escrow proceeds of \$3,916, reducing the cost basis to zero.

*Arctic Energy Services, LLC*

Prospect owned 100% of the equity of Arctic Oilfield Equipment USA, Inc. (“Arctic Equipment”), a Consolidated Holding Company. Arctic Equipment owns 70% of the equity of Arctic Energy Services, LLC (“Arctic Energy”), with Ailport Holdings, LLC (“Ailport”) (100% owned and controlled by Arctic Energy management) owning the remaining 30% of the equity of Arctic Energy. Arctic Energy provides oilfield service personnel, well testing flowback equipment, frac support systems and other services to exploration and development companies in the Rocky Mountains. As of June 30, 2017, we reported Arctic Energy as a separate controlled company. On April 6, 2018, Arctic Equipment merged with CP Energy and our equity interest was exchanged for newly issued common shares of CP Energy. Refer to discussion on CP Energy ownership below.

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

Year Ended June 30, 2016	\$	1,123
Year Ended June 30, 2017		—
Year Ended June 30, 2018		—

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

Year Ended June 30, 2016	\$	50
Year Ended June 30, 2017		—
Year Ended June 30, 2018		—

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

June 30, 2017	\$	150
June 30, 2018		225

*CCPI Inc.*

Prospect owns 100% of the equity of CCPI Holdings Inc. (“CCPI Holdings”), a Consolidated Holding Company. CCPI Holdings owns 94.59% of the equity of CCPI Inc. (“CCPI”), with CCPI management owning the remaining 5.41% of the equity. CCPI owns 100% of each of CCPI Europe Ltd. and MEFEC B.V., and 45% of Gulf Temperature Sensors W.L.L.

During the three months ended June 30, 2017, Prospect recognized \$153 in other income related to amendment fee income.

On August 1, 2017, we entered into a participation agreement with CCPI management, and sold \$144 of Prospect’s investment in the Term Loan B debt.

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

Year Ended June 30, 2016	\$	4,450
Year Ended June 30, 2017		450
Year Ended June 30, 2018		338

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

Year Ended June 30, 2016	\$	1,918
Year Ended June 30, 2017		—
Year Ended June 30, 2018		—

During the year ended June 30, 2017, Prospect reclassified \$123 of return of capital received from CCPI in prior periods as dividend income.

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

Year Ended June 30, 2016	\$	3,196
Year Ended June 30, 2017		123
Year Ended June 30, 2018		—

All dividends were paid from earnings and profits of CCPI.

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

Year Ended June 30, 2016	\$	3,123
Year Ended June 30, 2017		2,992
Year Ended June 30, 2018		3,704

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

Year Ended June 30, 2016	\$	475
Year Ended June 30, 2017		—
Year Ended June 30, 2018		—

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

June 30, 2017	\$	—
June 30, 2018		306

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

Year Ended June 30, 2016	\$	240
Year Ended June 30, 2017		240
Year Ended June 30, 2018		180

The following managerial assistance payments received by Prospect had not yet been remitted to Prospect Administration and were included by Prospect within due to Prospect Administration:

June 30, 2017	\$	60
June 30, 2018		—

The following managerial assistance recognized had not yet been paid by CCPI to Prospect and was included by Prospect within other receivables and due to Prospect Administration:

June 30, 2017	\$	—
June 30, 2018		60

The following payments were paid from CCPI to Prospect Administration as reimbursement for legal, tax and portfolio level accounting services provided directly to CCPI (no direct income was recognized by Prospect, but Prospect was given credit for these payments as a reduction of the administrative services costs payable by Prospect to Prospect Administration):

Year Ended June 30, 2016	\$	96
Year Ended June 30, 2017		—
Year Ended June 30, 2018		45

The following amounts were due from CCPI to Prospect for reimbursement of expenses paid by Prospect on behalf of CCPI and were included by Prospect within other receivables:

June 30, 2017	\$	1
June 30, 2018		7

*CP Energy Services Inc.*

Prospect owns 100% of the equity of CP Holdings of Delaware LLC (“CP Holdings”), a Consolidated Holding Company. CP Holdings owns 99.8%% of the equity of CP Energy, and the remaining equity is owned by CP Energy management. CP Energy owns directly or indirectly 100% of each of CP Well; Wright Foster Disposals, LLC; Foster Testing Co., Inc.; ProHaul Transports, LLC; and Wright Trucking, Inc. CP Energy provides oilfield flowback services and fluid hauling and disposal services through its subsidiaries.

On October 1, 2017 we restructured our investment in CP Energy. Concurrent with the restructuring, we exchanged \$35,048 of Series B Convertible Preferred Stock for \$35,048 of senior secured debt. We received \$228 of an advisory fee related to the above transaction, which we recognized as other income.

On January 18, 2018, CP Energy redeemed common shares belonging to senior management, which increased our ownership percentage from 82.3% to 94.2% as of March 31, 2018.

On April 6, 2018, our common equity investment cost in the amount of \$60,876 at the date of the merger in Arctic Equipment was exchanged for newly issued common shares of CP Energy. As a result of this merger between these controlled portfolio

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companies, our equity ownership percentage in CP Energy increased to 99.8%. There were no realized gain or loss recognized by us since this was a merger amongst two portfolio companies under our control.

The following interest payments were accrued and paid from CP Well to Prospect and recognized by Prospect as interest income:

Year Ended June 30, 2016	\$	(390)
Year Ended June 30, 2017		—
Year Ended June 30, 2018		3,394

Included above, the following payment-in-kind interest from CP Well was capitalized and recognized by Prospect as interest income:

Year Ended June 30, 2016	\$	(2,819)
Year Ended June 30, 2017		—
Year Ended June 30, 2018		—

The following managerial assistance payments were paid from CP Energy to Prospect and subsequently remitted to Prospect Administration (no income was recognized by Prospect):

Year Ended June 30, 2016	\$	300
Year Ended June 30, 2017		300
Year Ended June 30, 2018		425

The following managerial assistance payments received by Prospect had not yet been remitted to Prospect Administration and were included by Prospect within due to Prospect Administration:

June 30, 2017	\$	75
June 30, 2018		150

The following payments were paid from CP Energy to Prospect Administration as reimbursement for legal, tax and portfolio level accounting services provided directly to CP Energy (no direct income was recognized by Prospect, but Prospect was given credit for these payments as a reduction of the administrative services costs payable by Prospect to Prospect Administration):

Year Ended June 30, 2016	\$	—
Year Ended June 30, 2017		15
Year Ended June 30, 2018		—

The following amounts were due from CP Energy to Prospect for reimbursement of expenses paid by Prospect on behalf of CP Energy and were included by Prospect within other receivables:

June 30, 2017	\$	—
June 30, 2018		55

*Credit Central Loan Company, LLC*

Prospect owns 100% of the equity of Credit Central Holdings of Delaware, LLC (“Credit Central Delaware”), a Consolidated Holding Company. Credit Central Delaware owns 98.26% of the equity of Credit Central Loan Company, LLC (f/k/a Credit Central Holdings, LLC) (“Credit Central”), with entities owned by Credit Central management owning the remaining 1.74% of the equity. Credit Central owns 100% of each of Credit Central, LLC; Credit Central South, LLC; Credit Central of Texas, LLC; and Credit Central of Tennessee, LLC. Credit Central is a branch-based provider of installment loans.

On September 28, 2016, Prospect performed a buyout of Credit Central management’s ownership stake, purchasing additional subordinated debt of \$12,523 at a discount of \$7,521. Prospect also purchased \$2,098 of additional shares, increasing its ownership to 98.26%.

During the year ended June 30, 2018 and June 30, 2017, the following amounts of the aforementioned original issue discount of of \$7,521 accreted during the respective period, and included in interest income.

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Year Ended June 30, 2017	\$	923
Year Ended June 30, 2018		2,240

The following amounts were paid from Credit Central to Prospect and recorded by Prospect as repayment of loan receivable:

Year Ended June 30, 2016	\$	323
Year Ended June 30, 2017		403
Year Ended June 30, 2018		—

The following interest payments were accrued and paid from Credit Central to Prospect and recognized by Prospect as interest income:

Year Ended June 30, 2016	\$	7,398
Year Ended June 30, 2017		9,950
Year Ended June 30, 2018		10,515

Included above, the following payment-in-kind interest from Credit Central was capitalized and recognized by Prospect as interest income:

Year Ended June 30, 2016	\$	921
Year Ended June 30, 2017		2,804
Year Ended June 30, 2018		—

The following interest income recognized had not yet been paid by Credit Central to Prospect and was included by Prospect within interest receivable:

June 30, 2017	\$	29
June 30, 2018		—

The following net revenue interest payments were paid from Credit Central to Prospect and recognized by Prospect as other income:

Year Ended June 30, 2016	\$	2,067
Year Ended June 30, 2017		—
Year Ended June 30, 2018		903

The following managerial assistance payments were paid from Credit Central to Prospect and subsequently remitted to Prospect Administration (no income was recognized by Prospect):

Year Ended June 30, 2016	\$	700
Year Ended June 30, 2017		700
Year Ended June 30, 2018		148

The following managerial assistance payments received by Prospect had not yet been remitted to Prospect Administration and were included by Prospect within due to Prospect Administration:

June 30, 2017	\$	175
June 30, 2018		175

The following amounts were due from Credit Central from Prospect for reimbursement of expenses paid by Credit Central on behalf of Prospect and were included by Prospect within other liabilities:

June 30, 2017	\$	—
June 30, 2018		33



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*Echelon Transportation LLC (f/k/a Echelon Aviation LLC)*

Prospect owns 100% of the membership interests of Echelon Transportation LLC (“Echelon”). Echelon owns 60.7% of the equity of AerLift Leasing Limited (“AerLift”).

On September 28, 2016, Echelon made an optional partial prepayment of \$6,800 of the Senior Secured Revolving Credit Facility outstanding.

During the three months ended September 30, 2016, Echelon issued 36,275 Class B shares to the company’s President, decreasing Prospect’s ownership to 98.56%.

On December 9, 2016, Prospect made a follow-on \$16,044 first lien senior secured debt and \$2,830 equity investment in Echelon to support an asset acquisition, increasing Prospect’s ownership to 98.71%. Prospect also recognized \$1,121 in structuring fee income as a result of the transaction.

The following dividends were declared and paid from Echelon to Prospect and recognized as dividend income by Prospect:

Year Ended June 30, 2016	\$	7,250
Year Ended June 30, 2017		200
Year Ended June 30, 2018		—

All dividends were paid from earnings and profits of Echelon.

The following interest payments were accrued and paid from Echelon to Prospect and recognized by Prospect as interest income:

Year Ended June 30, 2016	\$	5,700
Year Ended June 30, 2017		5,734
Year Ended June 30, 2018		6,360

The following interest income recognized had not yet been paid by Echelon to Prospect and was included by Prospect within interest receivable:

June 30, 2017	\$	2,631
June 30, 2018		2,631

The following managerial assistance payments were paid from Echelon to Prospect and subsequently remitted to Prospect Administration (no income was recognized by Prospect):

Year Ended June 30, 2016	\$	250
Year Ended June 30, 2017		250
Year Ended June 30, 2018		188

The following managerial assistance payments received by Prospect had not yet been remitted to Prospect Administration and were included by Prospect within due to Prospect Administration:

June 30, 2017	\$	63
June 30, 2018		—

The following managerial assistance recognized had not yet been paid by Echelon to Prospect and was included by Prospect within other receivables and due to Prospect Administration:

June 30, 2017	\$	—
June 30, 2018		63

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The following payments were paid from Echelon to Prospect Administration as reimbursement for legal, tax and portfolio level accounting services provided directly to Echelon (no direct income was recognized by Prospect, but Prospect was given credit for these payments as a reduction of the administrative services costs payable by Prospect to Prospect Administration):

Year Ended June 30, 2016	\$	120
Year Ended June 30, 2017		217
Year Ended June 30, 2018		—

The following amounts were due from Echelon to Prospect for reimbursement of expenses paid by Prospect on behalf of Echelon and were included by Prospect within other receivables:

June 30, 2017	\$	0
June 30, 2018		18

*Edmentum Ultimate Holdings, LLC*

As of June 30, 2017, Prospect held a 37.1% membership interest in Edmentum Ultimate Holdings, LLC (“Edmentum Holdings”). Edmentum Holdings owns 100% of the equity of Edmentum, Inc. (“Edmentum”). On February 23, 2018, certain participating members of Edmentum Holdings increased their revolving credit commitment and extended additional credit to Edmentum, Inc. in exchange for additional common units of Edmentum Holdings. As a result, Prospect’s equity ownership was diluted to 11.51% and the investment was transferred from a controlled to an affiliate investment classification as of March 31, 2018. Edmentum is the largest all subscription based, software as a service provider of online curriculum and assessments to the U.S. education market. Edmentum provides high-value, comprehensive online solutions that support educators to successfully transition learners from one stage to the next.

During the year ended June 30, 2017, Prospect funded an additional \$7,835 in the second lien revolving credit facility.

During the year ended June 30, 2018, Prospect funded an additional \$7,834 in the second lien revolving credit facility.

The following amounts were paid from Edmentum to Prospect and recorded by Prospect as repayment of loan receivable:

Year Ended June 30, 2016	\$	4,896
Year Ended June 30, 2017		6,424
Year Ended June 30, 2018		7,834

The following interest payments were accrued and paid from Edmentum to Prospect and recognized by Prospect as interest income:

Year Ended June 30, 2016	\$	3,650
Year Ended June 30, 2017		1,726
Year Ended June 30, 2018		920

Included above, the following payment-in-kind interest from Edmentum was capitalized and recognized by Prospect as interest income:

Year Ended June 30, 2016	\$	2,934
Year Ended June 30, 2017		2,057
Year Ended June 30, 2018		614

The following interest income recognized had not yet been paid by Edmentum to Prospect and was included by Prospect within interest receivable:

June 30, 2017	\$	167
June 30, 2018		274

**PROSPECT CAPITAL CORPORATION AND SUBSIDIARIES**  
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(in thousands, except share and per share data)

*Energy Solutions Holdings Inc.*

Prospect owns 100% of the equity of Energy Solutions Holdings Inc. (f/k/a Gas Solutions Holdings Inc.) (“Energy Solutions”), a Consolidated Holding Company. Energy Solutions owns 100% of each of Change Clean Energy Company, LLC (f/k/a Change Clean Energy Holdings, LLC) (“Change Clean”); Freedom Marine Solutions, LLC (f/k/a Freedom Marine Services Holdings, LLC) (“Freedom Marine”); and Yatesville Coal Company, LLC (f/k/a Yatesville Coal Holdings, LLC) (“Yatesville”). Change Clean owns 100% of each of Change Clean Energy, LLC and Down East Power Company, LLC, and 50.1% of BioChips LLC. Freedom Marine owns 100% of each of Vessel Company, LLC (f/k/a Vessel Holdings, LLC) (“Vessel”); Vessel Company II, LLC (f/k/a Vessel Holdings II, LLC) (“Vessel II”); and Vessel Company III, LLC (f/k/a Vessel Holdings III, LLC) (“Vessel III”). Yatesville owns 100% of North Fork Collieries, LLC.

Energy Solutions owns interests in companies operating in the energy sector. These include companies operating offshore supply vessels, ownership of a non-operating biomass electrical generation plant and several coal mines. Energy Solutions subsidiaries formerly owned interests in gathering and processing business in east Texas.

Transactions between Prospect and Freedom Marine are separately discussed below under “Freedom Marine Solutions, LLC.”

*First Tower Finance Company LLC*

Prospect owns 100% of the equity of First Tower Holdings of Delaware LLC (“First Tower Delaware”), a Consolidated Holding Company. First Tower Delaware owns 80.1% of First Tower Finance Company LLC (f/k/a First Tower Holdings LLC) (“First Tower Finance”). First Tower Finance owns 100% of First Tower, LLC (“First Tower”), a multiline specialty finance company.

During the three months ended December 31, 2016, Prospect made an additional \$8,005 equity investment to First Tower.

During the three months ended March 31, 2018, we made a follow-on \$16,921 subordinated debt investment in First Tower, and a \$2,664 equity investment in First Tower Finance, to support an acquisition. In connection with this transaction, we received a \$2,664 advisory fee from First Tower, which was recognized as other income.

The following amounts were paid from First Tower to Prospect and recorded by Prospect as repayment of loan receivable:

Year Ended June 30, 2016	\$	679
Year Ended June 30, 2017		2,220
Year Ended June 30, 2018		6,735

The following interest payments were accrued and paid from First Tower to Prospect and recognized by Prospect as interest income:

Year Ended June 30, 2016	\$	56,698
Year Ended June 30, 2017		51,116
Year Ended June 30, 2018		47,422

Included above, the following payment-in-kind interest from First Tower was capitalized and recognized by Prospect as interest income:

Year Ended June 30, 2016	\$	861
Year Ended June 30, 2017		7,572
Year Ended June 30, 2018		1,767

The following interest income recognized had not yet been paid by First Tower to Prospect and was included by Prospect within interest receivable:

June 30, 2017	\$	123
June 30, 2018		4,703

**PROSPECT CAPITAL CORPORATION AND SUBSIDIARIES**  
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During the year ended June 30, 2016, the managerial assistance agreement between First Tower Delaware and Prospect Administration was amended and \$1,200 of managerial assistance expense was reversed at Prospect. First Tower replaced First Tower Delaware in the managerial assistance agreement with Prospect Administration as of December 14, 2015.

The following managerial assistance payments were accrued and paid from First Tower Delaware to Prospect Administration and recognized by Prospect as an expense:

Year Ended June 30, 2016	\$	(600)
Year Ended June 30, 2017		—
Year Ended June 30, 2018		—

The following managerial assistance payments were paid from First Tower to Prospect and subsequently remitted to Prospect Administration (no income was recognized by Prospect):

Year Ended June 30, 2016	\$	1,200
Year Ended June 30, 2017		1,800
Year Ended June 30, 2018		1,200

The following managerial assistance payments received by Prospect have not yet been remitted to Prospect Administration and were included by Prospect within due to Prospect Administration:

June 30, 2017	\$	600
June 30, 2018		—

The following managerial assistance recognized had not yet been paid by First Tower to Prospect and was included by Prospect within other receivables and due to Prospect Administration:

June 30, 2017	\$	—
March 31, 2018		600

The following amounts were due from First Tower to Prospect for reimbursement of expenses paid by Prospect on behalf of First Tower and were included by Prospect within other receivables:

June 30, 2017	\$	1
June 30, 2018		26

*Freedom Marine Solutions, LLC*

As discussed above, Prospect owns 100% of the equity of Energy Solutions, a Consolidated Holding Company. Energy Solutions owns 100% of Freedom Marine. Freedom Marine owns 100% of each of Vessel, Vessel II, and Vessel III.

As of July 1, 2014, the cost basis of Prospect's total debt and equity investment in Freedom Marine was \$39,811, which consisted of the following: \$3,500 senior secured note to Vessel; \$12,504 senior secured note to Vessel II; \$16,000 senior secured note to Vessel III; and \$7,807 of equity.

During the year ended June 30, 2017, Prospect purchased an additional \$1,200 in membership interests in Freedom Marine to support its ongoing operations and liquidity needs.

During the year ended June 30, 2018, Prospect purchased an additional \$982 in membership interests in Freedom Marine to support its ongoing operations and liquidity needs.

**PROSPECT CAPITAL CORPORATION AND SUBSIDIARIES**  
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The following interest payments were accrued and paid from Vessel to Prospect and recognized by Prospect as interest income:

Year Ended June 30, 2016	\$	159
Year Ended June 30, 2017		—
Year Ended June 30, 2018		—

The following interest payments were accrued and paid from Vessel II to Prospect and recognized by Prospect as interest income:

Year Ended June 30, 2016	\$	427
Year Ended June 30, 2017		—
Year Ended June 30, 2018		—

The following interest payments were accrued and paid from Vessel III to Prospect and recognized by Prospect as interest income:

Year Ended June 30, 2016	\$	526
Year Ended June 30, 2017		—
Year Ended June 30, 2018		—

The following managerial assistance payments were paid from Freedom Marine to Prospect and subsequently remitted to Prospect Administration (no income was recognized by Prospect):

Year Ended June 30, 2016	\$	75
Year Ended June 30, 2017		—
Year Ended June 30, 2018		—

The following managerial assistance recognized had not yet been paid by Freedom Marine to Prospect and was included by Prospect within other receivables and due to Prospect Administration:

June 30, 2017	\$	525
June 30, 2018		825

The following payments were paid from Freedom Marine to Prospect Administration as reimbursement for legal, tax and portfolio level accounting services provided directly to Freedom Marine (no direct income was recognized by Prospect, but Prospect was given credit for these payments as a reduction of the administrative services costs payable by Prospect to Prospect Administration):

Year Ended June 30, 2016	\$	65
Year Ended June 30, 2017		—
Year Ended June 30, 2018		—

*InterDent, Inc.*

Following our assumption of assuming control, Prospect exercised its rights and remedies under its loan documents to exercise the shareholder voting rights in respect of the stock of InterDent, Inc. (“InterDent”) and to appoint a new Board of Directors of InterDent, all the members of which are our Investment Adviser’s professionals. As a result, as of June 30, 2018, Prospect’s investment in InterDent is classified as a control investment.

The following interest payments were accrued and paid from InterDent to Prospect and recognized by Prospect as interest income:

Year Ended June 30, 2018	\$	4,775
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Included in the above, are the following payment-in-kind interest from InterDent, which was capitalized and recognized by Prospect as interest income:

Year Ended June 30, 2018	\$	582
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**PROSPECT CAPITAL CORPORATION AND SUBSIDIARIES**  
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The following interest income recognized had not yet been paid by InterDent to Prospect and was included by Prospect within interest receivable:

June 30, 2017	\$	—
June 30, 2018		127

*MITY, Inc.*

Prospect owns 100% of the equity of MITY Holdings of Delaware Inc. (“MITY Delaware”), a Consolidated Holding Company. MITY Delaware holds 95.48% of the equity of MITY, Inc. (f/k/a MITY Enterprises, Inc.) (“MITY”), with management of MITY owning the remaining 4.52% of the equity of MITY. MITY owns 100% of each of MITY-Lite, Inc. (“MITY-Lite”); Broda USA, Inc. (f/k/a Broda Enterprises USA, Inc.) (“Broda USA”); and Broda Enterprises ULC (“Broda Canada”). MITY is a designer, manufacturer and seller of multipurpose room furniture and specialty healthcare seating products.

During the three months ended December 31, 2016, Prospect formed a separate legal entity, MITY FSC, Inc., (“MITY FSC”) in which Prospect owns 96.88% of the equity, and MITY-Lite management owns the remaining portion. MITY FSC does not have material operations. This entity earns commission payments from MITY-Lite based on its sales to foreign customers, and distribute it to its shareholders based on pro-rata ownership. During the years ended June 30, 2018 and June 30, 2017, we received \$1,093 and \$886, respectively, of such commission, which we recognized as other income.

On January 17, 2017, Prospect invested an additional \$8,000 of Senior Secured Note A and \$8,000 of Senior Secured Term Loan B debt investments in MITY to fund an acquisition. Prospect recognized structuring fee income of \$480 from this additional investment.

The following dividends were declared and paid from MITY to Prospect and recognized by Prospect as divided income:

Year Ended June 30, 2016	\$	711
Year Ended June 30, 2017		468
Year Ended June 30, 2018		—

All dividends were paid from earnings and profits of MITY.

The following interest payments were accrued and paid from MITY to Prospect and recognized by Prospect as interest income:

Year Ended June 30, 2016	\$	5,196
Year Ended June 30, 2017		6,284
Year Ended June 30, 2018		7,618

Included above, the following payment-in-kind interest from MITY was capitalized and recognized by Prospect as interest income:

Year Ended June 30, 2016	\$	139
Year Ended June 30, 2017		—
Year Ended June 30, 2018		—

The following interest income recognized had not yet been paid by MITY to Prospect and was included by Prospect within interest receivable:

June 30, 2017	\$	21
June 30, 2018		—

The following interest payments were accrued and paid from Broda Canada to Prospect and recognized by Prospect as interest income:

Year Ended June 30, 2016	\$	566
Year Ended June 30, 2017		564
Year Ended June 30, 2018		588

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The following interest income recognized had not yet been paid by Broda Canada to Prospect and was included by Prospect within interest receivable:

June 30, 2017	\$	46
June 30, 2018		—

During the nine months ended March 31, 2017, there was a favorable fluctuation in the foreign currency exchange rate and Prospect recognized \$12 of realized gain related to its investment in Broda Canada. During the year ended June 30, 2018, there was a favorable fluctuation in the foreign currency exchange rate and Prospect recognized \$13 of realized gain related to its investment in Broda Canada.

The following managerial assistance payments were paid from MITY to Prospect and subsequently remitted to Prospect Administration (no income was recognized by Prospect):

Year Ended June 30, 2016	\$	300
Year Ended June 30, 2017		300
Year Ended June 30, 2018		300

The following managerial assistance payments received by Prospect had not yet been remitted to Prospect Administration and were included by Prospect within due to Prospect Administration:

June 30, 2017	\$	75
June 30, 2018		75

The following payments were paid from MITY to Prospect Administration as reimbursement for legal, tax and portfolio level accounting services provided directly to MITY (no direct income was recognized by Prospect, but Prospect was given credit for these payments as a reduction of the administrative services costs payable by Prospect to Prospect Administration):

Year Ended June 30, 2016	\$	60
Year Ended June 30, 2017		224
Year Ended June 30, 2018		—

The following amounts were due from MITY to Prospect for reimbursement of expenses paid by Prospect on behalf of First Tower and were included by Prospect within other receivables:

June 30, 2017	\$	—
June 30, 2018		51

*National Property REIT Corp.*

Prospect owns 100% of the equity of NPH, a Consolidated Holding Company. NPH owns 100% of the common equity of NPRC. Effective May 23, 2016, in connection with the merger of APRC and UPRC with and into NPRC, APH and UPH merged with and into NPH, and were dissolved.

NPRC is a Maryland corporation and a qualified REIT for federal income tax purposes. In order to qualify as a REIT, NPRC issued 125 shares of Series A Cumulative Non-Voting Preferred Stock to 125 accredited investors. The preferred stockholders are entitled to receive cumulative dividends semi-annually at an annual rate of 12.5% and do not have the ability to participate in the management or operation of NPRC.

NPRC was formed to hold for investment, operate, finance, lease, manage, and sell a portfolio of real estate assets and engage in any and all other activities as may be necessary, incidental or convenient to carry out the foregoing. NPRC acquires real estate assets, including, but not limited to, industrial, commercial, multi-family, self-storage, and student housing properties. NPRC may acquire real estate assets directly or through joint ventures by making a majority equity investment in a property-owning entity (the "JV"). Additionally, through its wholly-owned subsidiaries, NPRC invests in online consumer loans.

**PROSPECT CAPITAL CORPORATION AND SUBSIDIARIES**  
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On July 22, 2016 Prospect made a \$2,700 investment in NPRC used to purchase additional common equity of NPRC through NPH. The proceeds were utilized by NPRC to purchase additional ownership interest in twelve multi-family properties for \$2,698 and pay \$2 of legal services provided by attorneys at Prospect Administration. The minority interest holder also invested an additional \$49 in the JVs. The proceeds were used by the JVs to fund \$2,747 of capital expenditures.

On August 4, 2016, Prospect made a \$393 investment in NPRC used to purchase additional common equity of NPRC through NPH. The proceeds were utilized by NPRC to purchase additional ownership interest in four multi-family properties for \$392 and pay \$1 of legal services provided by attorneys at Prospect Administration. The minority interest holder also invested an additional \$21 in the JVs. The proceeds were used by the JVs to fund \$413 of capital expenditures.

On September 1, 2016, we made an investment into American Consumer Lending Limited (“ACLL”), a wholly-owned subsidiary of NPRC, under the ACLL credit agreement, for senior secured term loans, Term Loan C, with the same terms as the existing ACL Loan Holdings, Inc. (“ACLLH”) Term Loan C due to us.

On September 28, 2016 Prospect made a \$46,381 investment in NPRC, of which \$35,295 was a Senior Term Loan and \$11,086 was used to purchase additional common equity of NPRC through NPH. The proceeds were utilized by NPRC to purchase a 64.2% ownership interest in Vesper Portfolio JV, LLC for \$46,324 and to pay \$57 for tax and legal services provided by professionals at Prospect Administration. The JV was purchased for \$250,000 which included debt financing and minority interest of \$192,382 and \$25,817, respectively. The remaining proceeds were used to pay \$1,060 of structuring fees to Prospect (which was recognized by Prospect as structuring fee income), \$2,131 of third party expenses, \$4,911 of pre-funded capex, and \$5,310 of prepaid assets, with \$1,111 retained by the JV for working capital.

On October 21, 2016 Prospect made a \$514 investment in NPRC used to purchase additional common equity of NPRC through NPH. The proceeds were utilized by NPRC to purchase additional ownership interest in four multi-family properties for \$512 and pay \$2 of legal services provided by attorneys at Prospect Administration. The minority interest holder also invested an additional \$33 in the JVs. The proceeds were used by the JVs to fund \$545 of capital expenditures.

On November 17, 2016, NPRC used sale and supplemental loan proceeds to make a partial repayment on the Senior Term Loan of \$19,149 and a return of capital on Prospects’ equity investment in NPRC of \$9,204.

On November 23, 2016, Prospect made a \$2,860 investment in NPRC used to purchase additional common equity of NPRC through NPH. The proceeds were utilized by NPRC to purchase additional ownership interest in seven multi-family properties for \$2,859 and pay \$1 of legal services provided by attorneys at Prospect Administration. The minority interest holder also invested an additional \$231 in the JVs. The proceeds were used by the JVs to fund \$3,090 of capital expenditures.

On December 7, 2016 Prospect made a \$13,046 investment in NPRC, of which \$9,653 was a Senior Term Loan and \$3,393 was used to purchase additional common equity of NPRC through NPH. The proceeds were utilized by NPRC to purchase an 85% ownership interest in JSIP Union Place, LLC for \$13,026 and to pay \$20 of legal services provided by attorneys at Prospect Administration. The JV was purchased for \$64,750 which included debt financing and minority interest of \$51,800 and \$2,299, respectively. The remaining proceeds were used to pay \$261 of structuring fees to Prospect (which was recognized by Prospect as structuring fee income), \$1,078 of third party expenses, \$5 of pre-funded capital expenditures, and \$458 of prepaid assets, with \$573 retained by the JV for working capital.

On January 30, 2017 Prospect made a \$41,365 investment in NPRC, of which \$30,644 was a Senior Term Loan and \$10,721 was used to purchase additional common equity of NPRC through NPH. The proceeds were utilized by NPRC to purchase a 92.5% ownership interest in 9220 Old Lantern Way LLC for \$41,333 and to pay \$32 of legal services provided by attorneys at Prospect Administration. The JV was purchased for \$187,250 which included debt financing and minority interest of \$153,580 and \$3,351, respectively. The remaining proceeds were used to pay \$827 of structuring fees to Prospect (which was recognized by Prospect as structuring fee income), \$4,415 of third party expenses, \$1,857 of pre-funded capital expenditures, and \$3,540 of prepaid assets, with \$375 retained by the JV for working capital.

On February 27, 2017 NPRC used sale and supplemental loan proceeds to make a partial repayment on the Senior Term Loan of \$18,000 and a return of capital on Prospects’ equity investment in NPRC of \$11,648. In connection to the partial repayment of the Senior Term Loan, NPRC paid a prepayment premium of \$180 to Prospect (which was recognized by Prospect as interest income).

On March 7, 2017, Prospect made a \$289 investment in NPRC used to purchase additional common equity of NPRC through NPH. The proceeds were utilized by NPRC to purchase additional ownership interest in SSIL I, LLC for \$288. The minority interest holder also invested an additional \$72 in the JV. The proceeds were used by the JV to fund \$360 of capital expenditures.



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On March 16, 2017, Prospect made a \$4,273 investment in NPRC used to purchase additional common equity of NPRC through NPH. The proceeds were utilized by NPRC to purchase additional ownership interest in eight multi-family properties for \$4,272 and pay \$1 of legal services provided by attorneys at Prospect Administration. The proceeds were used by the JV to fund \$4,272 of capital expenditures.

On April 3, 2017, Prospect made a \$418 investment in NPRC used to purchase additional common equity of NPRC through NPH. The proceeds were utilized by NPRC to purchase additional ownership interest in three multi-family properties for \$417 and pay \$1 of legal services provided by attorneys at Prospect Administration. The minority interest holder also invested an additional \$24 in the JV. The proceeds were used by the JV to fund \$441 of capital expenditures.

On April 21, 2017, Prospect made a \$2,106 investment in NPRC used to purchase additional common equity of NPRC through NPH. The proceeds were utilized by NPRC to purchase additional ownership interest in Vesper Portfolio JV, LLC for \$2,105 and pay \$1 of legal services provided by attorneys at Prospect Administration. The proceeds were used by the JV to fund \$2,105 of capital expenditures.

On June 30, 2017 NPRC used sale proceeds to make a partial repayment on the Senior Term Loan of \$5,750 and a return of capital on Prospects' equity investment in NPRC of \$11,261. In connection to the partial repayment of the Senior Term Loan, NPRC paid a prepayment premium of \$58 to Prospect (which was recognized by Prospect as interest income).

On July 10, 2017, Prospect made a \$653 investment in NPRC, of which \$450 was a Senior Term Loan and \$202 was used to purchase additional common equity of NPRC through NPH. The proceeds were utilized by NPRC to purchase additional ownership interest in a multi-family JV for \$639 and pay \$1 of legal services provided by attorneys at Prospect Administration. The remaining proceeds were used to pay \$13 of structuring fees to Prospect (which was recognized by Prospect as structuring fee income). The minority interest holder also purchased additional ownership interest in the JV for \$163. The proceeds were used by the JV to fund \$802 of capital expenditures.

On August 24, 2017, Prospect purchased additional common equity of NPRC through NPH for \$2,401. The proceeds were utilized by NPRC to purchase additional ownership interest in a JV that owns eight student housing properties for \$2,400 and pay \$1 of legal services provided by attorneys at Prospect Administration. The proceeds were used by the JV to fund \$2,400 of capital expenditures.

On September 13, 2017, Prospect made a \$826 investment in NPRC, of which \$662 was a Senior Term Loan and \$164 was used to purchase additional common equity of NPRC through NPH. The proceeds were utilized by NPRC to purchase additional ownership interest in a JV entity that owns five multi-family properties for \$825 and pay \$2 of legal services provided by attorneys at Prospect Administration. The minority interest holder also purchased additional ownership interest in the JV for \$92. The proceeds were used by the JV to fund \$917 of capital expenditures.

On October 10, 2017, Prospect purchased additional common equity of NPRC though NPH for \$4,094. NPRC utilized \$4,091 of the proceeds as a capital contribution in multiple JV entities that own ten multi-family properties and to pay \$3 for legal services provided by attorneys at Prospect Administration. The minority interest holder also contributed \$87 of additional capital in the JV entities. The proceeds were utilized by the JV entities to fund \$4,178 of capital expenditures.

On October 31, 2017, Prospect purchased additional common equity of NPRC though NPH for \$27,004. The proceeds were utilized by NPRC to purchase a 92.5% ownership interest in Baymeadows Holdings LLC for \$26,974 and to pay \$30 for tax and legal services provided by professionals at Prospect Administration. The minority interest holder purchased ownership interest in the JV for \$2,187. The JV utilized the total proceeds, which included debt financing of \$88,800, to acquire \$111,000 of multi-family real estate assets. The remaining proceeds were used by the JV to pay \$539 of structuring fees to Prospect (which was recognized by Prospect as structuring fee income), \$802 of third party expenses, \$546 of pre-funded capital expenditures, \$3,016 of prepaid assets, and \$2,058 was retained by the JV as working capital.

On November 8, 2017, Prospect purchased additional common equity of NPRC through NPH for \$15,911. The proceeds were utilized by NPRC to purchase a 92.5% ownership interest in Southfield Holdings LLC for \$15,849, pay \$10 for tax and legal services provided by professionals at Prospect Administration, and \$52 was retained as working capital. The minority interest holder purchased ownership interest in the JV for \$1,285. The JV utilized the total proceeds, which included debt financing of \$58,229, to acquire \$68,500 of multi-family real estate assets. The remaining proceeds were used by the JV to pay \$317 of structuring fees to Prospect (which was recognized by Prospect as structuring fee income), \$263 of third party expenses, \$3,138 of pre-funded capital expenditures, \$2,860 of prepaid assets, and \$285 was retained by the JV as working capital.

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On November 17, 2017, Prospect purchased additional common equity of NPRC through NPH for \$1,019. NPRC utilized \$1,018 of the proceeds as a capital contribution in multiple JV entities that own seven multi-family properties and to pay \$1 for legal services provided by attorneys at Prospect Administration. The minority interest holder also contributed \$82 of additional capital in the JV entities. The proceeds were used by the JV entities to fund \$1,100 of capital expenditures.

On December 29, 2017, Prospect purchased additional company equity of NPRC through NPH for \$10,000. NPRC utilized \$200 of proceeds provided to pay a structuring fee to Prospect (which was recognized by Prospect as structuring fee income). On January 10, 2018, NPRC utilized \$9,790 of proceeds provided by Prospect on December 29, 2017 to purchase a 92.5% interest in Steeplechase Holdings LLC. The remaining \$10 was retained as working capital by NPRC. The minority interest holder purchased ownership interest in the JV for \$794. The JV utilized the total proceeds, which included debt financing of \$36,668, to acquire \$44,500 of multi-family real estate assets. The remaining proceeds were used by the JV to pay \$196 of structuring fees to NPRC, \$986 of third party expenses, \$370 of pre-funded capital expenditures, \$911 of prepaid assets, and \$289 was retained by the JV as working capital.

On January 26, 2018, Prospect purchased additional common equity of NPRC through NPH for \$1,586. NPRC utilized the proceeds to purchase additional ownership interest in a JV that owns eight student housing properties for \$1,585 and to pay \$1 for legal services provided by attorneys at Prospect Administration. The proceeds were utilized by the JV entity to fund \$1,585 of capital expenditures.

On March 1, 2018, Prospect exchanged \$47,000 of ACLL Senior Secured Term Loan C for \$47,000 of NPRC Senior Secured Term Loan E.

On March 19, 2018, Prospect exchanged \$50,000 of ACLL Senior Secured Term Loan C for \$50,000 of NPRC Senior Secured Term Loan E.

On March 29, 2018, Prospect purchased additional common equity of NPRC through NPH for \$3,134. NPRC utilized \$3,131 of the proceeds as a capital contribution in multiple JV entities that own nine multi-family properties and to pay \$3 for legal services provided by attorneys at Prospect Administration. The minority interest holder also contributed \$71 of additional capital in the JV entities. The proceeds were utilized by the JV entities to fund \$3,202 of capital expenditures.

On March 29, 2018 Prospect exchanged \$578 of ACLL Senior Secured Term Loan C and \$14,274 of ACLLH Senior Secured Term Loan C for \$14,852 of NPRC Senior Secured Term Loan E.

On March 30, 2018, Prospect purchased additional common equity of NPRC through NPH for \$7,997. NPRC utilized \$797 of the proceeds to fund the lender rate-lock deposit and initial deposits required under the purchase and sale agreement of a JV real estate transaction. NPRC utilized \$200 of proceeds provided to pay a structuring fee to Prospect (which was recognized by Prospect as structuring fee income). On May 9, 2018, NPRC utilized the remaining \$7,000 of proceeds and \$159 of working capital to purchase a 61.4% interest in Forest Park Holdings, LLC. The minority interest holder purchased ownership interest in the JV for \$5,000. The JV utilized the total proceeds, which included debt financing of \$36,400, to acquire \$45,505 of multi-family real estate assets. The remaining proceeds were used by the JV to pay \$192 of structuring fees to NPRC, \$1,184 of third party expenses, \$1,168 of pre-funded capital expenditures, \$1,011 of prepaid assets, and \$296 was retained by the JV as working capital.

On March 30, 2018 Prospect contributed \$48,832 to NPRC as an increase to the NPRC Senior Secured Term Loan E. On the same day, NPRC distributed \$48,832 as a return of capital to Prospect.

On April 13, 2018, Prospect purchased additional common equity of NPRC through NPH for \$8,256. NPRC utilized \$8,255 of the proceeds as a capital contribution in a JV entity that own eight multi-family properties and \$1 was retained by NPRC as working capital. The proceeds were utilized by the JV entities to fund \$8,255 of capital expenditures.

On May 11, 2018, Prospect purchased additional common equity of NPRC through NPH for \$3,343. NPRC utilized \$3,342 of the proceeds as a capital contribution in multiple JV entities that own eight multi-family properties and \$1 was retained by NPRC as working capital. The minority interest holder also contributed \$270 of additional capital in the JV entities. The proceeds were utilized by the JV entities to fund \$3,612 of capital expenditures.

On May 25, 2018, Prospect purchased additional common equity of NPRC through NPH for \$24,507. NPRC utilized \$490 of proceeds provided to pay a structuring fee to Prospect (which was recognized by Prospect as structuring fee income). On June 1, 2018, NPRC utilized \$23,271 of proceeds provided by Prospect on May 25, 2018 to purchase a 92.5% interest in Olentangy Commons Holdings, LLC. The remaining \$746 was retained as working capital by NPRC. The minority interest holder purchased ownership interest in the JV for \$1,887. The JV utilized the total proceeds, which included debt financing of \$92,876, to acquire

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\$113,000 of multi-family real estate assets. The remaining proceeds were used by the JV to pay \$465 of structuring fees to NPRC, \$861 of third party expenses, \$1,706 of pre-funded capital expenditures, \$798 of prepaid assets, and \$1,204 was retained by the JV as working capital.

On June 14, 2018, Prospect purchased additional common equity of NPRC through NPH for \$3,192. NPRC utilized \$3,190 of the proceeds as a capital contribution in multiple JV entities that own three multi-family properties and \$2 was retained by NPRC as working capital. The proceeds were utilized by the JV entities to fund \$3,190 of capital expenditures.

On June 29, 2018, Prospect purchased additional common equity of NPRC through NPH for \$10,780. NPRC utilized \$1,471 of the proceeds to fund the lender rate-lock deposit and initial deposits required under the purchase and sale agreement of a JV real estate transaction. NPRC utilized \$216 of proceeds provided to pay a structuring fee to Prospect (which was recognized by Prospect as structuring fee income). The remaining \$9,093 of proceeds were retained by NPRC to acquire a controlling interest in the JV real estate transaction.

During the year ended June 30, 2018, we provided \$21,858 and \$13,434 of debt and equity financing, respectively, to NPRC and its wholly-owned subsidiaries to support the online consumer loans and online consumer loan backed products. In addition, during the year ended June 30, 2018, we received partial repayments of \$113,675 of our loans previously outstanding with NPRC and its wholly-owned subsidiaries and \$10,403 as a return of capital on our equity investment in NPRC.

The following dividends were declared and paid from NPRC to Prospect and recognized as dividend income by Prospect:

Year Ended June 30, 2016	N/A
Year Ended June 30, 2017	—
Year Ended June 30, 2018	11,279

The following interest payments were accrued and paid by NPRC to Prospect and recognized by Prospect as interest income:

Year Ended June 30, 2016	\$	40,147
Year Ended June 30, 2017		60,707
Year Ended June 30, 2018		73,907

Included above, the following payment-in-kind interest from NPRC was capitalized and recognized by Prospect as interest income:

Year Ended June 30, 2016	\$	703
Year Ended June 30, 2017		—
Year Ended June 30, 2018		776

The following interest income recognized had not yet been paid by NPRC to Prospect and was included by Prospect within interest receivable:

June 30, 2017	\$	147
June 30, 2018		426

The following interest payments were accrued and paid by ACLLH to Prospect and recognized by Prospect as interest income:

Year Ended June 30, 2016	\$	22,543
Year Ended June 30, 2017		13,895
Year Ended June 30, 2018		13,505

The following interest income recognized had not yet been paid by ACLLH to Prospect and was included by Prospect within interest receivable:

June 30, 2017	\$	27
June 30, 2018		—

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The following interest payments were accrued and paid by ACLL to Prospect and recognized by Prospect as interest income:

Year Ended June 30, 2016	\$	—
Year Ended June 30, 2017		7,940
Year Ended June 30, 2018		3,170

The following interest income recognized had not yet been paid by ACLL to Prospect and was included by Prospect within interest receivable:

June 30, 2017	\$	39
June 30, 2018		—

The following prepayment penalty fees were paid from NPRC to Prospect and recognized by Prospect as interest income:

Year Ended June 30, 2016	\$	—
Year Ended June 30, 2017		2,235
Year Ended June 30, 2018		—

The following net revenue interest payments were paid from NPRC to Prospect and recognized by Prospect as other income:

Year Ended June 30, 2016	\$	2,712
Year Ended June 30, 2017		5,532
Year Ended June 30, 2018		6,531

The following structuring fees were paid from NPRC to Prospect and recognized by Prospect as other income:

Year Ended June 30, 2016	\$	180
Year Ended June 30, 2017		2,147
Year Ended June 30, 2018		2,303

The following structuring fees were paid from ACLLH to Prospect and recognized by Prospect as other income:

Year Ended June 30, 2016	\$	2,483
Year Ended June 30, 2017		1,507
Year Ended June 30, 2018		—

The following managerial assistance payments were paid from NPRC to Prospect and subsequently remitted to Prospect Administration (no income was recognized by Prospect):

Year Ended June 30, 2016	\$	593
Year Ended June 30, 2017		1,300
Year Ended June 30, 2018		1,700

The following managerial assistance payments received by Prospect had not yet been remitted to Prospect Administration and were included by Prospect within due to Prospect Administration:

June 30, 2017	\$	325
June 30, 2018		525

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The following payments were paid from NPRC to Prospect Administration as reimbursement for legal, tax and portfolio level accounting services provided directly to NPRC (no direct income was recognized by Prospect, but Prospect was given credit for these payments as a reduction of the administrative services costs payable by Prospect to Prospect Administration):

Year Ended June 30, 2016	\$	2,363
Year Ended June 30, 2017		6,241
Year Ended June 30, 2018		1,823

The following amounts were due from NPRC to Prospect for reimbursement of expenses paid by Prospect on behalf of NPRC and included by Prospect within other receivables:

June 30, 2017	\$	6
June 30, 2018		286

The following amounts were due from ACLLH to Prospect for reimbursement of expenses paid by Prospect on behalf of ACLLH and included by Prospect within other receivables:

June 30, 2017	\$	1
June 30, 2018		19

*Nationwide Loan Company LLC*

Prospect owns 100% of the membership interests of Nationwide Acceptance Holdings LLC (“Nationwide Holdings”), a Consolidated Holding Company. Nationwide Holdings owns 93.79% of the equity of Nationwide Loan Company LLC (f/k/a Nationwide Acceptance LLC) (“Nationwide”), with members of Nationwide management owning the remaining 6.21% of the equity.

On August 31, 2016, Prospect made an additional \$123 investment in the senior subordinated term loan to Nationwide. Prospect also made an additional equity investment totaling \$92, increasing Prospect’s ownership in Nationwide to 94.48%.

On May 31, 2017, Prospect made an additional equity investment totaling \$1,889, and Prospect’s ownership in Nationwide did not change.

On October 31, 2017, Prospect made an additional equity investment totaling \$3,779, and Prospect’s ownership in Nationwide did not change.

The following dividends were declared and paid from Nationwide to Prospect and recognized as dividend income by Prospect:

Year Ended June 30, 2016	\$	3,963
Year Ended June 30, 2017		4,310
Year Ended June 30, 2018		—

All dividends were paid from earnings and profits of Nationwide.

The following amounts were paid from Nationwide to Prospect and recognized by Prospect as repayment of loan receivable:

Year Ended June 30, 2016	\$	300
Year Ended June 30, 2017		—
Year Ended June 30, 2018		—

The following interest payments were accrued and paid from Nationwide to Prospect and recognized by Prospect as interest income:

Year Ended June 30, 2016	\$	3,212
Year Ended June 30, 2017		3,406
Year Ended June 30, 2018		3,485

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Included above, the following payment-in-kind interest from Nationwide was capitalized and recognized by Prospect as interest income:

Year Ended June 30, 2016	\$	300
Year Ended June 30, 2017		—
Year Ended June 30, 2018		591

The following interest income recognized had not yet been paid by Nationwide to Prospect and was included by Prospect within interest receivable:

June 30, 2017	\$	9
June 30, 2018		—

The following managerial assistance payments were paid from Nationwide to Prospect and subsequently remitted to Prospect Administration (no income was recognized by Prospect):

Year Ended June 30, 2016	\$	400
Year Ended June 30, 2017		400
Year Ended June 30, 2018		400

The following managerial assistance payments received by Prospect had not yet been remitted to Prospect Administration and were included by Prospect within due to Prospect Administration:

June 30, 2017	\$	100
June 30, 2018		100

The following payments were paid from Nationwide to Prospect Administration as reimbursement for legal, tax and portfolio level accounting services provided directly to Nationwide (no direct income was recognized by Prospect, but Prospect was given credit for these payments as a reduction of the administrative services costs payable by Prospect to Prospect Administration):

Year Ended June 30, 2016	\$	—
Year Ended June 30, 2017		—
Year Ended June 30, 2018		46

The following amounts were due from Nationwide from Prospect for reimbursement of expenses paid by Nationwide on behalf of Prospect and were included by Prospect within other liabilities:

June 30, 2017	\$	—
June 30, 2018		15

*NMMB, Inc.*

Prospect owns 100% of the equity of NMMB Holdings, Inc. (“NMMB Holdings”), a Consolidated Holding Company. NMMB Holdings owns 91.52% of the fully-diluted equity of NMMB, Inc. (f/k/a NMMB Acquisition, Inc.) (“NMMB”), with NMMB management owning the remaining 8.67% of the equity. NMMB owns 100% of Refuel Agency, Inc. (“Refuel Agency”). Refuel Agency owns 100% of Armed Forces Communications, Inc. (“Armed Forces”). NMMB is an advertising media buying business.

The following amounts were paid from Armed Forces to Prospect and recorded by Prospect as repayment of loan receivable:

Year Ended June 30, 2016	\$	—
Year Ended June 30, 2017		100
Year Ended June 30, 2018		1,999

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The following interest payments were accrued and paid from NMMB to Prospect and recognized by Prospect as interest income:

Year Ended June 30, 2016	\$	529
Year Ended June 30, 2017		527
Year Ended June 30, 2018		526

The following interest income recognized had not yet been paid by NMMB to Prospect and was included by Prospect within interest receivable:

June 30, 2017	\$	1
June 30, 2018		1

The following interest payments were accrued and paid from Armed Forces to Prospect and recognized by Prospect as interest income:

Year Ended June 30, 2016	\$	996
Year Ended June 30, 2017		991
Year Ended June 30, 2018		929

The following interest income recognized had not yet been paid by Armed Forces to Prospect and was included by Prospect within interest receivable:

June 30, 2017	\$	3
June 30, 2018		2

The following managerial assistance payments were paid from NMMB to Prospect and subsequently remitted to Prospect Administration (no income was recognized by Prospect):

Year Ended June 30, 2016	\$	—
Year Ended June 30, 2017		213
Year Ended June 30, 2018		400

The following managerial assistance payments received by Prospect had not yet been remitted to Prospect Administration and were included by Prospect within due to Prospect Administration:

June 30, 2017	\$	100
June 30, 2018		100

The following managerial assistance recognized had not yet been paid by NMMB to Prospect and was included by Prospect within other receivables and due to Prospect Administration:

June 30, 2017	\$	1,288
June 30, 2018		1,288

The following amounts were due from NMMB to Prospect for reimbursement of expenses paid by Prospect on behalf of NMMB and were included by Prospect within other receivables:

June 30, 2017	\$	—
June 30, 2018		4

*Pacific World Corporation*

On May 29, 2018, Prospect exercised its rights and remedies under its loan documents to exercise the shareholder voting rights in respect of the stock of Pacific World Corporation (“Pacific World”) and to appoint a new Board of Directors of Pacific World. As a result, as of June 30, 2018, Prospect’s investment in Pacific World is classified as a control investment.

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On June 15, 2018, we made a \$15,000 convertible preferred equity investment in Pacific World Corporation (“Pacific World”).

The following amounts were paid from Pacific World to Prospect and recorded by Prospect as repayment of loan receivable:

Year Ended June 30, 2016	\$	—
Year Ended June 30, 2017		—
Year Ended June 30, 2018		250

Since assuming control, the following interest payments were accrued and paid from Pacific World to Prospect and recognized by Prospect as interest income:

Year Ended June 30, 2016	\$	—
Year Ended June 30, 2017		—
Year Ended June 30, 2018		3,742

The following interest income recognized had not yet been paid by Pacific World to Prospect and was included by Prospect within interest receivable:

June 30, 2017	\$	—
June 30, 2018		270

*R-V Industries, Inc.*

Prospect owns 88.27% of the fully-diluted equity of R-V Industries, Inc. (“R-V”), with R-V management owning the remaining 11.73% of the equity. As of June 30, 2011, Prospect’s equity investment cost basis was \$1,682 and \$5,087 for warrants and common stock, respectively.

On December 24, 2016, Prospect exercised its warrant to purchase 200,000 common shares of R-V. Prospect recorded a realized gain of \$172 from this redemption. Prospect’s ownership remains unchanged at 88.27%.

During the three months ended December 31, 2016, Prospect provided certain financial advisory services to R-V related to a possible transaction. Prospect recognized \$124 in advisory fee income resulting from these services.

The following amounts were paid from R-V to Prospect and recorded by Prospect as repayment of loan receivable:

Year Ended June 30, 2016	\$	614
Year Ended June 30, 2017		—
Year Ended June 30, 2018		—

The following dividends were declared and paid from R-V to Prospect and recognized as dividend income by Prospect:

Year Ended June 30, 2016	\$	299
Year Ended June 30, 2017		149
Year Ended June 30, 2018		—

All dividends were paid from earnings and profits of R-V.

During the year ended June 30, 2017, cash distributions of \$76 that were declared and paid from R-V to Prospect were recognized as a return of capital by Prospect.

The following interest payments were accrued and paid from R-V to Prospect and recognized by Prospect as interest income:

Year Ended June 30, 2016	\$	2,908
Year Ended June 30, 2017		2,877
Year Ended June 30, 2018		3,064



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The following interest income recognized had not yet been paid by R-V to Prospect and was included by Prospect within interest receivable:

June 30, 2017	\$	—
June 30, 2018		18

The following managerial assistance payments were paid from R-V to Prospect and subsequently remitted to Prospect Administration (no income was recognized by Prospect):

Year Ended June 30, 2016	\$	180
Year Ended June 30, 2017		165
Year Ended June 30, 2018		180

The following managerial assistance payments received by Prospect had not yet been remitted to Prospect Administration and were included by Prospect within due to Prospect Administration:

June 30, 2017	\$	45
June 30, 2018		45

The following payments were paid from R-V to Prospect Administration as reimbursement for legal, tax and portfolio level accounting services provided directly to R-V (no direct income was recognized by Prospect, but Prospect was given credit for these payments as a reduction of the administrative services costs payable by Prospect to Prospect Administration):

Year Ended June 30, 2016	\$	2
Year Ended June 30, 2017		29
Year Ended June 30, 2018		2

The following amounts were due from R-V from Prospect for reimbursement of expenses paid by R-V on behalf of Prospect and were included by Prospect within other liabilities:

June 30, 2017	\$	—
June 30, 2018		11

*SB Forging Company, Inc.*

As of June 30, 2014, Prospect owned 79.53% of the fully-diluted common, 85.76% of the Series A Preferred and 100% of the Series B Preferred equity of ARRM Services, Inc. (f/k/a ARRM Holdings, Inc.) (“ARRM”). ARRM owned 100% of the equity of Ajax Rolled Ring & Machine, LLC (f/k/a Ajax Rolled Ring & Machine, Inc.) (“Ajax”). Ajax forges large seamless steel rings on two forging mills in the company’s York, South Carolina facility. The rings are used in a range of industrial applications, including in construction equipment and power turbines. Ajax also provides machining and other ancillary services.

On May 31, 2016, \$1,750 of the escrow proceeds were received. Prospect realized a gain of the same amount.

During the three months ended March 31, 2017, Prospect incurred \$53 of additional overhead expense related to SB Forging ,which will be given to us as a credit for services payable to Prospect Administration in the June 2017 quarter.

The following payments were paid from SB Forging to Prospect Administration as reimbursement for legal, tax and portfolio level accounting services provided directly to SB Forging (no direct income was recognized by Prospect, but Prospect was given credit for these payments as a reduction of the administrative services costs payable by Prospect to Prospect Administration):

Year Ended June 30, 2016	\$	—
Year Ended June 30, 2017		598
Year Ended June 30, 2018		—

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*SB Forging Company II, Inc. (f/k/a Gulf Coast Machine & Supply Company)*

Prospect owns 100% of the preferred equity of Gulf Coast Machine & Supply Company (“Gulf Coast”). Gulf Coast is a provider of value-added forging solutions to energy and industrial end markets.

During the year ended June 30, 2017, Prospect made additional investments of \$8,750 in the first lien term loan to Gulf Coast to fund capital improvements to key forging equipment and other liquidity needs.

On June 3, 2017, Gulf Coast sold all of its assets to a third party, for total consideration of \$10,250, including escrowed amounts. The proceeds from the sale were primarily used to repay a \$6,115 third party revolving credit facility, and the remainder was used to pay other legal and administrative costs incurred by Gulfco. As no proceeds were allocated to Prospect, our debt and equity investment in Gulfco was written-off for tax purposes and we recorded a realized loss of \$66,103. In June 2018, Gulfco received escrow proceeds of \$2,050 related to the sale. On June 28, 2017, Gulf Coast was renamed to SB Forging Company II, Inc.

The following amounts were paid from Gulf Coast to Prospect and recorded by Prospect as repayment of loan receivable:

Year Ended June 30, 2016	\$	1,075
Year Ended June 30, 2017		3,022
Year Ended June 30, 2018		—

The following payments were paid from Gulf Coast to Prospect Administration as reimbursement for legal, tax and portfolio level accounting services provided directly to Gulf Coast (no direct income was recognized by Prospect, but Prospect was given credit for these payments as a reduction of the administrative services costs payable by Prospect to Prospect Administration):

Year Ended June 30, 2016	\$	—
Year Ended June 30, 2017		503
Year Ended June 30, 2018		—

*USES Corp.*

On June 15, 2016, we provided additional \$1,300 debt financing to USES Corp. (“USES”) and its subsidiaries in the form of additional Term Loan A debt and, in connection with such Term Loan A debt financing, USES issued to us 99,900 shares of its common stock. On June 29, 2016, we provided additional \$2,200 debt financing to USES and its subsidiaries in the form of additional Term Loan A debt and, in connection with such Term Loan A debt financing, USES issued to us 169,062 shares of its common stock. As a result of such debt financing and recapitalization, as of June 29, 2016, we held 268,962 shares of USES common stock representing a 99.96% common equity ownership interest in USES. As such, USES became a controlled company on June 30, 2016.

During the year ended June 30, 2017, Prospect provided additional \$2,599 debt financing to USES and its subsidiaries in the form of additional Term Loan A debt.

During the nine months ended March 31, 2018, Prospect provided additional \$3,000 debt financing to USES and its subsidiaries in the form of additional Term Loan A debt.

During the nine months ended March 31, 2018, we entered into a participation agreement with USES management, and sold \$3 of Prospect’s investment in the Term Loan A debt.

The following managerial assistance recognized had not yet been paid by USES to Prospect and was included by Prospect within other receivables and due to Prospect Administration:

June 30, 2017	\$	325
June 30, 2018		625

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*Valley Electric Company, Inc.*

Prospect owns 100% of the common stock of Valley Electric Holdings I, Inc. ("Valley Holdings I"), a Consolidated Holding Company. Valley Holdings I owns 100% of Valley Electric Holdings II, Inc. ("Valley Holdings II"), a Consolidated Holding Company. Valley Holdings II owns 94.99% of Valley Electric Company, Inc. ("Valley Electric"), with Valley Electric management owning the remaining 5.01% of the equity. Valley Electric owns 100% of the equity of VE Company, Inc., which owns 100% of the equity of Valley Electric Co. of Mt. Vernon, Inc. ("Valley"), a leading provider of specialty electrical services in the state of Washington and among the top 50 electrical contractors in the United States.

The following interest payments were accrued and paid from Valley Electric to Prospect and recognized by Prospect as interest income:

Year Ended June 30, 2016	\$	4,252
Year Ended June 30, 2017		4,518
Year Ended June 30, 2018		4,861

Included above, the following payment-in-kind interest from Valley Electric was capitalized and recognized by Prospect as interest income:

Year Ended June 30, 2016	\$	1,509
Year Ended June 30, 2017		1,822
Year Ended June 30, 2018		2,157

The following interest income recognized had not yet been paid by Valley Electric to Prospect and was included by Prospect within interest receivable:

June 30, 2017	\$	13
June 30, 2018		14

The following interest payments were accrued and paid from Valley to Prospect and recognized by Prospect as interest income:

Year Ended June 30, 2016	\$	1,111
Year Ended June 30, 2017		1,111
Year Ended June 30, 2018		1,110

Included above, the following payment-in-kind interest from Valley was capitalized and recognized by Prospect as interest income:

Year Ended June 30, 2016	\$	90
Year Ended June 30, 2017		—
Year Ended June 30, 2018		—

The following interest income recognized had not yet been paid by Valley to Prospect and was included by Prospect within interest receivable:

June 30, 2017	\$	3
June 30, 2018		3

The following managerial assistance payments were paid from Valley to Prospect and subsequently remitted to Prospect Administration (no income was recognized by Prospect):

Year Ended June 30, 2016	\$	300
Year Ended June 30, 2017		300
Year Ended June 30, 2018		5

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The following managerial assistance payments received by Valley had not yet been remitted to Prospect Administration and were included by Prospect within due to Prospect Administration:

June 30, 2017	\$	—
June 30, 2018		75

The following managerial assistance recognized had not yet been paid by Valley to Prospect and was included by Prospect within other receivables and due to Prospect Administration:

June 30, 2017	\$	75
June 30, 2018		—

The following payments were paid from Valley Electric to Prospect Administration as reimbursement for legal, tax and portfolio level accounting services provided directly to Valley Electric (no direct income was recognized by Prospect, but Prospect was given credit for these payments as a reduction of the administrative services costs payable by Prospect to Prospect Administration):

Year Ended June 30, 2016	\$	9
Year Ended June 30, 2017		—
Year Ended June 30, 2018		—

The following amounts were due from Valley to Prospect for reimbursement of expenses paid by Prospect on behalf of Valley and were included by Prospect within other receivables:

June 30, 2017	\$	3
June 30, 2018		3

*Wolf Energy, LLC*

Prospect owns 100% of the equity of Wolf Energy Holdings Inc. (“Wolf Energy Holdings”), a Consolidated Holding Company. Wolf Energy Holdings owns 100% of each of Appalachian Energy LLC (f/k/a Appalachian Energy Holdings, LLC) (“AEH”); Coalbed, LLC (“Coalbed”); and Wolf Energy, LLC (“Wolf Energy”). AEH owns 100% of C&S Operating, LLC.

Wolf Energy Holdings is a holding company formed to hold 100% of the outstanding membership interests of each of AEH and Coalbed. The membership interests and associated operating company debt of AEH and Coalbed, which were previously owned by Manx Energy, Inc. (“Manx”), were assigned to Wolf Energy Holdings effective June 30, 2012. The purpose of assignment was to remove those activities from Manx deemed non-core by the Manx convertible debt investors who were not interested in funding those operations. On June 30, 2012, AEH and Coalbed loans with a cost basis of \$7,991 were assigned by Prospect to Wolf Energy Holdings from Manx.

On March 14, 2017, \$22,145 of assets previously held by Ark-La-Tex Wireline Services, LLC (“Ark-La-Tex”) were assigned to Wolf Energy Services Company, LLC, (“Wolf Energy Services”) a wholly-owned subsidiary of Wolf Energy Holdings. During the three months ended March 31, 2017, Wolf Energy Services received \$2,768 from the partial sale of these transferred assets. During the three months ended June 30, 2017 Wolf Energy Services received \$12,576 from the sale of assets.

During the year ended June 30, 2018 Wolf Energy Services received \$3,009 from the sale of assets.

On December 29, 2017, we entered into a fee agreement with Wolf Energy Services Company, LLC (“Wolf”), for services required to locate, inventory, foreclose, and liquidate assets that were transferred from Ark-La-Tex to Wolf. Per the agreement, we will receive a fee equal to 8.0% of gross liquidation proceeds in the event aggregate liquidation gross proceeds exceed \$19,000 (currently \$18,500). During the three months ended March 31, 2018, we received \$1,220 in liquidation fees, net of third-party transaction costs, which is reflected as other income on our accompanying Consolidated Statement of Operations.

The following managerial assistance payments were paid from Wolf Energy to Prospect and subsequently remitted to Prospect Administration (no income was recognized by Prospect):

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Year Ended June 30, 2016	\$	124
Year Ended June 30, 2017		41
Year Ended June 30, 2018		14

The following managerial assistance recognized had not yet been paid by Wolf Energy to Prospect and was included by Prospect within other receivables and due to Prospect Administration:

June 30, 2017	\$	14
June 30, 2018		—

The following managerial assistance recognized had not yet been paid by Wolf Energy to Prospect and was included by Prospect within other receivables and due to Prospect Administration:

June 30, 2017	\$	—
June 30, 2018		41

The following payments were paid from Wolf Energy to Prospect Administration as reimbursement for legal, tax and portfolio level accounting services provided directly to Wolf Energy (no direct income was recognized by Prospect, but Prospect was given credit for these payments as a reduction of the administrative services costs payable by Prospect to Prospect Administration):

Year Ended June 30, 2016	\$	—
Year Ended June 30, 2017		243
Year Ended June 30, 2018		—

**Note 15. Litigation**

From time to time, we may become involved in various investigations, claims and legal proceedings that arise in the ordinary course of our business. These matters may relate to intellectual property, employment, tax, regulation, contract or other matters. The resolution of such matters as may arise will be subject to various uncertainties and, even if such claims are without merit, could result in the expenditure of significant financial and managerial resources. We are not aware of any material legal proceedings as of June 30, 2018 .

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**Note 16. Financial Highlights**

The following is a schedule of financial highlights for each of the five years ended in the period ended June 30, 2018:

	Year Ended June 30,				
	2018	2017	2016	2015	2014
<b>Per Share Data</b>					
Net asset value at beginning of year	\$ 9.32	\$ 9.62	\$ 10.31	\$ 10.56	\$ 10.72
Net investment income(1)	0.79	0.85	1.04	1.03	1.19
Net realized and change in unrealized (losses) gains(1)	0.04	(0.15)	(0.75)	(0.05)	(0.13)
Net increase from operations	0.83	0.70	0.29	0.98	1.06
Distributions of net investment income	(0.77)	(1.00)	(1.00)	(1.19)	(1.32)
Common stock transactions(2)	(0.03)	—	0.02	(0.04)	0.10
Net asset value at end of year	\$ 9.35	\$ 9.32	\$ 9.62	\$ 10.31	\$ 10.56
Per share market value at end of year	\$ 6.71	\$ 8.12	\$ 7.82	\$ 7.37	\$ 10.63
Total return based on market value(3)	(7.42%)	16.80%	21.84%	(20.84%)	10.88%
Total return based on net asset value(3)	12.39%	8.98%	7.15%	11.47%	10.97%
Shares of common stock outstanding at end of year	364,409,938	360,076,933	357,107,231	359,090,759	342,626,637
Weighted average shares of common stock outstanding	361,456,075	358,841,714	356,134,297	353,648,522	300,283,941
<b>Ratios/Supplemental Data</b>					
Net assets at end of year	\$ 3,407,047	\$ 3,354,952	\$ 3,435,917	\$ 3,703,049	\$ 3,618,182
Portfolio turnover rate	30.70%	23.65%	15.98%	21.89%	15.21%
Ratio of operating expenses to average net assets	11.08%	11.57%	11.95%	11.66%	11.11%
Ratio of net investment income to average net assets	8.57%	8.96%	10.54%	9.87%	11.18%

- (1) Per share data amount is based on the weighted average number of common shares outstanding for the year presented (except for dividends to shareholders which is based on actual rate per share).
- (2) Common stock transactions include the effect of our issuance of common stock in public offerings (net of underwriting and offering costs), shares issued in connection with our dividend reinvestment plan, shares issued to acquire investments and shares repurchased below net asset value pursuant to our Repurchase Program.
- (3) Total return based on market value is based on the change in market price per share between the opening and ending market prices per share in each period and assumes that dividends are reinvested in accordance with our dividend reinvestment plan. Total return based on net asset value is based upon the change in net asset value per share between the opening and ending net asset values per share in each period and assumes that dividends are reinvested in accordance with our dividend reinvestment plan.
- (4) Amount is less than \$0.01.

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**Note 17. Selected Quarterly Financial Data (Unaudited)**

The following table sets forth selected financial data for each quarter within the three years ended June 30, 2018 .

Quarter Ended	Investment Income		Net Investment Income		Net Realized and Unrealized (Losses) Gains		Net Increase (Decrease) in Net Assets from Operations	
	Total	Per Share(1)	Total	Per Share(1)	Total	Per Share(1)	Total	Per Share(1)
September 30, 2015	\$ 200,251	\$ 0.56	\$ 91,242	\$ 0.26	\$ (63,425)	\$ (0.18)	\$ 27,817	\$ 0.08
December 31, 2015	209,191	0.59	100,893	0.28	(196,013)	(0.55)	(95,120)	(0.27)
March 31, 2016	189,493	0.53	87,626	0.25	(12,118)	(0.03)	75,508	0.21
June 30, 2016	193,038	0.54	91,367	0.26	3,790	0.01	95,157	0.27
September 30, 2016	\$ 179,832	\$ 0.50	\$ 78,919	\$ 0.22	\$ 2,447	\$ 0.01	\$ 81,366	\$ 0.23
December 31, 2016	183,480	0.51	84,405	0.24	16,475	0.04	100,880	0.28
March 31, 2017	171,032	0.48	73,080	0.20	(53,588)	(0.15)	19,492	0.05
June 30, 2017	166,702	0.46	69,678	0.19	(18,510)	(0.05)	51,168	0.14
September 30, 2017	\$ 158,579	\$ 0.44	\$ 63,732	\$ 0.18	\$ (51,759)	\$ (0.15)	\$ 11,973	\$ 0.03
December 31, 2017	162,400	0.45	73,192	0.20	48,535	0.14	121,727	0.34
March 31, 2018	162,835	0.45	70,446	0.19	(18,587)	(0.04)	51,859	0.14
June 30, 2018	174,031	0.48	79,480	0.22	34,823	0.09	114,304	0.31

(1) Per share amounts are calculated using the weighted average number of common shares outstanding for the period presented. As such, the sum of the quarterly per share amounts above will not necessarily equal the per share amounts for the fiscal year.

**Note 18. Subsequent Events**

On July 2, 2018, we entered into debt distribution agreements with each of B. Riley FBR, Inc. and BB&T Capital Markets, a division of BB&T Securities, LLC (together, the “Agents”) pursuant to which we may sell, by means of at-the-market offerings, up to \$100,000 in aggregate principal amount of our 2024 Notes and up to \$100,000 in aggregate principal amount of the 2028 Notes. As of August 28, 2018 , we have issued an additional \$10,131 in aggregate principal amount of our 2024 Notes for net proceeds of \$10,070 and have issued an additional \$6,917 in aggregate principal amount of our 2028 Notes for net proceeds of \$6,838.

During the period from July 13, 2018 to July 16, 2018, we made follow-on first lien term loan investments of \$105,000 in Town & Country Holdings, Inc., to support acquisitions.

On August 1, 2018, we completed an extension of the Revolving Credit Facility (the “New Facility”) for PCF, extending the term 5.7 years from such date and reducing the interest rate on drawn amounts to one-month Libor plus 2.20%. The New Facility, for which \$770 million of commitments have been closed to date, includes an accordion feature that allows the Facility, at Prospect's discretion, to accept up to a total of \$1.5 billion of commitments. The New Facility matures on March 27, 2024. It includes a revolving period that extends through March 27, 2022, followed by an additional two-year amortization period, with distributions allowed to Prospect after the completion of the revolving period. Pricing for amounts drawn under the Facility is one-month Libor plus 2.20%, which achieves a 5 basis point reduction in the interest rate from the previous facility rate of Libor plus 2.25%. Additionally, the lenders charge a fee on the unused portion of the credit facility equal to either 50 basis points if more than 60% of the credit facility is drawn, or 100 basis points if more than 35% and an amount less than or equal to 60% of the credit facility is drawn, or 150 basis points if an amount less than or equal to 35% of the credit facility is drawn.

On August 1, 2018, we purchased from a third party \$14,000 of First Lien Senior Secured Term Loan A and Term Loan B Notes issued by InterDent, Inc. at par.

On August 6, 2018, we made a \$17,500 senior secured investment in Halyard MD OPCO, LLC, a healthcare IT and advertising technology business that enables targeted advertising campaigns to healthcare providers and patients. Our investment is comprised of a \$12,000 first lien term loan, a \$2,000 unfunded revolving credit facility, and a \$3,500 unfunded delayed draw investment.

**PROSPECT CAPITAL CORPORATION AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**(in thousands, except share and per share data)**

During the period from July 1, 2018 through August 28, 2018 we issued \$25,330 aggregate principal amount of Prospect Capital InterNotes® for net proceeds of \$24,919. In addition, we sold \$2,215 aggregate principal amount of Prospect Capital InterNotes® for net proceeds of \$2,176 with expected closing on August 30, 2018.

Pursuant to notice to call provided on July 5, 2018, we redeemed \$2,589 of our Prospect Capital InterNotes® at par maturing on February 15, 2020, with a weighted average rate of 4.0%. Settlement of the call occurred on August 15, 2018. We have provided notice to call on August 8, 2018 with settlement on September 15, 2018, \$26,771 of our Prospect Capital InterNotes® at par maturing between March 15, 2020 and September 15, 2020, with a weighted average rate of 4.77%.

On August 28, 2018, we announced the declaration of monthly dividends in the following amounts and with the following dates:

- \$0.06 per share for September 2018 to holders of record on September 28, 2018 with a payment date of October 18, 2018.
- \$0.06 per share for October 2018 to holders of record on October 31, 2018 with a payment date of November 21, 2018.



## **Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure**

Not applicable.

### **Item 9A. Controls and Procedures**

#### *Evaluation of Disclosure Controls and Procedures*

As of June 30, 2018, we evaluated the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rule 13a-15(e) of the 1934 Act). Based on that evaluation, our management, including the Chief Executive Officer and Chief Financial Officer, concluded that our disclosure controls and procedures were effective and provided reasonable assurance that information required to be disclosed in our periodic SEC filings is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure. However, in evaluating the disclosure controls and procedures, management recognized that any controls and procedures, no matter how well designed and operated can provide only reasonable assurance of achieving the desired control objectives, and management necessarily was required to apply its judgment in evaluating the cost-benefit relationship of such possible controls and procedures.

#### *Report of Management on Internal Control Over Financial Reporting*

Management is responsible for establishing and maintaining adequate internal control over financial reporting, and for performing an assessment of the effectiveness of internal control over financial reporting as of June 30, 2018. Internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. The Company's internal control over financial reporting includes those policies and procedures that (i) pertain to assets of the Company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the Company are being made only in accordance with authorizations of management and directors of the Company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the Company's assets that could have a material effect on the financial statements.

Management performed an assessment of the effectiveness of the Company's internal control over financial reporting as of June 30, 2018 based upon criteria in Internal Control—Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO"). Based on our assessment, management determined that the Company's internal control over financial reporting was effective as of June 30, 2018 based on the criteria on Internal Control—Integrated Framework (2013) issued by COSO. There were no changes in our internal control over financial reporting during the quarter ended June 30, 2018 that have materially affected, or are reasonably likely to affect, our internal control over financial reporting.

Our management's assessment of the effectiveness of our internal control over financial reporting as of June 30, 2018 has been audited by BDO USA, LLP, an independent registered public accounting firm, as stated in their report which appears herein.

See notes to consolidated financial statements.

## Report of Independent Registered Public Accounting Firm

Shareholders and Board of Directors  
Prospect Capital Corporation  
New York, New York

### Opinion on Internal Control over Financial Reporting

We have audited Prospect Capital Corporation's (the "Company's") internal control over financial reporting as of June 30, 2018, based on criteria established in *Internal Control-Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (the "COSO criteria"). In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of June 30, 2018, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) ("PCAOB"), the consolidated statements of assets and liabilities of Prospect Capital Corporation, including the consolidated schedules of investments, as of June 30, 2018 and 2017, and the related consolidated statements of operations, changes in net assets, and cash flows for each of the three years in the period ended June 30, 2018, and the related notes, including the financial highlights for each of the five years in the period ended June 30, 2018, and our report dated August 28, 2018 expressed an unqualified opinion thereon.

### Basis for Opinion

The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying "Item 9A, Report of Management on Internal Control Over Financial Reporting." Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit of internal control over financial reporting in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

### Definition and Limitations of Internal Control over Financial Reporting

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ BDO USA, LLP

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BDO USA, LLP

New York, New York

August 28, 2018

**Item 9B. Other Information**

Not applicable.

**PART III****Item 10. Directors, Executive Officers and Corporate Governance***Section 16(a) Beneficial Ownership Reporting Compliance*

Section 16(a) of the Securities Exchange Act of 1934, as amended, requires the Company's directors and executive officers, and persons who own more than 10% of the Company's common stock to file reports of ownership and changes in ownership with the Securities and Exchange Commission. To the Company's knowledge, during the fiscal year ended June 30, 2018, the Company's officers, directors and greater than 10% stockholders had complied with all Section 16(a) filing requirements, except that one Form 4 was filed late on behalf of William J. Grep, Director, for the purchase of shares of common stock due to an administrative error.

The information required by Item 10 is hereby incorporated by reference from our 2018 Proxy Statement.

*Code of Ethics*

We, Prospect Capital Management and Prospect Administration have each adopted a code of ethics pursuant to Rule 17j-1 under the 1940 Act that establishes procedures for personal investments and restricts certain personal securities transactions. Personnel subject to each code may invest in securities for their personal investment accounts, including securities that may be purchased or held by us, so long as such investments are made in accordance with the code's requirements. For information on how to obtain a copy of each code of ethics, see "Available Information" in Part I of this Annual Report.

**Item 11. Executive Compensation**

The information required by Item 11 is hereby incorporated by reference from our 2018 Proxy Statement.

**Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters**

The information required by Item 12 is hereby incorporated by reference from our 2018 Proxy Statement.

**Item 13. Certain Relationships and Related Transactions, and Director Independence**

The information required by Item 13 is hereby incorporated by reference from our 2018 Proxy Statement.

**Item 14. Principal Accountant Fees and Services**

The information required by Item 14 is hereby incorporated by reference from our 2018 Proxy Statement.

## PART IV

### Item 15. Exhibits, Financial Statement Schedules

The following documents are filed as part of this Annual Report:

1. Financial Statements – See the Index to Consolidated Financial Statements in Item 8 of this report.
2. Financial Statement Schedules – The financial statements of National Property REIT Corp. required by Rule 3-09 of Regulation S-X will be provided as Exhibit 99.1 and Exhibit 99.2 to this report. The financial statements of First Tower Finance Company LLC required by Rule 3-09 of Regulation S-X will be provided as Exhibit 99.3 and Exhibit 99.4 to this report.
3. Exhibits – The following exhibits are filed as part of this report or hereby incorporated by reference to exhibits previously filed with the SEC (according to the number assigned to them in Item 601 of Regulation S-K):

#### **Exhibit No.**

- 3.1 [Articles of Amendment and Restatement\(1\)](#)
- 3.2 [Amended and Restated Bylaws\(3\)](#)
- 4.1 [Form of Share Certificate\(2\)](#)
- 4.2 [Form of Indenture\(9\)](#)
- 4.3 [Indenture dated as of December 21, 2010 relating to the 6.25% Senior Convertible Notes, by and between the Registrant and American Stock Transfer & Trust Company, LLC, as Trustee and Form of 6.25% Senior Convertible Note due 2015\(7\)](#)
- 4.4 [Indenture dated as of February 18, 2011 relating to the 5.50% Senior Convertible Notes, by and between the Registrant and American Stock Transfer & Trust Company, LLC, as Trustee\(8\)](#)
- 4.5 [Form of 5.50% Senior Convertible Note due 2016\(6\)](#)
- 4.6 [Indenture dated as of February 16, 2012, by and between the Registrant and American Stock Transfer & Trust Company, LLC, as Trustee\(10\)](#)
- 4.7 [First Supplemental Indenture dated as of March 1, 2012, to the Indenture dated as of February 16, 2012, by and between the Registrant and American Stock Transfer & Trust Company, LLC, as Trustee and Form of 7.00% Prospect Capital InterNote® due 2022\(10\)](#)
- 4.8 [Second Supplemental Indenture dated as of March 8, 2012, to the Indenture dated as of February 16, 2012, by and between the Registrant and American Stock Transfer & Trust Company, LLC, as Trustee\(11\)](#)

- 4.9 [Joinder Supplemental Indenture dated as of March 8, 2012, to the Indenture dated as of February 16, 2012, by and among the Registrant, American Stock Transfer & Trust Company, LLC, as Original Trustee, and U.S. Bank National Association, as Series Trustee and Form of 6.900% Prospect Capital InterNote® due 2022\(11\)](#)
- 4.10 [Agreement of Resignation, Appointment and Acceptance dated as of March 12, 2012, by and among the Registrant, American Stock Transfer & Trust Company, LLC, as Retiring Trustee, and U.S. Bank National Association, as Successor Trustee \(the "U.S. Bank Indenture"\)\(12\)](#)
- 4.11 [Third Supplemental Indenture dated as of April 5, 2012, to the U.S. Bank Indenture and Form of 6.850% Prospect Capital InterNote® due 2022\(14\)](#)
- 4.12 [Fourth Supplemental Indenture dated as of April 12, 2012, to the U.S. Bank Indenture and Form of 6.700% Prospect Capital InterNote® due 2022\(15\)](#)
- 4.13 [Indenture dated as of April 16, 2012 relating to the 5.375% Senior Convertible Notes, by and between the Registrant and American Stock Transfer & Trust Company, as Trustee\(16\)](#)
- 4.14 [Form of 5.375% Senior Convertible Note due 2017\(17\)](#)
- 4.15 [Fifth Supplemental Indenture dated as of April 26, 2012, to the U.S. Bank Indenture and Form of 6.500% Prospect Capital InterNote® due 2022\(18\)](#)
- 4.16 [Indenture dated as of August 14, 2012 relating to the 5.75% Senior Convertible Notes, by and between the Registrant and American Stock Transfer & Trust Company, as Trustee\(19\)](#)
- 4.17 [Form of 5.75% Senior Convertible Note due 2018\(20\)](#)
- 4.18 [Nineteenth Supplemental Indenture dated as of September 27, 2012, to the U.S. Bank Indenture and Form of 5.850% Prospect Capital InterNote® due 2019\(21\)](#)
- 4.19 [Twentieth Supplemental Indenture dated as of October 4, 2012, to the U.S. Bank Indenture and Form of 5.700% Prospect Capital InterNote® due 2019\(22\)](#)

**Exhibit No.**

- 4.20 [Twenty-First Supplemental Indenture dated as of November 23, 2012, to the U.S. Bank Indenture and Form of 5.125% Prospect Capital InterNote® due 2019\(23\)](#)
- 4.21 [Twenty-Second Supplemental Indenture dated as of November 23, 2012, to the U.S. Bank Indenture and Form of 6.625% Prospect Capital InterNote® due 2042\(23\)](#)
- 4.22 [Twenty-Third Supplemental Indenture dated as of November 29, 2012, to the U.S. Bank Indenture and Form of 5.000% Prospect Capital InterNote® due 2019\(24\)](#)
- 4.23 [Twenty-Fourth Supplemental Indenture dated as of November 29, 2012, to the U.S. Bank Indenture and Form of 5.750% Prospect Capital InterNote® due 2032\(24\)](#)
- 4.24 [Twenty-Fifth Supplemental Indenture dated as of November 29, 2012, to the U.S. Bank Indenture and Form of 6.500% Prospect Capital InterNote® due 2042\(24\)](#)
- 4.25 [Twenty-Sixth Supplemental Indenture dated as of December 6, 2012, to the U.S. Bank Indenture and Form of 4.875% Prospect Capital InterNote® due 2019\(25\)](#)
- 4.26 [Twenty-Eighth Supplemental Indenture dated as of December 6, 2012, to the U.S. Bank Indenture and Form of 6.375% Prospect Capital InterNote® due 2042\(25\)](#)
- 4.27 [Twenty-Ninth Supplemental Indenture dated as of December 13, 2012, to the U.S. Bank Indenture and Form of 4.750% Prospect Capital InterNote® due 2019\(26\)](#)
- 4.28 [Thirty-First Supplemental Indenture dated as of December 13, 2012, to the U.S. Bank Indenture and Form of 6.250% Prospect Capital InterNote® due 2042\(26\)](#)
- 4.29 [Thirty-Second Supplemental Indenture dated as of December 20, 2012, to the U.S. Bank Indenture and Form of 4.625% Prospect Capital InterNote® due 2019\(27\)](#)
- 4.30 [Thirty-Fourth Supplemental Indenture dated as of December 20, 2012, to the U.S. Bank Indenture and Form of 6.125% Prospect Capital InterNote® due 2042\(27\)](#)
- 4.31 [Indenture dated as of December 21, 2012, by and between the Registrant and American Stock Transfer & Trust](#)

- 4.32 [Thirty-Fifth Supplemental Indenture dated as of December 28, 2012, to the U.S. Bank Indenture and Form of 4.500% Prospect Capital InterNote® due 2019\(29\)](#)
- 4.33 [Thirty-Sixth Supplemental Indenture dated as of December 28, 2012, to the U.S. Bank Indenture and Form of 5.000% Prospect Capital InterNote® due 2030\(29\)](#)
- 4.34 [Thirty-Seventh Supplemental Indenture dated as of December 28, 2012, to the U.S. Bank Indenture and Form of 6.000% Prospect Capital InterNote® due 2042\(29\)](#)
- 4.35 [Thirty-Eighth Supplemental Indenture dated as of January 4, 2013, to the U.S. Bank Indenture and Form of 4.375% Prospect Capital InterNote® due 2020\(30\)](#)
- 4.36 [Thirty-Ninth Supplemental Indenture dated as of January 4, 2013, to the U.S. Bank Indenture and Form of 4.875% Prospect Capital InterNote® due 2031\(30\)](#)
- 4.37 [Fortieth Supplemental Indenture dated as of January 4, 2013, to the U.S. Bank Indenture and Form of 5.875% Prospect Capital InterNote® due 2043\(30\)](#)
- 4.38 [Forty-First Supplemental Indenture dated as of January 10, 2013, to the U.S. Bank Indenture and Form of 4.250% Prospect Capital InterNote® due 2020\(31\)](#)
- 4.39 [Forty-Second Supplemental Indenture dated as of January 10, 2013, to the U.S. Bank Indenture and Form of 4.750% Prospect Capital InterNote® due 2031\(31\)](#)
- 4.40 [Forty-Third Supplemental Indenture dated as of January 10, 2013, to the U.S. Bank Indenture and Form of 5.750% Prospect Capital InterNote® due 2043\(31\)](#)
- 4.41 [Forty-Fourth Supplemental Indenture dated as of January 17, 2013, to the U.S. Bank Indenture and Form of 4.125% Prospect Capital InterNote® due 2020\(32\)](#)
- 4.42 [Forty-Fifth Supplemental Indenture dated as of January 17, 2013, to the U.S. Bank Indenture and Form of 4.625% Prospect Capital InterNote® due 2031\(32\)](#)
- 4.43 [Forty-Sixth Supplemental Indenture dated as of January 17, 2013, to the U.S. Bank Indenture and Form of 5.625% Prospect Capital InterNote® due 2043\(32\)](#)

- 4.44 [Forty-Seventh Supplemental Indenture dated as of January 25, 2013, to the U.S. Bank Indenture and Form of 4.000% Prospect Capital InterNote® due 2020\(33\)](#)
  
- 4.45 [Forty-Eighth Supplemental Indenture dated as of January 25, 2013, to the U.S. Bank Indenture and Form of 4.500% Prospect Capital InterNote® due 2031\(33\)](#)



**Exhibit No.**

- 4.46 [Forty-Ninth Supplemental Indenture dated as of January 25, 2013, to the U.S. Bank Indenture and Form of 5.500% Prospect Capital InterNote® due 2043\(33\)](#)
- 4.47 [Fiftieth Supplemental Indenture dated as of January 31, 2013, to the U.S. Bank Indenture and Form of 4.000% Prospect Capital InterNote® due 2020\(34\)](#)
- 4.48 [Fifty-First Supplemental Indenture dated as of January 31, 2013, to the U.S. Bank Indenture and Form of 4.500% Prospect Capital InterNote® due 2031\(34\)](#)
- 4.49 [Fifty-Second Supplemental Indenture dated as of January 31, 2013, to the U.S. Bank Indenture and Form of 5.500% Prospect Capital InterNote® due 2043\(34\)](#)
- 4.50 [Fifty-Third Supplemental Indenture dated as of February 7, 2013, to the U.S. Bank Indenture and Form of 4.000% Prospect Capital InterNote® due 2020\(35\)](#)
- 4.51 [Fifty-Fourth Supplemental Indenture dated as of February 7, 2013, to the U.S. Bank Indenture and Form of 4.500% Prospect Capital InterNote® due 2031\(35\)](#)
- 4.52 [Fifty-Fifth Supplemental Indenture dated as of February 7, 2013, to the U.S. Bank Indenture and Form of 5.500% Prospect Capital InterNote® due 2043\(35\)](#)
- 4.53 [Fifty-Sixth Supplemental Indenture dated as of February 22, 2013, to the U.S. Bank Indenture and Form of 4.000% Prospect Capital InterNote® due 2020\(36\)](#)
- 4.54 [Fifty-Seventh Supplemental Indenture dated as of February 22, 2013, to the U.S. Bank Indenture and Form of 4.500% Prospect Capital InterNote® due 2031\(36\)](#)
- 4.55 [Fifty-Eighth Supplemental Indenture dated as of February 22, 2013, to the U.S. Bank Indenture and Form of 5.500% Prospect Capital InterNote® due 2043\(36\)](#)
- 4.56 [Fifty-Ninth Supplemental Indenture dated as of February 28, 2013, to the U.S. Bank Indenture and Form of 4.000% Prospect Capital InterNote® due 2020\(37\)](#)
- 4.57 [Sixtieth Supplemental Indenture dated as of February 28, 2013, to the U.S. Bank Indenture and Form of 4.500% Prospect](#)

[Capital InterNote® due 2031\(37\)](#)

- 4.58 [Sixty-First Supplemental Indenture dated as of February 28, 2013, to the U.S. Bank Indenture and Form of 5.500% Prospect Capital InterNote® due 2043\(37\)](#)
- 4.59 [Sixty-Second Supplemental Indenture dated as of March 7, 2013, to the U.S. Bank Indenture and Form of 4.000% Prospect Capital InterNote® due 2020\(38\)](#)
- 4.60 [Sixty-Third Supplemental Indenture dated as of March 7, 2013, to the U.S. Bank Indenture and Form of 4.500% Prospect Capital InterNote® due 2031\(38\)](#)
- 4.61 [Sixty-Fourth Supplemental Indenture dated as of March 7, 2013, to the U.S. Bank Indenture and Form of 5.500% Prospect Capital InterNote® due 2043\(38\)](#)
- 4.62 [Sixty-Fifth Supplemental Indenture dated as of March 14, 2013, to the U.S. Bank Indenture and Form of 4.000% Prospect Capital InterNote® due 2020\(39\)](#)
- 4.63 [Sixty-Sixth Supplemental Indenture dated as of March 14, 2013, to the U.S. Bank Indenture and Form of 4.125% to 6.000% Prospect Capital InterNote® due 2031\(39\)](#)
- 4.64 [Sixty-Seventh Supplemental Indenture dated as of March 14, 2013, to the U.S. Bank Indenture and Form of 5.500% Prospect Capital InterNote® due 2043\(39\)](#)
- 4.65 [Sixty-Eighth Supplemental Indenture dated as of March 14, 2013, to the U.S. Bank Indenture and Form of Floating Prospect Capital InterNote® due 2023\(39\)](#)
- 4.66 [Supplemental Indenture dated as of March 15, 2013, to the U.S. Bank Indenture\(40\)](#)
- 4.67 [Form of Global Note 5.875% Senior Note due 2023\(41\)](#)
- 4.68 [Sixty-Ninth Supplemental Indenture dated as of March 21, 2013, to the U.S. Bank Indenture and Form of 4.000% Prospect Capital InterNote® due 2020\(42\)](#)
- 4.69 [Seventieth Supplemental Indenture dated as of March 21, 2013, to the U.S. Bank Indenture and Form of 4.125% to 6.000% Prospect Capital InterNote® due 2031\(42\)](#)
- 4.70 [Seventy-First Supplemental Indenture dated as of March 21, 2013, to the U.S. Bank Indenture and Form of 5.500%](#)

4.71 [Seventy-Second Supplemental Indenture dated as of March 21, 2013, to the U.S. Bank Indenture and Form of Floating Prospect Capital InterNote® due 2023\(42\)](#)

4.72 [Seventy-Third Supplemental Indenture dated as of March 28, 2013, to the U.S. Bank Indenture and Form of 4.000% Prospect Capital InterNote® due 2020\(43\)](#)

**Exhibit No.**

- 4.73 [Seventy-Fourth Supplemental Indenture dated as of March 28, 2013, to the U.S. Bank Indenture and Form of 4.125% to 6.000% Prospect Capital InterNote® due 2031\(43\)](#)
- 4.74 [Seventy-Fifth Supplemental Indenture dated as of March 28, 2013, to the U.S. Bank Indenture and Form of 5.500% Prospect Capital InterNote® due 2043\(43\)](#)
- 4.75 [Seventy-Sixth Supplemental Indenture dated as of March 28, 2013, to the U.S. Bank Indenture and Form of Floating Prospect Capital InterNote® due 2023\(43\)](#)
- 4.76 [Seventy-Seventh Supplemental Indenture dated as of April 4, 2013, to the U.S. Bank Indenture and Form of 4.500% Prospect Capital InterNote® due 2020\(44\)](#)
- 4.77 [Seventy-Eighth Supplemental Indenture dated as of April 4, 2013, to the U.S. Bank Indenture and Form of 4.625% to 6.500% Prospect Capital InterNote® due 2031\(44\)](#)
- 4.78 [Seventy-Ninth Supplemental Indenture dated as of April 4, 2013, to the U.S. Bank Indenture and Form of 6.000% Prospect Capital InterNote® due 2043\(44\)](#)
- 4.79 [Eightieth Supplemental Indenture dated as of April 4, 2013, to the U.S. Bank Indenture and Form of Floating Prospect Capital InterNote® due 2023\(44\)](#)
- 4.80 [Eighty-First Supplemental Indenture dated as of April 11, 2013, to the U.S. Bank Indenture and Form of 4.500% Prospect Capital InterNote® due 2020\(45\)](#)
- 4.81 [Eighty-Second Supplemental Indenture dated as of April 11, 2013, to the U.S. Bank Indenture and Form of 5.500% Prospect Capital InterNote® due 2031\(45\)](#)
- 4.82 [Eighty-Third Supplemental Indenture dated as of April 11, 2013, to the U.S. Bank Indenture and Form of 6.000% Prospect Capital InterNote® due 2043\(45\)](#)
- 4.83 [Eighty-Fourth Supplemental Indenture dated as of April 11, 2013, to the U.S. Bank Indenture and Form of Floating Prospect Capital InterNote® due 2023\(45\)](#)
- 4.84 [Eighty-Fifth Supplemental Indenture dated as of April 18, 2013, to the U.S. Bank Indenture and Form of 5.000%](#)

[Prospect Capital InterNote® due 2020\(46\)](#)

- 4.85 [Eighty-Sixth Supplemental Indenture dated as of April 18, 2013, to the U.S. Bank Indenture and Form of 5.500% Prospect Capital InterNote® due 2031\(46\)](#)
- 4.86 [Eighty-Seventh Supplemental Indenture dated as of April 18, 2013, to the U.S. Bank Indenture and Form of 6.000% Prospect Capital InterNote® due 2043\(46\)](#)
- 4.87 [Eighty-Eighth Supplemental Indenture dated as of April 25, 2013, to the U.S. Bank Indenture and Form of 5.000% Prospect Capital InterNote® due 2020\(47\)](#)
- 4.88 [Eighty-Ninth Supplemental Indenture dated as of April 25, 2013, to the U.S. Bank Indenture and Form of 5.500% Prospect Capital InterNote® due 2031\(47\)](#)
- 4.89 [Ninetieth Supplemental Indenture dated as of April 25, 2013, to the U.S. Bank Indenture and Form of 6.000% Prospect Capital InterNote® due 2043\(47\)](#)
- 4.90 [Ninety-First Supplemental Indenture dated as of May 2, 2013, to the U.S. Bank Indenture and Form of 5.000% Prospect Capital InterNote® due 2020\(48\)](#)
- 4.91 [Ninety-Second Supplemental Indenture dated as of May 2, 2013, to the U.S. Bank Indenture and Form of 5.750% Prospect Capital InterNote® due 2031\(48\)](#)
- 4.92 [Ninety-Third Supplemental Indenture dated as of May 2, 2013, to the U.S. Bank Indenture and Form of 6.250% Prospect Capital InterNote® due 2043\(48\)](#)
- 4.93 [Ninety-Fourth Supplemental Indenture dated as of May 9, 2013, to the U.S. Bank Indenture and Form of 5.000% Prospect Capital InterNote® due 2020\(49\)](#)
- 4.94 [Ninety-Fifth Supplemental Indenture dated as of May 9, 2013, to the U.S. Bank Indenture and Form of 5.750% Prospect Capital InterNote® due 2031\(49\)](#)
- 4.95 [Ninety-Sixth Supplemental Indenture dated as of May 9, 2013, to the U.S. Bank Indenture and Form of 6.250% Prospect Capital InterNote® due 2043\(49\)](#)
- 4.96 [Ninety-Seventh Supplemental Indenture dated as of May 23, 2013, to the U.S. Bank Indenture and Form of 5.000% Prospect Capital InterNote® due 2020\(50\)](#)

- 4.97 [Ninety-Eighth Supplemental Indenture dated as of May 23, 2013, to the U.S. Bank Indenture and Form of 5.750% Prospect Capital InterNote® due 2031\(50\)](#)
- 4.98 [Ninety-Ninth Supplemental Indenture dated as of May 23, 2013, to the U.S. Bank Indenture and Form of 6.250% Prospect Capital InterNote® due 2043\(50\)](#)

**Exhibit No.**

- 4.99 [One Hundredth Supplemental Indenture dated as of May 23, 2013, to the U.S. Bank Indenture and Form of 5.000% to 7.000% Prospect Capital InterNote® due 2028\(50\)](#)
- 4.100 [One Hundred-First Supplemental Indenture dated as of May 31, 2013, to the U.S. Bank Indenture and Form of 5.000% Prospect Capital InterNote® due 2020\(51\)](#)
- 4.101 [One Hundred-Second Supplemental Indenture dated as of May 31, 2013, to the U.S. Bank Indenture and Form of 5.750% Prospect Capital InterNote® due 2031\(51\)](#)
- 4.102 [One Hundred-Third Supplemental Indenture dated as of May 31, 2013, to the U.S. Bank Indenture and Form of 6.250% Prospect Capital InterNote® due 2043\(51\)](#)
- 4.103 [One Hundred-Fourth Supplemental Indenture dated as of June 6, 2013, to the U.S. Bank Indenture and Form of 5.000% Prospect Capital InterNote® due 2020\(52\)](#)
- 4.104 [One Hundred-Fifth Supplemental Indenture dated as of June 6, 2013, to the U.S. Bank Indenture and Form of 5.750% Prospect Capital InterNote® due 2031\(52\)](#)
- 4.105 [One Hundred-Sixth Supplemental Indenture dated as of June 6, 2013, to the U.S. Bank Indenture and Form of 6.250% Prospect Capital InterNote® due 2043\(52\)](#)
- 4.106 [One Hundred-Seventh Supplemental Indenture dated as of June 6, 2013, to the U.S. Bank Indenture and Form of 5.000% to 7.000% Prospect Capital InterNote® due 2028\(52\)](#)
- 4.107 [One Hundred-Eighth Supplemental Indenture dated as of June 13, 2013, to the U.S. Bank Indenture and Form of 5.000% Prospect Capital InterNote® due 2020\(53\)](#)
- 4.108 [One Hundred-Ninth Supplemental Indenture dated as of June 13, 2013, to the U.S. Bank Indenture and Form of 5.750% Prospect Capital InterNote® due 2031\(53\)](#)
- 4.109 [One Hundred-Tenth Supplemental Indenture dated as of June 13, 2013, to the U.S. Bank Indenture and Form of 6.250% Prospect Capital InterNote® due 2043\(53\)](#)
- 4.110 [One Hundred-Eleventh Supplemental Indenture dated as of June 20, 2013, to the U.S. Bank Indenture and Form of](#)

[5.000% Prospect Capital InterNote® due 2020\(54\)](#)

- 4.111 [One Hundred-Twelfth Supplemental Indenture dated as of June 20, 2013, to the U.S. Bank Indenture and Form of 5.750% Prospect Capital InterNote® due 2031\(54\)](#)
- 4.112 [One Hundred-Thirteenth Supplemental Indenture dated as of June 20, 2013, to the U.S. Bank Indenture and Form of 6.250% Prospect Capital InterNote® due 2043\(54\)](#)
- 4.113 [One Hundred-Fifteenth Supplemental Indenture dated as of June 27, 2013, to the U.S. Bank Indenture and Form of 6.000% Prospect Capital InterNote® due 2031\(55\)](#)
- 4.114 [One Hundred-Sixteenth Supplemental Indenture dated as of June 27, 2013, to the U.S. Bank Indenture and Form of 6.500% Prospect Capital InterNote® due 2043\(55\)](#)
- 4.115 [One Hundred-Seventeenth Supplemental Indenture dated as of July 5, 2013, to the U.S. Bank Indenture and Form of 4.750% Prospect Capital InterNote® due 2020\(56\)](#)
- 4.116 [One Hundred-Eighteenth Supplemental Indenture dated as of July 5, 2013, to the U.S. Bank Indenture and Form of 5.500% Prospect Capital InterNote® due 2031\(56\)](#)
- 4.117 [One Hundred-Nineteenth Supplemental Indenture dated as of July 5, 2013, to the U.S. Bank Indenture and Form of 6.250% Prospect Capital InterNote® due 2043\(56\)](#)
- 4.118 [One Hundred-Twentieth Supplemental Indenture dated as of July 5, 2013, to the U.S. Bank Indenture and Form of 6.750% Prospect Capital InterNote® due 2043\(56\)](#)
- 4.119 [One Hundred Twenty-First Supplemental Indenture dated as of July 11, 2013, to the U.S. Bank Indenture and Form of 4.750% Prospect Capital InterNote® due 2020\(57\)](#)
- 4.120 [One Hundred Twenty-Second Supplemental Indenture dated as of July 11, 2013, to the U.S. Bank Indenture and Form of 5.500% Prospect Capital InterNote® due 2031\(57\)](#)
- 4.121 [One Hundred Twenty-Third Supplemental Indenture dated as of July 11, 2013, to the U.S. Bank Indenture and Form of 6.250% Prospect Capital InterNote® due 2043\(57\)](#)
- 4.122 [One Hundred Twenty-Fourth Supplemental Indenture dated as of July 11, 2013, to the U.S. Bank Indenture and Form of 6.750% Prospect Capital InterNote® due 2043\(57\)](#)



- 4.123 [One Hundred Twenty-Fifth Supplemental Indenture dated as of July 18, 2013, to the U.S. Bank Indenture and Form of 5.000% Prospect Capital InterNote® due 2020\(58\)](#)
- 4.124 [One Hundred Twenty-Sixth Supplemental Indenture dated as of July 18, 2013, to the U.S. Bank Indenture and Form of 5.750% Prospect Capital InterNote® due 2031\(58\)](#)

**Exhibit No.**

- 4.125 [One Hundred Twenty-Seventh Supplemental Indenture dated as of July 18, 2013, to the U.S. Bank Indenture and Form of 6.250% Prospect Capital InterNote® due 2043\(58\)](#)
- 4.126 [One Hundred Twenty-Eighth Supplemental Indenture dated as of July 18, 2013, to the U.S. Bank Indenture and Form of 6.750% Prospect Capital InterNote® due 2043\(58\)](#)
- 4.127 [One Hundred Twenty-Ninth Supplemental Indenture dated as of July 25, 2013, to the U.S. Bank Indenture and Form of 5.000% Prospect Capital InterNote® due 2020\(59\)](#)
- 4.128 [One Hundred Thirtieth Supplemental Indenture dated as of July 25, 2013, to the U.S. Bank Indenture and Form of 5.750% Prospect Capital InterNote® due 2031\(59\)](#)
- 4.129 [One Hundred Thirty-First Supplemental Indenture dated as of July 25, 2013, to the U.S. Bank Indenture and Form of 6.250% Prospect Capital InterNote® due 2043\(59\)](#)
- 4.130 [One Hundred Thirty-Second Supplemental Indenture dated as of July 25, 2013, to the U.S. Bank Indenture and Form of 6.750% Prospect Capital InterNote® due 2043\(59\)](#)
- 4.131 [One Hundred Thirty-Third Supplemental Indenture dated as of August 1, 2013, to the U.S. Bank Indenture and Form of 5.000% Prospect Capital InterNote® due 2019\(60\)](#)
- 4.132 [One Hundred Thirty-Fourth Supplemental Indenture dated as of August 1, 2013, to the U.S. Bank Indenture and Form of 5.750% Prospect Capital InterNote® due 2021\(60\)](#)
- 4.133 [One Hundred Thirty-Fifth Supplemental Indenture dated as of August 1, 2013, to the U.S. Bank Indenture and Form of 6.125% Prospect Capital InterNote® due 2031\(60\)](#)
- 4.134 [One Hundred Thirty-Sixth Supplemental Indenture dated as of August 1, 2013, to the U.S. Bank Indenture and Form of 6.625% Prospect Capital InterNote® due 2043\(60\)](#)
- 4.135 [One Hundred Thirty-Seventh Supplemental Indenture dated as of August 8, 2013, to the U.S. Bank Indenture and Form of 5.000% Prospect Capital InterNote® due 2018\(61\)](#)
- 4.136 [One Hundred Thirty-Eighth Supplemental Indenture dated as of August 8, 2013, to the U.S. Bank Indenture and Form of](#)

[5.500% Prospect Capital InterNote® due 2020\(61\)](#)

- 4.137 [One Hundred Thirty-Ninth Supplemental Indenture dated as of August 8, 2013, to the U.S. Bank Indenture and Form of 6.000% Prospect Capital InterNote® due 2031\(61\)](#)
- 4.138 [One Hundred Fortieth Supplemental Indenture dated as of August 8, 2013, to the U.S. Bank Indenture and Form of 6.500% Prospect Capital InterNote® due 2043\(61\)](#)
- 4.139 [One Hundred Forty-First Supplemental Indenture dated as of August 15, 2013, to the U.S. Bank Indenture and Form of 5.000% Prospect Capital InterNote® due 2018\(62\)](#)
- 4.140 [One Hundred Forty-Second Supplemental Indenture dated as of August 15, 2013, to the U.S. Bank Indenture and Form of 5.500% Prospect Capital InterNote® due 2020\(62\)](#)
- 4.141 [One Hundred Forty-Third Supplemental Indenture dated as of August 15, 2013, to the U.S. Bank Indenture and Form of 6.000% Prospect Capital InterNote® due 2028\(62\)](#)
- 4.142 [One Hundred Forty-Fourth Supplemental Indenture dated as of August 15, 2013, to the U.S. Bank Indenture and Form of 6.500% Prospect Capital InterNote® due 2038\(62\)](#)
- 4.143 [One Hundred Forty-Fifth Supplemental Indenture dated as of August 22, 2013, to the U.S. Bank Indenture and Form of 5.000% Prospect Capital InterNote® due 2018\(63\)](#)
- 4.144 [One Hundred Forty-Sixth Supplemental Indenture dated as of August 22, 2013, to the U.S. Bank Indenture and Form of 5.500% Prospect Capital InterNote® due 2020\(63\)](#)
- 4.145 [One Hundred Forty-Seventh Supplemental Indenture dated as of August 22, 2013, to the U.S. Bank Indenture and Form of 6.000% Prospect Capital InterNote® due 2028\(63\)](#)
- 4.146 [One Hundred Forty-Eighth Supplemental Indenture dated as of August 22, 2013, to the U.S. Bank Indenture and Form of 6.500% Prospect Capital InterNote® due 2038\(63\)](#)
- 4.147 [One Hundred Forty-Ninth Supplemental Indenture dated as of September 6, 2013, to the U.S. Bank Indenture and Form of 5.000% Prospect Capital InterNote® due 2018\(64\)](#)
- 4.148 [One Hundred Fiftieth Supplemental Indenture dated as of September 6, 2013, to the U.S. Bank Indenture and Form of 5.500% Prospect Capital InterNote® due 2020\(64\)](#)

- 4.149 [One Hundred Fifty-First Supplemental Indenture dated as of September 6, 2013, to the U.S. Bank Indenture and Form of 6.000% Prospect Capital InterNote® due 2028\(64\)](#)
- 4.150 [One Hundred Fifty-Second Supplemental Indenture dated as of September 6, 2013, to the U.S. Bank Indenture and Form of 6.500% Prospect Capital InterNote® due 2038\(64\)](#)

**Exhibit No.**

- 4.151 [One Hundred Fifty-Third Supplemental Indenture dated as of September 12, 2013, to the U.S. Bank Indenture and Form of 5.000% Prospect Capital InterNote® due 2018\(65\)](#)
- 4.152 [One Hundred Fifty-Fourth Supplemental Indenture dated as of September 12, 2013, to the U.S. Bank Indenture and Form of 5.500% Prospect Capital InterNote® due 2020\(65\)](#)
- 4.153 [One Hundred Fifty-Fifth Supplemental Indenture dated as of September 12, 2013, to the U.S. Bank Indenture and Form of 6.000% Prospect Capital InterNote® due 2033\(65\)](#)
- 4.154 [One Hundred Fifty-Sixth Supplemental Indenture dated as of September 12, 2013, to the U.S. Bank Indenture and Form of 6.500% Prospect Capital InterNote® due 2043\(65\)](#)
- 4.155 [One Hundred Fifty-Seventh Supplemental Indenture dated as of September 19, 2013, to the U.S. Bank Indenture and Form of 5.000% Prospect Capital InterNote® due 2018\(66\)](#)
- 4.156 [One Hundred Fifty-Eighth Supplemental Indenture dated as of September 19, 2013, to the U.S. Bank Indenture and Form of 5.500% Prospect Capital InterNote® due 2020\(66\)](#)
- 4.157 [One Hundred Fifty-Ninth Supplemental Indenture dated as of September 19, 2013, to the U.S. Bank Indenture and Form of 6.000% Prospect Capital InterNote® due 2033\(66\)](#)
- 4.158 [One Hundred Sixtieth Supplemental Indenture dated as of September 19, 2013, to the U.S. Bank Indenture and Form of 6.500% Prospect Capital InterNote® due 2043\(66\)](#)
- 4.159 [One Hundred Sixty-First Supplemental Indenture dated as of September 26, 2013, to the U.S. Bank Indenture and Form of 5.000% Prospect Capital InterNote® due 2018\(67\)](#)
- 4.160 [One Hundred Sixty-Second Supplemental Indenture dated as of September 26, 2013, to the U.S. Bank Indenture and Form of 5.500% Prospect Capital InterNote® due 2020\(67\)](#)
- 4.161 [One Hundred Sixty-Third Supplemental Indenture dated as of September 26, 2013, to the U.S. Bank Indenture and Form of 6.000% Prospect Capital InterNote® due 2033\(67\)](#)
- 4.162 [One Hundred Sixty-Fourth Supplemental Indenture dated as of September 26, 2013, to the U.S. Bank Indenture and](#)

- 4.163 [One Hundred Sixty-Fifth Supplemental Indenture dated as of October 3, 2013, to the U.S. Bank Indenture and Form of 5.000% Prospect Capital InterNote® due 2018\(68\)](#)
- 4.164 [One Hundred Sixty-Sixth Supplemental Indenture dated as of October 3, 2013, to the U.S. Bank Indenture and Form of 5.500% Prospect Capital InterNote® due 2020\(68\)](#)
- 4.165 [One Hundred Sixty-Seventh Supplemental Indenture dated as of October 3, 2013, to the U.S. Bank Indenture and Form of 6.000% Prospect Capital InterNote® due 2033\(68\)](#)
- 4.166 [One Hundred Sixty-Eighth Supplemental Indenture dated as of October 3, 2013, to the U.S. Bank Indenture and Form of 6.500% Prospect Capital InterNote® due 2043\(68\)](#)
- 4.167 [One Hundred Sixty-Ninth Supplemental Indenture dated as of October 10, 2013, to the U.S. Bank Indenture and Form of 5.000% Prospect Capital InterNote® due 2018\(69\)](#)
- 4.168 [One Hundred Seventieth Supplemental Indenture dated as of October 10, 2013, to the U.S. Bank Indenture and Form of 5.500% Prospect Capital InterNote® due 2020\(69\)](#)
- 4.169 [One Hundred Seventy-First Supplemental Indenture dated as of October 10, 2013, to the U.S. Bank Indenture and Form of 6.000% Prospect Capital InterNote® due 2033\(69\)](#)
- 4.170 [One Hundred Seventy-Second Supplemental Indenture dated as of October 10, 2013, to the U.S. Bank Indenture and Form of 6.500% Prospect Capital InterNote® due 2043\(69\)](#)
- 4.171 [One Hundred Seventy-Third Supplemental Indenture dated as of October 18, 2013, to the U.S. Bank Indenture and Form of 5.000% Prospect Capital InterNote® due 2018\(70\)](#)
- 4.172 [One Hundred Seventy-Fourth Supplemental Indenture dated as of October 18, 2013, to the U.S. Bank Indenture and Form of 5.500% Prospect Capital InterNote® due 2020\(70\)](#)
- 4.173 [One Hundred Seventy-Fifth Supplemental Indenture dated as of October 18, 2013, to the U.S. Bank Indenture and Form of 6.000% Prospect Capital InterNote® due 2033\(70\)](#)
- 4.174 [One Hundred Seventy-Sixth Supplemental Indenture dated as of October 18, 2013, to the U.S. Bank Indenture and Form of 6.500% Prospect Capital InterNote® due 2043\(70\)](#)

- 4.175 [One Hundred Seventy-Seventh Supplemental Indenture dated as of October 24, 2013, to the U.S. Bank Indenture and Form of 4.000% Prospect Capital InterNote® due 2016\(71\)](#)
- 4.176 [One Hundred Seventy-Eighth Supplemental Indenture dated as of October 24, 2013, to the U.S. Bank Indenture and Form of 5.000% Prospect Capital InterNote® due 2018\(71\)](#)

**Exhibit No.**

- 4.177 [One Hundred Seventy-Ninth Supplemental Indenture dated as of October 24, 2013, to the U.S. Bank Indenture and Form of 5.500% Prospect Capital InterNote® due 2020\(71\)](#)
- 4.178 [One Hundred Eightieth Supplemental Indenture dated as of October 24, 2013, to the U.S. Bank Indenture and Form of 6.000% Prospect Capital InterNote® due 2033\(71\)](#)
- 4.179 [One Hundred Eighty-First Supplemental Indenture dated as of October 24, 2013, to the U.S. Bank Indenture and Form of 6.500% Prospect Capital InterNote® due 2043\(71\)](#)
- 4.180 [One Hundred Eighty-Second Supplemental Indenture dated as of October 31, 2013, to the U.S. Bank Indenture and Form of 4.000% Prospect Capital InterNote® due 2017\(72\)](#)
- 4.181 [One Hundred Eighty-Third Supplemental Indenture dated as of October 31, 2013, to the U.S. Bank Indenture and Form of 5.000% Prospect Capital InterNote® due 2018\(72\)](#)
- 4.182 [One Hundred Eighty-Fourth Supplemental Indenture dated as of October 31, 2013, to the U.S. Bank Indenture and Form of 5.500% Prospect Capital InterNote® due 2020\(72\)](#)
- 4.183 [One Hundred Eighty-Fifth Supplemental Indenture dated as of October 31, 2013, to the U.S. Bank Indenture and Form of 6.000% Prospect Capital InterNote® due 2028\(72\)](#)
- 4.184 [One Hundred Eighty-Sixth Supplemental Indenture dated as of October 31, 2013, to the U.S. Bank Indenture and Form of 6.500% Prospect Capital InterNote® due 2038\(72\)](#)
- 4.185 [One Hundred Eighty-Seventh Supplemental Indenture dated as of November 7, 2013, to the U.S. Bank Indenture and Form of 4.000% Prospect Capital InterNote® due 2017\(73\)](#)
- 4.186 [One Hundred Eighty-Eighth Supplemental Indenture dated as of November 7, 2013, to the U.S. Bank Indenture and Form of 5.000% Prospect Capital InterNote® due 2018\(73\)](#)
- 4.187 [One Hundred Eighty-Ninth Supplemental Indenture dated as of November 7, 2013, to the U.S. Bank Indenture and Form of 5.500% Prospect Capital InterNote® due 2020\(73\)](#)
- 4.188 [One Hundred Ninetieth Supplemental Indenture dated as of November 7, 2013, to the U.S. Bank Indenture and Form of](#)



[6.000% Prospect Capital InterNote® due 2028\(73\)](#)

- 4.189 [One Hundred Ninety-First Supplemental Indenture dated as of November 7, 2013, to the U.S. Bank Indenture and Form of 6.500% Prospect Capital InterNote® due 2038\(73\)](#)
- 4.190 [One Hundred Ninety-Second Supplemental Indenture dated as of November 15, 2013, to the U.S. Bank Indenture and Form of 4.000% Prospect Capital InterNote® due 2017\(74\)](#)
- 4.191 [One Hundred Ninety-Third Supplemental Indenture dated as of November 15, 2013, to the U.S. Bank Indenture and Form of 5.000% Prospect Capital InterNote® due 2018\(74\)](#)
- 4.192 [One Hundred Ninety-Fourth Supplemental Indenture dated as of November 15, 2013, to the U.S. Bank Indenture and Form of 5.500% Prospect Capital InterNote® due 2020\(74\)](#)
- 4.193 [One Hundred Ninety-Fifth Supplemental Indenture dated as of November 15, 2013, to the U.S. Bank Indenture and Form of 6.000% Prospect Capital InterNote® due 2028\(74\)](#)
- 4.194 [One Hundred Ninety-Sixth Supplemental Indenture dated as of November 15, 2013, to the U.S. Bank Indenture and Form of 6.500% Prospect Capital InterNote® due 2038\(74\)](#)
- 4.195 [One Hundred Ninety-Seventh Supplemental Indenture dated as of November 21, 2013, to the U.S. Bank Indenture and Form of 4.000% Prospect Capital InterNote® due 2017\(75\)](#)
- 4.196 [One Hundred Ninety-Eighth Supplemental Indenture dated as of November 21, 2013, to the U.S. Bank Indenture and Form of 5.000% Prospect Capital InterNote® due 2018\(75\)](#)
- 4.197 [One Hundred Ninety-Ninth Supplemental Indenture dated as of November 21, 2013, to the U.S. Bank Indenture and Form of 5.500% Prospect Capital InterNote® due 2020\(75\)](#)
- 4.198 [Two Hundredth Supplemental Indenture dated as of November 21, 2013, to the U.S. Bank Indenture and Form of 6.000% Prospect Capital InterNote® due 2028\(75\)](#)
- 4.199 [Two Hundred First Supplemental Indenture dated as of November 21, 2013, to the U.S. Bank Indenture and Form of 6.500% Prospect Capital InterNote® due 2038\(75\)](#)
- 4.200 [Two Hundred Second Supplemental Indenture dated as of November 29, 2013, to the U.S. Bank Indenture and Form of 4.000% Prospect Capital InterNote® due 2017\(76\)](#)

- 4.201 [Two Hundred Third Supplemental Indenture dated as of November 29, 2013, to the U.S. Bank Indenture and Form of 5.000% Prospect Capital InterNote® due 2018\(76\)](#)
- 4.202 [Two Hundred Fourth Supplemental Indenture dated as of November 29, 2013, to the U.S. Bank Indenture and Form of 5.500% Prospect Capital InterNote® due 2020\(76\)](#)

**Exhibit No.**

- 4.203 [Two Hundred Fifth Supplemental Indenture dated as of November 29, 2013, to the U.S. Bank Indenture and Form of 6.000% Prospect Capital InterNote® due 2025\(76\)](#)
- 4.204 [Two Hundred Sixth Supplemental Indenture dated as of November 29, 2013, to the U.S. Bank Indenture and Form of 6.500% Prospect Capital InterNote® due 2038\(76\)](#)
- 4.205 [Two Hundred Seventh Supplemental Indenture dated as of December 5, 2013, to the U.S. Bank Indenture and Form of 4.000% Prospect Capital InterNote® due 2017\(77\)](#)
- 4.206 [Two Hundred Eighth Supplemental Indenture dated as of December 5, 2013, to the U.S. Bank Indenture and Form of 5.000% Prospect Capital InterNote® due 2018\(77\)](#)
- 4.207 [Two Hundred Tenth Supplemental Indenture dated as of December 5, 2013, to the U.S. Bank Indenture and Form of 6.000% Prospect Capital InterNote® due 2025\(77\)](#)
- 4.208 [Two Hundred Eleventh Supplemental Indenture dated as of December 5, 2013, to the U.S. Bank Indenture and Form of 6.500% Prospect Capital InterNote® due 2038\(77\)](#)
- 4.209 [Two Hundred Twelfth Supplemental Indenture dated as of December 12, 2013, to the U.S. Bank Indenture and Form of 4.000% Prospect Capital InterNote® due 2017\(78\)](#)
- 4.210 [Two Hundred Thirteenth Supplemental Indenture dated as of December 12, 2013, to the U.S. Bank Indenture and Form of 5.000% Prospect Capital InterNote® due 2018\(78\)](#)
- 4.211 [Two Hundred Fifteenth Supplemental Indenture dated as of December 12, 2013, to the U.S. Bank Indenture and Form of 6.000% Prospect Capital InterNote® due 2025\(78\)](#)
- 4.212 [Two Hundred Sixteenth Supplemental Indenture dated as of December 12, 2013, to the U.S. Bank Indenture and Form of 6.500% Prospect Capital InterNote® due 2038\(78\)](#)
- 4.213 [Two Hundred Seventeenth Supplemental Indenture dated as of December 19, 2013, to the U.S. Bank Indenture and Form of 4.000% Prospect Capital InterNote® due 2017\(79\)](#)
- 4.214 [Two Hundred Eighteenth Supplemental Indenture dated as of December 19, 2013, to the U.S. Bank Indenture and Form](#)

[of 5.000% Prospect Capital InterNote® due 2018\(79\)](#)

- 4.215 [Two Hundred Twentieth Supplemental Indenture dated as of December 19, 2013, to the U.S. Bank Indenture and Form of 6.000% Prospect Capital InterNote® due 2025\(79\)](#)
- 4.216 [Two Hundred Twenty-First Supplemental Indenture dated as of December 19, 2013, to the U.S. Bank Indenture and Form of 6.500% Prospect Capital InterNote® due 2038\(79\)](#)
- 4.217 [Two Hundred Twenty-Second Supplemental Indenture dated as of December 27, 2013, to the U.S. Bank Indenture and Form of 4.000% Prospect Capital InterNote® due 2017\(80\)](#)
- 4.218 [Two Hundred Twenty-Third Supplemental Indenture dated as of December 27, 2013, to the U.S. Bank Indenture and Form of 5.000% Prospect Capital InterNote® due 2018\(80\)](#)
- 4.219 [Two Hundred Twenty-Fifth Supplemental Indenture dated as of December 27, 2013, to the U.S. Bank Indenture and Form of 6.000% Prospect Capital InterNote® due 2025\(80\)](#)
- 4.220 [Two Hundred Twenty-Sixth Supplemental Indenture dated as of December 27, 2013, to the U.S. Bank Indenture and Form of 6.500% Prospect Capital InterNote® due 2038\(80\)](#)
- 4.221 [Two Hundred Twenty-Seventh Supplemental Indenture dated as of January 3, 2014, to the U.S. Bank Indenture and Form of 4.000% Prospect Capital InterNote® due 2018\(81\)](#)
- 4.222 [Two Hundred Twenty-Eighth Supplemental Indenture dated as of January 3, 2014, to the U.S. Bank Indenture and Form of 5.000% Prospect Capital InterNote® due 2019\(81\)](#)
- 4.223 [Two Hundred Twenty-Ninth Supplemental Indenture dated as of January 3, 2014, to the U.S. Bank Indenture and Form of 5.500% Prospect Capital InterNote® due 2021\(81\)](#)
- 4.224 [Two Hundred Thirtieth Supplemental Indenture dated as of January 3, 2014, to the U.S. Bank Indenture and Form of 6.000% Prospect Capital InterNote® due 2026\(81\)](#)
- 4.225 [Two Hundred Thirty-First Supplemental Indenture dated as of January 3, 2014, to the U.S. Bank Indenture and Form of 6.500% Prospect Capital InterNote® due 2039\(81\)](#)
- 4.226 [Two Hundred Thirty-Second Supplemental Indenture dated as of January 9, 2014, to the U.S. Bank Indenture and Form of 4.000% Prospect Capital InterNote® due 2018\(82\)](#)

- 4.227 [Two Hundred Thirty-Third Supplemental Indenture dated as of January 9, 2014, to the U.S. Bank Indenture and Form of 5.000% Prospect Capital InterNote® due 2019\(82\)](#)
- 4.228 [Two Hundred Thirty-Fourth Supplemental Indenture dated as of January 9, 2014, to the U.S. Bank Indenture and Form of 5.500% Prospect Capital InterNote® due 2021\(82\)](#)

**Exhibit No.**

- 4.229 [Two Hundred Thirty-Fifth Supplemental Indenture dated as of January 9, 2014, to the U.S. Bank Indenture and Form of 6.000% Prospect Capital InterNote® due 2026\(82\)](#)
- 4.230 [Two Hundred Thirty-Sixth Supplemental Indenture dated as of January 9, 2014, to the U.S. Bank Indenture and Form of 6.500% Prospect Capital InterNote® due 2039\(82\)](#)
- 4.231 [Two Hundred Thirty-Seventh Supplemental Indenture dated as of January 16, 2014, to the U.S. Bank Indenture and Form of 4.000% Prospect Capital InterNote® due 2018\(83\)](#)
- 4.232 [Two Hundred Thirty-Eighth Supplemental Indenture dated as of January 16, 2014, to the U.S. Bank Indenture and Form of 5.000% Prospect Capital InterNote® due 2019\(83\)](#)
- 4.233 [Two Hundred Thirty-Ninth Supplemental Indenture dated as of January 16, 2014, to the U.S. Bank Indenture and Form of 5.500% Prospect Capital InterNote® due 2021\(83\)](#)
- 4.234 [Two Hundred Fortieth Supplemental Indenture dated as of January 16, 2014, to the U.S. Bank Indenture and Form of 6.000% Prospect Capital InterNote® due 2026\(83\)](#)
- 4.235 [Two Hundred Forty-First Supplemental Indenture dated as of January 16, 2014, to the U.S. Bank Indenture and Form of 6.500% Prospect Capital InterNote® due 2039\(83\)](#)
- 4.236 [Two Hundred Forty-Second Supplemental Indenture dated as of January 24, 2014, to the U.S. Bank Indenture and Form of 4.000% Prospect Capital InterNote® due 2018\(84\)](#)
- 4.237 [Two Hundred Forty-Third Supplemental Indenture dated as of January 24, 2014, to the U.S. Bank Indenture and Form of 5.000% Prospect Capital InterNote® due 2019\(84\)](#)
- 4.238 [Two Hundred Forty-Fourth Supplemental Indenture dated as of January 24, 2014, to the U.S. Bank Indenture and Form of 5.500% Prospect Capital InterNote® due 2021\(84\)](#)
- 4.239 [Two Hundred Forty-Fifth Supplemental Indenture dated as of January 24, 2014, to the U.S. Bank Indenture and Form of 6.000% Prospect Capital InterNote® due 2026\(84\)](#)
- 4.240 [Two Hundred Forty-Sixth Supplemental Indenture dated as of January 24, 2014, to the U.S. Bank Indenture and Form of](#)

[6.500% Prospect Capital InterNote® due 2039\(84\)](#)

- 4.241 [Two Hundred Forty-Seventh Supplemental Indenture dated as of January 30, 2014, to the U.S. Bank Indenture and Form of 4.000% Prospect Capital InterNote® due 2018\(85\)](#)
- 4.242 [Two Hundred Forty-Eighth Supplemental Indenture dated as of January 30, 2014, to the U.S. Bank Indenture and Form of 5.000% Prospect Capital InterNote® due 2019\(85\)](#)
- 4.243 [Two Hundred Forty-Ninth Supplemental Indenture dated as of January 30, 2014, to the U.S. Bank Indenture and Form of 5.500% Prospect Capital InterNote® due 2021\(85\)](#)
- 4.244 [Two Hundred Fiftieth Supplemental Indenture dated as of January 30, 2014, to the U.S. Bank Indenture and Form of 6.000% Prospect Capital InterNote® due 2026\(85\)](#)
- 4.245 [Two Hundred Fifty-First Supplemental Indenture dated as of January 30, 2014, to the U.S. Bank Indenture and Form of 6.500% Prospect Capital InterNote® due 2039\(85\)](#)
- 4.246 [Two Hundred Fifty-Second Supplemental Indenture dated as of February 6, 2014, to the U.S. Bank Indenture and Form of 4.000% Prospect Capital InterNote® due 2018\(86\)](#)
- 4.247 [Two Hundred Fifty-Third Supplemental Indenture dated as of February 6, 2014, to the U.S. Bank Indenture and Form of 5.000% Prospect Capital InterNote® due 2019\(86\)](#)
- 4.248 [Two Hundred Fifty-Fourth Supplemental Indenture dated as of February 6, 2014, to the U.S. Bank Indenture and Form of 5.500% Prospect Capital InterNote® due 2021\(86\)](#)
- 4.249 [Two Hundred Fifty-Fifth Supplemental Indenture dated as of February 6, 2014, to the U.S. Bank Indenture and Form of 6.000% Prospect Capital InterNote® due 2026\(86\)](#)
- 4.250 [Two Hundred Fifty-Sixth Supplemental Indenture dated as of February 6, 2014, to the U.S. Bank Indenture and Form of 6.500% Prospect Capital InterNote® due 2039\(86\)](#)
- 4.251 [Two Hundred Fifty-Seventh Supplemental Indenture dated as of February 13, 2014, to the U.S. Bank Indenture and Form of 4.000% Prospect Capital InterNote® due 2018\(87\)](#)
- 4.252 [Two Hundred Fifty-Eighth Supplemental Indenture dated as of February 13, 2014, to the U.S. Bank Indenture and Form of 5.000% Prospect Capital InterNote® due 2019\(87\)](#)

4.253 [Two Hundred Fifty-Ninth Supplemental Indenture dated as of February 13, 2014, to the U.S. Bank Indenture and Form of 5.500% Prospect Capital InterNote® due 2021\(87\)](#)

4.254 [Two Hundred Sixtieth Supplemental Indenture dated as of February 13, 2014, to the U.S. Bank Indenture and Form of 6.000% Prospect Capital InterNote® due 2026\(87\)](#)



**Exhibit No.**

- 4.255 [Two Hundred Sixty-First Supplemental Indenture dated as of February 13, 2014, to the U.S. Bank Indenture and Form of 6.500% Prospect Capital InterNote® due 2039\(87\)](#)
- 4.256 [Two Hundred Sixty-Seventh Supplemental Indenture dated as of February 19, 2014, to the U.S. Bank Indenture and Form of 4.75% Prospect Capital InterNote® due 2019\(88\)](#)
- 4.257 [Two Hundred Sixty-Second Supplemental Indenture dated as of February 21, 2014, to the U.S. Bank Indenture and Form of 4.000% Prospect Capital InterNote® due 2018\(89\)](#)
- 4.258 [Two Hundred Sixty-Third Supplemental Indenture dated as of February 21, 2014, to the U.S. Bank Indenture and Form of 5.000% Prospect Capital InterNote® due 2019\(89\)](#)
- 4.259 [Two Hundred Sixty-Fourth Supplemental Indenture dated as of February 21, 2014, to the U.S. Bank Indenture and Form of 5.500% Prospect Capital InterNote® due 2021\(89\)](#)
- 4.260 [Two Hundred Sixty-Fifth Supplemental Indenture dated as of February 21, 2014, to the U.S. Bank Indenture and Form of 6.000% Prospect Capital InterNote® due 2026\(89\)](#)
- 4.261 [Two Hundred Sixty-Sixth Supplemental Indenture dated as of February 21, 2014, to the U.S. Bank Indenture and Form of 6.500% Prospect Capital InterNote® due 2039\(89\)](#)
- 4.262 [Two Hundred Sixty-Eighth Supplemental Indenture dated as of February 27, 2014, to the U.S. Bank Indenture and Form of 3.750% Prospect Capital InterNote® due 2018\(90\)](#)
- 4.263 [Two Hundred Sixty-Ninth Supplemental Indenture dated as of February 27, 2014, to the U.S. Bank Indenture and Form of 4.750% Prospect Capital InterNote® due 2019\(90\)](#)
- 4.264 [Two Hundred Seventieth Supplemental Indenture dated as of February 27, 2014, to the U.S. Bank Indenture and Form of 5.250% Prospect Capital InterNote® due 2021\(90\)](#)
- 4.265 [Two Hundred Seventy-First Supplemental Indenture dated as of February 27, 2014, to the U.S. Bank Indenture and Form of 5.750% Prospect Capital InterNote® due 2026\(90\)](#)
- 4.266 [Two Hundred Seventy-Second Supplemental Indenture dated as of February 27, 2014, to the U.S. Bank Indenture and](#)

- 4.267 [Two Hundred Seventy-Third Supplemental Indenture dated as March 6, 2014, to the U.S. Bank Indenture and Form of 3.750% Prospect Capital InterNote® due 2018\(91\)](#)
- 4.268 [Two Hundred Seventy-Fourth Supplemental Indenture dated as of March 6, 2014, to the U.S. Bank Indenture and Form of 4.750% Prospect Capital InterNote® due 2019\(91\)](#)
- 4.269 [Two Hundred Seventy-Fifth Supplemental Indenture dated as of March 6, 2014, to the U.S. Bank Indenture and Form of 5.250% Prospect Capital InterNote® due 2021\(91\)](#)
- 4.270 [Two Hundred Seventy-Sixth Supplemental Indenture dated as of March 6, 2014, to the U.S. Bank Indenture and Form of 5.750% Prospect Capital InterNote® due 2026\(91\)](#)
- 4.271 [Two Hundred Seventy-Seventh Supplemental Indenture dated as of March 6, 2014, to the U.S. Bank Indenture and Form of 6.250% Prospect Capital InterNote® due 2039\(91\)](#)
- 4.272 [Supplement No. 1 to the Two Hundred Sixty-Seventh Supplemental Indenture dated as of March 11, 2014, to the U.S. Bank Indenture and Form of 4.75% Prospect Capital InterNote® due 2019\(92\)](#)
- 4.273 [Two Hundred Seventy-Eighth Supplemental Indenture dated as March 13, 2014, to the U.S. Bank Indenture and Form of 3.750% Prospect Capital InterNote® due 2018\(93\)](#)
- 4.274 [Two Hundred Seventy-Ninth Supplemental Indenture dated as of March 13, 2014, to the U.S. Bank Indenture and Form of 4.750% Prospect Capital InterNote® due 2019\(93\)](#)
- 4.275 [Two Hundred Eightieth Supplemental Indenture dated as of March 13, 2014, to the U.S. Bank Indenture and Form of 5.250% Prospect Capital InterNote® due 2021\(93\)](#)
- 4.276 [Two Hundred Eighty-First Supplemental Indenture dated as of March 13, 2014, to the U.S. Bank Indenture and Form of 5.750% Prospect Capital InterNote® due 2026\(93\)](#)
- 4.277 [Two Hundred Eighty-Second Supplemental Indenture dated as of March 13, 2014, to the U.S. Bank Indenture and Form of 6.250% Prospect Capital InterNote® due 2039\(93\)](#)
- 4.278 [Two Hundred Eighty-Fourth Supplemental Indenture dated as March 20, 2014, to the U.S. Bank Indenture and Form of 3.750% Prospect Capital InterNote® due 2018\(94\)](#)

4.279 [Two Hundred Eighty-Fifth Supplemental Indenture dated as of March 20, 2014, to the U.S. Bank Indenture and Form of 4.750% Prospect Capital InterNote® due 2019\(94\)](#)

4.280 [Two Hundred Eighty-Sixth Supplemental Indenture dated as of March 20, 2014, to the U.S. Bank Indenture and Form of 5.250% Prospect Capital InterNote® due 2021\(94\)](#)

**Exhibit No.**

- 4.281 [Two Hundred Eighty-Seventh Supplemental Indenture dated as of March 20, 2014, to the U.S. Bank Indenture and Form of 5.750% Prospect Capital InterNote® due 2026\(94\)](#)
- 4.282 [Two Hundred Eighty-Eighth Supplemental Indenture dated as of March 20, 2014, to the U.S. Bank Indenture and Form of 6.250% Prospect Capital InterNote® due 2039\(94\)](#)
- 4.283 [Two Hundred Eighty-Ninth Supplemental Indenture dated as March 27, 2014, to the U.S. Bank Indenture and Form of 3.750% Prospect Capital InterNote® due 2018\(95\)](#)
- 4.284 [Two Hundred Ninetieth Supplemental Indenture dated as of March 20, 2014, to the U.S. Bank Indenture and Form of 4.750% Prospect Capital InterNote® due 2019\(95\)](#)
- 4.285 [Two Hundred Ninety-First Supplemental Indenture dated as of March 27, 2014, to the U.S. Bank Indenture and Form of 5.250% Prospect Capital InterNote® due 2021\(95\)](#)
- 4.286 [Two Hundred Ninety-Second Supplemental Indenture dated as of March 27, 2014, to the U.S. Bank Indenture and Form of 5.750% Prospect Capital InterNote® due 2026\(95\)](#)
- 4.287 [Two Hundred Ninety-Third Supplemental Indenture dated as of March 27, 2014, to the U.S. Bank Indenture and Form of 6.250% Prospect Capital InterNote® due 2039\(95\)](#)
- 4.288 [Two Hundred Ninety-Fourth Supplemental Indenture dated as of April 3, 2014, to the U.S. Bank Indenture and Form of 3.750% Prospect Capital InterNote® due 2018\(96\)](#)
- 4.289 [Two Hundred Ninety-Fifth Supplemental Indenture dated as of April 3, 2014, to the U.S. Bank Indenture and Form of 4.500% Prospect Capital InterNote® due 2019\(96\)](#)
- 4.290 [Two Hundred Ninety-Sixth Supplemental Indenture dated as of April 3, 2014, to the U.S. Bank Indenture and Form of 5.250% Prospect Capital InterNote® due 2021\(96\)](#)
- 4.291 [Two Hundred Ninety-Seventh Supplemental Indenture dated as of April 3, 2014, to the U.S. Bank Indenture and Form of 5.750% Prospect Capital InterNote® due 2024\(96\)](#)
- 4.292 [Two Hundred Ninety-Eighth Supplemental Indenture dated as of April 3, 2014, to the U.S. Bank Indenture and Form of](#)

[6.250% Prospect Capital InterNote® due 2039\(96\)](#)

- 4.293 [Supplemental Indenture dated as of April 7, 2014, to the U.S. Bank Indenture and Form of 5.000% Senior Notes due 2019\(97\)](#)
- 4.294 [Two Hundred Ninety-Ninth Supplemental Indenture dated as of April 10, 2014, to the U.S. Bank Indenture and Form of 3.750% Prospect Capital InterNote® due 2018\(98\)](#)
- 4.295 [Three Hundredth Supplemental Indenture dated as of April 10, 2014, to the U.S. Bank Indenture and Form of 4.250% Prospect Capital InterNote® due 2019\(98\)](#)
- 4.296 [Three Hundred First Supplemental Indenture dated as of April 10, 2014, to the U.S. Bank Indenture and Form of 5.250% Prospect Capital InterNote® due 2021\(98\)](#)
- 4.297 [Three Hundred Second Supplemental Indenture dated as of April 10, 2014, to the U.S. Bank Indenture and Form of 5.750% Prospect Capital InterNote® due 2024\(98\)](#)
- 4.298 [Three Hundred Third Supplemental Indenture dated as of April 10, 2014, to the U.S. Bank Indenture and Form of 6.250% Prospect Capital InterNote® due 2039\(98\)](#)
- 4.299 [Indenture dated as of April 11, 2014, by and between Prospect Capital Corporation and American Stock Transfer & Trust Company, as Trustee and Form of Global Note of 4.75% Senior Convertible Notes Due 2020\(99\)](#)
- 4.300 [Three Hundred Fourth Supplemental Indenture dated as of April 17, 2014, to the U.S. Bank Indenture and Form of 3.750% Prospect Capital InterNote® due 2018\(100\)](#)
- 4.301 [Three Hundred Fifth Supplemental Indenture dated as of April 17, 2014, to the U.S. Bank Indenture and Form of 4.250% Prospect Capital InterNote® due 2019\(100\)](#)
- 4.302 [Three Hundred Sixth Supplemental Indenture dated as of April 17, 2014, to the U.S. Bank Indenture and Form of 5.250% Prospect Capital InterNote® due 2021\(100\)](#)
- 4.303 [Three Hundred Seventh Supplemental Indenture dated as of April 17, 2014, to the U.S. Bank Indenture and Form of 5.750% Prospect Capital InterNote® due 2024\(100\)](#)
- 4.304 [Three Hundred Eighth Supplemental Indenture dated as of April 17, 2014, to the U.S. Bank Indenture and Form of 6.250% Prospect Capital InterNote® due 2039\(100\)](#)

- 4.305 [Three Hundred Ninth Supplemental Indenture dated as of April 24, 2014, to the U.S. Bank Indenture and Form of 3.750% Prospect Capital InterNote® due 2018\(101\)](#)
- 4.306 [Three Hundred Tenth Supplemental Indenture dated as of April 24, 2014, to the U.S. Bank Indenture and Form of 4.500% Prospect Capital InterNote® due 2019\(101\)](#)

**Exhibit No.**

- 4.307 [Three Hundred Eleventh Supplemental Indenture dated as of April 24, 2014, to the U.S. Bank Indenture and Form of 5.250% Prospect Capital InterNote® due 2021\(101\)](#)
- 4.308 [Three Hundred Twelfth Supplemental Indenture dated as of April 24, 2014, to the U.S. Bank Indenture and Form of 5.750% Prospect Capital InterNote® due 2024\(101\)](#)
- 4.309 [Three Hundred Thirteenth Supplemental Indenture dated as of April 24, 2014, to the U.S. Bank Indenture and Form of 6.250% Prospect Capital InterNote® due 2039\(101\)](#)
- 4.310 [Three Hundred Fourteenth Supplemental Indenture dated as of May 1, 2014, to the U.S. Bank Indenture and Form of 3.750% Prospect Capital InterNote® due 2018\(102\)](#)
- 4.311 [Three Hundred Fifteenth Supplemental Indenture dated as of May 1, 2014, to the U.S. Bank Indenture and Form of 4.500% Prospect Capital InterNote® due 2019\(102\)](#)
- 4.312 [Three Hundred Sixteenth Supplemental Indenture dated as of May 1, 2014, to the U.S. Bank Indenture and Form of 5.250% Prospect Capital InterNote® due 2021\(102\)](#)
- 4.313 [Three Hundred Seventeenth Supplemental Indenture dated as of May 1, 2014, to the U.S. Bank Indenture and Form of 5.750% Prospect Capital InterNote® due 2024\(102\)](#)
- 4.314 [Three Hundred Eighteenth Supplemental Indenture dated as of May 1, 2014, to the U.S. Bank Indenture and Form of 6.250% Prospect Capital InterNote® due 2039\(102\)](#)
- 4.315 [Three Hundred Nineteenth Supplemental Indenture dated as of May 8, 2014, to the U.S. Bank Indenture and Form of 3.750% Prospect Capital InterNote® due 2018\(103\)](#)
- 4.316 [Three Hundred Twentieth Supplemental Indenture dated as of May 8, 2014, to the U.S. Bank Indenture and Form of 4.500% Prospect Capital InterNote® due 2019\(103\)](#)
- 4.317 [Three Hundred Twenty-First Supplemental Indenture dated as of May 8, 2014, to the U.S. Bank Indenture and Form of 5.250% Prospect Capital InterNote® due 2021\(103\)](#)
- 4.318 [Three Hundred Twenty-Second Supplemental Indenture dated as of May 8, 2014, to the U.S. Bank Indenture and Form of](#)

[5.750% Prospect Capital InterNote® due 2024\(103\)](#)

- 4.319 [Three Hundred Twenty-Third Supplemental Indenture dated as of May 8, 2014, to the U.S. Bank Indenture and Form of 6.250% Prospect Capital InterNote® due 2039\(103\)](#)
- 4.320 [Three Hundred Twenty-Fourth Supplemental Indenture dated as of November 17, 2014, to the U.S. Bank Indenture and Form of 4.250% Prospect Capital InterNote® due 2020\(110\)](#)
- 4.321 [Three Hundred Twenty-Fifth Supplemental Indenture dated as of November 28, 2014, to the U.S. Bank Indenture and Form of 4.250% Prospect Capital InterNote® due 2020\(111\)](#)
- 4.322 [Three Hundred Twenty-Sixth Supplemental Indenture dated as of December 4, 2014, to the U.S. Bank Indenture and Form of 4.250% Prospect Capital InterNote® due 2020\(112\)](#)
- 4.323 [Three Hundred Twenty-Seventh Supplemental Indenture dated as of December 11, 2014, to the U.S. Bank Indenture and Form of 4.250% Prospect Capital InterNote® due 2020\(113\)](#)
- 4.324 [Three Hundred Twenty-Eighth Supplemental Indenture dated as of December 18, 2014, to the U.S. Bank Indenture and Form of 4.250% Prospect Capital InterNote® due 2020\(114\)](#)
- 4.325 [Three Hundred Twenty-Ninth Supplemental Indenture dated as of December 29, 2014, to the U.S. Bank Indenture and Form of 4.250% Prospect Capital InterNote® due 2020\(115\)](#)
- 4.326 [Three Hundred Thirtieth Supplemental Indenture dated as of January 2, 2015, to the U.S. Bank Indenture and Form of 4.250% Prospect Capital InterNote® due 2020\(116\)](#)
- 4.327 [Three Hundred Thirty-First Supplemental Indenture dated as of January 8, 2015, to the U.S. Bank Indenture and Form of 4.250% Prospect Capital InterNote® due 2020\(117\)](#)
- 4.328 [Three Hundred Thirty-Second Supplemental Indenture dated as of January 15, 2015, to the U.S. Bank Indenture and Form of 4.500% Prospect Capital InterNote® due 2020\(118\)](#)
- 4.329 [Three Hundred Thirty-Third Supplemental Indenture dated as of January 23, 2015, to the U.S. Bank Indenture and Form of 4.750% Prospect Capital InterNote® due 2020\(119\)](#)
- 4.330 [Three Hundred Thirty-Fourth Supplemental Indenture dated as of January 29, 2015, to the U.S. Bank Indenture and Form of 4.750% Prospect Capital InterNote® due 2020\(120\)](#)



- 4.331 [Three Hundred Thirty-Fifth Supplemental Indenture dated as of February 5, 2015, to the U.S. Bank Indenture and Form of 4.750% Prospect Capital InterNote® due 2020\(121\)](#)
- 4.332 [Three Hundred Thirty-Sixth Supplemental Indenture dated as of February 20, 2015, to the U.S. Bank Indenture and Form of 4.750% Prospect Capital InterNote® due 2020\(122\)](#)

**Exhibit No.**

- 4.333 [Three Hundred Thirty-Seventh Supplemental Indenture dated as of February 26, 2015, to the U.S. Bank Indenture and Form of 4.750% Prospect Capital InterNote® due 2020\(123\)](#)
- 4.334 [Three Hundred Thirty-Eighth Supplemental Indenture dated as of March 5, 2015, to the U.S. Bank Indenture and Form of 4.750% Prospect Capital InterNote® due 2020\(124\)](#)
- 4.335 [Three Hundred Thirty-Ninth Supplemental Indenture dated as of March 12, 2015, to the U.S. Bank Indenture and Form of 4.750% Prospect Capital InterNote® due 2020\(125\)](#)
- 4.336 [Three Hundred Fortieth Supplemental Indenture dated as of March 19, 2015, to the U.S. Bank Indenture and Form of 4.750% Prospect Capital InterNote® due 2020\(126\)](#)
- 4.337 [Three Hundred Forty-First Supplemental Indenture dated as of March 26, 2015, to the U.S. Bank Indenture and Form of 4.750% Prospect Capital InterNote® due 2020\(127\)](#)
- 4.338 [Three Hundred Forty-Second Supplemental Indenture dated as of April 2, 2015, to the U.S. Bank Indenture and Form of 4.750% Prospect Capital InterNote® due 2020\(128\)](#)
- 4.339 [Three Hundred Forty-Third Supplemental Indenture dated as of April 9, 2015, to the U.S. Bank Indenture and Form of 4.750% Prospect Capital InterNote® due 2020\(129\)](#)
- 4.340 [Three Hundred Forty-Fourth Supplemental Indenture dated as of April 16, 2015, to the U.S. Bank Indenture and Form of 4.750% Prospect Capital InterNote® due 2020\(130\)](#)
- 4.341 [Three Hundred Forty-Fifth Supplemental Indenture dated as of April 16, 2015, to the U.S. Bank Indenture and Form of 3.375% to 6.375% Prospect Capital InterNote® due 2021\(130\)](#)
- 4.342 [Three Hundred Forty-Sixth Supplemental Indenture dated as of April 23, 2015, to the U.S. Bank Indenture and Form of 4.750% Prospect Capital InterNote® due 2020\(131\)](#)
- 4.343 [Three Hundred Forty-Seventh Supplemental Indenture dated as of April 23, 2015, to the U.S. Bank Indenture and Form of 3.375% to 6.375% Prospect Capital InterNote® due 2021\(131\)](#)
- 4.344 [Three Hundred Forty-Eighth Supplemental Indenture dated as of April 30, 2015, to the U.S. Bank Indenture and Form of](#)

[4.750% Prospect Capital InterNote® due 2020\(132\)](#)

- 4.345 [Three Hundred Forty-Ninth Supplemental Indenture dated as of April 30, 2015, to the U.S. Bank Indenture and Form of 3.375% to 6.375% Prospect Capital InterNote® due 2021\(132\)](#)
- 4.346 [Three Hundred Fiftieth Supplemental Indenture dated as of May 7, 2015, to the U.S. Bank Indenture and Form of 4.750% Prospect Capital InterNote® due 2020\(133\)](#)
- 4.347 [Three Hundred Fifty-First Supplemental Indenture dated as of May 7, 2015, to the U.S. Bank Indenture and Form of 3.375% to 6.375% Prospect Capital InterNote® due 2021\(133\)](#)
- 4.348 [Three Hundred Fifty-Second Supplemental Indenture dated as of May 21, 2015, to the U.S. Bank Indenture and Form of 4.750% Prospect Capital InterNote® due 2020\(134\)](#)
- 4.349 [Three Hundred Fifty-Third Supplemental Indenture dated as of May 29, 2015, to the U.S. Bank Indenture and Form of 4.625% Prospect Capital InterNote® due 2020\(135\)](#)
- 4.350 [Three Hundred Fifty-Fourth Supplemental Indenture dated as of May 29, 2015, to the U.S. Bank Indenture and Form of 5.100% Prospect Capital InterNote® due 2022\(135\)](#)
- 4.351 [Three Hundred Fifty-Fifth Supplemental Indenture dated as of June 4, 2015, to the U.S. Bank Indenture and Form of 4.625% Prospect Capital InterNote® due 2020\(136\)](#)
- 4.352 [Three Hundred Fifty-Sixth Supplemental Indenture dated as of June 4, 2015, to the U.S. Bank Indenture and Form of 5.100% Prospect Capital InterNote® due 2022\(136\)](#)
- 4.353 [Three Hundred Fifty-Seventh Supplemental Indenture dated as of June 11, 2015, to the U.S. Bank Indenture and Form of 4.625% Prospect Capital InterNote® due 2020\(137\)](#)
- 4.354 [Three Hundred Fifty-Eighth Supplemental Indenture dated as of June 11, 2015, to the U.S. Bank Indenture and Form of 5.100% Prospect Capital InterNote® due 2022\(137\)](#)
- 4.355 [Three Hundred Fifty-Ninth Supplemental Indenture dated as of June 18, 2015, to the U.S. Bank Indenture and Form of 4.625% Prospect Capital InterNote® due 2020\(138\)](#)
- 4.356 [Three Hundred Sixtieth Supplemental Indenture dated as of June 18, 2015, to the U.S. Bank Indenture and Form of 5.100% Prospect Capital InterNote® due 2021\(138\)](#)

- 4.357 [Three Hundred Sixty-First Supplemental Indenture dated as of June 25, 2015, to the U.S. Bank Indenture and Form of 4.625% Prospect Capital InterNote® due 2020\(139\)](#)
- 4.358 [Three Hundred Sixty-Second Supplemental Indenture dated as of June 25, 2015, to the U.S. Bank Indenture and Form of 5.100% Prospect Capital InterNote® due 2021\(139\)](#)

**Exhibit No.**

- 4.359 [Three Hundred Sixty-Third Supplemental Indenture dated as of July 2, 2015, to the U.S. Bank Indenture and Form of 4.625% Prospect Capital InterNote® due 2020\(140\)](#)
- 4.360 [Three Hundred Sixty-Fourth Supplemental Indenture dated as of July 2, 2015, to the U.S. Bank Indenture and Form of 5.100% Prospect Capital InterNote® due 2021\(140\)](#)
- 4.361 [Three Hundred Sixty-Fifth Supplemental Indenture dated as of July 9, 2015, to the U.S. Bank Indenture and Form of 4.750% Prospect Capital InterNote® due 2020\(141\)](#)
- 4.362 [Three Hundred Sixty-Sixth Supplemental Indenture dated as of July 9, 2015, to the U.S. Bank Indenture and Form of 5.250% Prospect Capital InterNote® due 2022\(141\)](#)
- 4.363 [Three Hundred Sixty-Seventh Supplemental Indenture dated as of July 16, 2015, to the U.S. Bank Indenture and Form of 4.750% Prospect Capital InterNote® due 2020\(142\)](#)
- 4.364 [Three Hundred Sixty-Eighth Supplemental Indenture dated as of July 16, 2015, to the U.S. Bank Indenture and Form of 5.250% Prospect Capital InterNote® due 2022\(142\)](#)
- 4.365 [Three Hundred Sixty-Ninth Supplemental Indenture dated as of July 23, 2015, to the U.S. Bank Indenture and Form of 4.750% Prospect Capital InterNote® due 2020\(143\)](#)
- 4.366 [Three Hundred Seventieth Supplemental Indenture dated as of July 23, 2015, to the U.S. Bank Indenture and Form of 5.250% Prospect Capital InterNote® due 2022\(143\)](#)
- 4.367 [Three Hundred Seventy-First Supplemental Indenture dated as of July 30, 2015, to the U.S. Bank Indenture and Form of 4.750% Prospect Capital InterNote® due 2020\(144\)](#)
- 4.368 [Three Hundred Seventy-Second Supplemental Indenture dated as of July 30, 2015, to the U.S. Bank Indenture and Form of 5.250% Prospect Capital InterNote® due 2022\(144\)](#)
- 4.369 [Three Hundred Seventy-Third Supplemental Indenture dated as of August 6, 2015, to the U.S. Bank Indenture and Form of 4.750% Prospect Capital InterNote® due 2020\(145\)](#)
- 4.370 [Three Hundred Seventy-Fourth Supplemental Indenture dated as of August 6, 2015, to the U.S. Bank Indenture and Form](#)

[of 5.250% Prospect Capital InterNote® due 2022\(145\)](#)

- 4.371 [Three Hundred Seventy-Fifth Supplemental Indenture dated as of August 13, 2015, to the U.S. Bank Indenture and Form of 4.750% Prospect Capital InterNote® due 2020\(146\)](#)
- 4.372 [Three Hundred Seventy-Sixth Supplemental Indenture dated as of August 13, 2015, to the U.S. Bank Indenture and Form of 5.250% Prospect Capital InterNote® due 2022\(146\)](#)
- 4.373 [Three Hundred Seventy-Fifth Supplemental Indenture dated as of August 20, 2015, to the U.S. Bank Indenture and Form of 4.750% Prospect Capital InterNote® due 2020\(147\)](#)
- 4.374 [Three Hundred Seventy-Sixth Supplemental Indenture dated as of August 20, 2015, to the U.S. Bank Indenture and Form of 5.250% Prospect Capital InterNote® due 2022\(147\)](#)
- 4.375 [Three Hundred Seventy-Ninth Supplemental Indenture dated as of August 27, 2015, to the U.S. Bank Indenture and Form of 4.750% Prospect Capital InterNote® due 2020\(148\)](#)
- 4.376 [Three Hundred Eightieth Supplemental Indenture dated as of August 27, 2015, to the U.S. Bank Indenture and Form of 5.250% Prospect Capital InterNote® due 2022\(148\)](#)
- 4.377 [Three Hundred Eighty-One Supplemental Indenture dated as of September 11, 2015, to the U.S. Bank Indenture and Form of 4.750% Prospect Capital InterNote® due 2020\(153\)](#)
- 4.378 [Three Hundred Eighty-Second Supplemental Indenture dated as of September 11, 2015, to the U.S. Bank Indenture and Form of 5.250% Prospect Capital InterNote® due 2022\(153\)](#)
- 4.379 [Three Hundred Eighty-Third Supplemental Indenture dated as of September 17, 2015, to the U.S. Bank Indenture and Form of 4.750% Prospect Capital InterNote® due 2020\(154\)](#)
- 4.380 [Three Hundred Eighty-Fourth Supplemental Indenture dated as of September 17, 2015, to the U.S. Bank Indenture and Form of 5.250% Prospect Capital InterNote® due 2022\(154\)](#)
- 4.381 [Three Hundred Eighty-Fifth Supplemental Indenture dated as of September 24, 2015, to the U.S. Bank Indenture and Form of 4.750% Prospect Capital InterNote® due 2020\(155\)](#)
- 4.382 [Three Hundred Eighty-Sixth Supplemental Indenture dated as of September 24, 2015, to the U.S. Bank Indenture and Form of 5.250% Prospect Capital InterNote® due 2022\(155\)](#)

- 4.383 [Three Hundred Eighty-Seventh Supplemental Indenture dated as of October 1, 2015, to the U.S. Bank Indenture and Form of 4.750% Prospect Capital InterNote® due 2020\(156\)](#)
- 4.384 [Three Hundred Eighty-Eighth Supplemental Indenture dated as of October 1, 2015, to the U.S. Bank Indenture and Form of 5.250% Prospect Capital InterNote® due 2022\(156\)](#)

**Exhibit No.**

- 4.385 [Three Hundred Eighty-Ninth Supplemental Indenture dated as of October 8, 2015, to the U.S. Bank Indenture and Form of 4.750% Prospect Capital InterNote® due 2020\(157\)](#)
- 4.386 [Three Hundred Ninetieth Supplemental Indenture dated as of October 8, 2015, to the U.S. Bank Indenture and Form of 5.250% Prospect Capital InterNote® due 2022\(157\)](#)
- 4.387 [Three Hundred Ninety-First Supplemental Indenture dated as of October 16, 2015, to the U.S. Bank Indenture and Form of 4.750% Prospect Capital InterNote® due 2020\(159\)](#)
- 4.388 [Three Hundred Ninety-Second Supplemental Indenture dated as of October 16, 2015, to the U.S. Bank Indenture and Form of 5.250% Prospect Capital InterNote® due 2022\(159\)](#)
- 4.389 [Three Hundred Ninety-Third Supplemental Indenture dated as of October 22, 2015, to the U.S. Bank Indenture and Form of 4.750% Prospect Capital InterNote® due 2020\(160\)](#)
- 4.390 [Three Hundred Ninety-Fourth Supplemental Indenture dated as of October 22, 2015, to the U.S. Bank Indenture and Form of 5.250% Prospect Capital InterNote® due 2022\(160\)](#)
- 4.391 [Three Hundred Ninety-Fifth Supplemental Indenture dated as of October 29, 2015, to the U.S. Bank Indenture and Form of 4.750% Prospect Capital InterNote® due 2020\(161\)](#)
- 4.392 [Three Hundred Ninety-Sixth Supplemental Indenture dated as of October 29, 2015, to the U.S. Bank Indenture and Form of 5.250% Prospect Capital InterNote® due 2022\(161\)](#)
- 4.393 [Three Hundred Ninety-Seventh Supplemental Indenture dated as of November 4, 2015, to the U.S. Bank Indenture and Form of 4.750% Prospect Capital InterNote® due 2020\(163\)](#)
- 4.394 [Three Hundred Ninety-Eighth Supplemental Indenture dated as of November 4, 2015, to the U.S. Bank Indenture and Form of 5.250% Prospect Capital InterNote® due 2022\(163\)](#)
- 4.395 [Three Hundred Ninety-Ninth Supplemental Indenture dated as of November 19, 2015, to the U.S. Bank Indenture and Form of 5.000% Prospect Capital InterNote® due 2020\(164\)](#)
- 4.396 [Four Hundredth Supplemental Indenture dated as of November 19, 2015, to the U.S. Bank Indenture and Form of 5.625%](#)



- 4.397 [Four Hundred First Supplemental Indenture dated as of November 19, 2015, to the U.S. Bank Indenture and Form of 5.875% Prospect Capital InterNote® due 2025\(164\)](#)
- 4.398 [Four Hundred Second Supplemental Indenture dated as of November 27, 2015, to the U.S. Bank Indenture and Form of 5.125% Prospect Capital InterNote® due 2020\(165\)](#)
- 4.399 [Four Hundred Third Supplemental Indenture dated as of November 27, 2015, to the U.S. Bank Indenture and Form of 5.750% Prospect Capital InterNote® due 2022\(165\)](#)
- 4.400 [Four Hundred Fourth Supplemental Indenture dated as of November 27, 2015, to the U.S. Bank Indenture and Form of 6.000% Prospect Capital InterNote® due 2025\(165\)](#)
- 4.401 [Four Hundred Fifth Supplemental Indenture dated as of December 3, 2015, to the U.S. Bank Indenture and Form of 5.250% Prospect Capital InterNote® due 2020\(166\)](#)
- 4.402 [Four Hundred Sixth Supplemental Indenture dated as of December 3, 2015, to the U.S. Bank Indenture and Form of 5.750% Prospect Capital InterNote® due 2022\(166\)](#)
- 4.403 [Four Hundred Seventh Supplemental Indenture dated as of December 3, 2015, to the U.S. Bank Indenture and Form of 6.000% Prospect Capital InterNote® due 2025\(166\)](#)
- 4.404 [Supplemental Indenture dated as of December 10, 2015, to the U.S. Bank Indenture and Form of 6.250% Note due 2024\(167\)](#)
- 4.405 [Four Hundred Eighth Supplemental Indenture dated as of December 17, 2015, to the U.S. Bank Indenture and Form of 5.375% Prospect Capital InterNote® due 2020\(168\)](#)
- 4.406 [Four Hundred Ninth Supplemental Indenture dated as of December 24, 2015, to the U.S. Bank Indenture and Form of 5.375% Prospect Capital InterNote® due 2020\(169\)](#)
- 4.407 [Four Hundred Tenth Supplemental Indenture dated as of December 31, 2015, to the U.S. Bank Indenture and Form of 5.375% Prospect Capital InterNote® due 2020\(170\)](#)
- 4.408 [Four Hundred Eleventh Supplemental Indenture dated as of January 7, 2016, to the U.S. Bank Indenture and Form of 5.375% Prospect Capital InterNote® due 2021\(171\)](#)

- 4.409 [Four Hundred Twelfth Supplemental Indenture dated as of January 14, 2016, to the U.S. Bank Indenture and Form of 5.375% Prospect Capital InterNote® due 2021\(172\)](#)
- 4.410 [Four Hundred Thirteenth Supplemental Indenture dated as of January 22, 2016, to the U.S. Bank Indenture and Form of 5.375% Prospect Capital InterNote® due 2021\(173\)](#)

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- 4.411 [Four Hundred Fourteenth Supplemental Indenture dated as of March 3, 2016, to the U.S. Bank Indenture and Form of 5.375% Prospect Capital InterNote® due 2021\(175\)](#)
- 4.412 [Four Hundred Fifteenth Supplemental Indenture dated as of March 10, 2016, to the U.S. Bank Indenture and Form of 5.375% Prospect Capital InterNote® due 2021\(176\)](#)
- 4.413 [Four Hundred Sixteenth Supplemental Indenture dated as of March 17, 2016, to the U.S. Bank Indenture and Form of 5.375% Prospect Capital InterNote® due 2021\(177\)](#)
- 4.414 [Four Hundred Seventeenth Supplemental Indenture dated as of March 24, 2016, to the U.S. Bank Indenture and Form of 5.500% Prospect Capital InterNote® due 2021\(178\)](#)
- 4.415 [Four Hundred Eighteenth Supplemental Indenture dated as of March 31, 2016, to the U.S. Bank Indenture and Form of 5.500% Prospect Capital InterNote® due 2021\(179\)](#)
- 4.416 [Four Hundred Nineteenth Supplemental Indenture dated as of April 7, 2016, to the U.S. Bank Indenture and Form of 5.500% Prospect Capital InterNote® due 2021\(180\)](#)
- 4.417 [Four Hundred Twentieth Supplemental Indenture dated as of April 14, 2016, to the U.S. Bank Indenture and Form of 5.500% Prospect Capital InterNote® due 2021\(181\)](#)
- 4.418 [Four Hundred Twenty-First Supplemental Indenture dated as of April 21, 2016, to the U.S. Bank Indenture and Form of 5.500% Prospect Capital InterNote® due 2021\(182\)](#)
- 4.419 [Four Hundred Twenty-Second Supplemental Indenture dated as of April 28, 2016, to the U.S. Bank Indenture and Form of 5.500% Prospect Capital InterNote® due 2021\(183\)](#)
- 4.420 [Four Hundred Twenty-Third Supplemental Indenture dated as of May 5, 2016, to the U.S. Bank Indenture and Form of 5.500% Prospect Capital InterNote® due 2021\(184\)](#)
- 4.421 [Four Hundred Twenty-Fourth Supplemental Indenture dated as of May 12, 2016, to the U.S. Bank Indenture and Form of 5.500% Prospect Capital InterNote® due 2021\(185\)](#)
- 4.422 [Four Hundred Twenty-Fifth Supplemental Indenture dated as of May 26, 2016, to the U.S. Bank Indenture and Form of](#)

[5.500% Prospect Capital InterNote® due 2021\(186\)](#)

- 4.423 [Four Hundred Twenty-Sixth Supplemental Indenture dated as of June 3, 2016, to the U.S. Bank Indenture and Form of 5.500% Prospect Capital InterNote® due 2021\(187\)](#)
- 4.424 [Four Hundred Twenty-Seventh Supplemental Indenture dated as of June 9, 2016, to the U.S. Bank Indenture and Form of 5.500% Prospect Capital InterNote® due 2021\(188\)](#)
- 4.425 [Four Hundred Twenty-Eighth Supplemental Indenture dated as of June 16, 2016, to the U.S. Bank Indenture and Form of 5.500% Prospect Capital InterNote® due 2021\(189\)](#)
- 4.426 [Supplemental Indenture dated as of June 22, 2016, to the U.S. Bank Indenture, and Form of 6.250% Note due 2024\(190\)](#)
- 4.427 [Four Hundred Twenty-Ninth Supplemental Indenture dated as of June 23, 2016, to the U.S. Bank Indenture and Form of 5.500% Prospect Capital InterNote® due 2021\(190\)](#)
- 4.428 [Form of 6.250% Notes due 2024, Note 1, of an aggregate principal amount of \\$650,775.00, pursuant to the Supplemental Indenture dated as of June 22, 2016, to the U.S. Bank Indenture\(191\)](#)
- 4.429 [Form of 6.250% Notes due 2024, Note 2, of an aggregate principal amount of \\$538,575.00, pursuant to the Supplemental Indenture dated as of June 22, 2016, to the U.S. Bank Indenture\(191\)](#)
- 4.430 [Form of 6.250% Notes due 2024, Note 3, of an aggregate principal amount of \\$191,075.00, pursuant to the Supplemental Indenture dated as of June 22, 2016, to the U.S. Bank Indenture\(191\)](#)
- 4.431 [Four Hundred Thirtieth Supplemental Indenture dated as of June 30, 2016, to the U.S. Bank Indenture and Form of 5.500% Prospect Capital InterNote® due 2021\(191\)](#)
- 4.432 [Form of 6.250% Notes due 2024, Note 4, of an aggregate principal amount of \\$563,000.00, pursuant to the Supplemental Indenture dated as of June 22, 2016, to the U.S. Bank Indenture\(192\)](#)
- 4.433 [Form of 6.250% Notes due 2024, Note 5, of an aggregate principal amount of \\$323,825.00, pursuant to the Supplemental Indenture dated as of June 22, 2016, to the U.S. Bank Indenture\(192\)](#)
- 4.434 [Form of 6.250% Notes due 2024, Note 6, of an aggregate principal amount of \\$730,600.00, pursuant to the Supplemental Indenture dated as of June 22, 2016, to the U.S. Bank Indenture\(192\)](#)

- 4.435 [Form of 6.250% Notes due 2024, Note 7, of an aggregate principal amount of \\$265,125.00, pursuant to the Supplemental Indenture dated as of June 22, 2016, to the U.S. Bank Indenture\(192\)](#)
- 4.436 [Form of 6.250% Notes due 2024, Note 8, of an aggregate principal amount of \\$722,100.00, pursuant to the Supplemental Indenture dated as of June 22, 2016, to the U.S. Bank Indenture\(192\)](#)

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- 4.437 [Four Hundred Thirty-First Supplemental Indenture dated as of July 8, 2016, to the U.S. Bank Indenture and Form of 5.500% Prospect Capital InterNote® due 2021\(192\)](#)
- 4.438 [Form of 6.250% Notes due 2024, Note 9, of an aggregate principal amount of \\$599,050.00, pursuant to the Supplemental Indenture dated as of June 22, 2016, to the U.S. Bank Indenture\(193\)](#)
- 4.439 [Form of 6.250% Notes due 2024, Note 10, of an aggregate principal amount of \\$807,500.00, pursuant to the Supplemental Indenture dated as of June 22, 2016, to the U.S. Bank Indenture\(193\)](#)
- 4.440 [Form of 6.250% Notes due 2024, Note 11, of an aggregate principal amount of \\$799,475.00, pursuant to the Supplemental Indenture dated as of June 22, 2016, to the U.S. Bank Indenture\(193\)](#)
- 4.441 [Form of 6.250% Notes due 2024, Note 12, of an aggregate principal amount of \\$501,625.00, pursuant to the Supplemental Indenture dated as of June 22, 2016, to the U.S. Bank Indenture\(193\)](#)
- 4.442 [Four Hundred Thirty-Second Supplemental Indenture dated as of July 14, 2016, to the U.S. Bank Indenture and Form of 5.500% Prospect Capital InterNote® due 2021\(193\)](#)
- 4.443 [Form of 6.250% Notes due 2024, Note 13, of an aggregate principal amount of \\$592,500.00, pursuant to the Supplemental Indenture dated as of June 22, 2016, to the U.S. Bank Indenture\(194\)](#)
- 4.444 [Form of 6.250% Notes due 2024, Note 14, of an aggregate principal amount of \\$581,250.00, pursuant to the Supplemental Indenture dated as of June 22, 2016, to the U.S. Bank Indenture\(194\)](#)
- 4.445 [Form of 6.250% Notes due 2024, Note 15, of an aggregate principal amount of \\$463,750.00, pursuant to the Supplemental Indenture dated as of June 22, 2016, to the U.S. Bank Indenture\(194\)](#)
- 4.446 [Form of 6.250% Notes due 2024, Note 16, of an aggregate principal amount of \\$836,475.00, pursuant to the Supplemental Indenture dated as of June 22, 2016, to the U.S. Bank Indenture\(194\)](#)
- 4.447 [Form of 6.250% Notes due 2024, Note 17, of an aggregate principal amount of \\$536,725.00, pursuant to the Supplemental Indenture dated as of June 22, 2016, to the U.S. Bank Indenture\(194\)](#)
- 4.448 [Four Hundred Thirty-Third Supplemental Indenture dated as of July 21, 2016, to the U.S. Bank Indenture and Form of](#)

[5.500% Prospect Capital InterNote® due 2021\(194\)](#)

- 4.449 [Form of 6.250% Notes due 2024, Note 18, of an aggregate principal amount of \\$1,746,400.00, pursuant to the Supplemental Indenture dated as of June 22, 2016, to the U.S. Bank Indenture\(195\)](#)
- 4.450 [Form of 6.250% Notes due 2024, Note 19, of an aggregate principal amount of \\$826,325.00, pursuant to the Supplemental Indenture dated as of June 22, 2016, to the U.S. Bank Indenture\(195\)](#)
- 4.451 [Form of 6.250% Notes due 2024, Note 20, of an aggregate principal amount of \\$838,525.00, pursuant to the Supplemental Indenture dated as of June 22, 2016, to the U.S. Bank Indenture\(195\)](#)
- 4.452 [Form of 6.250% Notes due 2024, Note 21, of an aggregate principal amount of \\$1,027,325.00, pursuant to the Supplemental Indenture dated as of June 22, 2016, to the U.S. Bank Indenture\(195\)](#)
- 4.453 [Form of 6.250% Notes due 2024, Note 22, of an aggregate principal amount of \\$1,329,050.00, pursuant to the Supplemental Indenture dated as of June 22, 2016, to the U.S. Bank Indenture\(195\)](#)
- 4.454 [Four Hundred Thirty-Fourth Supplemental Indenture dated as of July 28, 2016, to the U.S. Bank Indenture and Form of 5.500% Prospect Capital InterNote® due 2021\(195\)](#)
- 4.455 [Form of 6.250% Notes due 2024, Note 23, of an aggregate principal amount of \\$1,232,075.00, pursuant to the Supplemental Indenture dated as of June 22, 2016, to the U.S. Bank Indenture\(196\)](#)
- 4.456 [Form of 6.250% Notes due 2024, Note 24, of an aggregate principal amount of \\$1,273,150.00, pursuant to the Supplemental Indenture dated as of June 22, 2016, to the U.S. Bank Indenture\(196\)](#)
- 4.457 [Form of 6.250% Notes due 2024, Note 25, of an aggregate principal amount of \\$1,825,850.00, pursuant to the Supplemental Indenture dated as of June 22, 2016, to the U.S. Bank Indenture\(196\)](#)
- 4.458 [Form of 6.250% Notes due 2024, Note 26, of an aggregate principal amount of \\$902,650.00, pursuant to the Supplemental Indenture dated as of June 22, 2016, to the U.S. Bank Indenture\(196\)](#)
- 4.459 [Form of 6.250% Notes due 2024, Note 27, of an aggregate principal amount of \\$866,500.00, pursuant to the Supplemental Indenture dated as of June 22, 2016, to the U.S. Bank Indenture\(196\)](#)
- 4.460 [Four Hundred Thirty-Fifth Supplemental Indenture dated as of August 4, 2016, to the U.S. Bank Indenture and Form of 5.500% Prospect Capital InterNote® due 2021\(196\)](#)

- 4.461 [Form of 6.250% Notes due 2024, Note 28, of an aggregate principal amount of \\$1,284,800.00, pursuant to the Supplemental Indenture dated as of June 22, 2016, to the U.S. Bank Indenture\(197\)](#)
- 4.462 [Form of 6.250% Notes due 2024, Note 29, of an aggregate principal amount of \\$1,423,275.00, pursuant to the Supplemental Indenture dated as of June 22, 2016, to the U.S. Bank Indenture\(197\)](#)



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- 4.463 [Form of 6.250% Notes due 2024, Note 30, of an aggregate principal amount of \\$1,424,750.00, pursuant to the Supplemental Indenture dated as of June 22, 2016, to the U.S. Bank Indenture\(197\)](#)
- 4.464 [Form of 6.250% Notes due 2024, Note 31, of an aggregate principal amount of \\$1,525,475.00, pursuant to the Supplemental Indenture dated as of June 22, 2016, to the U.S. Bank Indenture\(197\)](#)
- 4.465 [Form of 6.250% Notes due 2024, Note 32, of an aggregate principal amount of \\$1,335,200.00, pursuant to the Supplemental Indenture dated as of June 22, 2016, to the U.S. Bank Indenture\(197\)](#)
- 4.466 [Four Hundred Thirty-Sixth Supplemental Indenture dated as of August 11, 2016, to the U.S. Bank Indenture and Form of 5.500% Prospect Capital InterNote® due 2021\(197\)](#)
- 4.467 [Form of 6.250% Notes due 2024, Note 33, of an aggregate principal amount of \\$746,950.00, pursuant to the Supplemental Indenture dated as of June 22, 2016, to the U.S. Bank Indenture\(198\)](#)
- 4.468 [Form of 6.250% Notes due 2024, Note 34, of an aggregate principal amount of \\$1,254,725.00, pursuant to the Supplemental Indenture dated as of June 22, 2016, to the U.S. Bank Indenture\(198\)](#)
- 4.469 [Form of 6.250% Notes due 2024, Note 35, of an aggregate principal amount of \\$790,900.00, pursuant to the Supplemental Indenture dated as of June 22, 2016, to the U.S. Bank Indenture\(198\)](#)
- 4.470 [Form of 6.250% Notes due 2024, Note 36, of an aggregate principal amount of \\$1,477,725.00, pursuant to the Supplemental Indenture dated as of June 22, 2016, to the U.S. Bank Indenture\(198\)](#)
- 4.471 [Form of 6.250% Notes due 2024, Note 37, of an aggregate principal amount of \\$2,147,375.00, pursuant to the Supplemental Indenture dated as of June 22, 2016, to the U.S. Bank Indenture\(198\)](#)
- 4.472 [Four Hundred Thirty-Seventh Supplemental Indenture dated as of August 18, 2016, to the U.S. Bank Indenture and Form of 5.500% Prospect Capital InterNote® due 2021\(198\)](#)
- 4.473 [Form of 6.250% Notes due 2024, Note 38, of an aggregate principal amount of \\$1,502,000.00, pursuant to the Supplemental Indenture dated as of June 22, 2016, to the U.S. Bank Indenture\(199\)](#)
- 4.474 [Form of 6.250% Notes due 2024, Note 39, of an aggregate principal amount of \\$1,098,150.00, pursuant to the](#)

[Supplemental Indenture dated as of June 22, 2016, to the U.S. Bank Indenture\(199\)](#)

- 4.475 [Form of 6.250% Notes due 2024, Note 40, of an aggregate principal amount of \\$719,375.00, pursuant to the Supplemental Indenture dated as of June 22, 2016, to the U.S. Bank Indenture\(199\)](#)
- 4.476 [Form of 6.250% Notes due 2024, Note 41, of an aggregate principal amount of \\$979,025.00, pursuant to the Supplemental Indenture dated as of June 22, 2016, to the U.S. Bank Indenture\(199\)](#)
- 4.477 [Four Hundred Thirty-Eighth Supplemental Indenture dated as of August 25, 2016, to the U.S. Bank Indenture and Form of 5.500% Prospect Capital InterNote® due 2021\(199\)](#)
- 4.478 [Four Hundred Thirty-Ninth Supplemental Indenture dated as of September 15, 2016, to the U.S. Bank Indenture and Form of 5.250% Prospect Capital InterNote® due 2021\(201\)](#)
- 4.479 [Four Hundred Fortieth Supplemental Indenture dated as of September 22, 2016, to the U.S. Bank Indenture and Form of 5.250% Prospect Capital InterNote® due 2021\(202\)](#)
- 4.480 [Four Hundred Forty-First Supplemental Indenture dated as of September 29, 2016, to the U.S. Bank Indenture and Form of 5.000% Prospect Capital InterNote® due 2021\(203\)](#)
- 4.481 [Four Hundred Forty-Second Supplemental Indenture dated as of October 6, 2016, to the U.S. Bank Indenture and Form of 5.000% Prospect Capital InterNote® due 2021\(204\)](#)
- 4.482 [Four Hundred Forty-Third Supplemental Indenture dated as of October 14, 2016, to the U.S. Bank Indenture and Form of 5.000% Prospect Capital InterNote® due 2021\(205\)](#)
- 4.483 [Four Hundred Forty-Fourth Supplemental Indenture dated as of October 20, 2016, to the U.S. Bank Indenture and Form of 4.750% Prospect Capital InterNote® due 2021\(206\)](#)
- 4.484 [Four Hundred Forty-Fifth Supplemental Indenture dated as of October 27, 2016, to the U.S. Bank Indenture and Form of 5.000% Prospect Capital InterNote® due 2021\(207\)](#)
- 4.485 [Four Hundred Forty-Sixth Supplemental Indenture dated as of November 3, 2016, to the U.S. Bank Indenture and Form of 5.000% Prospect Capital InterNote® due 2021\(208\)](#)
- 4.486 [Four Hundred Forty-Seventh Supplemental Indenture dated as of November 25, 2016, to the U.S. Bank Indenture and Form of 5.000% Prospect Capital InterNote® due 2021\(209\)](#)

- 4.487 [Four Hundred Forty-Eighth Supplemental Indenture dated as of December 1, 2016, to the U.S. Bank Indenture and Form of 5.000% Prospect Capital InterNote® due 2021\(210\)](#)
- 4.488 [Four Hundred Forty-Ninth Supplemental Indenture dated as of December 8, 2016, to the U.S. Bank Indenture and Form of 5.000% Prospect Capital InterNote® due 2021\(211\)](#)

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- 4.489 [Four Hundred Fiftieth Supplemental Indenture dated as of December 15, 2016, to the U.S. Bank Indenture and Form of 5.000% Prospect Capital InterNote® due 2021\(212\)](#)
- 4.490 [Four Hundred Fifty-First Supplemental Indenture dated as of December 22, 2016, to the U.S. Bank Indenture and Form of 5.000% Prospect Capital InterNote® due 2021\(213\)](#)
- 4.491 [Four Hundred Fifty-Second Supplemental Indenture dated as of December 30, 2016, to the U.S. Bank Indenture and Form of 5.000% Prospect Capital InterNote® due 2021\(214\)](#)
- 4.492 [Four Hundred Fifty-Third Supplemental Indenture dated as of January 6, 2017, to the U.S. Bank Indenture and Form of 5.000% Prospect Capital InterNote® due 2022\(215\)](#)
- 4.493 [Four Hundred Fifty-Fourth Supplemental Indenture dated as of January 12, 2017, to the U.S. Bank Indenture and Form of 5.000% Prospect Capital InterNote® due 2022\(216\)](#)
- 4.494 [Four Hundred Fifty-Fifth Supplemental Indenture dated as of January 20, 2017, to the U.S. Bank Indenture and Form of 5.000% Prospect Capital InterNote® due 2022\(217\)](#)
- 4.495 [Four Hundred Fifty-Sixth Supplemental Indenture dated as of January 26, 2017, to the U.S. Bank Indenture and Form of 5.000% Prospect Capital InterNote® due 2022\(218\)](#)
- 4.496 [Four Hundred Fifty-Seventh Supplemental Indenture dated as of February 2, 2017, to the U.S. Bank Indenture and Form of 5.000% Prospect Capital InterNote® due 2022\(219\)](#)
- 4.497 [Four Hundred Fifty-Eighth Supplemental Indenture dated as of February 9, 2017, to the U.S. Bank Indenture and Form of 5.000% Prospect Capital InterNote® due 2022\(220\)](#)
- 4.498 [Four Hundred Fifty-Ninth Supplemental Indenture dated as of February 24, 2017, to the U.S. Bank Indenture and Form of 5.000% Prospect Capital InterNote® due 2022\(221\)](#)
- 4.499 [Four Hundred Sixtieth Supplemental Indenture dated as of March 2, 2017, to the U.S. Bank Indenture and Form of 5.000% Prospect Capital InterNote® due 2022\(222\)](#)
- 4.500 [Four Hundred Sixty-First Supplemental Indenture dated as of March 9, 2017, to the U.S. Bank Indenture and Form of](#)

[5.000% Prospect Capital InterNote® due 2022\(223\)](#)

- 4.501 [Four Hundred Sixty-Second Supplemental Indenture dated as of March 16, 2017, to the U.S. Bank Indenture and Form of 5.000% Prospect Capital InterNote® due 2022\(224\)](#)
- 4.502 [Four Hundred Sixty-Third Supplemental Indenture dated as of March 23, 2017, to the U.S. Bank Indenture and Form of 5.000% Prospect Capital InterNote® due 2022\(225\)](#)
- 4.503 [Four Hundred Sixty-Fourth Supplemental Indenture dated as of March 30, 2017, to the U.S. Bank Indenture and Form of 5.000% Prospect Capital InterNote® due 2022\(226\)](#)
- 4.504 [Four Hundred Sixty-Fifth Supplemental Indenture dated as of April 6, 2017, to the U.S. Bank Indenture and Form of 5.000% Prospect Capital InterNote® due 2022\(227\)](#)
- 4.505 [Supplemental Indenture dated as of April 11, 2017, to the U.S. Bank Indenture, and Form of 4.950% Convertible Note due 2022\(228\)](#)
- 4.506 [Four Hundred Sixty-Sixth Supplemental Indenture dated as of April 20, 2017, to the U.S. Bank Indenture, and Form of 4.750% Convertible Note due 2022\(230\)](#)
- 4.507 [Four Hundred Sixty-Seventh Supplemental Indenture dated as of April 27, 2017, to the U.S. Bank Indenture, and Form of 4.750% Convertible Note due 2022\(231\)](#)
- 4.508 [Four Hundred Sixty-Eighth Supplemental Indenture dated as of May 4, 2017, to the U.S. Bank Indenture, and Form of 4.750% Convertible Note due 2022\(232\)](#)
- 4.509 [Four Hundred Sixty-Ninth Supplemental Indenture dated as of May 11, 2017, to the U.S. Bank Indenture, and Form of 4.750% Convertible Note due 2022\(233\)](#)
- 4.510 [Four Hundred Seventieth Supplemental Indenture dated as of May 25, 2017, to the U.S. Bank Indenture, and Form of 4.750% Convertible Note due 2022\(234\)](#)
- 4.511 [Four Hundred Seventy-First Supplemental Indenture dated as of June 2, 2017, to the U.S. Bank Indenture, and Form of 4.750% Convertible Note due 2022\(235\)](#)
- 4.512 [Four Hundred Seventy-Second Supplemental Indenture dated as of June 8, 2017, to the U.S. Bank Indenture, and Form of 4.750% Convertible Note due 2022\(236\)](#)

- 4.513 [Four Hundred Seventy-Third Supplemental Indenture dated as of June 15, 2017, to the U.S. Bank Indenture, and Form of 4.750% Convertible Note due 2022\(237\)](#)
  
- 4.514 [Four Hundred Seventy-Fourth Supplemental Indenture dated as of June 22, 2017, to the U.S. Bank Indenture, and Form of 4.750% Convertible Note due 2022\(238\)](#)

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- 4.515 [Four Hundred Seventy-Fifth Supplemental Indenture dated as of June 29, 2017, to the U.S. Bank Indenture, and Form of 4.750% Convertible Note due 2022\(239\)](#)
- 4.516 [Four Hundred Seventy-Sixth Supplemental Indenture dated as of July 7, 2017, to the U.S. Bank Indenture, and Form of 4.750% Convertible Note due 2022\(240\)](#)
- 4.517 [Four Hundred Seventy-Seventh Supplemental Indenture dated as of July 7, 2017, to the U.S. Bank Indenture, and Form of 5.000% Convertible Note due 2024\(240\)](#)
- 4.518 [Four Hundred Seventy-Eighth Supplemental Indenture dated as of July 13, 2017, to the U.S. Bank Indenture, and Form of 4.500% Convertible Note due 2022\(241\)](#)
- 4.519 [Four Hundred Seventy-Ninth Supplemental Indenture dated as of July 13, 2017, to the U.S. Bank Indenture, and Form of 5.000% Convertible Note due 2024\(241\)](#)
- 4.520 [Four Hundred Eightieth Supplemental Indenture dated as of July 20, 2017, to the U.S. Bank Indenture, and Form of 4.500% Convertible Note due 2022\(242\)](#)
- 4.521 [Four Hundred Eighty-First Supplemental Indenture dated as of July 20, 2017, to the U.S. Bank Indenture, and Form of 4.750% Convertible Note due 2024\(242\)](#)
- 4.522 [Four Hundred Eighty-Second Supplemental Indenture dated as of July 27, 2017, to the U.S. Bank Indenture, and Form of 4.500% Convertible Note due 2022\(243\)](#)
- 4.523 [Four Hundred Eighty-Third Supplemental Indenture dated as of July 27, 2017, to the U.S. Bank Indenture, and Form of 4.750% Convertible Note due 2024\(243\)](#)
- 4.524 [Four Hundred Eighty-Fourth Supplemental Indenture dated as of August 3, 2017, to the U.S. Bank Indenture, and Form of 4.500% Convertible Note due 2022\(244\)](#)
- 4.525 [Four Hundred Eighty-Fifth Supplemental Indenture dated as of August 3, 2017, to the U.S. Bank Indenture, and Form of 5.000% Convertible Note due 2025\(244\)](#)
- 4.526 [Four Hundred Eighty-Sixth Supplemental Indenture dated as of August 10, 2017, to the U.S. Bank Indenture, and Form](#)

[of 4.500% Convertible Note due 2022\(245\)](#)

- 4.527 [Four Hundred Eighty-Seventh Supplemental Indenture dated as of August 10, 2017, to the U.S. Bank Indenture, and Form of 5.000% Convertible Note due 2025\(245\)](#)
- 4.528 [Four Hundred Eighty-Eighth Supplemental Indenture dated as of August 17, 2017, to the U.S. Bank Indenture, and Form of 4.500% Convertible Note due 2022\(246\)](#)
- 4.529 [Four Hundred Eighty-Ninth Supplemental Indenture dated as of August 17, 2017, to the U.S. Bank Indenture, and Form of 5.000% Convertible Note due 2025\(246\)](#)
- 4.530 [Four Hundred Ninetieth Supplemental Indenture dated as of August 24, 2017, to the U.S. Bank Indenture, and Form of 4.500% Prospect Capital InterNote® due 2022\(247\)](#)
- 4.531 [Four Hundred Ninety-First Supplemental Indenture dated as of August 24, 2017, to the U.S. Bank Indenture, and Form of 5.000% Prospect Capital InterNote® due 2025\(247\)](#)
- 4.532 [Four Hundred Ninety-Second Supplemental Indenture dated as of August 31, 2017, to the U.S. Bank Indenture, and Form of 4.500% Prospect Capital InterNote® due 2022\(249\)](#)
- 4.533 [Four Hundred Ninety-Third Supplemental Indenture dated as of August 31, 2017, to the U.S. Bank Indenture, and Form of 5.000% Prospect Capital InterNote® due 2025\(249\)](#)
- 4.534 [Four Hundred Ninety-Fourth Supplemental Indenture dated as of September 14, 2017, to the U.S. Bank Indenture, and Form of 4.000% Prospect Capital InterNote® due 2022\(250\)](#)
- 4.535 [Four Hundred Ninety-Fifth Supplemental Indenture dated as of September 14, 2017, to the U.S. Bank Indenture, and Form of 4.500% Prospect Capital InterNote® due 2025\(250\)](#)
- 4.536 [Four Hundred Ninety-Sixth Supplemental Indenture dated as of September 21, 2017, to the U.S. Bank Indenture, and Form of 4.000% Prospect Capital InterNote® due 2022\(251\)](#)
- 4.537 [Four Hundred Ninety-Seventh Supplemental Indenture dated as of September 21, 2017, to the U.S. Bank Indenture, and Form of 4.500% Prospect Capital InterNote® due 2025\(251\)](#)
- 4.538 [Four Hundred Ninety-Eighth Supplemental Indenture dated as of September 28, 2017, to the U.S. Bank Indenture, and Form of 4.000% Prospect Capital InterNote® due 2022\(252\)](#)



- 4.539 [Four Hundred Ninety-Ninth Supplemental Indenture dated as of September 28, 2017, to the U.S. Bank Indenture, and Form of 4.500% Prospect Capital InterNote® due 2025\(252\)](#)
- 4.540 [Five Hundredth Supplemental Indenture dated as of October 5, 2017, to the U.S. Bank Indenture, and Form of 4.000% Prospect Capital InterNote® due 2022\(253\)](#)

**Exhibit No.**

- 4.541 [Five Hundred First Supplemental Indenture dated as of October 5, 2017, to the U.S. Bank Indenture, and Form of 4.500% Prospect Capital InterNote® due 2025\(253\)](#)
- 4.542 [Five Hundred Second Supplemental Indenture dated as of October 13, 2017, to the U.S. Bank Indenture, and Form of 4.000% Prospect Capital InterNote® due 2022\(254\)](#)
- 4.543 [Five Hundred Third Supplemental Indenture dated as of October 13, 2017, to the U.S. Bank Indenture, and Form of 4.500% Prospect Capital InterNote® due 2025\(254\)](#)
- 4.544 [Five Hundred Fourth Supplemental Indenture dated as of October 19, 2017, to the U.S. Bank Indenture, and Form of 4.000% Prospect Capital InterNote® due 2022\(255\)](#)
- 4.545 [Five Hundred Fifth Supplemental Indenture dated as of October 19, 2017, to the U.S. Bank Indenture, and Form of 4.500% Prospect Capital InterNote® due 2025\(255\)](#)
- 4.546 [Five Hundred Sixth Supplemental Indenture dated as of October 26, 2017, to the U.S. Bank Indenture, and Form of 4.000% Prospect Capital InterNote® due 2022\(256\)](#)
- 4.547 [Five Hundred Seventh Supplemental Indenture dated as of October 26, 2017, to the U.S. Bank Indenture, and Form of 4.500% Prospect Capital InterNote® due 2025\(256\)](#)
- 4.548 [Five Hundred Eighth Supplemental Indenture dated as of November 2, 2017, to the U.S. Bank Indenture, and Form of 4.000% Prospect Capital InterNote® due 2022\(257\)](#)
- 4.549 [Five Hundred Ninth Supplemental Indenture dated as of November 2, 2017, to the U.S. Bank Indenture, and Form of 4.500% Prospect Capital InterNote® due 2025\(257\)](#)
- 4.550 [Five Hundred Tenth Supplemental Indenture dated as of November 24, 2017, to the U.S. Bank Indenture, and Form of 4.000% Prospect Capital InterNote® due 2022\(258\)](#)
- 4.551 [Five Hundred Eleventh Supplemental Indenture dated as of November 24, 2017, to the U.S. Bank Indenture, and Form of 4.500% Prospect Capital InterNote® due 2025\(258\)](#)
- 4.552 [Five Hundred Twelfth Supplemental Indenture dated as of November 30, 2017, to the U.S. Bank Indenture, and Form of](#)

[4.000% Prospect Capital InterNote® due 2022\(259\)](#)

- 4.553 [Five Hundred Thirteenth Supplemental Indenture dated as of November 30, 2017, to the U.S. Bank Indenture, and Form of 4.500% Prospect Capital InterNote® due 2025\(259\)](#)
- 4.554 [Five Hundred Fourteenth Supplemental Indenture dated as of December 7, 2017, to the U.S. Bank Indenture, and Form of 4.000% Prospect Capital InterNote® due 2022\(260\)](#)
- 4.555 [Five Hundred Fifteenth Supplemental Indenture dated as of December 7, 2017, to the U.S. Bank Indenture, and Form of 4.500% Prospect Capital InterNote® due 2025\(260\)](#)
- 4.556 [Five Hundred Sixteenth Supplemental Indenture dated as of December 14, 2017, to the U.S. Bank Indenture, and Form of 4.000% Prospect Capital InterNote® due 2022\(261\)](#)
- 4.557 [Five Hundred Seventeenth Supplemental Indenture dated as of December 14, 2017, to the U.S. Bank Indenture, and Form of 4.500% Prospect Capital InterNote® due 2025\(261\)](#)
- 4.558 [Five Hundred Eighteenth Supplemental Indenture dated as of December 21, 2017, to the U.S. Bank Indenture, and Form of 4.000% Prospect Capital InterNote® due 2022\(262\)](#)
- 4.559 [Five Hundred Nineteenth Supplemental Indenture dated as of December 21, 2017, to the U.S. Bank Indenture, and Form of 4.500% Prospect Capital InterNote® due 2025\(262\)](#)
- 4.560 [Five Hundred Twentieth Supplemental Indenture dated as of December 29, 2017, to the U.S. Bank Indenture, and Form of 4.000% Prospect Capital InterNote® due 2022\(263\)](#)
- 4.561 [Five Hundred Twenty-First Supplemental Indenture dated as of December 29, 2017, to the U.S. Bank Indenture, and Form of 4.500% Prospect Capital InterNote® due 2025\(263\)](#)
- 4.562 [Five Hundred Twenty-Second Supplemental Indenture dated as of January 5, 2018, to the U.S. Bank Indenture, and Form of 4.000% Prospect Capital InterNote® due 2023\(264\)](#)
- 4.563 [Five Hundred Twenty-Third Supplemental Indenture dated as of January 5, 2018, to the U.S. Bank Indenture, and Form of 4.500% Prospect Capital InterNote® due 2026\(264\)](#)
- 4.564 [Five Hundred Twenty-Fourth Supplemental Indenture dated as of January 11, 2018, to the U.S. Bank Indenture, and Form of 4.000% Prospect Capital InterNote® due 2023\(265\)](#)

- 4.565 [Five Hundred Twenty-Fifth Supplemental Indenture dated as of January 11, 2018, to the U.S. Bank Indenture, and Form of 4.500% Prospect Capital InterNote® due 2026\(265\)](#)
- 4.566 [Five Hundred Twenty-Sixth Supplemental Indenture dated as of January 19, 2018, to the U.S. Bank Indenture, and Form of 4.000% Prospect Capital InterNote® due 2023\(266\)](#)

**Exhibit No.**

- 4.567 [Five Hundred Twenty-Seventh Supplemental Indenture dated as of January 19, 2018, to the U.S. Bank Indenture, and Form of 4.500% Prospect Capital InterNote® due 2026\(266\)](#)
- 4.568 [Five Hundred Twenty-Eighth Supplemental Indenture dated as of January 25, 2018, to the U.S. Bank Indenture, and Form of 4.000% Prospect Capital InterNote® due 2023\(267\)](#)
- 4.569 [Five Hundred Twenty-Ninth Supplemental Indenture dated as of January 25, 2018, to the U.S. Bank Indenture, and Form of 4.500% Prospect Capital InterNote® due 2026\(267\)](#)
- 4.570 [Five Hundred Thirtieth Supplemental Indenture dated as of February 1, 2018, to the U.S. Bank Indenture, and Form of 4.000% Prospect Capital InterNote® due 2023\(268\)](#)
- 4.571 [Five Hundred Thirty-First Supplemental Indenture dated as of February 1, 2018, to the U.S. Bank Indenture, and Form of 4.500% Prospect Capital InterNote® due 2026\(268\)](#)
- 4.572 [Five Hundred Thirty-Second Supplemental Indenture dated as of February 8, 2018, to the U.S. Bank Indenture, and Form of 4.000% Prospect Capital InterNote® due 2023\(269\)](#)
- 4.573 [Five Hundred Thirty-Third Supplemental Indenture dated as of February 8, 2018, to the U.S. Bank Indenture, and Form of 4.500% Prospect Capital InterNote® due 2026\(269\)](#)
- 4.574 [Five Hundred Thirty-Fourth Supplemental Indenture dated as of February 23, 2018, to the U.S. Bank Indenture, and Form of 4.000% Prospect Capital InterNote® due 2023\(270\)](#)
- 4.575 [Five Hundred Thirty-Fifth Supplemental Indenture dated as of February 23, 2018, to the U.S. Bank Indenture, and Form of 4.500% Prospect Capital InterNote® due 2026\(270\)](#)
- 4.576 [Five Hundred Thirty-Sixth Supplemental Indenture dated as of March 1, 2018, to the U.S. Bank Indenture, and Form of 4.000% Prospect Capital InterNote® due 2023\(271\)](#)
- 4.577 [Five Hundred Thirty-Seventh Supplemental Indenture dated as of March 1, 2018, to the U.S. Bank Indenture, and Form of 4.500% Prospect Capital InterNote® due 2026\(271\)](#)
- 4.578 [Five Hundred Thirty-Eighth Supplemental Indenture dated as of March 8, 2018, to the U.S. Bank Indenture, and Form of](#)

[4.250% Prospect Capital InterNote® due 2023\(272\)](#)

- 4.579 [Five Hundred Thirty-Ninth Supplemental Indenture dated as of March 8, 2018, to the U.S. Bank Indenture, and Form of 4.750% Prospect Capital InterNote® due 2026\(272\)](#)
- 4.580 [Five Hundred Fortieth Supplemental Indenture dated as of March 15, 2018, to the U.S. Bank Indenture, and Form of 4.250% Prospect Capital InterNote® due 2023\(273\)](#)
- 4.581 [Five Hundred Forty-First Supplemental Indenture dated as of March 15, 2018, to the U.S. Bank Indenture, and Form of 4.750% Prospect Capital InterNote® due 2026\(273\)](#)
- 4.582 [Five Hundred Forty-Second Supplemental Indenture dated as of March 22, 2018, to the U.S. Bank Indenture, and Form of 4.500% Prospect Capital InterNote® due 2023\(274\)](#)
- 4.583 [Five Hundred Forty-Third Supplemental Indenture dated as of March 22, 2018, to the U.S. Bank Indenture, and Form of 5.000% Prospect Capital InterNote® due 2026\(274\)](#)
- 4.584 [Five Hundred Forty-Fourth Supplemental Indenture dated as of March 29, 2018, to the U.S. Bank Indenture, and Form of 4.500% Prospect Capital InterNote® due 2023\(275\)](#)
- 4.585 [Five Hundred Forty-Fifth Supplemental Indenture dated as of March 29, 2018, to the U.S. Bank Indenture, and Form of 5.000% Prospect Capital InterNote® due 2026\(275\)](#)
- 4.586 [Five Hundred Forty-Sixth Supplemental Indenture dated as of April 5, 2018, to the U.S. Bank Indenture, and Form of 4.500% Prospect Capital InterNote® due 2023\(276\)](#)
- 4.587 [Five Hundred Forty-Seventh Supplemental Indenture dated as of April 5, 2018, to the U.S. Bank Indenture, and Form of 5.000% Prospect Capital InterNote® due 2026\(276\)](#)
- 4.588 [Five Hundred Forty-Eighth Supplemental Indenture dated as of April 12, 2018, to the U.S. Bank Indenture, and Form of 4.500% Prospect Capital InterNote® due 2023\(277\)](#)
- 4.589 [Five Hundred Forty-Ninth Supplemental Indenture dated as of April 12, 2018, to the U.S. Bank Indenture, and Form of 5.000% Prospect Capital InterNote® due 2026\(277\)](#)
- 4.590 [Five Hundred Fiftieth Supplemental Indenture dated as of April 19, 2018, to the U.S. Bank Indenture, and Form of 4.500% Prospect Capital InterNote® due 2023\(278\)](#)

- 4.591 [Five Hundred Fifty-First Supplemental Indenture dated as of April 19, 2018, to the U.S. Bank Indenture, and Form of 5.000% Prospect Capital InterNote® due 2026\(278\)](#)
- 4.592 [Five Hundred Fifty-Second Supplemental Indenture dated as of April 26, 2018, to the U.S. Bank Indenture, and Form of 4.500% Prospect Capital InterNote® due 2023\(279\)](#)

**Exhibit No.**

- 4.593 [Five Hundred Fifty-Third Supplemental Indenture dated as of April 26, 2018, to the U.S. Bank Indenture, and Form of 5.000% Prospect Capital InterNote® due 2026\(279\)](#)
- 4.594 [Five Hundred Fifty-Fourth Supplemental Indenture dated as of May 3, 2018, to the U.S. Bank Indenture, and Form of 4.750% Prospect Capital InterNote® due 2023\(280\)](#)
- 4.595 [Five Hundred Fifty-Fifth Supplemental Indenture dated as of May 3, 2018, to the U.S. Bank Indenture, and Form of 5.250% Prospect Capital InterNote® due 2026\(280\)](#)
- 4.596 [Five Hundred Fifty-Sixth Supplemental Indenture dated as of May 10, 2018, to the U.S. Bank Indenture, and Form of 4.750% Prospect Capital InterNote® due 2023\(281\)](#)
- 4.597 [Five Hundred Fifty-Seventh Supplemental Indenture dated as of May 10, 2018, to the U.S. Bank Indenture, and Form of 5.250% Prospect Capital InterNote® due 2025\(281\)](#)
- 4.598 [Form of Global Note of 4.95% Convertible Notes due 2022\(282\)](#)
- 4.599 [Five Hundred Fifty-Eighth Supplemental Indenture dated as of May 24, 2018, to the U.S. Bank Indenture, and Form of 4.750% Prospect Capital InterNote® due 2023\(284\)](#)
- 4.600 [Five Hundred Fifty-Ninth Supplemental Indenture dated as of May 24, 2018, to the U.S. Bank Indenture, and Form of 5.250% Prospect Capital InterNote® due 2025\(284\)](#)
- 4.601 [Five Hundred Sixtieth Supplemental Indenture dated as of June 1, 2018, to the U.S. Bank Indenture, and Form of 4.750% Prospect Capital InterNote® due 2023\(285\)](#)
- 4.602 [Five Hundred Sixty-First Supplemental Indenture dated as of June 1, 2018, to the U.S. Bank Indenture, and Form of 5.250% Prospect Capital InterNote® due 2025\(285\)](#)
- 4.603 [Supplemental Indenture dated as of June 7, 2018, to the U.S. Bank Indenture, and Form of 6.250% Note due 2028\(286\)](#)
- 4.604 [Form of Global Note of 5.875% Senior Notes due 2023\(287\)](#)



- 4.605 [Five Hundred Sixty-Second Supplemental Indenture dated as of June 21, 2018, to the U.S. Bank Indenture, and Form of 5.000% Prospect Capital InterNote® due 2023\(288\)](#)
- 4.606 [Five Hundred Sixty-Third Supplemental Indenture dated as of June 21, 2018, to the U.S. Bank Indenture, and Form of 5.250% Prospect Capital InterNote® due 2025\(288\)](#)
- 4.607 [Five Hundred Sixty-Fourth Supplemental Indenture dated as of June 28, 2018, to the U.S. Bank Indenture, and Form of 5.000% Prospect Capital InterNote® due 2023\(289\)](#)
- 4.608 [Five Hundred Sixty-Fifth Supplemental Indenture dated as of June 28, 2018, to the U.S. Bank Indenture, and Form of 5.250% Prospect Capital InterNote® due 2025\(289\)](#)
- 4.609 [Supplemental Indenture dated as of July 2, 2018, to the U.S. Bank Indenture, and Form of 6.250% Note due 2024\(290\)](#)
- 4.610 [Supplemental Indenture dated as of July 2, 2018, to the U.S. Bank Indenture, and Form of 6.250% Note due 2028\(290\)](#)
- 4.611 [Five Hundred Sixty-Sixth Supplemental Indenture dated as of July 6, 2018, to the U.S. Bank Indenture, and Form of 5.000% Prospect Capital InterNote® due 2023\(291\)](#)
- 4.612 [Five Hundred Sixty-Seventh Supplemental Indenture dated as of July 6, 2018, to the U.S. Bank Indenture, and Form of 5.500% Prospect Capital InterNote® due 2025\(291\)](#)
- 4.613 [Five Hundred Sixty-Eighth Supplemental Indenture dated as of July 12, 2018, to the U.S. Bank Indenture, and Form of 5.000% Prospect Capital InterNote® due 2023\(292\)](#)
- 4.614 [Five Hundred Sixty-Ninth Supplemental Indenture dated as of July 12, 2018, to the U.S. Bank Indenture, and Form of 5.750% Prospect Capital InterNote® due 2026\(292\)](#)
- 4.615 [Five Hundred Seventieth Supplemental Indenture dated as of July 12, 2018, to the U.S. Bank Indenture, and Form of 6.000% Prospect Capital InterNote® due 2028\(292\)](#)
- 4.616 [Five Hundred Seventy-First Supplemental Indenture dated as of July 19, 2018, to the U.S. Bank Indenture, and Form of 5.000% Prospect Capital InterNote® due 2023\(293\)](#)
- 4.617 [Five Hundred Seventy-Second Supplemental Indenture dated as of July 19, 2018, to the U.S. Bank Indenture, and Form of 5.750% Prospect Capital InterNote® due 2026\(293\)](#)

- 4.618 [Five Hundred Seventy-Third Supplemental Indenture dated as of July 19, 2018, to the U.S. Bank Indenture, and Form of 6.000% Prospect Capital InterNote® due 2028\(293\)](#)
- 4.619 [Five Hundred Seventy-Fourth Supplemental Indenture dated as of July 26, 2018, to the U.S. Bank Indenture, and Form of 5.000% Prospect Capital InterNote® due 2023\(294\)](#)
- 4.620 [Five Hundred Seventy-Fifth Supplemental Indenture dated as of July 26, 2018, to the U.S. Bank Indenture, and Form of 5.750% Prospect Capital InterNote® due 2025\(294\)](#)

**Exhibit No.**

- 4.621 [Five Hundred Seventy-Sixth Supplemental Indenture dated as of July 26, 2018, to the U.S. Bank Indenture, and Form of 6.000% Prospect Capital InterNote® due 2028\(294\)](#)
- 4.622 [Five Hundred Seventy-Seventh Supplemental Indenture dated as of August 2, 2018, to the U.S. Bank Indenture, and Form of 5.000% Prospect Capital InterNote® due 2023\(295\)](#)
- 4.623 [Five Hundred Seventy-Eighth Supplemental Indenture dated as of August 2, 2018, to the U.S. Bank Indenture, and Form of 5.750% Prospect Capital InterNote® due 2025\(295\)](#)
- 4.624 [Five Hundred Seventy-Ninth Supplemental Indenture dated as of August 2, 2018, to the U.S. Bank Indenture, and Form of 6.000% Prospect Capital InterNote® due 2028\(295\)](#)
- 4.625 [Five Hundred Eightieth Supplemental Indenture dated as of August 9, 2018, to the U.S. Bank Indenture, and Form of 5.000% Prospect Capital InterNote® due 2023\(297\)](#)
- 4.626 [Five Hundred Eighty-First Supplemental Indenture dated as of August 9, 2018, to the U.S. Bank Indenture, and Form of 5.750% Prospect Capital InterNote® due 2025\(297\)](#)
- 4.627 [Five Hundred Eighty-Second Supplemental Indenture dated as of August 9, 2018, to the U.S. Bank Indenture, and Form of 6.000% Prospect Capital InterNote® due 2028\(297\)](#)
- 4.628 [Five Hundred Eighty-Third Supplemental Indenture dated as of August 16, 2018, to the U.S. Bank Indenture, and Form of 5.000% Prospect Capital InterNote® due 2023\(298\)](#)
- 4.629 [Five Hundred Eighty-Fourth Supplemental Indenture dated as of August 16, 2018, to the U.S. Bank Indenture, and Form of 5.750% Prospect Capital InterNote® due 2025\(298\)](#)
- 4.630 [Five Hundred Eighty-Fifth Supplemental Indenture dated as of August 16, 2018, to the U.S. Bank Indenture, and Form of 6.000% Prospect Capital InterNote® due 2028\(298\)](#)
- 4.631 [Five Hundred Eighty-Sixth Supplemental Indenture dated as of August 23, 2018, to the U.S. Bank Indenture, and Form of 5.000% Prospect Capital InterNote® due 2023\(299\)](#)
- 4.632 [Five Hundred Eighty-Seventh Supplemental Indenture dated as of August 23, 2018, to the U.S. Bank Indenture, and Form](#)

[of 5.750% Prospect Capital InterNote® due 2025\(299\)](#)

- 4.633 [Five Hundred Eighty-Eighth Supplemental Indenture dated as of August 23, 2018, to the U.S. Bank Indenture, and Form of 6.000% Prospect Capital InterNote® due 2028\(299\)](#)
  
- 10.1 [Investment Advisory Agreement between Registrant and Prospect Capital Management L.P.\(2\)](#)
  
- 10.2 [Administration Agreement between Registrant and Prospect Administration LLC\(2\)](#)
  
- 10.3 [Dividend Reinvestment and Direct Stock Purchase Plan\(174\)](#)
  
- 10.4 [Trademark License Agreement between the Registrant and Prospect Capital Investment Management, LLC\(2\)](#)
  
- 10.5 [Transfer Agency and Registrar Services Agreement\(4\)](#)
  
- 10.6 [Sixth Amended and Restated Loan and Servicing Agreement, dated August 1, 2018, among Prospect Capital Funding LLC, Prospect Capital Corporation, the lenders from time to time party thereto, the managing agents from time to time party thereto, U.S. Bank National Association as Calculation Agent, Paying Agent and Documentation Agent, and KeyBank National Association as Facility Agent, Syndication Agent, Structuring Agent, Sole Lead Arranger and Sole Bookrunner\(296\)](#)
  
- 10.7 [Sixth Amended and Restated Selling Agent Agreement, dated November 10, 2016, by and among, the Registrant, Prospect Capital Management L.P., Prospect Administration LLC, Incapital LLC and the Agents named therein and added from time to time\(209\)](#)
  
- 10.8 [Amended and Restated Custody Agreement, dated as of September 23, 2014, by and between the Registrant and U.S. Bank National Association\(106\)](#)
  
- 10.9 [Custody Agreement, dated as of April 24, 2013, by and between the Registrant and Israeli Discount Bank of New York Ltd.\(5\)](#)
  
- 10.10 [Custody Agreement, dated as of October 28, 2013, by and between the Registrant and Fifth Third Bank\(82\)](#)
  
- 10.11 [Custody Agreement, dated as of May 9, 2014, by and between the Registrant and Customers Bank\(104\)](#)
  
- 10.12 [Custody Agreement, dated as of May 9, 2014, by and between the Registrant and Peapack-Gladstone Bank\(105\)](#)

- 10.13 [Custody Agreement, dated as of October 10, 2014, by and between Prospect Yield Corporation, LLC and U.S. Bank National Association\(106\)](#)
  
- 10.14 [Third Amended and Restated Custody Agreement, dated as of November 6, 2015, by and between Prospect Small Business Lending, LLC and Deutsche Bank Trust Company Americas\(248\)](#)
  
- 10.15 [Debt Distribution Agreement, dated June 22, 2016\(190\)](#)
  
- 10.16 [Form of Debt Distribution Agreement\(200\)](#)

**Exhibit No.**

- 10.17 [Underwriting Agreement, dated April 6, 2017, by and among Prospect Capital Corporation, Prospect Capital Management L.P., Prospect Administration LLC and Goldman, Sachs & Co.\(229\)](#)
- 10.18  
[Underwriting Agreement, dated May 15, 2018, by and among Prospect Capital Corporation, Prospect Capital Management L.P., Prospect Administration LLC and Goldman Sachs & Co. LLC\(283\)](#)
- 11 Computation of Per Share Earnings (included in the notes to the financial statements contained in this report)
- 12 Computation of Ratios (included in the notes to the financial statements contained in this report)
- 14 [Code of Ethics\(300\)](#)
- 21 Subsidiaries of the Registrant (included in the notes to the consolidated financial statements contained in this annual report)
- 22.1 [Proxy Statement\(301\)](#)
- 22.2 [Published report regarding matters submitted to vote of security holders\(302\)](#)
- 23.1 [Consent of BDO USA, LLP, Certified Public Accountants of National Property REIT Corp.\\*](#)
- 23.2 [Consent of RSM US LLP, Certified Public Accountants of First Tower Finance Company LLC\\*](#)
- 31.1 [Certification of Chief Executive Officer pursuant to Rule 13a-14\(a\) of the Securities Exchange Act of 1934, as amended\\*](#)
- 31.2 [Certification of Chief Financial Officer pursuant to Rule 13a-14\(a\) of the Securities Exchange Act of 1934, as amended\\*](#)
- 32.1 [Certification of Chief Executive Officer pursuant to Section 906 of The Sarbanes-Oxley Act of 2002 \(18 U.S.C. 1350\)\\*](#)

32.2 [Certification of Chief Financial Officer pursuant to Section 906 of The Sarbanes-Oxley Act of 2002 \(18 U.S.C. 1350\)\\*](#)

99.1 [Audited Combined Consolidated Financial Statements of National Property REIT Corp. for the years ended December 31, 2017 and 2016\\*](#)

99.2 [Audited Combined Consolidated Financial Statements of National Property REIT Corp. for the years ended December 31, 2016 and 2015\\*](#)

99.3 [Audited Consolidated Financial Statements of First Tower Finance Company LLC for the years ended December 31, 2017 and December 31, 2016\\*](#)

99.4 [Audited Consolidated Financial Statements of First Tower Finance Company LLC for the years ended December 31, 2016 and December 31, 2015\\*](#)

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\* Filed herewith.

(1) Incorporated by reference to Exhibit 3.1 of the Registrant's Form 8-K, filed on May 9, 2014.

(2) Incorporated by reference from the Registrant's Pre-effective Amendment No. 2 to the Registration Statement on Form N-2, filed on July 6, 2004.

(3) Incorporated by reference to Exhibit 3.1 of the Registrant's Form 8-K, filed on December 11, 2015.

(4) Incorporated by reference from the Registrant's Pre-effective Amendment No. 3 to the Registration Statement on Form N-2, filed on July 23, 2004.

(5) Incorporated by reference to Exhibit 10.258 of the Registrant's Form 10-K filed on August 21, 2013.

(6) Incorporated by reference to Exhibit 4.2 of the Registrant's Form 8-K, filed on February 18, 2011.

(7) Incorporated by reference to Exhibit 4.1 of the Registrant's Form 8-K, filed on December 21, 2010.

(8) Incorporated by reference to Exhibit 4.1 of the Registrant's Form 8-K, filed on February 18, 2011.

- (9) Incorporated by reference from the Registrant's Registration Statement on Form N-2, filed on September 1, 2011.
- (10) Incorporated by reference from the Registrant's Post-Effective Amendment No. 1 to the Registration Statement on Form N-2, filed on March 1, 2012.
- (11) Incorporated by reference from the Registrant's Post-Effective Amendment No. 2 to the Registration Statement on Form N-2, filed on March 8, 2012.
- (12) Incorporated by reference from the Registrant's Post-Effective Amendment No. 3 to the Registration Statement on Form N-2, filed on March 14, 2012.
- (13) Incorporated by reference to Exhibit 10.1 of the Registrant's Form 8-K, filed on September 2, 2014.
- (14) Incorporated by reference from the Registrant's Post-Effective Amendment No. 5 to the Registration Statement on Form N-2, filed on April 5, 2012.
- (15) Incorporated by reference from the Registrant's Post-Effective Amendment No. 6 to the Registration Statement on Form N-2, filed on April 12, 2012.
- (16) Incorporated by reference to Exhibit 4.1 of the Registrant's Form 8-K, filed on April 16, 2012.



- (17) Incorporated by reference to Exhibit 4.2 of the Registrant's Form 8-K, filed on April 16, 2012.
- (18) Incorporated by reference from the Registrant's Post-Effective Amendment No. 8 to the Registration Statement on Form N-2, filed on April 26, 2012.
- (19) Incorporated by reference to Exhibit 4.1 of the Registrant's Form 8-K, filed on August 14, 2012.
- (20) Incorporated by reference to Exhibit 4.2 of the Registrant's Form 8-K, filed on August 14, 2012.
- (21) Incorporated by reference from the Registrant's Post-Effective Amendment No. 26 to the Registration Statement on Form N-2, filed on September 27, 2012.
- (22) Incorporated by reference from the Registrant's Post-Effective Amendment No. 27 to the Registration Statement on Form N-2, filed on October 4, 2012.
- (23) Incorporated by reference from the Registrant's Post-Effective Amendment No. 2 to the Registration Statement on Form N-2, filed on November 23, 2012.
- (24) Incorporated by reference from the Registrant's Post-Effective Amendment No. 3 to the Registration Statement on Form N-2, filed on November 29, 2012.
- (25) Incorporated by reference from the Registrant's Post-Effective Amendment No. 4 to the Registration Statement on Form N-2, filed on December 6, 2012.
- (26) Incorporated by reference from the Registrant's Post-Effective Amendment No. 5 to the Registration Statement on Form N-2, filed on December 13, 2012.
- (27) Incorporated by reference from the Registrant's Post-Effective Amendment No. 6 to the Registration Statement on Form N-2, filed on December 20, 2012.
- (28) Incorporated by reference to Exhibit 4.1 of the Registrant's Form 8-K, filed on December 21, 2012.
- (29) Incorporated by reference from the Registrant's Post-Effective Amendment No. 8 to the Registration Statement on Form N-2, filed on December 28, 2012.

- (30) Incorporated by reference from the Registrant's Post-Effective Amendment No. 9 to the Registration Statement on Form N-2, filed on January 4, 2013.
- (31) Incorporated by reference from the Registrant's Post-Effective Amendment No. 10 to the Registration Statement on Form N-2, filed on January 10, 2013.
- (32) Incorporated by reference from the Registrant's Post-Effective Amendment No. 11 to the Registration Statement on Form N-2, filed on January 17, 2013.
- (33) Incorporated by reference from the Registrant's Post-Effective Amendment No. 12 to the Registration Statement on Form N-2, filed on January 25, 2013.
- (34) Incorporated by reference from the Registrant's Post-Effective Amendment No. 13 to the Registration Statement on Form N-2, filed on January 31, 2013.
- (35) Incorporated by reference from the Registrant's Post-Effective Amendment No. 14 to the Registration Statement on Form N-2, filed on February 7, 2013.
- (36) Incorporated by reference from the Registrant's Post-Effective Amendment No. 16 to the Registration Statement on Form N-2, filed on February 22, 2013.
- (37) Incorporated by reference from the Registrant's Post-Effective Amendment No. 17 to the Registration Statement on Form N-2, filed on February 28, 2013.
- (38) Incorporated by reference from the Registrant's Post-Effective Amendment No. 18 to the Registration Statement on Form N-2, filed on March 7, 2013.
- (39) Incorporated by reference from the Registrant's Post-Effective Amendment No. 19 to the Registration Statement on Form N-2, filed on March 14, 2013.
- (40) Incorporated by reference to Exhibit 4.1 of the Registrant's Form 8-K, filed on March 15, 2013.
- (41) Incorporated by reference to Exhibit 4.2 of the Registrant's Form 8-K, filed on March 15, 2013.
- (42) Incorporated by reference from the Registrant's Post-Effective Amendment No. 21 to the Registration Statement on Form N-2, filed on March 21, 2013.

- (43) Incorporated by reference from the Registrant's Post-Effective Amendment No. 22 to the Registration Statement on Form N-2, filed on March 28, 2013.
  
- (44) Incorporated by reference from the Registrant's Post-Effective Amendment No. 23 to the Registration Statement on Form N-2, filed on April 4, 2013.
  
- (45) Incorporated by reference from the Registrant's Post-Effective Amendment No. 24 to the Registration Statement on Form N-2, filed on April 11, 2013.
  
- (46) Incorporated by reference from the Registrant's Post-Effective Amendment No. 25 to the Registration Statement on Form N-2, filed on April 18, 2013.

- (47) Incorporated by reference from the Registrant's Post-Effective Amendment No. 26 to the Registration Statement on Form N-2, filed on April 25, 2013.
- (48) Incorporated by reference from the Registrant's Post-Effective Amendment No. 27 to the Registration Statement on Form N-2, filed on May 2, 2013.
- (49) Incorporated by reference from the Registrant's Post-Effective Amendment No. 29 to the Registration Statement on Form N-2, filed on May 9, 2013.
- (50) Incorporated by reference from the Registrant's Post-Effective Amendment No. 30 to the Registration Statement on Form N-2, filed on May 23, 2013.
- (51) Incorporated by reference from the Registrant's Post-Effective Amendment No. 31 to the Registration Statement on Form N-2, filed on May 31, 2013.
- (52) Incorporated by reference from the Registrant's Post-Effective Amendment No. 32 to the Registration Statement on Form N-2, filed on June 6, 2013.
- (53) Incorporated by reference from the Registrant's Post-Effective Amendment No. 33 to the Registration Statement on Form N-2, filed on June 13, 2013.
- (54) Incorporated by reference from the Registrant's Post-Effective Amendment No. 34 to the Registration Statement on Form N-2, filed on June 20, 2013.
- (55) Incorporated by reference from the Registrant's Post-Effective Amendment No. 35 to the Registration Statement on Form N-2, filed on June 27, 2013.
- (56) Incorporated by reference from the Registrant's Post-Effective Amendment No. 36 to the Registration Statement on Form N-2, filed on July 5, 2013.
- (57) Incorporated by reference from the Registrant's Post-Effective Amendment No. 37 to the Registration Statement on Form N-2, filed on July 11, 2013.
- (58) Incorporated by reference from the Registrant's Post-Effective Amendment No. 38 to the Registration Statement on Form N-2, filed on July 18, 2013.

- (59) Incorporated by reference from the Registrant's Post-Effective Amendment No. 39 to the Registration Statement on Form N-2, filed on July 25, 2013.
- (60) Incorporated by reference from the Registrant's Post-Effective Amendment No. 40 to the Registration Statement on Form N-2, filed on August 1, 2013.
- (61) Incorporated by reference from the Registrant's Post-Effective Amendment No. 41 to the Registration Statement on Form N-2, filed on August 8, 2013.
- (62) Incorporated by reference from the Registrant's Post-Effective Amendment No. 42 to the Registration Statement on Form N-2, filed on August 15, 2013.
- (63) Incorporated by reference from the Registrant's Post-Effective Amendment No. 43 to the Registration Statement on Form N-2, filed on August 22, 2013.
- (64) Incorporated by reference from the Registrant's Post-Effective Amendment No. 45 to the Registration Statement on Form N-2, filed on September 6, 2013.
- (65) Incorporated by reference from the Registrant's Post-Effective Amendment No. 46 to the Registration Statement on Form N-2, filed on September 12, 2013.
- (66) Incorporated by reference from the Registrant's Post-Effective Amendment No. 47 to the Registration Statement on Form N-2, filed on September 19, 2013.
- (67) Incorporated by reference from the Registrant's Post-Effective Amendment No. 48 to the Registration Statement on Form N-2, filed on September 26, 2013.
- (68) Incorporated by reference from the Registrant's Post-Effective Amendment No. 49 to the Registration Statement on Form N-2, filed on October 3, 2013.
- (69) Incorporated by reference from the Registrant's Post-Effective Amendment No. 50 to the Registration Statement on Form N-2, filed on October 10, 2013.
- (70) Incorporated by reference from the Registrant's Post-Effective Amendment No. 51 to the Registration Statement on Form N-2, filed on October 18, 2013.
- (71) Incorporated by reference from the Registrant's Post-Effective Amendment No. 3 to the Registration Statement on Form N-2, filed on October 24, 2013.

- (72) Incorporated by reference from the Registrant's Post-Effective Amendment No. 4 to the Registration Statement on Form N-2, filed on October 31, 2013.
  
- (73) Incorporated by reference from the Registrant's Post-Effective Amendment No. 6 to the Registration Statement on Form N-2, filed on November 7, 2013.
  
- (74) Incorporated by reference from the Registrant's Post-Effective Amendment No. 7 to the Registration Statement on Form N-2, filed on November 15, 2013.

- (75) Incorporated by reference from the Registrant's Post-Effective Amendment No. 8 to the Registration Statement on Form N-2, filed on November 21, 2013.
- (76) Incorporated by reference from the Registrant's Post-Effective Amendment No. 9 to the Registration Statement on Form N-2, filed on November 29, 2013.
- (77) Incorporated by reference from the Registrant's Post-Effective Amendment No. 10 to the Registration Statement on Form N-2, filed on December 5, 2013.
- (78) Incorporated by reference from the Registrant's Post-Effective Amendment No. 11 to the Registration Statement on Form N-2, filed on December 12, 2013.
- (79) Incorporated by reference from the Registrant's Post-Effective Amendment No. 12 to the Registration Statement on Form N-2, filed on December 19, 2013.
- (80) Incorporated by reference from the Registrant's Post-Effective Amendment No. 13 to the Registration Statement on Form N-2, filed on December 27, 2013.
- (81) Incorporated by reference from the Registrant's Post-Effective Amendment No. 14 to the Registration Statement on Form N-2, filed on January 3, 2014.
- (82) Incorporated by reference from the Registrant's Post-Effective Amendment No. 15 to the Registration Statement on Form N-2, filed on January 9, 2014.
- (83) Incorporated by reference from the Registrant's Post-Effective Amendment No. 16 to the Registration Statement on Form N-2, filed on January 16, 2014.
- (84) Incorporated by reference from the Registrant's Post-Effective Amendment No. 17 to the Registration Statement on Form N-2, filed on January 24, 2014.
- (85) Incorporated by reference from the Registrant's Post-Effective Amendment No. 18 to the Registration Statement on Form N-2, filed on January 30, 2014.
- (86) Incorporated by reference from the Registrant's Post-Effective Amendment No. 19 to the Registration Statement on Form N-2, filed on February 6, 2014.

- (87) Incorporated by reference from the Registrant's Post-Effective Amendment No. 20 to the Registration Statement on Form N-2, filed on February 13, 2014.
  
- (88) Incorporated by reference from the Registrant's Post-Effective Amendment No. 21 to the Registration Statement on Form N-2, filed on February 19, 2014.
  
- (89) Incorporated by reference from the Registrant's Post-Effective Amendment No. 22 to the Registration Statement on Form N-2, filed on February 21, 2014.
  
- (90) Incorporated by reference from the Registrant's Post-Effective Amendment No. 23 to the Registration Statement on Form N-2, filed on February 27, 2014.
  
- (91) Incorporated by reference from the Registrant's Post-Effective Amendment No. 24 to the Registration Statement on Form N-2, filed on March 6, 2014.
  
- (92) Incorporated by reference from the Registrant's Post-Effective Amendment No. 25 to the Registration Statement on Form N-2, filed on March 11, 2014.
  
- (93) Incorporated by reference from the Registrant's Post-Effective Amendment No. 26 to the Registration Statement on Form N-2, filed on March 13, 2014.
  
- (94) Incorporated by reference from the Registrant's Post-Effective Amendment No. 27 to the Registration Statement on Form N-2, filed on March 20, 2014.
  
- (95) Incorporated by reference from the Registrant's Post-Effective Amendment No. 28 to the Registration Statement on Form N-2, filed on March 27, 2014.
  
- (96) Incorporated by reference from the Registrant's Post-Effective Amendment No. 29 to the Registration Statement on Form N-2, filed on April 3, 2014.
  
- (97) Incorporated by reference from the Registrant's Post-Effective Amendment No. 30 to the Registration Statement on Form N-2, filed on April 7, 2014.
  
- (98) Incorporated by reference from the Registrant's Post-Effective Amendment No. 31 to the Registration Statement on Form N-2, filed on April 10, 2014.
  
- (99) Incorporated by reference to Exhibit 4.1 of the Registrant's Form 8-K, filed on April 16, 2014.



- (100) Incorporated by reference from the Registrant's Post-Effective Amendment No. 32 to the Registration Statement on Form N-2, filed on April 17, 2014.
  
- (101) Incorporated by reference from the Registrant's Post-Effective Amendment No. 33 to the Registration Statement on Form N-2, filed on April 24, 2014.
  
- (102) Incorporated by reference from the Registrant's Post-Effective Amendment No. 34 to the Registration Statement on Form N-2, filed on May 1, 2014.

- (103) Incorporated by reference from the Registrant's Post-Effective Amendment No. 35 to the Registration Statement on Form N-2, filed on May 8, 2014.
- (104) Incorporated by reference to Exhibit 10.12 of the Registrant's Form 10-K, filed on August 25, 2014.
- (105) Incorporated by reference to Exhibit 10.13 of the Registrant's Form 10-K, filed on August 25, 2014.
- (106) Incorporated by reference from the Registrant's Pre-Effective Amendment No. 1 to the Registration Statement on Form N-2, filed on October 14, 2014.
- (107) Incorporated by reference to Exhibit 99.1 of the Registrant's Form 10-K/A, filed on November 3, 2014.
- (108) Incorporated by reference from the Registrant's Pre-Effective Amendment No. 2 to the Registration Statement on Form N-2, filed on November 3, 2014.
- (109) Incorporated by reference from the Registrant's Post-Effective Amendment No. 1 to the Registration Statement on Form N-2, filed on November 3, 2014.
- (110) Incorporated by reference from the Registrant's Post-Effective Amendment No. 2 to the Registration Statement on Form N-2, filed on November 20, 2014.
- (111) Incorporated by reference from the Registrant's Post-Effective Amendment No. 3 to the Registration Statement on Form N-2, filed on November 28, 2014.
- (112) Incorporated by reference from the Registrant's Post-Effective Amendment No. 4 to the Registration Statement on Form N-2, filed on December 4, 2014.
- (113) Incorporated by reference from the Registrant's Post-Effective Amendment No. 5 to the Registration Statement on Form N-2, filed on December 11, 2014.
- (114) Incorporated by reference from the Registrant's Post-Effective Amendment No. 6 to the Registration Statement on Form N-2, filed on December 18, 2014.
- (115) Incorporated by reference from the Registrant's Post-Effective Amendment No. 7 to the Registration Statement on Form N-2, filed on December 29, 2014.

- (116) Incorporated by reference from the Registrant's Post-Effective Amendment No. 8 to the Registration Statement on Form N-2, filed on January 5, 2015.
  
- (117) Incorporated by reference from the Registrant's Post-Effective Amendment No. 9 to the Registration Statement on Form N-2, filed on January 8, 2015.
  
- (118) Incorporated by reference from the Registrant's Post-Effective Amendment No. 10 to the Registration Statement on Form N-2, filed on January 15, 2015.
  
- (119) Incorporated by reference from the Registrant's Post-Effective Amendment No. 11 to the Registration Statement on Form N-2, filed on January 23, 2015.
  
- (120) Incorporated by reference from the Registrant's Post-Effective Amendment No. 12 to the Registration Statement on Form N-2, filed on January 29, 2015.
  
- (121) Incorporated by reference from the Registrant's Post-Effective Amendment No. 13 to the Registration Statement on Form N-2, filed on February 5, 2015.
  
- (122) Incorporated by reference from the Registrant's Post-Effective Amendment No. 14 to the Registration Statement on Form N-2, filed on February 20, 2015.
  
- (123) Incorporated by reference from the Registrant's Post-Effective Amendment No. 15 to the Registration Statement on Form N-2, filed on February 26, 2015.
  
- (124) Incorporated by reference from the Registrant's Post-Effective Amendment No. 16 to the Registration Statement on Form N-2, filed on March 5, 2015.
  
- (125) Incorporated by reference from the Registrant's Post-Effective Amendment No. 17 to the Registration Statement on Form N-2, filed on March 12, 2015.
  
- (126) Incorporated by reference from the Registrant's Post-Effective Amendment No. 18 to the Registration Statement on Form N-2, filed on March 19, 2015.
  
- (127) Incorporated by reference from the Registrant's Post-Effective Amendment No. 19 to the Registration Statement on Form N-2, filed on March 26, 2015.
  
- (128) Incorporated by reference from the Registrant's Post-Effective Amendment No. 20 to the Registration Statement on

Form N-2, filed on April 2, 2015.

(129) Incorporated by reference from the Registrant's Post-Effective Amendment No. 21 to the Registration Statement on Form N-2, filed on April 9, 2015.

(130) Incorporated by reference from the Registrant's Post-Effective Amendment No. 22 to the Registration Statement on Form N-2, filed on April 16, 2015.

(131) Incorporated by reference from the Registrant's Post-Effective Amendment No. 23 to the Registration Statement on Form N-2, filed on April 23, 2015.

- (132) Incorporated by reference from the Registrant's Post-Effective Amendment No. 24 to the Registration Statement on Form N-2, filed on April 29, 2015.
- (133) Incorporated by reference from the Registrant's Post-Effective Amendment No. 25 to the Registration Statement on Form N-2, filed on May 7, 2015.
- (134) Incorporated by reference from the Registrant's Post-Effective Amendment No. 26 to the Registration Statement on Form N-2, filed on May 21, 2015.
- (135) Incorporated by reference from the Registrant's Post-Effective Amendment No. 27 to the Registration Statement on Form N-2, filed on May 29, 2015.
- (136) Incorporated by reference from the Registrant's Post-Effective Amendment No. 28 to the Registration Statement on Form N-2, filed on June 4, 2015.
- (137) Incorporated by reference from the Registrant's Post-Effective Amendment No. 29 to the Registration Statement on Form N-2, filed on June 11, 2015.
- (138) Incorporated by reference from the Registrant's Post-Effective Amendment No. 30 to the Registration Statement on Form N-2, filed on June 18, 2015.
- (139) Incorporated by reference from the Registrant's Post-Effective Amendment No. 31 to the Registration Statement on Form N-2, filed on June 25, 2015.
- (140) Incorporated by reference from the Registrant's Post-Effective Amendment No. 32 to the Registration Statement on Form N-2, filed on July 2, 2015.
- (141) Incorporated by reference from the Registrant's Post-Effective Amendment No. 33 to the Registration Statement on Form N-2, filed on July 9, 2015.
- (142) Incorporated by reference from the Registrant's Post-Effective Amendment No. 34 to the Registration Statement on Form N-2, filed on July 16, 2015.
- (143) Incorporated by reference from the Registrant's Post-Effective Amendment No. 35 to the Registration Statement on Form N-2, filed on July 23, 2015.

- (144) Incorporated by reference from the Registrant's Post-Effective Amendment No. 36 to the Registration Statement on Form N-2, filed on July 30, 2015.
  
- (145) Incorporated by reference from the Registrant's Post-Effective Amendment No. 37 to the Registration Statement on Form N-2, filed on August 6, 2015.
  
- (146) Incorporated by reference from the Registrant's Post-Effective Amendment No. 38 to the Registration Statement on Form N-2, filed on August 13, 2015.
  
- (147) Incorporated by reference from the Registrant's Post-Effective Amendment No. 39 to the Registration Statement on Form N-2, filed on August 20, 2015.
  
- (148) Incorporated by reference from the Registrant's Post-Effective Amendment No. 40 to the Registration Statement on Form N-2, filed on August 27, 2015.
  
- (149) Incorporated by reference to Exhibit 14 of the Registrant's Form 10-K, filed on August 26, 2015.
  
- (150) Incorporated by reference from the Registrant's Pre-Effective Registration Statement on Form N-2, filed on August 31, 2015.
  
- (151) Incorporated by reference to Exhibit 99.1 of the Registrant's Form 10-K/A, filed on September 11, 2015.
  
- (152) Incorporated by reference to Exhibit 99.2 of the Registrant's Form 10-K/A, filed on September 11, 2015.
  
- (153) Incorporated by reference from the Registrant's Post-Effective Amendment No. 42 to the Registration Statement on Form N-2, filed on September 16, 2015.
  
- (154) Incorporated by reference from the Registrant's Post-Effective Amendment No. 43 to the Registration Statement on Form N-2, filed on September 17, 2015.
  
- (155) Incorporated by reference from the Registrant's Post-Effective Amendment No. 44 to the Registration Statement on Form N-2, filed on September 24, 2015.
  
- (156) Incorporated by reference from the Registrant's Post-Effective Amendment No. 45 to the Registration Statement on Form N-2, filed on October 1, 2015.
  
- (157) Incorporated by reference from the Registrant's Post-Effective Amendment No. 46 to the Registration Statement on

Form N-2, filed on October 8, 2015.

(158) Incorporated by reference from the Registrant's Pre-Effective Amendment No. 1 to the Registration Statement on Form N-2, filed on October 9, 2015.

(159) Incorporated by reference from the Registrant's Post-Effective Amendment No. 47 to the Registration Statement on Form N-2, filed on October 16, 2015.

(160) Incorporated by reference from the Registrant's Post-Effective Amendment No. 48 to the Registration Statement on Form N-2, filed on October 22, 2015.

- (161) Incorporated by reference from the Registrant's Post-Effective Amendment No. 49 to the Registration Statement on Form N-2, filed on October 29, 2015.
- (162) Incorporated by reference from the Registrant's Pre-Effective Amendment No. 2 to the Registration Statement on Form N-2, filed on November 2, 2015.
- (163) Incorporated by reference from the Registrant's Post-Effective Amendment No. 50 to the Registration Statement on Form N-2, filed on November 4, 2015.
- (164) Incorporated by reference from the Registrant's Post-Effective Amendment No. 1 to the Registration Statement on Form N-2, filed on November 19, 2015.
- (165) Incorporated by reference from the Registrant's Post-Effective Amendment No. 2 to the Registration Statement on Form N-2, filed on November 27, 2015.
- (166) Incorporated by reference from the Registrant's Post-Effective Amendment No. 3 to the Registration Statement on Form N-2, filed on December 3, 2015.
- (167) Incorporated by reference from the Registrant's Post-Effective Amendment No. 4 to the Registration Statement on Form N-2, filed on December 10, 2015.
- (168) Incorporated by reference from the Registrant's Post-Effective Amendment No. 5 to the Registration Statement on Form N-2, filed on December 17, 2015.
- (169) Incorporated by reference from the Registrant's Post-Effective Amendment No. 6 to the Registration Statement on Form N-2, filed on December 24, 2015.
- (170) Incorporated by reference from the Registrant's Post-Effective Amendment No. 7 to the Registration Statement on Form N-2, filed on December 31, 2015.
- (171) Incorporated by reference from the Registrant's Post-Effective Amendment No. 8 to the Registration Statement on Form N-2, filed on January 7, 2016.
- (172) Incorporated by reference from the Registrant's Post-Effective Amendment No. 9 to the Registration Statement on Form N-2, filed on January 14, 2016.



- (173) Incorporated by reference from the Registrant's Post-Effective Amendment No. 10 to the Registration Statement on Form N-2, filed on January 22, 2016.
  
- (174) Incorporated by reference from the Registrant's Post-Effective Amendment No. 11 to the Registration Statement on Form N-2, filed on February 12, 2016.
  
- (175) Incorporated by reference from the Registrant's Post-Effective Amendment No. 12 to the Registration Statement on Form N-2, filed on March 3, 2016.
  
- (176) Incorporated by reference from the Registrant's Post-Effective Amendment No. 13 to the Registration Statement on Form N-2, filed on March 10, 2016.
  
- (177) Incorporated by reference from the Registrant's Post-Effective Amendment No. 14 to the Registration Statement on Form N-2, filed on March 17, 2016.
  
- (178) Incorporated by reference from the Registrant's Post-Effective Amendment No. 15 to the Registration Statement on Form N-2, filed on March 24, 2016.
  
- (179) Incorporated by reference from the Registrant's Post-Effective Amendment No. 16 to the Registration Statement on Form N-2, filed on March 31, 2016.
  
- (180) Incorporated by reference from the Registrant's Post-Effective Amendment No. 17 to the Registration Statement on Form N-2, filed on April 7, 2016.
  
- (181) Incorporated by reference from the Registrant's Post-Effective Amendment No. 18 to the Registration Statement on Form N-2, filed on April 14, 2016.
  
- (182) Incorporated by reference from the Registrant's Post-Effective Amendment No. 19 to the Registration Statement on Form N-2, filed on April 21, 2016.
  
- (183) Incorporated by reference from the Registrant's Post-Effective Amendment No. 20 to the Registration Statement on Form N-2, filed on April 28, 2016.
  
- (184) Incorporated by reference from the Registrant's Post-Effective Amendment No. 21 to the Registration Statement on Form N-2, filed on May 5, 2016.
  
- (185) Incorporated by reference from the Registrant's Post-Effective Amendment No. 22 to the Registration Statement on Form N-2, filed on May 12, 2016.

- (186) Incorporated by reference from the Registrant's Post-Effective Amendment No. 23 to the Registration Statement on Form N-2, filed on May 26, 2016.
- (187) Incorporated by reference from the Registrant's Post-Effective Amendment No. 24 to the Registration Statement on Form N-2, filed on June 3, 2016.
- (188) Incorporated by reference from the Registrant's Post-Effective Amendment No. 25 to the Registration Statement on Form N-2, filed on June 9, 2016.

- (189) Incorporated by reference from the Registrant's Post-Effective Amendment No. 26 to the Registration Statement on Form N-2, filed on June 16, 2016.
- (190) Incorporated by reference from the Registrant's Post-Effective Amendment No. 27 to the Registration Statement on Form N-2, filed on June 23, 2016.
- (191) Incorporated by reference from the Registrant's Post-Effective Amendment No. 28 to the Registration Statement on Form N-2, filed on June 30, 2016.
- (192) Incorporated by reference from the Registrant's Post-Effective Amendment No. 29 to the Registration Statement on Form N-2, filed on July 8, 2016.
- (193) Incorporated by reference from the Registrant's Post-Effective Amendment No. 30 to the Registration Statement on Form N-2, filed on July 14, 2016.
- (194) Incorporated by reference from the Registrant's Post-Effective Amendment No. 31 to the Registration Statement on Form N-2, filed on July 21, 2016.
- (195) Incorporated by reference from the Registrant's Post-Effective Amendment No. 32 to the Registration Statement on Form N-2, filed on July 28, 2016.
- (196) Incorporated by reference from the Registrant's Post-Effective Amendment No. 33 to the Registration Statement on Form N-2, filed on August 4, 2016.
- (197) Incorporated by reference from the Registrant's Post-Effective Amendment No. 34 to the Registration Statement on Form N-2, filed on August 11, 2016.
- (198) Incorporated by reference from the Registrant's Post-Effective Amendment No. 35 to the Registration Statement on Form N-2, filed on August 18, 2016.
- (199) Incorporated by reference from the Registrant's Post-Effective Amendment No. 36 to the Registration Statement on Form N-2, filed on August 25, 2016.
- (200) Incorporated by reference from the Registrant's Post-Effective Amendment No. 37 to the Registration Statement on Form N-2, filed on September 1, 2016.

- (201) Incorporated by reference from the Registrant's Post-Effective Amendment No. 38 to the Registration Statement on Form N-2, filed on September 15, 2016.
- (202) Incorporated by reference from the Registrant's Post-Effective Amendment No. 39 to the Registration Statement on Form N-2, filed on September 22, 2016.
- (203) Incorporated by reference from the Registrant's Post-Effective Amendment No. 40 to the Registration Statement on Form N-2, filed on September 29, 2016.
- (204) Incorporated by reference from the Registrant's Post-Effective Amendment No. 41 to the Registration Statement on Form N-2, filed on October 6, 2016.
- (205) Incorporated by reference from the Registrant's Post-Effective Amendment No. 42 to the Registration Statement on Form N-2, filed on October 14, 2016.
- (206) Incorporated by reference from the Registrant's Post-Effective Amendment No. 43 to the Registration Statement on Form N-2, filed on October 20, 2016.
- (207) Incorporated by reference from the Registrant's Post-Effective Amendment No. 44 to the Registration Statement on Form N-2, filed on October 27, 2016.
- (208) Incorporated by reference from the Registrant's Post-Effective Amendment No. 45 to the Registration Statement on Form N-2, filed on November 3, 2016.
- (209) Incorporated by reference from the Registrant's Post-Effective Amendment No. 1 to the Registration Statement on Form N-2, filed on November 25, 2016.
- (210) Incorporated by reference from the Registrant's Post-Effective Amendment No. 2 to the Registration Statement on Form N-2, filed on December 1, 2016.
- (211) Incorporated by reference from the Registrant's Post-Effective Amendment No. 3 to the Registration Statement on Form N-2, filed on December 8, 2016.
- (212) Incorporated by reference from the Registrant's Post-Effective Amendment No. 4 to the Registration Statement on Form N-2, filed on December 15, 2016.
- (213) Incorporated by reference from the Registrant's Post-Effective Amendment No. 5 to the Registration Statement on Form N-2, filed on December 22, 2016.

- (214) Incorporated by reference from the Registrant's Post-Effective Amendment No. 6 to the Registration Statement on Form N-2, filed on December 30, 2016.
- (215) Incorporated by reference from the Registrant's Post-Effective Amendment No. 7 to the Registration Statement on Form N-2, filed on January 6, 2017.
- (216) Incorporated by reference from the Registrant's Post-Effective Amendment No. 8 to the Registration Statement on Form N-2, filed on January 12, 2017.

- (217) Incorporated by reference from the Registrant's Post-Effective Amendment No. 9 to the Registration Statement on Form N-2, filed on January 20, 2017.
- (218) Incorporated by reference from the Registrant's Post-Effective Amendment No. 10 to the Registration Statement on Form N-2, filed on January 26, 2017.
- (219) Incorporated by reference from the Registrant's Post-Effective Amendment No. 11 to the Registration Statement on Form N-2, filed on February 2, 2017.
- (220) Incorporated by reference from the Registrant's Post-Effective Amendment No. 12 to the Registration Statement on Form N-2, filed on February 9, 2017.
- (221) Incorporated by reference from the Registrant's Post-Effective Amendment No. 13 to the Registration Statement on Form N-2, filed on February 24, 2017.
- (222) Incorporated by reference from the Registrant's Post-Effective Amendment No. 14 to the Registration Statement on Form N-2, filed on March 2, 2017.
- (223) Incorporated by reference from the Registrant's Post-Effective Amendment No. 15 to the Registration Statement on Form N-2, filed on March 9, 2017.
- (224) Incorporated by reference from the Registrant's Post-Effective Amendment No. 16 to the Registration Statement on Form N-2, filed on March 16, 2017.
- (225) Incorporated by reference from the Registrant's Post-Effective Amendment No. 17 to the Registration Statement on Form N-2, filed on March 23, 2017.
- (226) Incorporated by reference from the Registrant's Post-Effective Amendment No. 18 to the Registration Statement on Form N-2, filed on March 30, 2017.
- (227) Incorporated by reference from the Registrant's Post-Effective Amendment No. 19 to the Registration Statement on Form N-2, filed on April 6, 2017.
- (228) Incorporated by reference to Exhibit 4.1 of the Registrant's Form 8-K, filed on April 11, 2017.
- (229) Incorporated by reference to Exhibit 1.1 of the Registrant's Form 8-K, filed on April 11, 2017.

- (230) Incorporated by reference from the Registrant's Post-Effective Amendment No. 21 to the Registration Statement on Form N-2, filed on April 20, 2017.
  
- (231) Incorporated by reference from the Registrant's Post-Effective Amendment No. 22 to the Registration Statement on Form N-2, filed on April 27, 2017.
  
- (232) Incorporated by reference from the Registrant's Post-Effective Amendment No. 23 to the Registration Statement on Form N-2, filed on May 4, 2017.
  
- (233) Incorporated by reference from the Registrant's Post-Effective Amendment No. 24 to the Registration Statement on Form N-2, filed on May 11, 2017.
  
- (234) Incorporated by reference from the Registrant's Post-Effective Amendment No. 25 to the Registration Statement on Form N-2, filed on May 25, 2017.
  
- (235) Incorporated by reference from the Registrant's Post-Effective Amendment No. 26 to the Registration Statement on Form N-2, filed on June 2, 2017.
  
- (236) Incorporated by reference from the Registrant's Post-Effective Amendment No. 27 to the Registration Statement on Form N-2, filed on June 8, 2017.
  
- (237) Incorporated by reference from the Registrant's Post-Effective Amendment No. 28 to the Registration Statement on Form N-2, filed on June 15, 2017.
  
- (238) Incorporated by reference from the Registrant's Post-Effective Amendment No. 29 to the Registration Statement on Form N-2, filed on June 22, 2017.
  
- (239) Incorporated by reference from the Registrant's Post-Effective Amendment No. 30 to the Registration Statement on Form N-2, filed on June 29, 2017.
  
- (240) Incorporated by reference from the Registrant's Post-Effective Amendment No. 31 to the Registration Statement on Form N-2, filed on July 7, 2017.
  
- (241) Incorporated by reference from the Registrant's Post-Effective Amendment No. 32 to the Registration Statement on Form N-2, filed on July 13, 2017.

- (242) Incorporated by reference from the Registrant's Post-Effective Amendment No. 33 to the Registration Statement on Form N-2, filed on July 20, 2017.
- (243) Incorporated by reference from the Registrant's Post-Effective Amendment No. 34 to the Registration Statement on Form N-2, filed on July 27, 2017.
- (244) Incorporated by reference from the Registrant's Post-Effective Amendment No. 35 to the Registration Statement on Form N-2, filed on August 3, 2017.



- (245) Incorporated by reference from the Registrant's Post-Effective Amendment No. 36 to the Registration Statement on Form N-2, filed on August 10, 2017.
- (246) Incorporated by reference from the Registrant's Post-Effective Amendment No. 37 to the Registration Statement on Form N-2, filed on August 17, 2017.
- (247) Incorporated by reference from the Registrant's Post-Effective Amendment No. 38 to the Registration Statement on Form N-2, filed on August 24, 2017.
- (248) Incorporated by reference from the Registrant's Post-Effective Amendment No. 39 to the Registration Statement on Form N-2, filed on August 30, 2017.
- (249) Incorporated by reference from the Registrant's Post-Effective Amendment No. 40 to the Registration Statement on Form N-2, filed on August 31, 2017.
- (250) Incorporated by reference from the Registrant's Post-Effective Amendment No. 42 to the Registration Statement on Form N-2, filed on September 14, 2017.
- (251) Incorporated by reference from the Registrant's Post-Effective Amendment No. 43 to the Registration Statement on Form N-2, filed on September 21, 2017.
- (252) Incorporated by reference from the Registrant's Post-Effective Amendment No. 44 to the Registration Statement on Form N-2, filed on September 28, 2017.
- (253) Incorporated by reference from the Registrant's Post-Effective Amendment No. 45 to the Registration Statement on Form N-2, filed on October 5, 2017.
- (254) Incorporated by reference from the Registrant's Post-Effective Amendment No. 46 to the Registration Statement on Form N-2, filed on October 13, 2017.
- (255) Incorporated by reference from the Registrant's Post-Effective Amendment No. 47 to the Registration Statement on Form N-2, filed on October 19, 2017.
- (256) Incorporated by reference from the Registrant's Post-Effective Amendment No. 49 to the Registration Statement on Form N-2, filed on October 26, 2017.

- (257) Incorporated by reference from the Registrant's Post-Effective Amendment No. 51 to the Registration Statement on Form N-2, filed on November 2, 2017.
  
- (258) Incorporated by reference from the Registrant's Post-Effective Amendment No. 52 to the Registration Statement on Form N-2, filed on November 24, 2017.
  
- (259) Incorporated by reference from the Registrant's Post-Effective Amendment No. 53 to the Registration Statement on Form N-2, filed on November 30, 2017.
  
- (260) Incorporated by reference from the Registrant's Post-Effective Amendment No. 54 to the Registration Statement on Form N-2, filed on December 7, 2017.
  
- (261) Incorporated by reference from the Registrant's Post-Effective Amendment No. 55 to the Registration Statement on Form N-2, filed on December 14, 2017.
  
- (262) Incorporated by reference from the Registrant's Post-Effective Amendment No. 56 to the Registration Statement on Form N-2, filed on December 21, 2017.
  
- (263) Incorporated by reference from the Registrant's Post-Effective Amendment No. 57 to the Registration Statement on Form N-2, filed on December 29, 2017.
  
- (264) Incorporated by reference from the Registrant's Post-Effective Amendment No. 58 to the Registration Statement on Form N-2, filed on January 5, 2018.
  
- (265) Incorporated by reference from the Registrant's Post-Effective Amendment No. 59 to the Registration Statement on Form N-2, filed on January 11, 2018.
  
- (266) Incorporated by reference from the Registrant's Post-Effective Amendment No. 60 to the Registration Statement on Form N-2, filed on January 19, 2018.
  
- (267) Incorporated by reference from the Registrant's Post-Effective Amendment No. 61 to the Registration Statement on Form N-2, filed on January 25, 2018.
  
- (268) Incorporated by reference from the Registrant's Post-Effective Amendment No. 62 to the Registration Statement on Form N-2, filed on February 1, 2018.
  
- (269) Incorporated by reference from the Registrant's Post-Effective Amendment No. 63 to the Registration Statement on Form N-2, filed on February 8, 2018.

- (270) Incorporated by reference from the Registrant's Post-Effective Amendment No. 64 to the Registration Statement on Form N-2, filed on February 23, 2018.
- (271) Incorporated by reference from the Registrant's Post-Effective Amendment No. 65 to the Registration Statement on Form N-2, filed on March 1, 2018.
- (272) Incorporated by reference from the Registrant's Post-Effective Amendment No. 66 to the Registration Statement on Form N-2, filed on March 8, 2018.

- (273) Incorporated by reference from the Registrant's Post-Effective Amendment No. 67 to the Registration Statement on Form N-2, filed on March 15, 2018.
- (274) Incorporated by reference from the Registrant's Post-Effective Amendment No. 68 to the Registration Statement on Form N-2, filed on March 22, 2018.
- (275) Incorporated by reference from the Registrant's Post-Effective Amendment No. 69 to the Registration Statement on Form N-2, filed on March 29, 2018.
- (276) Incorporated by reference from the Registrant's Post-Effective Amendment No. 70 to the Registration Statement on Form N-2, filed on April 5, 2018.
- (277) Incorporated by reference from the Registrant's Post-Effective Amendment No. 71 to the Registration Statement on Form N-2, filed on April 12, 2018.
- (278) Incorporated by reference from the Registrant's Post-Effective Amendment No. 72 to the Registration Statement on Form N-2, filed on April 19, 2018.
- (279) Incorporated by reference from the Registrant's Post-Effective Amendment No. 73 to the Registration Statement on Form N-2, filed on April 26, 2018.
- (280) Incorporated by reference from the Registrant's Post-Effective Amendment No. 74 to the Registration Statement on Form N-2, filed on May 3, 2018.
- (281) Incorporated by reference from the Registrant's Post-Effective Amendment No. 75 to the Registration Statement on Form N-2, filed on May 10, 2018.
- (282) Incorporated by reference to Exhibit 4.1 of the Registrant's Form 8-K, filed on May 18, 2018.
- (283) Incorporated by reference to Exhibit 1.1 of the Registrant's Form 8-K, filed on May 18, 2018.
- (284) Incorporated by reference from the Registrant's Post-Effective Amendment No. 78 to the Registration Statement on Form N-2, filed on May 24, 2018.
- (285) Incorporated by reference from the Registrant's Post-Effective Amendment No. 79 to the Registration Statement on Form N-2, filed on June 1, 2018.

- (286) Incorporated by reference from the Registrant's Post-Effective Amendment No. 80 to the Registration Statement on Form N-2, filed on June 7, 2018.
  
- (287) Incorporated by reference from the Registrant's Post-Effective Amendment No. 81 to the Registration Statement on Form N-2, filed on June 20, 2018.
  
- (288) Incorporated by reference from the Registrant's Post-Effective Amendment No. 82 to the Registration Statement on Form N-2, filed on June 21, 2018.
  
- (289) Incorporated by reference from the Registrant's Post-Effective Amendment No. 83 to the Registration Statement on Form N-2, filed on June 28, 2018.
  
- (290) Incorporated by reference from the Registrant's Post-Effective Amendment No. 84 to the Registration Statement on Form N-2, filed on July 2, 2018.
  
- (291) Incorporated by reference from the Registrant's Post-Effective Amendment No. 85 to the Registration Statement on Form N-2, filed on July 6, 2018.
  
- (292) Incorporated by reference from the Registrant's Post-Effective Amendment No. 86 to the Registration Statement on Form N-2, filed on July 12, 2018.
  
- (293) Incorporated by reference from the Registrant's Post-Effective Amendment No. 87 to the Registration Statement on Form N-2, filed on July 19, 2018.
  
- (294) Incorporated by reference from the Registrant's Post-Effective Amendment No. 88 to the Registration Statement on Form N-2, filed on July 26, 2018.
  
- (295) Incorporated by reference from the Registrant's Post-Effective Amendment No. 89 to the Registration Statement on Form N-2, filed on August 2, 2018.
  
- (296) Incorporated by reference to Exhibit 10.1 of the Registrant's Form 8-K, filed on August 6, 2018.
  
- (297) Incorporated by reference from the Registrant's Post-Effective Amendment No. 90 to the Registration Statement on Form N-2, filed on August 9, 2018.
  
- (298) Incorporated by reference from the Registrant's Post-Effective Amendment No. 91 to the Registration Statement on

Form N-2, filed on August 16, 2018.

(299) Incorporated by reference from the Registrant's Post-Effective Amendment No. 92 to the Registration Statement on Form N-2, filed on August 23, 2018.

(300) Incorporated by reference to Exhibit 14 of the Registrant's Form 10-K/A, filed on October 20, 2016.

(301) Incorporated by reference from the Registrant's Proxy Statement, filed on September 14, 2017.

(302) Incorporated by reference from the Registrant's Form 8-K, filed on December 14, 2017.



## SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized on August 28, 2018 .

### PROSPECT CAPITAL CORPORATION

By: /s/ JOHN F. BARRY III

John F. Barry III

*Chairman of the Board and Chief Executive Officer*

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

/s/ JOHN F. BARRY III

John F. Barry III

*Chairman of the Board, Chief Executive Officer and Director*

August 28, 2018

/s/ ANDREW C. COOPER

Andrew C. Cooper

*Director*

August 28, 2018

/s/ KRISTIN L. VAN DASK

Kristin L. Van Dask

*Chief Financial Officer*

August 28, 2018

/s/ WILLIAM J. GREMP

William J. Grempe

*Director*

August 28, 2018

/s/ M. GRIER ELIASEK

M. Grier Eliasek

*President, Chief Operating Officer and Director*

August 28, 2018

/s/ EUGENE S. STARK

Eugene S. Stark

*Director*

August 28, 2018



**CONSENT OF INDEPENDENT AUDITOR**

We have issued our reports dated August 20, 2018, with respect to the combined consolidated financial statements of National Property REIT Corp. for the years ended December 31, 2017 and December 31, 2016, and dated August 9, 2017, with respect to the combined consolidated financial statements of National Property REIT Corp. for the years ended December 31, 2016 and December 31, 2015, included in the Annual Report of Prospect Capital Corporation on Form 10-K, dated August 28, 2018 , for the year ended June 30, 2018. We hereby consent to the inclusion of said reports in the Form 10-K, dated August 28, 2018 .

/s/ BDO USA, LLP

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August 28, 2018

**CONSENT OF INDEPENDENT AUDITOR**

We have issued our reports dated April 4, 2018, with respect to the consolidated financial statements of First Tower Finance Company LLC and Subsidiaries for the years ended December 31, 2017 and 2016, and dated March 17, 2017 with respect to the consolidated financial statements of First Tower Finance Company LLC and Subsidiaries for the years ended December 31, 2016 and 2015, included in the Annual Report of Prospect Capital Corporation on Form 10-K, dated August 28, 2018 , for the year ended June 30, 2018. We hereby consent to the inclusion of said reports in the Form 10-K, dated August 28, 2018 .

/s/ RSM US LLP

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Raleigh, North Carolina

August 28, 2018

## CERTIFICATION OF CHIEF EXECUTIVE OFFICER

## PURSUANT TO RULE 13a-14(a)/15d-14(a)

I, John F. Barry III, Chairman of the Board and Chief Executive Officer of Prospect Capital Corporation, certify that:

1. I have reviewed this annual report on Form 10-K of Prospect Capital Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of consolidated financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over the financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 28, 2018

/s/ JOHN F. BARRY III

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John F. Barry III

*Chairman of the Board and Chief Executive Officer*

## CERTIFICATION OF CHIEF FINANCIAL OFFICER

## PURSUANT TO RULE 13a-14(a)/15d-14(a)

I, Kristin L. Van Dask , Chief Financial Officer and Treasurer of Prospect Capital Corporation, certify that:

1. I have reviewed this annual report on Form 10-K of Prospect Capital Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of consolidated financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over the financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 28, 2018

/s/ KRISTIN L. VAN DASK

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Kristin L. Van Dask

*Chief Financial Officer*

**CERTIFICATION OF CHIEF EXECUTIVE OFFICER**

**PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002 (18 U.S.C. 1350)**

In connection with the annual report on Form 10-K for the year ended June 30, 2018 (the "Report") of Prospect Capital Corporation (the "Registrant"), as filed with the Securities and Commission on the date hereof, I, John F. Barry III, Chairman of the Board and Chief Executive Officer of the Registrant, hereby certify, to the best of my knowledge, that:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Registrant.

Date: August 28, 2018

/s/ JOHN F. BARRY III

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John F. Barry III

*Chairman of the Board and Chief Executive Officer*

A signed original of this written statement required by Section 906, or other document authenticating, acknowledging, or otherwise adopting the signature that appears in typed form within the electronic version of this written statement required by Section 906, has been provided to Prospect Capital Corporation and will be retained by Prospect Capital Corporation and furnished to the Securities and Exchange Commission or its staff upon request.

The foregoing certification is being furnished solely to accompany the Report pursuant to 18 U.S.C. ss. 1350, and is not being filed for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, and are not to be incorporated by reference into any filing of the Registrant, whether made before or after the date hereof, regardless of any general incorporation language in such filing.

## CERTIFICATION OF CHIEF FINANCIAL OFFICER

## PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002 (18 U.S.C. 1350)

In connection with the annual report on Form 10-K for the year ended June 30, 2018 (the "Report") of Prospect Capital Corporation (the "Registrant"), as filed with the Securities and Commission on the date hereof, I, Kristin L. Van Dask, Chief Financial Officer of the Registrant, hereby certify, to the best of my knowledge, that:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Registrant.

Date: August 28, 2018

/s/ KRISTIN L. VAN DASK

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Kristin L. Van Dask

*Chief Financial Officer*

A signed original of this written statement required by Section 906, or other document authenticating, acknowledging, or otherwise adopting the signature that appears in typed form within the electronic version of this written statement required by Section 906, has been provided to Prospect Capital Corporation and will be retained by Prospect Capital Corporation and furnished to the Securities and Exchange Commission or its staff upon request.

The foregoing certification is being furnished solely to accompany the Report pursuant to 18 U.S.C. ss. 1350, and is not being filed for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, and are not to be incorporated by reference into any filing of the Registrant, whether made before or after the date hereof, regardless of any general incorporation language in such filing.

**National Property REIT Corp.**

Combined Consolidated Financial Statements  
For the years ended December 31, 2017 and 2016  
(With Independent Auditor's Report Thereon)

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**National Property REIT Corp.**  
**Combined Consolidated Financial Statements**  
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New York, NY 10017  
USA

## Independent Auditor's Report

Board of Directors  
National Property REIT Corp.  
New York, New York

We have audited the accompanying combined consolidated financial statements of National Property REIT Corp. and its subsidiaries, which comprise the combined consolidated balance sheets as of December 31, 2017 and 2016, and the related combined consolidated statements of operations, changes in (deficit) equity, and cash flows for the years then ended, and the related notes to the combined consolidated financial statements.

### *Management's Responsibility for the Combined Consolidated Financial Statements*

Management is responsible for the preparation and fair presentation of these combined consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of combined consolidated financial statements that are free from material misstatement, whether due to fraud or error.

### *Auditor's Responsibility*

Our responsibility is to express an opinion on these combined consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the combined consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the combined consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the combined consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the combined consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the combined consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### *Opinion*

In our opinion, the combined consolidated financial statements referred to above present fairly, in all material respects, the financial position of National Property REIT Corp. and its subsidiaries as of December 31, 2017 and 2016, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

BDO USA, LLP

August 20, 2018

BDO USA, LLP, a Delaware limited liability partnership, is the U.S. member of BDO International Limited, a UK company limited by guarantee, and forms part of the international BDO network of independent member firms.

Each firm in the network operates independently and is not a subsidiary of any other firm in the network.

**National Property REIT Corp.**  
**Combined Consolidated Balance Sheets**

	December 31,	
	2017	2016
<b>ASSETS</b>		
<b>Real estate assets</b>		
Land	\$ 202,694,929	\$ 160,760,742
Building and improvement	1,410,337,215	1,251,399,451
Furniture, fixtures, and equipment	76,336,485	51,645,443
Total real estate assets held for investment	1,689,368,629	1,463,805,636
Less: accumulated depreciation	(180,740,198)	(136,092,392)
<b>Net real estate assets held for investment</b>	<b>1,508,628,431</b>	<b>1,327,713,244</b>
Real estate assets held for sale, net	97,395,082	25,938,275
<b>Total real estate assets, net</b>	<b>1,606,023,513</b>	<b>1,353,651,519</b>
Cash and cash equivalents	34,116,795	32,609,482
Restricted cash (\$1,181,297 and \$19,596,223 as of December 31, 2017 and 2016, respectively, related to consolidated variable interest entity ("VIE"))	65,036,495	59,721,126
Accounts receivable, net	5,098,527	2,931,470
Interest receivable (\$1,693,095 and \$4,401,157 as of December 31, 2017 and 2016, respectively, related to consolidated VIE)	9,815,312	10,383,189
Due From LendingClub Corporation (\$1,098,778 and \$1,816,471 as of December 31, 2017 and 2016, respectively, related to consolidated VIE)	5,848,661	7,075,357
Due From Prospect Funding LLC	758,838	810,467
Due from Avnet, Inc.	2,214	1,708
Due from affiliates	36,663	848,619
Prepaid expenses and other assets	10,131,187	3,724,480
Unsecured consumer loans at fair value (\$95,182,654 and \$267,642,484 as of December 31, 2017 and 2016, respectively, related to consolidated VIE)	595,148,010	759,589,421
Residual interests in securitizations, at fair value	33,689,314	—
Deferred leasing costs, net	208,369	—
Lease intangibles, net	4,339,353	15,246,687
<b>TOTAL ASSETS</b>	<b>\$ 2,371,357,091</b>	<b>\$ 2,248,596,405</b>
<b>LIABILITIES AND DEFICIT</b>		
<b>Liabilities</b>		
Mortgages payable, net of unamortized discount and debt issuance costs	\$ 1,351,820,354	\$ 1,168,613,083
Mortgages payable related to real estate assets held for sale, net of unamortized discount and debt issuance costs	91,700,234	52,141,193
Revolving credit facilities, at fair value	254,130,359	217,579,369
Debt (net of debt issuance costs) related to consolidated VIE	87,198,587	208,873,814
Senior secured term loans, net of debt issuance costs	552,753,007	624,003,996
Accounts payable and accrued expenses	24,072,910	22,773,859
Security deposits	4,399,060	4,210,248
Due to affiliates	6,778,472	6,672,096
Prepaid rent and other liabilities	3,814,477	4,030,151
<b>Total liabilities</b>	<b>2,495,073,399</b>	<b>2,288,903,851</b>
Commitments and contingencies (Note 17)		
<b>Deficit</b>		
Preferred stock, \$0.001 par value, Series A Cumulative Non-Voting, 12.5%, \$125,000 liquidation preference, 175 shares authorized, issued and outstanding	109,950	109,950
Common stock, \$0.001 par value; 100,000,000 common shares authorized; 2,663,825 and 1,803,535 issued and outstanding, respectively	2,694	1,844
Additional paid-in capital	281,621,029	176,308,017
Accumulated deficit	(308,567,214)	(243,242,111)
Non-controlling interest	11,517,263	26,514,851
<b>Total deficit</b>	<b>(15,316,308)</b>	<b>(40,307,446)</b>
<b>TOTAL LIABILITIES AND DEFICIT</b>	<b>\$ 2,371,357,091</b>	<b>\$ 2,248,596,405</b>

See Notes to Combined Consolidated Financial Statements

**National Property REIT Corp.**  
**Combined Consolidated Statements of Operations**

	Years Ended December 31,	
	2017	2016
<b>Revenues</b>		
Rental income	\$ 205,583,493	\$ 162,613,343
Interest income	164,141,373	145,731,804
Other income	28,006,701	23,128,670
Total revenues	397,731,567	331,473,817
<b>Costs and expenses</b>		
Property operating expenses	97,203,632	76,807,980
Management fees	16,881,394	14,594,401
Depreciation and amortization	81,202,478	59,643,813
General and administrative expenses	16,225,502	23,563,097
Total costs and expenses	211,511,006	174,609,291
<b>Other (expense) income</b>		
Acquisition costs	(5,139,102)	(7,583,131)
Interest expense	(188,963,955)	(158,128,068)
Fair value adjustments	(114,395,663)	(98,479,188)
Gain on sale of real estate assets	53,392,817	16,673,356
Gain on sale of interest in consolidated VIE	457,448	—
Total other (expense) income, net	(254,648,455)	(247,517,031)
<b>Net loss before income tax</b>	(68,427,894)	(90,652,505)
Income tax expense	(198,777)	(14,757)
<b>Net loss</b>	(68,626,671)	(90,667,262)
Loss attributable to non-controlling interest	3,317,193	4,718,760
Dividends attributable to preferred shares	(15,625)	(65,588)
<b>Net loss attributable to common shares</b>	<u>\$ (65,325,103)</u>	<u>\$ (86,014,090)</u>

See Notes to Combined Consolidated Financial Statements



**National Property REIT Corp.**  
**Combined Consolidated Statements of Changes in (Deficit) Equity**

	Preferred Shares	Common Shares	Additional Paid-In Capital	Accumulated Deficit	Total Stockholders' (Deficit) Equity	Non-Controlling Interest	Total (Deficit) Equity
<b>Balance at December 31, 2015</b>	\$ 322,400	\$ 970	\$ 149,171,459	\$ (157,228,021)	\$ (7,733,192)	\$ 14,107,188	\$ 6,373,996
Issuance of common shares	—	874	87,073,403	—	87,073,403	—	87,073,403
Contribution from non-controlling interests:	—	—	—	—	—	28,645,727	28,645,727
Dividends on common shares	—	—	(59,886,815)	—	(59,886,815)	—	(59,886,815)
Dividends on preferred shares	—	—	—	(65,588)	(65,588)	—	(65,588)
Distributions to non-controlling interest	—	—	—	—	—	(11,519,301)	(11,519,301)
Redemption of preferred shares	(212,450)	—	—	—	(212,450)	—	(212,450)
Net loss	—	—	—	(85,948,502)	(85,948,502)	(3,718,760)	(90,667,262)
<b>Balance at December 31, 2016</b>	\$ 109,950	\$ 1,844	\$ 176,308,017	\$ (243,242,111)	\$ (66,822,300)	\$ 26,514,854	\$ (40,307,446)
Issuance of common shares	—	820	147,739,553	—	147,739,573	—	147,739,573
Contribution from non-controlling interests:	—	—	—	—	—	7,462,045	7,462,045
Dividends on common shares	—	—	(41,954,441)	—	(41,954,441)	—	(41,954,441)
Dividends on preferred shares	—	—	—	(15,625)	(15,625)	—	(15,625)
Distributions to non-controlling interest	—	—	—	—	—	(16,992,860)	(16,992,860)
Purchase of subsidiary shares from non-controlling interest	—	—	(482,100)	—	(482,100)	(2,149,583)	(2,631,683)
Net loss	—	—	—	(65,309,478)	(65,309,478)	(3,317,193)	(68,626,671)
<b>Balance at December 31, 2017</b>	\$ 109,950	\$ 2,664	\$ 281,621,029	\$ (308,567,214)	\$ (26,833,571)	\$ 11,517,263	\$ (15,316,308)

See Notes to Combined Consolidated Financial Statements

**National Property REIT Corp.**  
**Combined Consolidated Statements of Cash Flows**

	Years Ended December 31,	
	2017	2016
<b>Cash Flows from Operating Activities:</b>		
Net loss	\$ (68,626,671)	\$ (90,667,262)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation	62,490,185	53,102,382
Amortization of in-place leases	18,712,293	6,541,431
Amortization of above-market leases	74,201	31,801
Amortization of below-market leases	(369,194)	(158,354)
Amortization of deferred leasing costs	212,068	—
Amortization of debt issuance costs and debt discounts and premiums	7,555,059	5,158,141
Interest paid in kind	776,149	—
Gain on sale of real estate assets	(53,392,817)	(16,673,356)
Gain on involuntary conversions	(117,379)	(175,552)
Loss on early extinguishment of debt	5,585,188	—
Fair value adjustments of unsecured consumer loans	(112,189,225)	98,479,188
Fair value adjustments of residual interests in securitizations	2,206,440	—
Realized gain on sale of interest in consolidated VIE	(457,448)	—
Income from accretion on residual interests in securitizations	(1,945,931)	—
Changes in operating assets and liabilities:		
Restricted cash	(4,836,920)	(6,451,166)
Accounts receivable, net	(2,167,057)	1,965,395
Interest receivable	561,877	(3,013,880)
Due to (due from) affiliates, net	915,332	2,795,691
Prepaid expenses and other assets	(6,406,797)	398,698
Accounts payable and accrued expenses	1,297,051	3,765,012
Security deposits and other liabilities	(26,962)	2,927,201
Deferred leasing costs	(520,977)	—
<b>Net cash provided by operating activities</b>	<b>73,709,643</b>	<b>58,025,370</b>
<b>Cash Flows from Investing Activities:</b>		
Restricted cash	(4,391,558)	3,892,625
Acquisition of real estate assets	(359,340,133)	(295,129,565)
Additions to real estate assets	(29,180,937)	(15,294,175)
Additions to lease intangibles	(7,509,867)	(19,620,435)
Proceeds from disposition of real estate assets	87,101,619	18,777,803
Proceeds from insurance settlements	326,987	1,055,949
Purchases of unsecured consumer loans	(520,691,146)	(580,599,910)
Principal payments received on unsecured consumer loans	407,992,257	328,436,658
Proceeds from sale of unsecured consumer loans	127,797,118	—
Proceeds from recoveries and sales of charged-off loans	10,683,136	5,469,337
Purchase of residual interest in securitization	(3,480,000)	—
Proceeds from sale of debt related to consolidated VIE	39,723,448	—
Decrease in Due from LendingClub Corporation	1,226,696	36,152,728
Decrease in Due from Prosper Funding, LLC	51,589	3,450,034
(Increase) decrease in Due from Avant, Inc.	(506)	91,964
<b>Net cash used in investing activities</b>	<b>(254,590,297)</b>	<b>(513,316,987)</b>
<b>Cash Flows from Financing Activities:</b>		
Restricted cash	3,916,109	(11,885,591)
Proceeds from mortgages payable	326,243,000	323,458,994
Repayments of mortgages payable	(41,000,538)	(1,033,817)
Proceeds from revolving credit facilities	357,756,148	290,181,851
Repayments of revolving credit facilities	(311,205,158)	(422,177,317)
Borrowings under debt related to consolidated VIE	—	243,441,829
Principal payments under debt related to consolidated VIE	(164,050,600)	(30,543,455)
Proceeds from senior secured term loan	62,366,322	189,101,448
Repayments of senior secured term loan	(155,332,793)	(141,404,677)
Debt issuance costs	(4,955,924)	(11,844,783)
Payment of debt extinguishment costs	(4,965,308)	—
Proceeds from issuance of common stock	147,750,373	87,024,277
Capital distributions	(41,954,441)	(59,886,845)
Dividends on preferred shares	(15,625)	(65,588)
Redemption of preferred stock	—	(212,450)

**National Property REIT Corp.**  
**Combined Consolidated Statements of Cash Flows (Continued)**

	Years Ended December 31,	
	2017	2016
Acquisition of subsidiary interest from non-controlling interest	(2,631,683)	—
Contributions from non-controlling interest	7,462,045	28,645,727
Distributions to non-controlling interests	(16,992,860)	(11,519,301)
Increase in due to (due from) affiliates, net	—	1,318,827
<b>Net cash provided by financing activities</b>	<b>182,388,067</b>	<b>472,599,129</b>
<b>Net increase in cash and cash equivalents</b>	<b>1,507,413</b>	<b>17,307,512</b>
Cash and cash equivalents, beginning of year	32,609,382	15,301,870
<b>Cash and cash equivalents, end of year</b>	<b>\$ 34,116,795</b>	<b>\$ 32,609,382</b>

	Year Ended December 31,	
	2017	2016
<b>Supplemental Disclosures</b>		
Cash paid during the period for:		
Interest expenses	\$ 178,950,978	\$ 152,445,626
Income taxes	\$ 209,116	\$ 370,379
Non-cash investing and financing activities:		
Mortgage loans assumed by purchaser upon sale of property	\$ 41,640,462	\$ —
Accrued additions to real estate assets	\$ 466,067	\$ 183,412
Residual interest acquired in securitization	\$ 30,469,823	\$ —
Increase in borrowings under debt related to consolidated VIE	\$ 39,266,000	\$ —

*See Notes to Combined Consolidated Financial Statements*

**National Property REIT Corp.**  
**Notes to Combined Consolidated Financial Statements**

**1. Organization**

References herein to the "Company", "we", "us", or "our" refer to National Property REIT Corp. ("NPRC"), formerly known as National Property Holdings Corp., unless the context specifically requires otherwise.

The Company is a Maryland corporation and is a real estate investment trust ("REIT") for U.S. federal income tax purposes. The Company 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. The Company intends to acquire real estate assets, including, but not limited to, industrial, commercial, student housing, self-storage, and multi-family properties. The Company commenced operations on December 31, 2013.

NPH Property Holdings, LLC ("NPH"), a Delaware limited liability company, owns all of the outstanding common stock of the Company. NPH is a wholly owned subsidiary of Prospect Capital Corporation ("PSEC"). On December 31, 2013, PSEC contributed to the Company, through NPH, ownership interests in entities that own real estate properties. In exchange for the contribution of assets, NPH received shares of the Company's common stock. These entities were NPH McDowell, LLC ("Oxford"), APH Carroll 41, LLC ("Bexley"), and 146 Forest Parkway, LLC ("146 FP"). On October 23, 2014, United Property REIT Corp. ("UPRC"), an affiliated entity indirectly owned by PSEC, contributed to the Company, ownership interest in Michigan Storage, LLC ("Michigan"), an entity that owns a portfolio of self-storage real estate properties. UPH Property Holdings, LLC ("UPH"), a Delaware limited liability company, owned all of the outstanding common stock of UPRC. UPH was a wholly owned subsidiary of PSEC. On November 26, 2014, American Property REIT Corp. ("APRC"), an affiliated entity indirectly owned by PSEC, contributed to the Company, ownership interest in APH Carroll Resort, LLC ("The Resort"), an entity that owns a multi-family real estate property. On May 1, 2015, APCR contributed to the Company, ownership interest in 5100 Live Oaks Blvd, LLC ("Amberly"), an entity that owns a multi-family real estate property. APH Property Holdings, LLC ("APH"), a Delaware limited liability company, owned all of the outstanding common stock of APCR. APH was a wholly owned subsidiary of PSEC. These entity contribution transactions are collectively referred to as the "Common Control Transfer".

On May 23, 2016, APCR and UPRC (collectively referred to as the "Affiliated REITs") were merged ("Merger") with and into the Company, with the Company continuing as the surviving corporation. The Affiliated REITs were formed to hold for investment, operate, finance, lease, manage, and sell a portfolio of real estate assets. At the date of Merger, the Affiliated REITs held an investment portfolio of real estate assets owned directly or through joint ventures by making a majority equity investment in property-owning entities. The real estate investments acquired during the Merger are collectively known as the "Merger Investments".

In accordance with FASB ASC 805, "Business Combinations," the Merger and Common Control Transfer transactions noted above were executed between entities under common control. The assets and liabilities of each of the entities acquired through these transactions were recorded at their historical carrying amounts, and the results of operations of these entities have been recognized in the accompanying combined consolidated statements of operations for all periods presented. NPRC's combined consolidated balance sheets as of December 31, 2017 and 2016 reflect the historical carryover basis in the assets and liabilities acquired. The Company has also retrospectively adjusted its financial statements to combine the operating results of the Company and the entities acquired from the date common control began.

National Marketplace Finance, LLC (formerly known as Prospect Finance Company, LLC) ("NMF") is a subsidiary of the Company, and currently owns the online originated unsecured consumer loan portfolio. NMF holds the interests in ACL Loan Holdings, Inc. ("ACL.LH") and American Consumer Lending Limited ("ACLL").

ACLLH was formed to hold the indirect interest in ACL Consumer Loan Trust ("ACL Trust"), which was contributed to ACL.LH on June 30, 2014 by the Company, its initial sole member. ACL Trust and American Consumer Lending (Prime), LLC, a subsidiary of ACL.L., (collectively with ACL Trust, referred to as the "ACL Subsidiaries"), holds unsecured consumer loans purchased from Prosper Funding LLC ("Prosper").

ACL Consumer Loan Trust III ("ACL Trust III"), a subsidiary of ACL.LH, formed on June 10, 2014, and American Consumer Lending III (Near-Prime), LLC, a subsidiary of ACL.L., (collectively with ACL Trust III, referred to as the "ACL III Subsidiaries"), formed on June 13, 2014, holds unsecured consumer loans purchased from LendingClub Corporation. ACL Consumer Loan Trust IV ("ACL Trust IV"), a subsidiary of ACL.LH, formed on March 23, 2015, and American Consumer Lending IV (Near-Prime), LLC, a subsidiary of ACL.L., (collectively with ACL Trust IV, referred to as the "ACL IV Subsidiaries"), formed on January 15, 2015, holds unsecured consumer loans originated by and purchased from LendingClub Corporation. ACL Patient Solutions Trust ("ACL PS"), a subsidiary of ACL.LH, formed on October 14, 2015, and ACL Patient Solutions Holdings, LLC, a subsidiary of ACL.L., formed on October 5, 2015, holds unsecured consumer loans from NBT Bank, National Association



**National Property REIT Corp.**  
**Notes to Combined Consolidated Financial Statements**

("NBT"). From October 20, 2015 to December 31, 2017 ACL PS acquired and held unsecured consumer loans as part of a loan purchase and sale agreement between ACL PS, NBT and Springstone Financial, LLC ("Springstone"), a wholly-owned subsidiary of LendingClub Corporation. ACL Consumer Loan Trust V ("ACL Trust V"), a subsidiary of ACLL, formed on October 16, 2015, holds unsecured consumer loans purchased from Avant II, LLC ("Avant") for the period November 17, 2015 to December 31, 2017. ACL Consumer Loan Trust VI ("ACL Trust VI"), a subsidiary of ACLLH, formed on April 27, 2016, and American Consumer Lending VI, LLC, a subsidiary of ACLL, (collectively with ACL Trust VI, referred to as the "ACL VI Subsidiaries"), formed on November 30, 2015, holds unsecured consumer loans purchased from LendingClub Corporation for the period May 1, 2016 to December 31, 2017. Murray Hill Securitization Holdings Limited ("Murray Hill"), a subsidiary of ACLL, formed on July 24, 2015, holds interest in Murray Hill Marketplace Trust 2016-LC1, a securitization of unsecured consumer loans purchased from LendingClub Corporation for the period October 13, 2016 to December 31, 2017. Lending Club Corporation and Springstone are hereafter collectively referred to as "Lending Club". American Consumer Lending VII, LLC, a subsidiary of ACLL, formed on October 5, 2017, holds unsecured consumer loans purchased from Prosper and NBT during the period July 28, 2015 to December 31, 2017.

NPH Guarantor, LLC was contributed to NMF on January 13, 2015 by the Company, its initial sole member. NPH Guarantor, LLC is the indemnitor of the ACL III Subsidiaries and ACL PS revolving credit facilities outlined in Note 11. There was no activity in NPH Guarantor, LLC from inception through December 31, 2017.

**2. Significant Accounting Policies**

**a. Principles of Reporting and Use of Estimates**

The accompanying combined consolidated financial statements have been prepared in accordance with U.S. Generally Accepted Accounting Principles ("GAAP"), which requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of any contingent assets and liabilities at the date of the combined consolidated financial statements and the reported amounts of revenues and expenses during the reported periods.

Management makes significant estimates regarding the allocation of a property's purchase price to the tangible and intangible assets and liabilities acquired, revenue recognition, and determining whether an asset is impaired. These estimates and assumptions are based on management's best estimates and judgment. Management evaluates its estimates and assumptions on an ongoing basis using historical experience and other factors, including the current economic environment.

As future events and their effects cannot be determined with precision, actual results could materially differ from those estimates.

**b. Basis of Consolidation and Transfers of Financial Assets**

The accompanying combined consolidated financial statements include our accounts and those of our subsidiaries, which are wholly-owned or controlled by us. All intercompany balances and transactions have been eliminated. A non-controlling interest in a consolidated subsidiary is defined as the portion of the equity in a subsidiary not attributable, directly or indirectly, to the Company. Non-controlling interests are required to be presented as a separate component of equity in the combined consolidated balance sheet and the presentation of net loss is modified to present the loss attributed to controlling and non-controlling interests.

For a variable interest entity ("VIE"), an entity is subject to consolidation if the equity investors either do not have sufficient equity at risk for the entity to finance its activities without additional subordinated financial support, are unable to direct the entity's activities or are not exposed to the entity's losses or entitled to its residual returns. VIEs that meet certain scope characteristics are required to be consolidated by their primary beneficiary. The primary beneficiary of a VIE is determined to be the party that has both the power to direct the activities of a VIE that most significantly impact the VIE's economic performance and the obligation to absorb losses of the VIE that could potentially be significant to the VIE or the right to receive benefits from the VIE that could potentially be significant to the VIE. This determination can sometimes involve complex and subjective analysis. We are required on an ongoing basis to assess whether we are the primary beneficiary of a VIE.

We may periodically enter into transactions in which we sell financial assets. Upon a transfer of financial assets, we may retain or acquire senior or subordinated interests in the related assets. In connection with such transactions, a determination must be made as to whether we, as the transferor, have surrendered control over transferred financial assets. That determination must consider our continuing involvement in the transferred financial assets, including all arrangements or agreements made contemporaneously with, or in contemplation of, the transfer, even if they were not entered into at the time of the transfer. The financial



**National Property REIT Corp.**  
**Notes to Combined Consolidated Financial Statements**

components approach under applicable GAAP limits the circumstances in which a financial asset, or portion of a financial asset, should be derecognized when the transferor has not transferred the entire original financial asset to an entity that is not consolidated with the transferor in the financial statements being presented and/or when the transferor has continuing involvement with the transferred financial asset. It defines the term "participating interest" to establish specific conditions for reporting a transfer of a portion of a financial asset as a sale.

From time to time, we may securitize unsecured consumer loans we hold if such securitization allows us access to better financing terms. Depending upon the structure of the securitization transaction, these transactions will be accounted for as either a "sale" and the loans will be removed from the combined consolidated balance sheet or, as a "financing" with the loans and financing reported on our combined consolidated balance sheet. Significant judgment may be exercised by us in determining whether a transaction should be recorded as a "sale" or a "financing."

In determining the accounting treatment to be applied to securitization transactions, we evaluate whether the entity used to facilitate the transactions was a VIE and, if so, whether the VIE should be consolidated. Based on our evaluations, we have concluded that one of our securitizations is a VIE that should be consolidated. The Company has determined that the other securitization that we participated in should not be consolidated since, among other things, we concluded that the transfer of the underlying assets qualifies as a sale.

**c. Purchase Accounting and Acquisitions of Real Estate**

In accordance with FASB ASC 805, "Business Combinations", the Company records the acquisition of real estate that will be used for the production of income as a business combination. All assets acquired and liabilities assumed in a business combination were measured at their acquisition date fair values. Acquisition costs are expensed as incurred. The Company assesses the acquisition date fair values of all tangible real estate assets, and identified lease intangibles, consisting of in-place leases, tenant relationships, deferred leasing costs, and above-market and below-market leases.

Real estate assets, including land, building, improvements, and furniture, fixtures and equipment are stated at historical cost less accumulated depreciation. Costs associated with the development, construction and improvement of the Company's real estate assets are capitalized as incurred. Costs incurred in making repairs and maintaining real estate assets are expensed as incurred, while major replacements and betterments, which improve or extend the useful life of the asset, are capitalized and depreciated over the estimated useful lives.

The Company records depreciation expense using the straight-line method over the useful lives of the respective assets. The estimated useful lives are as follows:

<u>Category</u>	<u>Term</u>
Building	18 to 51 years
Improvements	1 to 12 years
Furniture, fixtures, and equipment	3 to 17 years

Depreciation expense for the years ended December 31, 2017 and 2016 was \$62,490,185 and \$53,102,382, respectively, and is included in depreciation and amortization expense in the accompanying combined consolidated statements of operations.

The value of acquired land, buildings and improvements is estimated by formal appraisals, observed comparable sales transactions and information gathered during pre-acquisition due diligence activities. The valuation approach considers the value of the property as if it were vacant. The values of furniture, fixtures and equipment are estimated by calculating their replacement cost and reducing that value by factors based upon estimates of their remaining useful lives.

The value allocated to acquired lease intangibles is based on management's evaluation of the specific characteristics of each tenant's lease. Characteristics considered by management in allocating these values include the nature and extent of the existing business relationships with the tenant, growth prospects for developing new business with the tenant, the remaining term of the lease and the tenant's credit quality, among other factors.

The value allocable to the above-market or below-market component of an acquired in-place lease is determined based upon the present value, using a market discount rate, of the difference between (i) the

**National Property REIT Corp.**  
**Notes to Combined Consolidated Financial Statements**

contractual rents to be paid pursuant to the lease over its remaining term, and (ii) management's estimate of rents that would be paid using fair market rates over the remaining term of the lease. The amounts allocated to above or below-market leases are amortized on a straight-line basis as an increase or reduction to rental income over the remaining non-cancelable term of the respective leases. Amortization of above and below-market rents resulted in a net increase in rental income of \$295,293 and \$126,553 for the year ended December 31, 2017 and 2016, respectively.

The value of in-place leases and deferred leasing costs are amortized to expense over the remaining term of the respective leases, which range from less than a year to seventeen years. The amount allocated to acquire in-place leases is determined by calculating the estimated time to fill a hypothetically empty apartment complex to its stabilization level based on historical observed move-in rates for each property. The intangible assets are calculated by estimating the net cash flows of the in-place leases to be realized, as compared to the net cash flows that would have occurred had the property been vacant at the time of acquisition and subject to lease-up. The amount allocated to deferred leasing costs is determined by what the Company would have paid to a third party to secure a new tenant reduced by the expired term of the respective lease. The value of tenant relationships is amortized over the remaining initial lease term and expected renewals, which is thirty seven years. The amount allocated to tenant relationships is the benefit resulting from the likelihood of a tenant renewing its lease. Acquired intangible assets generally have no residual value. Amortization expense related to these assets was \$18,712,293 and \$6,541,431 for years ended December 31, 2017 and 2016, respectively.

**d. Impairment of Real Estate**

The Company reviews the carrying value of its real estate assets and intangibles for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. If such reviews indicate that the asset may be impaired, given that the carrying amount of an asset exceeds the sum of its expected future cash flows, on an undiscounted basis, the asset's carrying amount is written down to its fair value. Estimating future cash flows and fair values is highly subjective and such estimates could differ materially from actual results. For the years ended December 31, 2017 and 2016, the Company did not record any impairment charges related to real estate assets.

**e. Assets Held for Sale and Discontinued Operations**

The Company classifies certain real estate assets as held for sale on the combined consolidated balance sheets once the criteria, as defined by GAAP, have been met. Real estate assets to be disposed of are reported at the lower of their carrying amount or fair value minus cost to sell and are no longer depreciated. The Company reports discontinued operations when the disposal of real estate assets represents a strategic shift that has (or will have) a major effect on an entity's operations and financial results. No disposal met the definition of discontinued operations as of December 31, 2017 and 2016.

**f. Environmental Matters**

Under various federal, state and local environmental laws, statutes, ordinances, rules and regulations, an owner of real property may be liable for the costs of removal or remediation of certain hazardous or toxic substances at, on, in or under such property as well as certain other potential costs relating to hazardous or toxic substances. These liabilities may include government fines and penalties and damages for injuries to persons and adjacent property. Such laws often impose liability without regard to whether the owner knew of, or was responsible for, the presence or disposal of such substances. The Company recognizes a liability for environmental matters if it is probable a liability has been incurred and the amount of loss can be reasonably estimated. As of December 31, 2017 and 2016, the Company is not aware of any environmental matters that would have an impact on the combined consolidated financial statements.

**g. Fair Value Measurements**

In accordance with FASB ASC 820, "Fair Value Measurement and Disclosures," fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants, in the principal or most advantageous market considering the highest and best use of an asset or nonperformance risk related to a liability, at the measurement date. The Company uses the most observable inputs that are available to measure fair value. Observable inputs are inputs that the market participants would use in pricing the asset or liability developed based on market data obtained from sources independent of the Company. Unobservable inputs are inputs that reflect the Company's views about the assumptions market participants would use in pricing the asset or liability developed based on the best information available in the circumstances. As a basis for considering market participant assumptions in fair value measurements, FASB ASC 820-10 establishes a fair value hierarchy that distinguishes between market

**National Property REIT Corp.**  
**Notes to Combined Consolidated Financial Statements**

participant assumptions based on market data obtained from sources independent of the reporting entity (observable inputs that are classified within Levels 1 and 2 of the hierarchy) and the reporting entity's own assumptions about market participant assumptions (unobservable inputs classified within Level 3 of the hierarchy).

- Level 1 - quoted prices (unadjusted) in active markets that are accessible at the measurement date for assets or liabilities;
- Level 2 - observable prices that are based on inputs not quoted in active markets, but corroborated by market data; and
- Level 3 - unobservable inputs that are used when little or no market data is available.

The fair value hierarchy gives the highest priority to Level 1 inputs and the lowest priority to Level 3 inputs. In determining fair value, the Company utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs to the extent possible, as well as considering counterparty credit risk, where applicable, in the Company's assessment of fair value.

The Company carries its mortgages payable, debt related to consolidated VIE, and senior secured term loan at cost, net of unamortized discount, debt issuance costs, and associated amortization, on the accompanying combined consolidated balance sheets. The fair values of the Company's mortgages payable are estimated using a discounted cash flow analysis based upon indications of market pricing for similar types of instruments with the same remaining maturities and other valuation techniques as appropriate. Although the Company has determined that the majority of inputs used to value its debt fall within Level 2 of the fair value hierarchy, the credit valuation adjustments associated with its debt utilize Level 3 inputs, such as estimates of current credit spreads. The fair value of debt related to consolidated VIE is calculated using a yield analysis, the key unobservable input being the market yield, and is considered a level 3 measurement. The fair value of senior secured term loans is calculated using an enterprise value waterfall, the key unobservable input being fair value of the underlying collateral, and is considered a level 3 measurement. Accordingly, mortgages payable, debt related to consolidated VIE, and the senior secured term loan have been classified as Level 3 fair value measurements. Management estimates the fair values of the mortgages payable, debt related to consolidated VIE, and senior secured term loan were \$1,461,708,253, \$88,124,945, and \$553,079,958, respectively, as of December 31, 2017. Management estimates the fair values of the mortgages payable, debt related to consolidated VIE, and senior secured term loan were \$1,218,418,641, \$212,909,545, and \$625,485,383, respectively, as of December 31, 2016. Additionally, the carrying amounts of cash and cash equivalents, restricted cash, accounts receivable, due to/due from affiliates and accounts payable approximate their fair values. See Note 9 for additional disclosure around the Company's fair value measurements of the unsecured consumer loan portfolio, residual interests in securitizations, and revolving credit facilities.

**h. Fair Value of Financial Instruments**

Pursuant to Accounting Standards Codification ("ASC") 825, *Financial Instruments* ("ASC 825"), which provides entities with an option to report selected financial assets and liabilities at fair value, the Company has made an election to measure its unsecured consumer loans, residual interest in securitizations, and revolving credit facilities at fair value on the combined consolidated balance sheets. We elected to use the fair value option to align the measurement attributes of both our assets and liabilities while mitigating volatility in earnings from using different measurement attributes. Under this election, unsecured consumer loans charged off, recoveries, realized gains (losses), net increase or decrease in unrealized appreciation (depreciation) of the unsecured consumer loans, residual interest in securitizations, and revolving credit facilities are recorded as fair value adjustments on the combined consolidated statements of operations.

**i. Revenue Recognition**

Rental revenues from residential, student housing, and self-storage tenants are recognized on a contractual basis, as lease periods for these investments are short-term in nature. The Company recognized reimbursement for utilities and other expenses recoveries as other revenue when earned. Rental revenues from industrial and commercial tenants are recognized on a straight-line basis over the term of the lease. The industrial and commercial leases contain rental increases at specified intervals. The Company records as an asset, and includes in rental revenues, deferred rent receivable that will be received if the tenant makes all rent payments required through the expiration of the initial term of the lease. Deferred rent receivable in the accompanying combined consolidated balance sheets includes the cumulative difference between rental revenue recorded on a straight-line basis and rents received from the tenants in accordance with the respective lease terms.

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Minimum future rental receipts under the noncancelable portion of commercial and industrial tenant leases, assuming no new or re-negotiated leases, for the next five years is as follows: \$1,057,295 (2018), \$1,057,295 (2019), \$1,057,295 (2020), \$1,033,808 (2021), and \$1,033,808 (2022).

Interest income is recognized on an accrual basis, in accordance with the terms of the loan agreement, to the extent that such amounts are expected to be collected. Generally, our unsecured consumer loans are placed on non-accrual status when the loan is greater than 60 days contractually delinquent or charged off, which may occur if a borrower were to declare bankruptcy prior to a loan being 60 days delinquent, at which point the associated interest receivable balance is reversed against the interest income on the combined consolidated statements of operations. For residual interests in securitizations, interest income is recognized using the effective interest method. Under this method, we recognize as interest income, over the life of the securities, the excess of the cash flows expected to be collected over the securities' carrying value. We update our estimates of expected cash flows quarterly and recognize changes in the calculated effective interest rate on a prospective basis.

**j. Cash and Cash Equivalents**

The Company considers all highly liquid instruments with original maturities of three months or less from the date of purchase to be cash equivalents. Cash and cash equivalents includes funds deposited with financial institutions and short-term, highly liquid overnight investment in money market funds. As of December 31, 2017 and 2016, \$53,315 and \$48,496 of the cash and cash equivalents, respectively, disclosed on the combined consolidated balance sheets represents investments in money market funds, with the remainder held in deposit accounts, substantially all of which exceeded applicable insurance limits.

**k. Restricted Cash**

Restricted cash consists of cash escrowed under the operating agreements and mortgage agreements for debt service, real estate taxes, property insurance, and capital improvements and other restricted deposits. In addition, restricted cash includes funds deposited with Texas Capital Bank, Bank of New York Mellon, U.S. Bank National Association, Pacific Western Bank, Credit Suisse AG, Capital One, National Association ("Capital One"), and NBT in relation to the revolving credit facilities outlined in Note 11. As of December 31, 2017 and 2016, \$18,917,518 and \$25,091,496 of the restricted cash, respectively, disclosed on the combined consolidated balance sheets represents investments in money market funds.

**l. Unsecured Consumer Loans**

Unsecured consumer loans consist of individual loans purchased from various originators of unsecured consumer loans ("Lending Platforms") under terms of the Company's agreement with the respective platforms, who are sellers of the unsecured consumer loans that continue to service such loans. Unsecured consumer loans made through the Lending Platforms are issued by WebBank, an FDIC-insured, Utah chartered industrial bank, except for loans issued by NBT. After funding a loan, WebBank sells the loan to the Lending Platform, without recourse, in exchange for the principal amount of the loan. Loans issued by NBT are purchased by the Company as part of a loan purchase and sale agreement between ACL PS, NBT and Springstone. All loans purchased are unsecured obligations of individual borrowers with a fixed interest rate and loan terms set between 12 to 84 months. Unsecured consumer loans are recorded on the date purchased by the Company, which is generally at least fifteen days after origination. Unsecured consumer loans are charged off in the month that the loan becomes greater than 120 days contractually delinquent or in the month that the borrower has entered bankruptcy, at which point the outstanding principal amount is written off against the principal of the unsecured consumer loans on the consolidated balance sheets which results in a fair value adjustment on the combined consolidated statements of operations. Recoveries on charged off loans and sales of charged off loans to third parties are recorded as received, net of fees.

**m. Due from Lending Platforms**

Avant, LendingClub and Prosper are online marketplace Lending Platforms from which we purchase unsecured consumer loans. The Due from Avant, Inc. balance represents amounts owed to the Company related to reimbursements of bank fees and other miscellaneous credits. The Due from LendingClub Corporation and Due from Prosper Funding L.L.C amounts presented on the combined consolidated balance sheets, represent cash deposited at LendingClub and Prosper, respectively, for purchasing unsecured consumer loans. As of December 31, 2017 and 2016, \$0 and \$782,775, respectively, of the Due from LendingClub Corporation relates to cash on deposit that is committed to unsecured consumer loans that are in the process of being purchased.

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**n. Allowance for Doubtful Accounts**

The Company continuously monitors collections from its tenants and recognizes an allowance for uncollectible accounts based on a specific tenant collection issues that the Company has identified. When management has determined that receivables are uncollectible, they are written off against the allowance for doubtful accounts.

**o. Asset Management and Management Services**

Management fee expenses are recognized when incurred in accordance with the terms of each respective management agreement.

**p. Debt Issuance Costs**

The Company defers costs incurred in connection with obtaining financing and amortizes the costs using the straight-line method, which approximates the effective interest rate method, over the terms of the related debt as a component of interest expense. Debt issuance costs have been presented as a direct deduction to our mortgages payable, mortgages payable related to real estate assets held for sale, debt related to consolidated VIF, and senior secured term loans in the accompanying combined consolidated balance sheets. At December 31, 2017 and 2016, the Company had net debt issuance costs of \$10,520,077 and \$14,667,442, respectively. Amortization of debt issuance costs of \$5,894,021 and \$3,906,014 are included in interest expense in the combined consolidated statements of operations for the years ended December 31, 2017 and 2016, respectively.

**q. Non-controlling Interests**

Non-controlling interests are comprised of the Company's joint venture partners' interests in the joint ventures in real estate properties that the Company consolidates. The Company reports its joint venture partners' interests in its consolidated real estate joint ventures and other subsidiary interests held by third parties as non-controlling interests. The Company records these non-controlling interests at their initial fair value, adjusting the basis prospectively for their share of the respective consolidated investments' net income or loss and equity contributions and distributions. These non-controlling interests are not redeemable by the equity holders and are presented as part of permanent equity. Income and losses are generally allocated pro rata based on the respective ownership percentages until the venture reaches certain performance measures, at which time the other venture party will be entitled to preferred distributions (profit interests). No performance measures have been met as of December 31, 2017 and 2016.

**r. Income Taxes**

The Company elected to be taxed as a REIT for U.S. federal income tax purposes, under Sections 856 through 860 of the Internal Revenue Code of 1986, as amended (the Code). The Company believes it operates in such a manner as to qualify for treatment as a REIT for federal income tax purposes. Accordingly, the Company generally will not be subject to federal income tax, provided that distributions to its stockholders equal at least the amount of its taxable income. A REIT is subject to a number of organizational and operational requirements, including, among others, a requirement that it currently distributes at least 90% of its taxable income to stockholders, subject to certain adjustments. If the Company fails to qualify as a REIT in any taxable year without the benefit of certain relief provisions, it will be subject to federal and state income taxes on its taxable income at regular corporate income tax rates. Even if the Company qualifies for taxation as a REIT, the Company may be subject to certain state or local taxes on its income, property or net worth and federal income and excise taxes on its undistributed income. In addition, taxable income from non-REIT activities managed through the Company's taxable REIT subsidiaries ("TRS") will be fully subject to federal, state and local income taxes.

The Company accounts for TRS income taxes under the liability method as required by ASC Topic 740, "Income Taxes." Under the liability method, deferred income taxes are recognized for the temporary differences between the GAAP basis and tax basis of the TRS income, assets and liabilities. For the years ended December 31, 2017 and 2016, several of the Company's subsidiaries were considered taxable corporations for U.S. federal and state income tax purposes. The taxable U.S. corporate subsidiaries are subject to corporate level U.S. federal, state and local income tax on their net taxable income.

As of December 31, 2017, the Company's U.S. taxable subsidiaries had a U.S. federal net operating loss carryforward of \$33,913,905, which may be carried forward and applied against future federal taxable income, which will begin to expire beginning with the tax year ended December 31, 2034. The Company's taxable subsidiaries also had state net operating loss carryforwards of \$16,666,410, which may be carried



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forward and applied against future applicable state taxable income, which will begin to expire over various periods (depending on each jurisdiction), beginning with the tax year ended December 31, 2024.

s. **Concentration of Credit Risk**

In the normal course of its business, the Company encounters credit risk. Financial instruments that potentially subject the Company to significant concentrations of credit risk consist primarily of cash and cash equivalents, restricted cash, principal and interest outstanding on unsecured consumer loans, amounts deposited with each of the Company's Lending Platforms. Credit risk represents the risk that we would incur if the counterparties failed to perform pursuant to the terms of their agreements with us.

t. **Servicing, Collection and Upfront Fees**

The Company incurs a monthly servicing fee for each outstanding unsecured consumer loan, which is payable to the Lending Platforms for managing payments from borrowers and maintaining loan account portfolios. The Company incurs collection fees on amounts recovered from delinquent loans, which is payable to the Lending Platforms. The Company incurs an upfront fee on unsecured consumer loans purchased from Avant. All servicing, collection and upfront fees are expensed as incurred.

**3. Recent Real Estate Transactions**

*Acquisition of Non-controlling Interest in Real Estate Joint Ventures*

On June 30, 2017, the Company paid \$2,030,023 in cash consideration to acquire the 5% non-controlling limited partner interest in the Resort joint venture, which owns multi-family property with a total of 1,520 units located in Pembroke, Florida. The Company now owns all of the interests in the Resort joint venture and its underlying apartment community. As the Company consolidated the joint venture into its financial statements prior to this transaction, the transaction has been accounted for as an equity transaction. In accordance with GAAP, the Company recognized the \$439,084 of consideration paid in excess of the non-controlling interest balance as a reduction of additional paid-in capital within the combined consolidated statements of changes in equity.

On June 30, 2017, the Company paid \$413,416 in cash consideration to acquire the 7% non-controlling limited partner interest in the Bartram Park joint venture, which owns multi-family property with a total of 323 units located in Jacksonville, Florida. The Company now owns all of the interests in the Bartram Park joint venture and its underlying apartment community. As the Company consolidated the joint venture into its financial statements prior to this transaction, the transaction has been accounted for as an equity transaction. In accordance with GAAP, the Company recognized the \$40,418 of consideration paid in excess of the non-controlling interest balance as a reduction of additional paid-in capital within the combined consolidated statements of changes in equity.

On June 30, 2017, the Company paid \$188,244 in cash consideration to acquire the 7% non-controlling limited partner interest in the Atlantic Beach joint venture, which owns multi-family property with a total of 204 units located in Atlantic Beach, Florida. The Company now owns all of the interests in the Atlantic Beach joint venture and its underlying apartment community. As the Company consolidated the joint venture into its financial statements prior to this transaction, the transaction has been accounted for as an equity transaction. In accordance with GAAP, the Company recognized the \$2,598 of consideration paid in excess of the non-controlling interest balance as a reduction of additional paid-in capital within the combined consolidated statements of changes in equity.

*Acquisition of Real Estate Assets Held for Investment*

During 2017 and 2016, the Company acquired the following properties:

- On November 8, 2017, the Company, together with a joint venture partner, acquired two multi-family properties located in Southfield, Michigan for an aggregate purchase price of \$68,500,000 exclusive of acquisition and closing costs. For the purchase of these properties, the joint venture obtained bank financing of \$58,229,000. On the date of acquisition, the fair value of the non-controlling interest in the joint venture was \$1,285,027.
- On October 31, 2017, the Company, together with a joint venture partner, acquired two multi-family properties located in Jacksonville, Florida for an aggregate purchase price of \$111,000,000 exclusive of acquisition and closing costs. For the purchase of these properties, the joint venture obtained bank financing of \$88,800,000. On the date of acquisition, the fair value of the non-controlling interest in the joint venture was \$2,187,085.
- On January 30, 2017, the Company, together with a joint venture partner, acquired a multi-family property located in Laurel, Maryland for an aggregate purchase price of \$187,250,000 exclusive of acquisition and closing costs. For the purchase of this property, the joint venture obtained bank financing of \$153,580,000. On the date of acquisition, the fair value of the non-controlling interest in the joint venture was \$3,351,279.

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- On December 7, 2016, the Company, together with a joint venture partner, acquired a multi-family property located in Franklin, Massachusetts for an aggregate purchase price of \$64,750,000 exclusive of acquisition and closing costs. For the purchase of this property, the joint venture obtained bank financing of \$51,800,000. On the date of acquisition, the fair value of the non-controlling interest in the joint venture was \$2,298,750.
- On September 28, 2016, the Company, together with a joint venture partner, acquired eight student housing properties located at Division I universities in five states around the country for an aggregate purchase price of \$250,000,000 exclusive of acquisition and closing costs. For the purchase of these properties, the joint venture obtained bank financing of \$189,047,521. On the date of acquisition, the fair value of the non-controlling interest in the joint venture was \$25,816,538.

The acquisitions listed below have been accounted for as a business combination. The purchase price was allocated to the acquired assets and liabilities based on their estimated fair values at the date of acquisition. The Company allocated the purchase price of the properties acquired during 2017 and 2016 as follows:

Property	Land	Building	Improvements	FF&E	Lease Intangibles <sup>(1)</sup>	Total Purchase Price
<b>2017 Acquisitions:</b>						
Seasons	\$ 31,584,720	\$ 141,172,597	\$ 4,873,956	\$ 6,488,490	\$ 3,130,257	\$ 187,250,000
Villages of Baymeadows	11,550,923	73,946,082	4,620,369	3,278,646	2,303,980	95,700,000
Casa del Mar	1,650,205	12,427,468	346,339	579,695	366,291	15,300,000
Sutton Place	5,075,895	41,896,273	1,198,475	2,678,588	1,200,769	52,000,000
Silver Oaks	2,257,376	12,185,833	469,454	1,058,769	528,568	16,500,000
<b>Total 2017:</b>	<b>\$ 52,119,119</b>	<b>\$ 281,628,253</b>	<b>\$ 11,508,573</b>	<b>\$ 13,984,188</b>	<b>\$ 7,509,867</b>	<b>\$ 366,750,000</b>
<b>2016 Acquisitions:</b>						
Union Place	\$ 3,088,568	\$ 56,490,906	\$ 1,982,661	\$ 2,391,149	\$ 796,716	\$ 64,750,000
Sterling Urison	6,018,111	41,376,757	1,427,454	1,523,260	3,120,057	53,495,639
Hawks Ridge	3,810,070	25,920,474	796,544	1,082,156	2,467,245	34,106,489
Islander Village	706,435	11,026,080	579,008	489,252	830,536	13,631,309
Campus Quarters	1,152,021	14,496,265	1,010,067	690,541	1,056,019	18,404,913
District on Luther	4,074,120	28,615,840	2,539,865	1,741,491	4,888,944	41,860,260
West 22	8,256,151	40,800,746	3,533,815	1,511,188	3,573,764	57,625,164
Legacy	864,016	4,800,088	486,752	798,159	1,046,419	7,995,414
University Crossing	3,264,060	15,264,279	1,270,056	1,241,183	1,891,234	22,880,812
<b>Total 2016:</b>	<b>\$ 31,293,550</b>	<b>\$ 238,791,435</b>	<b>\$ 13,576,202</b>	<b>\$ 11,468,379</b>	<b>\$ 19,620,434</b>	<b>\$ 314,750,000</b>

*(1) Lease intangibles include intangible assets and liabilities related to above and below market rents, net.*

The weighted average amortization period of acquired in-place leases, above-market leases, and below-market leases was approximately 7 months and 10 months for the years ended and December 31, 2017 and 2016, respectively.

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Summarized information regarding properties sold during the years ended December 31, 2017 and 2016, is set forth in the table below:

Property	Disposition Date	Asset Type	Gross Sale Price	Gain on Sale
<b>2017 Dispositions:</b>				
Bexley	1/18/17	Multifamily	\$ 54,975,000	\$ 28,424,279
Mission Gate	6/15/17	Multifamily	65,400,000	21,600,326
Plantations at Hillcrest	8/29/17	Multifamily	9,860,000	3,368,212
<b>Total 2017:</b>			<b>\$ 130,235,000</b>	<b>\$ 53,392,817</b>
<b>2016 Dispositions:</b>				
Abbingdon	10/28/16	Multifamily	\$ 37,000,000	\$ 16,698,046
<b>Total 2016:</b>			<b>37,000,000</b>	<b>16,698,046</b>

**4. Real Estate Assets**

The Company's ownership interests in real estate properties range from 64% to 100% via either direct ownership or ownership of a property owning entity. Through its ownership interests, the Company controls and therefore consolidates the properties and property owning entities. The interest owned by the other joint venture partner is reflected as non-controlling interest in these combined consolidated financial statements.

The Company's real estate assets consisted of the following as of December 31, 2017 and 2016:

Property	Acquisition Date	Ownership Percentage	Asset Type	Location	Real Estate Assets, Net of Accumulated Depreciation	
					2017	2016
File of Chickens	10/24/2012	100.0%	Industrial	Forest Park, GA	\$ 4,892,705	\$ 3,096,768
Amber's	1/17/2013	97.7%	Multi-Family	Tampa, FL	22,566,237	56,460,439
Lakota Place	4/30/2013	93.2%	Multi-Family	Tampa, FL	21,921,527	22,551,261
Arlington Park	5/8/2013	93.2%	Multi-Family	Marietta, GA	12,661,967	12,246,702
The Osborn	6/24/2013	100.0%	Multi-Family	Norbrook Pines, FL	107,308,539	212,581,321
Reddy	1/11/2013	94.0%	Multi-Family	Marietta, GA	—	25,348,275
Timkov Ridge	1/15/2013	93.3%	Multi-Family	Pensacola, FL	2,040,283	2,008,527
Crestview at Oaiteigh	1/15/2013	99.2%	Multi-Family	Pensacola, FL	15,267,261	15,721,239
Inverness Lakes	1/15/2013	94.3%	Multi-Family	Mobile, AL	25,772,531	23,572,212
Kings Mill	1/15/2013	93.3%	Multi-Family	Pensacola, FL	17,866,529	18,324,194
Plantations at Pine Lake	1/15/2013	99.3%	Multi-Family	Tallahassee, FL	15,669,691	6,203,276
Veranda at Rocky Ridge	1/15/2013	99.3%	Multi-Family	Yonkers Hills, AL	13,170,391	12,176,825
Matthews Reserve	1/15/2013	90.0%	Multi-Family	Matthews, NC	9,692,084	9,266,498
City West	1/19/2013	90.0%	Multi-Family	Orlando, FL	20,439,848	20,639,785
Winings Corner	1/19/2013	90.0%	Multi-Family	Smyrna, GA	31,122,724	31,977,619
Central Park	1/19/2013	90.0%	Multi-Family	Altamonte Springs, FL	22,125,940	22,821,665
Mission Gate	1/19/2013	80.0%	Multi-Family	Flora, TX	—	12,156,259
St. Maria	1/19/2013	90.0%	Multi-Family	Coppell, TX	65,269,141	66,328,052
Inshwood Village	12/2/2012	92.6%	Multi-Family	Stockbridge, GA	22,311,630	22,585,649
Mansney Village	12/2/2012	99.6%	Multi-Family	Jackson, GA	9,943,657	10,228,950
Hickory Creek	12/12/2012	92.6%	Multi-Family	Waynes, GA	4,058,255	4,276,288
Mansons Springs	12/12/2012	92.6%	Multi-Family	College Park, GA	11,020,160	11,289,629
Meadow View	12/12/2012	92.6%	Multi-Family	College Park, GA	12,662,242	12,327,181
Deathtree Landing	12/12/2012	92.6%	Multi-Family	Fairburn, GA	14,335,180	14,650,037
Indigo	12/12/2012	100.0%	Multi-Family	Irlostonville, FL	32,180,743	33,286,983
Plantations at Hillcrest	1/17/2014	99.2%	Multi-Family	Mobile, AL	—	6,127,284
Crestview at Candover	1/13/2014	99.2%	Multi-Family	Pensacola, FL	7,116,695	7,456,428
Island Club	1/3/2014	100.0%	Multi-Family	Altamonte Beach, FL	10,981,632	11,490,130
Taco Bell, Okc	6/4/2014	100.0%	Commercial	Yukon, OK	1,700,787	1,150,519
Taco Bell, MO	6/4/2014	100.0%	Commercial	Marshall, MO	1,355,280	1,414,204
Flowerfield	8/19/2014	85.0%	Self-Storage	Chesapeake, MD	4,812,905	4,997,172
Wyoming	8/19/2014	85.0%	Self-Storage	Wyoming, NJ	4,156,299	4,303,083
Grand Rapids	8/19/2014	85.0%	Self-Storage	Grand Rapids, MI	6,289,200	6,111,002
Westland	8/19/2014	85.0%	Self-Storage	Westland, MI	4,127,305	4,308,322



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Property	Acquisition Date	Ownership Percentage	Asset Type	Location	Real Estate Assets, Net of Accumulated Depreciation	
					2017	2016
State Street	8/28/2014	85.0%	Self-Storage	Ann Arbor, MI	3,075,310	3,012,114
Jackson	8/28/2014	85.0%	Self-Storage	Ann Arbor, MI	7,511,854	7,756,673
Kalamazoo	8/28/2014	85.0%	Self-Storage	Kalamazoo, MI	2,053,811	2,170,043
Canterbury	9/9/2014	97.5%	Multi-Family	Fort Wayne, IN	68,673,075	73,497,430
Abree Lakes	9/30/2014	72.7%	Multi-Family	Cana, Winchester, OH	11,811,398	12,423,755
Broussedge	9/30/2014	72.7%	Multi-Family	Reynoldsburg, OH	11,001,035	11,253,895
Reserve at Abree Lakes	9/30/2014	72.7%	Multi-Family	Cana, Winchester, OH	25,234,473	25,638,073
Lakes Edge	9/30/2014	72.7%	Multi-Family	Packardtown, OH	9,666,991	10,290,161
Sunbury Ridge	9/30/2014	72.7%	Multi-Family	Columbus, OH	12,479,445	12,952,291
Stouderedge	9/30/2014	72.7%	Multi-Family	Blacklick, OH	16,520,040	17,595,256
Jefferson Chase	9/28/2014	72.7%	Multi-Family	Blacklick, OH	13,033,759	13,715,354
Lake Ridge	10/29/2014	72.7%	Multi-Family	HE Ward, OH	7,153,506	7,700,911
Okemos	10/6/2015	85.0%	Self-Storage	Okemos, MI	6,046,456	6,318,497
Lansing West	10/6/2015	85.0%	Self-Storage	Lansing West, MI	1,460,439	1,515,228
Novi	10/6/2015	85.0%	Self-Storage	Novi, MI	5,622,397	5,820,717
Lake Orion	10/6/2015	85.0%	Self-Storage	Lake Orion, MI	5,846,264	6,000,458
Ypsilanti	10/6/2015	85.0%	Self-Storage	Ypsilanti, MI	3,074,576	3,106,308
Orchard Village	11/3/2015	80.0%	Multi-Family	Aurora, IL	22,991,405	23,334,261
Shelton Commons	9/28/2016	64.2%	Student Housing	Turlock, CA	48,783,535	50,079,115
Dawks Ridge	9/28/2016	64.2%	Student Housing	Iowa City, IA	31,156,466	31,393,944
Islander Village	9/28/2016	64.2%	Student Housing	Corpus Christi, TX	17,831,770	17,735,013
Corpus Quarters	9/28/2016	64.2%	Student Housing	Corpus Christi, TX	16,696,536	17,225,592
Divina on Luther	9/28/2016	64.2%	Student Housing	College Station, TX	27,411,436	26,660,313
West 22	9/28/2016	64.2%	Student Housing	Kennesaw, GA	52,204,745	53,725,369
Legacy	9/28/2016	64.2%	Student Housing	Shawboro, GA	7,548,787	6,917,923
University Crossing	9/28/2016	64.2%	Student Housing	Manhattan, KS	21,771,161	20,895,094
Charm Place	12/7/2016	85.0%	Multi-Family	Franklin, MA	62,276,510	62,815,509
Seavox	1/30/2017	92.5%	Multi-Family	Laurel, MD	183,241,985	—
Villages of Gaymeadows	6/30/2017	92.5%	Multi-Family	Jacksonville, FL	73,547,550	—
Casa del Mar	10/31/2017	92.5%	Multi-Family	Jacksonville, FL	15,058,462	—
Sutton Place	11/8/2017	92.5%	Multi-Family	Smallfield, MI	20,824,042	—
Silver Chase	11/8/2017	92.5%	Multi-Family	Southfield, MI	16,383,540	—
<b>Total net real estate assets</b>					<b>\$ 1,606,023,095</b>	<b>\$ 1,355,651,499</b>

**5. Lease Intangibles**

Lease intangibles consist of the following:

	As of December 31, 2017			As of December 31, 2016		
	Lease Intangibles	Accumulated Amortization	Lease Intangibles, net	Lease Intangibles	Accumulated Amortization	Lease Intangibles, net
In-place leases	\$ 49,792,424	\$ (45,514,029)	\$ 4,278,395	\$ 47,182,020	\$ (32,346,147)	\$ 14,835,873
Above-market leases	106,002	(106,002)	—	106,002	(31,801)	74,201
Below-market leases	(527,848)	527,848	—	(527,848)	158,354	(369,494)
Tenant relationships	249,208	(33,253)	205,955	\$ 239,208	\$ (26,817)	212,391
Deferred leasing costs	645,325	(180,122)	465,203	635,325	(141,609)	493,716
<b>Total</b>	<b>\$ 49,645,111</b>	<b>\$ (45,305,558)</b>	<b>\$ 4,339,553</b>	<b>\$ 47,634,707</b>	<b>\$ (32,388,020)</b>	<b>\$ 15,246,687</b>

Future amortization expense for the Company's lease intangibles is as follows: \$3,169,033 (2018), \$95,686 (2019), \$95,686 (2020), \$95,686 (2021), \$95,686 (2022), and \$787,776 (thereafter).

**National Property REIT Corp.**  
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**6. Real Estate Assets Held for Sale**

As of December 31, 2017, the real estate assets held by the Central Park property met the criteria to be classified as held for sale. The Company entered into a purchase and sale agreement with an unrelated third party on November 14, 2017. The sale closed on January 18, 2018, resulting in the recognition of a gain in the amount of \$20,015,513.

As of December 31, 2017, the real estate assets held by the St. Marin property met the criteria to be classified as held for sale. The Company entered into a purchase and sale agreement with an unrelated third party on December 5, 2017, amended on January 9, 2018. The sale closed on February 22, 2018, resulting in the recognition of a gain in the amount of \$28,373,936.

Below is a summary of the major classes of real estate assets classified as held for sale:

Real Estate Assets Held for Sale	December 31, 2017	December 31, 2016
Land	\$ 6,140,942	\$ 3,718,768
Building and improvements	100,570,131	25,196,210
Furniture, fixtures, and equipment	2,359,724	1,276,097
Less: accumulated depreciation	(11,675,715)	(4,252,800)
<b>Total net real estate assets held for sale</b>	<b>\$ 97,395,082</b>	<b>\$ 25,938,275</b>

**7. Common Control Merger**

Effective May 23, 2016, the Company completed the Merger with the Affiliated REITs, with the Company continuing as the surviving corporation. The Affiliated REITs held an investment portfolio of real estate assets owned directly or through joint ventures. Substantially all of the Affiliated REITs revenues are derived from real estate operations. As the Company and the Affiliated REITs were under common control at the time of the Merger, the results of operations have been combined from the date common control began.

Separate results for the Company, APRC and UPRC for the twelve months ended December 31, 2016 are as follows:

	For the Year Ended December 31, 2016			
	NPRC	APRC	UPRC	Total
Total revenues	\$ 209,389,681	11,651,730	20,432,406	\$ 331,473,817
Total costs and expenses	146,097,097	9,676,778	18,778,490	174,552,365
Total other (expense) income, net	(234,379,938)	(5,600,462)	(7,536,631)	(247,517,031)
Net loss before income tax	(81,087,354)	(3,625,510)	(5,882,715)	(90,595,579)
Income tax expense	(14,757)	—	—	(14,757)
<b>Net loss</b>	<b>\$ (81,102,111)</b>	<b>(3,625,510)</b>	<b>(5,882,715)</b>	<b>\$ (90,610,336)</b>

**8. Unsecured Consumer Loans and Residual Interests in Securitizations**

The Company purchased \$520,691,146 and \$580,599,910 aggregate principal of unsecured consumer loans from LendingClub, NBT, and Prosper during the year ended December 31, 2017 and 2016 respectively. On June 22, 2017, the Company sold 21,926 of its LendingClub loans with a total cost of \$151,472,878 held in ACL III, ACL IV and ACL VI to the Consumer Loan Underlying Bond Grantor Trust 2017-NP1 ("CLUB 2017-NP1") for proceeds of \$153,266,941, net of related transactions expenses, and a trust certificate representing 42.71% interest in the CLUB 2017-NP1 trust series, realizing a gain of \$1,794,063. On October 22, 2017, the Company purchased an additional 4.94% interest in the equity certificate of the CLUB 2017-NP1 trust series for \$3,480,000. The Company's portfolio of unsecured consumer loans consists of a large number of small balance homogeneous loans. As of December 31, 2017, the portfolio consisted of 105,315 loans having an average outstanding principal balance of \$6,076 and a maximum balance of \$50,000 at the time of origination. As of December 31, 2017, the unsecured consumer loans were issued with stated interest rates ranging from 4.0% to 36.0% with a weighted average interest rate of 24.8% based on outstanding principal of the unsecured consumer loans. As of December 31, 2016, the portfolio consisted of 113,282 loans having an average outstanding principal balance of \$7,033 and maximum balance of \$50,000. As of December 31, 2016, the unsecured consumer loans were issued with stated interest rates ranging from 4.0% to 36.0% with a weighted average interest rate of 23.4% based on outstanding principal of the unsecured consumer loans.

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The ability of the borrowers of the unsecured consumer loans to repay the Company are affected by their continuing financial stability. The credit risk of the unsecured consumer loans and the residual interest in securitizations is considered to be higher than for secured loans.

The Lending Platforms classify the unsecured consumer loans into separately identified pools by rating ("Rating"), which indicates the expected level of risk associated with the loan. Each Rating corresponds to an estimated average annualized loss rate range as of the time the Rating is given. The estimated annual loss rate for each loan is based primarily on a proprietary custom risk model developed by each of the Lending Platforms using their respective historical data, borrower specific factors and Fair Isaac Corporation score ("FICO score") obtained from a credit reporting agency. As part of the Rating determination, the Lending Platforms also consider borrower specific factors such as, but not limited to, credit related inquiries in the last six months and debt-to-income ratio.

Ratings are not consistent between Lending Platforms; as such the Company stratifies its unsecured consumer loans into separately identified pools based on the FICO score obtained from a credit reporting agency and as provided by each Lending Platform at origination. The stratified pools are designated "Super Prime," "Prime" or "Near Prime," and defined as follows: Super Prime loans as loans to borrowers with a FICO score of 720 or greater, Prime Loans as loans to borrowers with a FICO score of between 660 and 719 and Near Prime loans as loans to borrowers with a FICO score of between 659 and 600.

The following table summarizes the Company's unsecured consumer loans held as of December 31, 2017:

Category	Outstanding Principal	Fair Value	Interest Rate Range	Weighted Average Interest Rate*
Super Prime	\$ 28,643,862	\$ 27,730,473	4.0% - 30.0%	13.3%
Prime	90,104,451	85,268,067	4.0% - 36.0%	16.0%
Near Prime	521,138,923	483,149,470	6.0% - 36.0%	26.9%
<b>Total Loans</b>	<b>\$ 639,887,236</b>	<b>\$ 596,148,010</b>		<b>24.8%</b>

The following table summarizes the unsecured consumer loans held as of December 31, 2016:

Category	Outstanding Principal	Fair Value	Interest Rate Range	Weighted Average Interest Rate*
Super Prime	\$ 54,946,564	\$ 53,641,384	4.0% - 34.0%	11.7%
Prime	156,404,965	149,536,540	5.3% - 36.0%	15.4%
Near Prime	585,331,147	556,411,497	6.0% - 36.0%	26.7%
<b>Total Loans</b>	<b>\$ 796,682,676</b>	<b>\$ 759,589,421</b>		<b>23.4%</b>

\* Based on outstanding principal of the unsecured consumer loans.

The following table summarizes the delinquency status of the unsecured consumer loans:

Delinquency Status	December 31, 2017			December 31, 2016		
	Outstanding Principal	Fair Value	% of Total	Outstanding Principal	Fair Value	% of Total
Current	\$ 573,760,325	\$ 565,138,510	94.80%	\$ 732,441,199	\$ 728,328,330	95.88%
1 - 30 days	29,821,122	23,949,424	4.02%	28,801,716	23,898,297	3.15%
31 - 60 days	13,497,725	3,697,017	0.62%	13,269,119	4,125,694	0.54%
61 - 90 days	11,988,876	2,140,942	0.36%	11,856,214	2,121,720	0.28%
91 - 120 days	10,819,188	1,222,117	0.20%	10,214,428	1,115,390	0.15%
<b>Total Loans</b>	<b>\$ 639,887,236</b>	<b>\$ 596,148,010</b>	<b>100.00%</b>	<b>\$ 796,682,676</b>	<b>\$ 759,589,421</b>	<b>100.00%</b>



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**9. Fair Value of Financial Instruments**

The fair value of a financial instrument is defined as the price that we would receive upon selling an asset or pay to transfer a liability in an orderly transaction to an independent buyer in the principal or most advantageous market in which that financial instrument is transacted.

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.

*Unsecured Consumer Loans, Residual Interests in Securitizations, and Revolving Credit Facilities at Fair Value*

All of our financial instruments measured at fair value on a recurring basis were classified as Level 3 as of December 31, 2017 and 2016. We did not transfer any assets or liabilities in or out of Level 3 during the years ended December 31, 2017 and 2016. Transfers between levels, should they occur, will be recognized at the beginning of the quarter during which the asset or liability was transferred.

The unsecured consumer loans, residual interests in securitizations, and revolving credit facilities do not trade in an active market with readily observable prices. For the unsecured consumer loans and residual interests in securitizations, fair value is estimated by using a discounted cash flow methodology based upon significant unobservable inputs, such as loss adjusted discount rates and projected loss rates. The loss adjusted discount rates are used to discount the estimated future cash flows expected to be received from the underlying unsecured consumer loans, which includes both future principal and interest payments. The projected loss rates are based on the perceived credit risk inherent in each Rating of the unsecured loan portfolio. For the revolving credit facilities, fair value is estimated using a yield analysis methodology based upon significant unobservable inputs, such as market yield. Significant increases or decreases in the unobservable inputs, such as loss adjusted discount rates, projected loss rates or market yield would result in a decrease or increase, respectively, in the fair value measurement. See Notes 8 and 9 for details of the unsecured consumer loans.

The following table shows the fair value of our unsecured consumer loans, residual interest in securitizations, and revolving credit facilities disaggregated into the three levels of the ASC 820, *Fair Value Measurement* ("ASC 820") valuation hierarchy as of December 31, 2017.

	Level 1	Level 2	Level 3	Total
<b>Assets</b>				
Unsecured consumer loans	\$ —	\$ —	\$ 596,148,010	\$ 596,148,010
Residual interests in securitizations	—	—	33,689,314	33,689,314
<b>Total investments at fair value</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ 629,837,324</b>	<b>\$ 629,837,324</b>
<b>Liabilities</b>				
Revolving credit facilities	\$ —	\$ —	\$ 264,130,359	\$ 264,130,359

The following table shows the fair value of our unsecured consumer loans and revolving credit facilities disaggregated into the three levels of the ASC 820 valuation hierarchy as of December 31, 2016.

	Level 1	Level 2	Level 3	Total
<b>Assets</b>				
Unsecured consumer loans	\$ —	\$ —	\$ 759,589,421	\$ 759,589,421
<b>Liabilities</b>				
Revolving credit facilities	\$ —	\$ —	\$ 217,579,369	\$ 217,579,369

Refer to Note 8 for details of the unsecured consumer loans.

**National Property REIT Corp.**  
**Notes to Combined Consolidated Financial Statements**

The following table shows the aggregate changes in the fair value of our Level 3 unsecured consumer loans and residual interests in securitizations during the years ended December 31, 2017 and 2016.

	Unsecured Consumer Loans	Residual Interests in Securitizations
<b>Fair Value at December 31, 2015</b>	<b>\$ 611,374,694</b>	<b>\$ —</b>
Purchases	580,599,910	—
Principal payments	(328,436,658)	—
Proceeds from recoveries and sales of charged off loans	(5,469,337)	—
<b>Carrying value before fair value adjustments</b>	<b>858,068,609</b>	<b>—</b>
Fair value adjustments:		
Net increase in unrealized depreciation	(27,931,689)	—
Charge offs	(76,016,836)	—
Recoveries	5,469,337	—
<b>Fair value adjustments</b>	<b>(98,479,188)</b>	<b>—</b>
<b>Fair Value at December 31, 2016</b>	<b>759,589,421</b>	<b>—</b>
Purchases	520,691,146	33,949,823
Sales	(153,266,941)	—
Principal payments	(407,993,257)	—
Proceeds from recoveries and sales of charged off loans	(10,683,136)	—
Accretion of residual interests	—	1,945,931
<b>Carrying value before fair value adjustments</b>	<b>708,337,233</b>	<b>35,895,754</b>
Fair value adjustments:		
Net increase in unrealized depreciation	(6,645,971)	(2,206,440)
Realized gain on sale into securitization	1,794,063	—
Charge-offs	(118,020,451)	—
Recoveries	10,683,136	—
<b>Fair value adjustments</b>	<b>(112,189,223)</b>	<b>(2,206,440)</b>
<b>Fair Value at December 31, 2017</b>	<b>\$ 596,148,010</b>	<b>\$ 33,689,314</b>

For the year ended December 31, 2017, the net increase in unrealized depreciation on the unsecured consumer loans was \$(47,413,109) for unsecured consumer loans still held as of December 31, 2017. For the year ended December 31, 2016, the net increase in unrealized depreciation on the unsecured consumer loans was \$(36,144,978) for unsecured consumer loans still held as of December 31, 2016.

The unsecured consumer loans noted a net increase in unrealized depreciation of \$(6,645,971) and \$(27,931,689), for the years ended December 31, 2017 and 2016, respectively. The residual interests in securitizations noted a net increase in unrealized depreciation of \$(2,206,440) for the year ended December 31, 2017. The unrealized depreciation which is part of the fair value adjustments included in net loss on the consolidated statements of operations is primarily attributable to instrument-specific changes in estimated future credit losses (i.e. default losses). Pools of unsecured consumer loans, based on purchase month and Rating, that are projected to have higher future default losses than previously estimated have lower expected future cash flows over the remaining life, which reduces the estimated fair value. Conversely, the pools of unsecured consumer loans that are projected to have lower future default losses than previously estimated have higher expected future cash flows over the remaining life, which increases the estimated fair value. Changes in the unobservable inputs, such as loss adjusted discount rates and projected loss rates, may have a significant impact on the fair value of unsecured consumer loans. These unobservable inputs will (in isolation) have a directionally opposite impact on the fair value of unsecured consumer loans for a given change in that input.

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**Notes to Combined Consolidated Financial Statements**

The following table shows the aggregate changes in the fair value of our Level 3 revolving credit facilities during the year ended December 31, 2017 and 2016.

	Revolving Credit Facilities
<b>Fair Value at December 31, 2015</b>	<b>\$ 349,574,835</b>
Borrowings	290,181,851
Principal payments	(422,177,317)
<b>Carrying value before fair value adjustments</b>	<b>217,579,369</b>
Net change in fair value	—
<b>Fair Value at December 31, 2016</b>	<b>217,579,369</b>
Borrowings	357,756,148
Principal payments	(311,205,158)
<b>Carrying value before fair value adjustments</b>	<b>264,130,359</b>
Net change in fair value	—
<b>Fair Value at December 31, 2017</b>	<b>\$ 264,130,359</b>

*Financial Instruments Not Recorded at Fair Value*

The fair values of the Company's assets and liabilities, which qualify as financial instruments, approximate the carrying amounts presented on the combined consolidated balance sheets, except for debt related to consolidated VIE and senior secured term loans, which have been presented in the table below:

	December 31, 2017		December 31, 2016	
	Carrying Value	Estimated Fair Value	Carrying Value	Estimated Fair Value
<b>Liabilities</b>				
Debt related to consolidated VIE	\$ 87,198,587	\$ 88,124,945	\$ 208,872,814	\$ 212,909,545
Senior secured term loans	\$ 552,753,007	\$ 553,079,958	\$ 624,003,996	\$ 625,485,383

The ranges of unobservable inputs used in the fair value measurement of our Level 3 financial instruments as of December 31, 2017 and 2016 were as follows:

December 31, 2017					
Assets/Liabilities	Fair Value	Valuation Technique	Unobservable Input	Weighted Average	Range
Unsecured consumer loans	\$596,148,010	Discounted cash flow	Loss-adjusted discounted rate	11.48%	3.00% - 14.50%
			Projected loss rate	7.82%	0.01% - 22.71%
			Recovery rate	9.48%	7.50% - 11.00%
Residual interests in securitizations	\$ 33,689,314	Discounted cash flow	Cumulative prepay % of cutoff balance	20.84%	20.64% - 21.05%
			Cumulative default % of cutoff balance	22.34%	21.27% - 23.40%
			Severity	90.00%	90.00% - 90.00%
			Discount rate	14.01%	14.01% - 14.01%
Revolving credit facilities	\$264,130,359	Yield analysis	Market yield	4.10%	1.90% - 7.30%



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**December 31, 2016**

Assets/Liabilities	Fair Value	Valuation Technique	Unobservable Input	Weighted Average	Range
Unsecured consumer loans	\$759,589,421	Discounted cash flow	Loss-adjusted discounted rate	11.2%	3.00% - 14.43%
			Projected loss rate	10.92%	0.36% - 22.58%
			Recovery rate	6.25%	6.00% - 10.00%
Revolving credit facilities	\$217,579,369	Yield Analysis	Market yield	4.1%	1.9% - 9.0%

**10. Variable Interest Entity**

Special Purpose Entities ("SPEs") are entities designed to fulfill a specific limited need of the entity that organizes it and are often used to facilitate transactions that involve securitizing financial assets. The objective of such transactions may include obtaining non-recourse financing, obtaining liquidity or refinancing the underlying securitized financial assets on more favorable terms than available on such assets on an unsecuritized basis. Securitization involves transferring assets to a SPE to convert all or a portion of those assets into cash before they would have been realized in the normal course of business, through the SPE's issuance of debt or equity instruments. Investors in a VIE usually have recourse only to the assets in the SPE and, depending on the overall structure of the transaction, may benefit from various forms of credit enhancement, such as over-collateralization, priority with respect to receipt of cash flows relative to holders of other debt or equity instruments issued by the SPE, or additional credit enhancement provided by the subordination of mezzanine debt.

In determining the accounting treatment to be applied to securitization transactions, we evaluate whether the SPE used to facilitate the transaction was a VIE and, if so, whether it should be consolidated. The Company's variable interests in VIEs includes debt and equity interests that arose from securitization activities. We determine whether we are the primary beneficiary of a VIE upon our initial involvement with the VIE and reassess such determination on an ongoing basis. Our determination of whether we are the primary beneficiary of a VIE is based upon the facts and circumstances for each VIE and requires significant judgment. Our considerations in determining the VIE's most significant activities and whether we have power to direct those activities include, but are not limited to, the VIE's purpose and design and the risks passed through to investors, the voting interests of the VIE, management, service and/or other agreements of the VIE, involvement in the VIE's initial design and the existence of explicit or implicit financial guarantees. In situations where we have determined that the power over a VIE's significant activities is shared, we assess whether we are the party with the power over the most significant activities. If we are the party with the power over the most significant activities, we meet the "power" criteria of the primary beneficiary. If we do not have the power over the most significant activities or we determine that decisions require consent of each sharing party, we do not meet the "power" criteria of being considered the primary beneficiary.

We assess our variable interests in a VIE both individually and in aggregate to determine whether we have an obligation to absorb losses of, or a right to receive benefits from, the VIE that could potentially be significant to the VIE. The determination of whether our variable interest is significant to the VIE requires significant judgment. In determining the significance of our variable interest, we consider the terms, characteristics and size of the variable interests, the design and characteristics of the VIE, our involvement in the VIE and our market-making activities related to the variable interests.

Through December 31, 2017, we completed one securitization transaction associated with our financing of unsecured consumer loans in which the Company was determined to be the primary beneficiary of the VIE. In creating the securitization vehicle, we were involved in the decisions made during the establishment and design of the entity and hold variable interests consisting of debt and equity securities retained that could potentially be significant to the securitized vehicle. The assets of the securitized vehicle deemed a VIE, consist of unsecured consumer loans, which are available for the benefit of the vehicle's beneficial interest holders. The creditors of the VIE do not have recourse to our general credit, and the assets of the VIE are not available to satisfy any other debt. We have not provided financial or other support during the years ended December 31, 2017 and 2016 to the VIE that was not previously contractually required to provide.

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The following table summarizes the key details of the VIE we consolidated as of December 31, 2017:

Name of securitization trust consolidated as a VIE	October 2016 Securitization	
	MH 2016-LC1	
Principal value of unsecured consumer loans sold into the securitization trust	\$	314,135,226
Current principal value of unsecured consumer loans in securitization trust	\$	99,415,954
Face amount of Class A Note issued by the VIE and sold to a third-party investor <sup>(1)</sup>	\$	204,187,000
Stated interest rate for Class A Note issued		4.19%
Face amount of Class B Note issued by the VIE and sold to a third-party investor <sup>(1)</sup>	\$	39,266,000
Stated interest rate for Class B Note issued		6.15%
Face amount of Class C Note issued by the VIE and sold to the Company <sup>(2)</sup>	\$	39,266,000
Stated interest rate for Class C Note issued		10.00%
Year of final contractual maturity of Class A, B, and C Notes		2022
Cash received upon sale of the Class A and B notes sold to third-party investor	\$	243,441,829
Face/Par value of residual interest certificate received by the Company <sup>(2)</sup>	\$	42,290,561
Cumulative gross securitization expenses incurred (net of debt issuance costs of \$915,187 as of December 31, 2017) <sup>(3)</sup>	\$	3,700,643

*(1) The Class A Notes will also benefit from the additional credit enhancement provided by the subordination of the Class B Notes and the Class C Note and the Class B Notes also benefit from the additional credit enhancement provided by the subordination of the Class C Note.*

*(2) Amount reflects 100% of the Class C Note the Company received, which is subordinate to and provides credit support for the sequential Class A and B notes sold to third-party investors. The Company retained the Class C Note until it was sold to a third-party investor on February 2, 2017, for cash proceeds of \$39,723,118 net of related transaction expenses. The Class C Note and the associated interest expense was eliminated in consolidation with the associated trust for the period during which the Company held the security.*

*(3) Certain expenses incurred in connection with the securitization were capitalized as deferred charges and are amortized to interest expense based upon the actual repayments of the associated notes sold to a third party.*

We consolidate the underlying trust associated with our MH 2016-LC1 Securitization. As a result, the notes that were sold to third-party investors is presented on our consolidated balance sheet as “Debt (net of debt issuance costs) related to consolidated VIE” and the unsecured consumer loans held by the trust that collateralize the securities issued by the trust are included as a component of “Unsecured consumer loans, at fair value” on our consolidated balance sheet. The third-party beneficial interest holders in the VIE have no recourse against us, except that we may have an obligation to repurchase assets from the VIE in the event that we breach certain representations and warranties in relation to the unsecured consumer loans sold to the VIE. Other than the foregoing, we have no obligation to provide, nor have we provided, any other explicit or implicit support to this or any other VIE that we consolidate.

Future scheduled principal payments of the debt related to the consolidated VIE, based on expected cash flows of the securitized unsecured consumer loans, as adjusted for projected losses and prepayments on such loans, at December 31, 2017 were as follows: \$56,162,616 (2018), and \$31,962,329 (2019).



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The table below reflects the assets and liabilities recorded in our consolidated balance sheet related to our consolidated VIEs as of the dates presented. The assets and liabilities in the tables below are presented prior to consolidation and thus a portion of these assets and liabilities are eliminated in consolidation. As of December 31, 2017 and 2016, the Company held all the equity interests of the VIE.

	December 31, 2017	December 31, 2016
Restricted cash and cash equivalents	\$ 11,181,297	\$ 19,596,223
Unsecured consumer loans at fair value	93,182,654	267,642,484
Due from LendingClub Corporation	1,098,778	1,816,471
Interest receivable	1,693,096	4,401,157
<b>TOTAL ASSETS</b>	<b>\$ 107,155,825</b>	<b>\$ 293,456,335</b>
Debt (net of debt issuance costs) related to consolidated VIE <sup>(a)</sup>	\$ 87,198,587	\$ 248,138,814
Accrued expenses	132,704	84,354
Interest payable	130,701	80,754
Servicing fee payable	74,602	203,658
<b>TOTAL LIABILITIES</b>	<b>\$ 87,536,594</b>	<b>\$ 248,507,560</b>

*(a) Debt related to consolidated VIE includes Class A Notes, Class B Notes and Class C Notes with a maturity date of November 25, 2022, outstanding principal balances of \$9,592,945, \$39,268,609 and \$19,266,050 and interest rates of 4.19%, 6.13% and 16.00%, respectively. As of December 31, 2017 and 2016, \$926,335 and \$4,036,731, respectively, of unamortized debt issuance costs are recorded as a direct deduction to the debt.*

The following table reflects the income and expense amounts recorded in our consolidated statements of operations related to our consolidated VIE for the periods presented:

	For the Year Ended	
	December 31, 2017	December 31, 2016
Interest income	\$ 43,322,359	\$ 17,794,560
Other income	177,589	7,655
Fair value adjustments	(35,403,039)	(10,044,295)
Gain on sale of interest in consolidated VIE	457,448	—
<b>Total net revenues</b>	<b>8,554,357</b>	<b>7,757,920</b>
Interest and credit facility expenses	12,555,034	2,853,412
Servicing, collection and upfront fees	2,186,989	670,287
<b>Net (loss) income</b>	<b>\$ (6,187,666)</b>	<b>\$ 4,234,221</b>

**National Property REIT Corp.**  
**Notes to Combined Consolidated Financial Statements**

The following table reflects the amounts included on our consolidated statements of cash flows related to our consolidated VIEs for the periods presented:

	For the Year Ended	
	December 31, 2017	December 31, 2016
<b>Cash Flows from Operating Activities:</b>		
Net (loss) income	\$ (6,187,666)	\$ 4,234,221
Adjustments to reconcile net loss to net cash provided by operating activities:		
Fair value adjustments of unsecured consumer loans	35,403,039	10,044,295
Realized gain on sale of interest in consolidated VIE (Note 6)	(457,448)	—
Amortization of debt issuance costs - related to debt of the consolidated VIE	3,110,373	590,270
Changes in assets and liabilities:		
Decrease (increase) in interest receivable	2,708,061	(4,401,157)
Increase in interest payable	49,947	80,754
Increase in accrued expenses	48,350	84,354
(Decrease) increase in servicing fee payable	(129,036)	203,638
<b>Net Cash Provided by Operating Activities</b>	<b>34,545,620</b>	<b>10,836,375</b>
<b>Cash Flows from Investing Activities:</b>		
Purchases of unsecured consumer loans	—	(274,716,408)
Principal payments received on unsecured consumer loans	136,085,839	36,295,629
Proceeds from recoveries and sales of charged off loans	2,970,952	—
Proceeds from sale of debt related to consolidated VIE	39,723,448	—
Decrease (increase) in due from LendingClub Corporation	717,693	(1,816,471)
<b>Net Cash Provided (Used) in Investing Activities</b>	<b>179,497,932</b>	<b>(240,237,250)</b>
<b>Cash Flows from Financing Activities:</b>		
Borrowings under debt related to consolidated VIE	—	243,441,829
Principal payments under debt related to consolidated VIE	(164,050,600)	(30,543,455)
Decrease (increase) in restricted cash and cash equivalents	8,414,926	(19,596,223)
Debt issuance costs	—	(4,615,830)
Member contributions	—	42,290,561
Member distributions	(58,407,878)	(1,576,007)
<b>Net Cash (Used) Provided by Financing Activities</b>	<b>\$ (214,043,552)</b>	<b>\$ 229,400,875</b>
<b>Net Increase in Cash and Cash Equivalents</b>	<b>—</b>	<b>—</b>
Cash and Cash Equivalents at beginning of year	—	—
<b>Cash and Cash Equivalents at end of year</b>	<b>\$ —</b>	<b>\$ —</b>
<b>Supplemental Disclosures</b>		
Cash paid for interest expense	\$ 9,427,435	\$ 2,182,388
<b>Non-Cash Investing and Financing Activities:</b>		
Increase in borrowings under debt related to consolidated VIE	\$ 39,266,000	\$ —

*Residual Interests in Securitization*

In a securitization structured as a sale, in which the Company is not considered a primary beneficiary, we sold a pool of loans to a trust in exchange for cash and a certificate evidencing our residual ownership interest in the trust and the transaction was accounted for as a sale under GAAP.

During the year ended December 31, 2017, the Company sold 21,926 unsecured consumer loans (with a cost of \$151,472,878 and accrued interest of \$1,731,127) previously purchased from LendingClub to LendingClub Operated Aggregator Note (LOAN) NP I, LLC, resulting in the Club 2017-NP-1 securitization, for cash proceeds of \$124,528,245 net of related transaction expenses, and a trust certificate with a fair value of \$30,469,823 representing 42.71% interest in Club 2017-NP1 (the "Club 2017 Securitization"). The Company realized a gain of \$1,794,063 on the sale. On September 28, 2017, the Company acquired an additional residual interest in the

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securitization for \$3,480,000. Gains or losses resulting from the securitizations of unsecured loans are recognized at the date of settlement and are based on the difference between the selling price, net of transaction costs, of the securitization and the amortized cost of the related unsecured consumer loans sold. We were not involved in the design or creation of the trust and our continuing involvement is typically passive in nature and does not provide us with the power to direct the activities that most significantly impact the economic performance of the securitization trust. As a result, we do not consolidate the Club 2017 Securitization trust, which we determined was a VIE, associated with this securitization.

Our maximum exposure to loss related to the Company's residual interest in the Club 2017 securitization is calculated as the maximum potential charge that we would recognize in earnings if that investment were to become worthless. The following table presents the carrying amounts and classification of the assets and liabilities recorded on our consolidated balance sheets related to our variable interests in unconsolidated VIEs and the associated maximum exposure to loss.

	December 31, 2017
Residual Interests in Club 2017-NP-1, at Fair Value	\$ 33,689,314
Residual Interests in Club 2017-NP-1, at Amortized Cost	\$ 35,893,754

**11. Revolving Credit Facilities**

On April 21, 2014, ACL Trust closed a three year \$50,000,000 revolving credit facility relating to Prosper unsecured consumer loans ("ACL Subsidiaries Facility") with Capital One. On November 13, 2014, American Consumer Lending (Prime), L.L.C. was added as a borrower on the ACL Subsidiaries Facility. The ACL Subsidiaries Facility includes an accordion feature which allows the commitment to be increased to \$100,000,000 in the aggregate. The ACL Subsidiaries Facility accordion feature was increased to \$150,000,000 and \$250,000,000 in the aggregate, on April 23, 2015 and October 30, 2015, respectively. The ACL Subsidiaries Facility was increased to \$75,000,000, \$95,000,000, \$115,000,000 and \$165,000,000 on October 7, 2014, November 13, 2014, April 23, 2015 and October 30, 2015 respectively, with the addition of four new lenders. For all advances made prior to April 21, 2015, the lender withheld an interest and fee reserve ("ACL Interest Reserve"). After April 21, 2015, the Company is required to maintain a minimum interest and fee reserve amount which is calculated as a product of 125 basis points of the unpaid principal balance on the ACL Subsidiaries Facility plus the product of 100 basis points of the aggregate outstanding principal balance of the unsecured consumer loans plus \$10,000. On December 15, 2016 the ACL Subsidiaries Facility accordion feature was decreased to \$100,000,000 and the minimum interest and fee reserve amount was updated to be calculated as a product of 250 basis points of the unpaid principal balance on the ACL Subsidiaries Facility plus the product of 100 basis points of the aggregate outstanding principal balance of the unsecured consumer loans plus \$10,000. On a monthly basis, the lender withdraws related interest payments due from the ACL Interest Reserve. On April 13, 2017 Texas Capital Bank, National Association, replaced Capital One as agent of the ACL Subsidiaries Facility. On November 22, 2017 the remaining balance of the ACL Subsidiaries Facility was paid and the facility agreement terminated. As of December 31, 2016, the outstanding balance of the ACL Subsidiaries Facility was \$75,211,476.

On December 30, 2014, ACL III Subsidiaries closed a three year \$50,000,000 revolving credit facility relating to LendingClub unsecured consumer loans ("ACL III Subsidiaries Facility") with Capital One. The ACL III Subsidiaries Facility includes an accordion feature which allows the commitment to be increased to \$100,000,000 in the aggregate. The ACL III Subsidiaries Facility accordion feature was increased to \$150,000,000 in the aggregate on December 21, 2015. The ACL III Subsidiaries Facility was increased to \$75,000,000 and \$95,000,000 on March 31, 2015 and December 21, 2015, respectively, with the addition of two new lenders. For all advances made prior to September 23, 2015, the lender withheld an interest and fee reserve ("ACL III Interest Reserve"). After September 23, 2015, the Company is required to maintain a minimum interest and fee reserve amount which is calculated as a product of 125 basis points of the unpaid principal balance on the ACL III Subsidiaries Facility. On August 30, 2017 the outstanding balance of the ACL III Subsidiaries Facility was transferred from Capital One to Texas Capital Bank, National Association at which time the maximum commitment amount was decreased to \$80,000,000. On December 20, 2017, Pacific Western Bank and Credit Suisse AG were added as lenders to the agreement and effectively increasing the maximum commitment to \$150,000,000. On a monthly basis, the lender withdraws related interest payments due from the ACL III Interest Reserve. As of December 31, 2017 and 2016, the outstanding balances of the ACL III Subsidiaries Facility were \$63,666,892 and \$18,542,229, respectively.

On April 9, 2015, ACL IV Subsidiaries closed a three year \$75,000,000 revolving credit facility relating to LendingClub unsecured consumer loans ("ACL IV Subsidiaries Facility") with Morgan Stanley Bank, N.A. The ACL IV Subsidiaries Facility includes an accordion feature which allows the commitment to be increased to



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\$150,000,000 in the aggregate. The ACL IV Subsidiaries Facility accordion feature was increased to \$200,000,000 in the aggregate, on July 22, 2016. The total commitments under the ACL IV Subsidiaries Facility was increased to \$125,000,000 and \$200,000,000 on November 20, 2015 and July 22, 2016, respectively. For all advances, the lender withholds a cash reserve. The Company is required to maintain a minimum cash reserve amount which is calculated as a product of 175 basis points of the unpaid principal balance on the ACL IV Subsidiaries Facility. The total commitment under the ACL IV Subsidiaries Facility was decreased to \$150,000,000 on August 31, 2017. As of December 31, 2017 and 2016, the outstanding balances of the ACL IV Subsidiaries Facility were \$137,448,614 and \$96,518,614, respectively.

On December 16, 2015, ACL Trust V closed a one and half year \$75,000,000 revolving credit facility relating to Avant unsecured consumer loans ("ACL Trust V Facility") with Morgan Stanley Bank, N.A. The ACL Trust V Facility includes an accordion feature which allows the commitment to be increased to \$150,000,000 in the aggregate. On July 28, 2016 the revolving credit facility amount and the commitment was decreased to \$25,000,000. For all advances, the lender withholds a cash reserve. The Company is required to maintain a minimum cash reserve amount which is calculated as a product of 100 basis points of the unpaid principal balance on the ACL Trust V Facility. On March 17, 2017 the remaining balance of the ACL Trust V Facility was paid and the facility agreement terminated. As of December 31, 2016, the outstanding balance of the ACL Trust V Facility was \$4,736,958.

On April 20, 2016, ACL PS closed a three year \$50,000,000 revolving credit facility relating to NBT unsecured consumer loans ("ACL PS Facility") with Pacific Western Bank. The ACL PS Facility includes an accordion feature which allows the commitment to be increased to \$100,000,000 in the aggregate. The Company is required to maintain a minimum cash reserve amount which is calculated as a product of 100 basis points of the unpaid principal balance on the ACL PS Facility. As of December 31, 2017 and 2016, the outstanding balances of the ACL PS Facility were \$1,181,188 and \$22,570,092, respectively.

On November 22, 2017, ACL VII closed a four year \$65,869,951 revolving credit facility relating to Prosper and NBT unsecured consumer loans ("ACL VII Facility") with Macquarie Investments US Inc. As of December 31, 2017, the outstanding balance on the ACL VII Facility was \$61,833,665.

The ACL Subsidiaries Facility, the ACL III Subsidiaries Facility, the ACL IV Subsidiaries Facility, the ACL Trust V Facility, the ACL PS Facility, and the ACL VII Facility are collectively referred to as "Revolving Credit Facilities".

The Revolving Credit Facilities contain restrictions pertaining to the unsecured consumer loans considered as eligible collateral. Restrictions on eligible collateral include, but are not limited to, the maximum and minimum size, maximum interest rate, original term and credit score of the borrower related to the unsecured consumer loans. The Revolving Credit Facilities also contains certain requirements relating to the portfolio of loans and portfolio performance, including, but are not limited to, minimum FICO score of borrowers, average aggregate principal amount payable, maximum delinquencies and charge-offs, maximum leverage ratios, minimum interest coverage ratios, minimum annual net income, violations of which could result in the early termination of the Revolving Credit Facilities. Borrowings on the Revolving Credit Facilities are generally limited to 50.0% to 80.0% of the outstanding eligible principal balance of the portfolio of unsecured consumer loans. The ACL IV Subsidiaries Facility and the ACL Trust V Facility include portfolio excess concentration tests which if greater than specified concentration limits decrease the amount of eligible collateral. As of December 31, 2017 the Company was in compliance with the requirements of the Revolving Credit Facilities, which could have a material impact on the Company.

The Revolving Credit Facilities require us to hold unsecured consumer loans as collateral in order to borrow under the credit facilities. During the terms of the Revolving Credit Facilities, all principal and interest payments on the unsecured consumer loans held as collateral are used to pay facility expenses, interest expenses or applied to reduce the outstanding balance on the Revolving Credit Facilities. The remaining balance will become due upon maturity.

Interest on borrowings under the ACL Subsidiaries Facility and ACL III Subsidiaries Facility is one-month LIBOR rate plus 350 basis points with a minimum LIBOR floor of 50 basis points. Interest on borrowings under the ACL IV Subsidiaries Facility is one-month LIBOR rate plus an applicable margin. The applicable margin is calculated as the product of 275 or 350 basis points and the applicable eligible unsecured consumer loan balance divided by the aggregate eligible unsecured consumer loan balance. After July 22, 2016 the applicable margin was calculated as the product of 325 or 400 basis points and the applicable eligible unsecured consumer loan balance divided by the aggregate eligible unsecured consumer loan balance. After August 31, 2017 the applicable margin was calculated as the product of 325 or 340 basis points and the applicable eligible unsecured consumer loan balance divided by the aggregate eligible unsecured consumer loan balance. As of December 31, 2017 and 2016, the

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applicable margin was 338 and 374 basis points, respectively. Interest on borrowings under the ACL PS Facility is one-month LIBOR rate plus 400 basis points. Interest on borrowings under the ACL Trust V Facility is one-month LIBOR rate plus 450 basis points. As of December 31, 2017 and 2016, the one-month LIBOR rate was 156 and 77 basis points, respectively. Interest on borrowings under the ACL VII Facility is one-month LIBOR rate plus 300 basis points. Additionally, the lender charges a monthly fee on the unused portion of the ACL Subsidiaries Facility and ACL III Subsidiaries Facility equal to the product of 35 basis points per annum and the difference (if any) of the aggregate outstanding available credit facility and the average daily outstanding drawn principal balance. The lender charges a monthly fee on the unused portion of the ACL Trust V Facility equal to the product of 75 basis points per annum and the difference (if any) of the aggregate outstanding available credit facility and the average daily outstanding drawn principal balance. The monthly fee on the unused portion of the ACL IV Subsidiaries Facility, ACL Trust V Facility, and ACL PS Facility is equal to the product of 10 to 60 basis points, 25 to 75 basis points, and 35 to 50 basis points, respectively, and the difference (if any) of the average daily outstanding available credit facility and the average daily outstanding drawn principal balance, depending on the amount of the average daily outstanding drawn principal balance versus the maximum revolving credit facility.

During the years ended December 31, 2017 and 2016, we accrued \$3,368,677 and \$2,274,556 respectively, of agent fees, unused line fees and debt issuance costs on the Revolving Credit Facilities, which are recorded as interest expense on the combined consolidated statements of operations.

The Company intends to refinance the Revolving Credit Facilities which have stated maturity dates within the next year.

**12. Mortgages Payable**

The Company has outstanding mortgages payable that bear interest at either a fixed or variable rate. Each mortgage payable is secured by a respective real estate property and certain cash reserve accounts required by the borrowing agreements, which are included as restricted cash on the accompanying combined consolidated balance sheets. The following table presents a summary of our mortgages payable as of December 31, 2017 and 2016:

Mortgage Note	Interest Rate	Maturity Date	Amortizing or Interest Only	Outstanding Principal 12/31/2017	Outstanding Principal 12/31/2016
Amblerly - Loan 1	3.75%	2/1/2025	Interest Only	39,600,000	39,600,000
Amblerly - Loan 2	4.50%	7/1/2025	Interest Only	7,100,000	7,100,000
Lafayette Place - Loan 1	3.975%	5/1/2025	Interest Only	16,965,000	16,965,000
Lafayette Place - Loan 2	4.71%	5/1/2025	Amortizing	3,258,309	3,411,407
Arlington Falls	4.50%	6/1/2023	Interest Only	9,650,000	9,650,000
The Resort - Loan 1	4.12%	7/1/2025	Amortizing	153,803,760	156,361,822
The Resort - Loan 2	4.80%	7/1/2025	Amortizing	25,635,082	24,312,933
Bexley - Loan 1 <sup>(1)</sup>	5.50%	4/1/2021	N/A	—	5,955,158
Bexley - Loan 2 <sup>(1)</sup>	4.86%	4/1/2021	N/A	—	5,314,598
Bexley - Loan 3 <sup>(1)</sup>	4.51%	4/1/2021	N/A	—	10,798,677
Cordova Regency - Loan 1	4.55%	12/1/2021	Interest Only	9,625,000	9,625,000
Cordova Regency - Loan 2	4.61%	12/1/2021	Interest Only	2,349,000	2,349,000
Crestview at Highlands - Loan 1	4.55%	12/1/2023	Interest Only	11,488,000	11,488,000
Crestview at Highlands - Loan 2	4.61%	12/1/2023	Interest Only	2,257,000	2,257,000
Invenses Lakes - Loan 1	4.59%	12/1/2023	Interest Only	19,401,000	19,401,000
Invenses Lakes - Loan 2	4.61%	12/1/2023	Interest Only	5,300,000	5,300,000
Kings Hill - Loan 1	4.55%	12/1/2023	Interest Only	13,627,000	13,627,000
Kings Hill - Loan 1	4.61%	12/1/2023	Interest Only	3,928,000	3,928,000
Plantations at Pine Lake - Loan 1	4.52%	12/1/2023	Interest Only	11,817,000	11,817,000
Plantations at Pine Lake - Loan 2	4.60%	12/1/2023	Interest Only	2,273,000	2,273,000
Plantations at Rocky Ridge	4.55%	12/1/2023	Interest Only	10,235,000	10,235,000
Mathews Reserve - Loan 1	4.46%	12/1/2023	Interest Only	17,371,000	17,371,000
Mathews Reserve - Loan 2	3.61%	12/1/2023	Amortizing	2,347,260	2,374,503
City West - Loan 1	4.46%	12/1/2023	Interest Only	18,533,000	18,533,000
City West - Loan 2	3.99%	12/1/2023	Amortizing	1,728,399	1,791,107
Vinings Corner - Loan 1	4.46%	12/1/2023	Interest Only	26,646,000	26,646,000
Vinings Corner - Loan 2	5.95%	12/1/2023	Amortizing	6,261,011	6,343,738
Central Park - Loan 1	4.46%	12/1/2023	Interest Only	23,471,000	23,471,000

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Mortgage Note	Interest Rate	Maturity Date	Amortizing or Interest Only	Outstanding Principal 12/31/2017	Outstanding Principal 12/31/2016
Central Oak - Loan 2	3.55%	12/1/2023	Amortizing	2,322,156	2,353,251
Mission Gate - Loan 1 <sup>(A)</sup>	4.46%	12/1/2023	N/A	—	36,348,000
Mission Gate - Loan 2 <sup>(B)</sup>	5.55%	12/1/2023	N/A	—	5,428,902
St. Marin - Loan 1	4.46%	12/1/2023	Interest Only	57,863,000	57,863,000
St. Marin - Loan 2	5.53%	12/1/2023	Amortizing	8,520,285	8,634,847
Eastwood Village - Loan 1	4.60%	1/1/2024	Amortizing	19,529,515	19,780,146
Maneey Village - Loan 1	4.60%	1/1/2024	Amortizing	9,165,827	9,190,461
Hidden Creek - Loan 1	4.60%	1/1/2024	Amortizing	2,569,082	2,611,572
Meadow Springs - Loan 1	4.60%	1/1/2024	Amortizing	10,028,910	10,175,845
Meadow View - Loan 1	4.60%	1/1/2024	Amortizing	10,256,577	11,138,592
Peachtree Landing - Loan 1	4.60%	1/1/2024	Amortizing	13,546,164	13,522,152
Indigo	4.49%	7/1/2022	Amortizing	27,422,362	27,471,074
Plantations at Hillcrest <sup>(A)</sup>	4.43%	12/1/2020	N/A	—	1,494,337
Creekside at Cordova - Loan 1	4.43%	12/1/2020	Amortizing	4,656,794	4,413,349
Creekside at Cordova - Loan 2	4.43%	12/1/2020	Amortizing	3,188,709	3,330,570
Island Club - Loan 1	4.36%	1/1/2019	Amortizing	7,060,938	7,386,427
Island Club - Loan 2	5.14%	1/1/2019	Amortizing	1,526,322	1,551,972
Chesterfield	4.51%	9/6/2024	Interest Only	4,340,000	4,350,000
Wyoming	4.51%	9/6/2024	Interest Only	3,600,000	3,600,000
Grand Regals	4.51%	9/6/2024	Interest Only	5,460,000	5,460,000
Westland	4.45%	9/6/2024	Interest Only	2,480,000	2,480,000
State Street	4.45%	9/6/2024	Interest Only	3,345,000	3,345,000
Jackson	4.45%	9/6/2024	Interest Only	6,695,000	6,695,000
Kalamazoo	4.45%	9/6/2024	Interest Only	1,775,000	1,775,000
Canterbury Green - Loan 1	4.21%	10/1/2024	Interest Only	65,825,000	65,825,754
Canterbury Green - Loan 2	5.13%	10/1/2024	Amortizing	8,263,996	8,405,259
Abbe Lakes	4.20%	10/1/2024	Interest Only	10,410,000	10,410,000
Brookside	4.20%	10/1/2024	Interest Only	11,600,000	11,600,000
Riverside at Abbe Lakes	4.20%	10/1/2024	Interest Only	20,142,000	20,142,000
Lakes Edge	4.20%	10/1/2024	Interest Only	10,680,000	10,680,000
Sunbury Ridge	4.20%	10/1/2024	Interest Only	10,480,000	10,480,000
Stonebridge	4.20%	10/1/2024	Interest Only	15,480,000	15,480,000
Jubilee Chase	4.20%	10/1/2024	Interest Only	12,340,000	12,340,000
Lake Ridge	4.11%	11/1/2024	Interest Only	8,640,000	8,640,000
Olkemus	4.19%	2/6/2025	Interest Only	5,620,000	5,620,000
Lansing West	4.19%	2/6/2025	Interest Only	1,305,000	1,305,000
Novi	4.16%	3/6/2025	Interest Only	5,225,000	5,225,000
Lake Orion	4.19%	3/6/2025	Interest Only	5,225,000	5,225,000
Ypsilanti	4.19%	2/6/2025	Interest Only	2,630,000	2,630,000
Orchard Village	4.83%	12/1/2022	Interest Only	26,450,000	26,450,000
Steeling Crimson	4.20%	10/1/2025	Interest Only	11,250,000	11,250,000
Hawk & Ridge	4.20%	10/1/2026	Interest Only	24,825,000	24,825,000
Islands Village	4.20%	10/1/2026	Interest Only	10,800,000	10,800,000
Campus Quarters	4.20%	10/1/2026	Interest Only	14,175,000	14,175,000
District on Lister	4.20%	10/1/2026	Interest Only	32,058,000	32,058,000
West 22	4.20%	10/1/2026	Interest Only	44,727,000	44,727,000
Legacy <sup>(A)</sup>	3.13%	2/1/2027	Interest Only	5,147,305	5,201,520
University Crossing <sup>(B)</sup>	5.13%	2/1/2020	Interest Only	17,487,363	15,921,041
Union Place	4.42%	1/1/2027	Interest Only	51,800,000	51,800,000
Eastwood Village - Loan 2	4.29%	1/1/2024	Amortizing	3,220,011	2,277,964
Monerey Village - Loan 2	4.39%	1/1/2024	Amortizing	1,593,107	2,028,956
Hidden Creek - Loan 2	4.39%	1/1/2024	Amortizing	1,165,010	1,183,968
Meadow Springs - Loan 2	4.39%	1/1/2024	Amortizing	7,982,325	8,033,964
Meadow View - Loan 2	4.39%	1/1/2024	Amortizing	2,087,408	2,124,996
Peachtree Landing - Loan 2	4.39%	1/1/2024	Amortizing	2,130,178	2,137,266
Seasons	4.59%	2/1/2029	Interest Only	151,580,000	—



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Mortgage Note	Interest Rate	Maturity Date	Amortizing or Interest Only	Outstanding Principal 12/31/2017	Outstanding Principal 12/31/2016
Abbie Lakes - Loan 2	3.82%	10/1/2024	Interest Only	2,515,000	—
Brookridge - Loan 2	3.87%	10/1/2024	Interest Only	2,502,000	—
Reverse at Abbie Lakes - Loan 2	3.82%	10/1/2024	Interest Only	3,114,000	—
Lakes Edge - Loan 2	3.84%	10/1/2024	Interest Only	4,409,000	—
Sunbury Ridge - Loan 2	3.82%	10/1/2024	Interest Only	3,635,000	—
Stonebridge - Loan 3	3.84%	10/1/2024	Interest Only	2,818,000	—
Telford Green - Loan 2	3.82%	10/1/2024	Interest Only	4,960,000	—
Lake Stage - Loan 2	3.82%	11/1/2024	Interest Only	1,360,000	—
Villages of Baymeadows	4.14%	11/1/2027	Interest Only	76,360,000	—
Casa Del Mar	4.14%	11/1/2027	Interest Only	12,740,000	—
Sutton Place	4.01%	7/1/2029	Interest Only	44,644,000	—
Silver Oaks	4.03%	12/1/2029	Interest Only	14,385,000	—
<b>Total outstanding principal</b>				<b>\$ 1,453,940,738</b>	<b>\$ 1,310,330,736</b>
Less: unamortized discount and debt issuance costs				(10,414,511)	(9,582,458)
<b>Total mortgages payable, net of unamortized discount and debt issuance costs</b>				<b>\$ 1,443,526,227</b>	<b>\$ 1,300,756,278</b>

(1) Bentley was disposed of on January 19, 2018 (Note 3). The mortgage payable was extinguished at date of sale.  
(2) Mission Gate was disposed of on June 15, 2017 (Note 3). The mortgage payable was extinguished at date of sale.  
(3) Plantation at Hillcrest was disposed of on August 29, 2017 (Note 3). The mortgage payable was extinguished at date of sale.  
(4) Interest at a variable rate indexed to the one month USD LIBOR interest rate, plus 2.00 basis points. Rate noted is as of December 31, 2017.

On August 29, 2017, in connection with the sale of the Plantation at Hillcrest property, as described in Note 3, *Recent Real Estate Transactions*, the Company utilized sale proceeds to repay the associated outstanding mortgage balance in the amount of \$4,769,699. As a result, the Company recognized a loss on early extinguishment of debt of \$421,555, which is included within interest expense on the combined consolidated statements of operations.

On June 15, 2017, in connection with the sale of the Mission Gate property, as described in Note 3, *Recent Real Estate Transactions*, the associated outstanding mortgage balance in the amount of \$41,715,014 was assumed by the acquirer. As a result, the Company recognized a loss on early extinguishment of debt of \$240,968, which is included within interest expense on the combined consolidated statements of operations.

On January 18, 2017, in connection with the sale of the Bexley property, as described in Note 3, *Recent Real Estate Transactions*, the Company utilized sale proceeds to repay the associated outstanding mortgage balance in the amount of \$32,429,255. As a result, the Company recognized a loss on early extinguishment of debt of \$4,685,165, which is included within interest expense on the combined consolidated statements of operations.

On October 28, 2016, in connection with the Abbingdon property sale, as described in Note 3, *Recent Real Estate Transactions*, the Company repaid the outstanding associated mortgage balance of \$17,065,867. As a result, the Company recognized a loss on early extinguishment of debt of \$2,260,169, which is included within interest expense on the combined consolidated statements of operations.

The Company recognizes a debt discount or premium in connection with mortgages assumed at fair value in accordance with ASC 805. The unamortized debt discount of \$221,025 and \$433,137 is included in mortgage payables on the accompanying combined consolidated balance sheets at December 31, 2017 and 2016, respectively. Amortization of mortgage discount of \$61,038 and \$96,585 is included in interest expense in the combined consolidated statements of operations for the years ended December 31, 2017 and 2016.

Future scheduled principal payments of mortgage payable are as follows: \$8,973,308 (2018), \$19,929,564 (2019), \$45,816,130 (2020), \$16,625,926 (2021), \$19,814,505 (2022), and \$1,342,781,305 (thereafter).

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**13. Income Taxes**

Income taxes consisted of the following for the years ended:

	December 31, 2017	December 31, 2016
Current federal tax benefit	\$ —	\$ 131,156
Current state tax expense	(198,777)	(145,913)
Net deferred federal tax expense	—	—
Net deferred state tax expense	—	—
<b>Income tax expense</b>	<b>\$ (198,777)</b>	<b>\$ (14,757)</b>

Income tax expense for the years ended December 31, 2017 and 2016 differs from the amount determined by applying the statutory federal rate of 34.0% to income (loss) before income tax expense generated by the Company's taxable REIT subsidiaries as follows:

	December 31, 2017		December 31, 2016	
	Amount	Rate	Amount	Rate
<b>Income tax benefit at federal tax rate</b>	<b>\$ 4,988,886</b>	<b>(34.0)%</b>	<b>\$ 3,071,015</b>	<b>(34.0)%</b>
Change in valuation allowance	(137,586)	1.0%	(6,840,506)	75.7%
Tax benefit from fair value adjustment prior to sale to affiliate	4,094,379	(27.9)%	2,601,241	(28.8)%
(Loss) income not subject to entity level tax	(4,392,399)	29.9%	1,118,640	(12.4)%
Prior year tax adjustment	—	—%	131,155	(1.4)%
State income taxes, net of federal tax effect	(131,194)	0.9%	(96,302)	1.1%
Change in federal tax rate	(4,620,862)	31.5%	—	—%
<b>Income tax expense</b>	<b>\$ (198,777)</b>	<b>1.4%</b>	<b>\$ (14,757)</b>	<b>0.2%</b>

Deferred tax assets consist of the following:

	December 31, 2017	December 31, 2016
Deferred federal tax benefit	\$ 7,464,471	\$ 7,157,597
Deferred state tax benefit	867,512	1,036,800
<b>Total deferred tax assets</b>	<b>8,331,983</b>	<b>8,194,397</b>
Valuation allowance	(8,331,983)	(8,194,397)
<b>Deferred tax assets after valuation allowance</b>	<b>\$ —</b>	<b>\$ —</b>

The tax effected cumulative temporary differences that give rise to the deferred tax assets as of December 31, 2017 and 2016 are the debt issuance costs on the revolving credit facilities, interest income on delinquent loans which are not charged off and the federal and state net operating losses from prior periods. Deferred tax assets are recognized subject to our judgment that realization is more likely than not. As of December 31, 2017 and 2016, the Company provided a full allowance on the deferred tax assets as it is more likely than not that these assets will not result in future tax benefits.

ASC 740, Income Taxes ("ASC 740") provides guidance for how uncertain tax positions should be recognized, measured, presented, and disclosed in the consolidated financial statements. ASC 740 requires the evaluation of tax positions taken or expected to be taken in the course of preparing our tax returns to determine whether the tax positions are "more-likely-than-not" of being sustained by the applicable tax authority. Tax positions not deemed to meet the more-likely-than-not threshold are recorded as a tax benefit or expense in the current year. As of December 31, 2017 and 2016, 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 ongoing analysis of tax laws, regulations and interpretations thereof. The Company received a notice that one of its subsidiary's 2014 federal tax return had been selected for examination by the Internal Revenue Service; the examination was closed in 2016 without any adjustments. For the year ended December 31, 2017, no such notice was received for examination by the Internal Revenue Service. We file tax returns for U.S. Federal, various states and foreign jurisdictions. The statute of limitation is open for all jurisdictions for tax years beginning in 2014.



**National Property REIT Corp.**  
**Notes to Combined Consolidated Financial Statements**

The Company's policy is to classify interest and penalties on tax positions, if any, as expenses. For the year ended December 31, 2017 and 2016, no interest and penalties has been accrued.

**14. Equity**

As of December 31, 2017 and 2016, the Company authorized 100,000,000 common shares, par value \$0.001. NPH is the Company's sole common stockholder. As of December 31, 2017 and 2016, the Company paid an aggregate of \$452,273,635 and \$410,319,194 of dividends on common shares, respectively.

As of December 31, 2017 and 2016, the Company had 125 shares outstanding in connection with a private placement of 12.5% Series A Cumulative Non-Voting Preferred Stock, par value \$0.001 per share (Series A Preferred Stock), respectively. In general, holders of Series A Preferred Stock are entitled to receive cumulative dividends semiannually at a per annum rate equal to 12.5% of the total purchase price of \$1,000 per share plus accumulated and unpaid dividends. The Series A Preferred Stock is redeemable by the Company for \$1,000 per share plus accumulated and unpaid dividends. Upon liquidation and dissolution of the Company, the holders of the Series A Preferred Stock are entitled to a liquidation preference in the amount of the share's purchase price, plus all accumulated and unpaid dividends. Series A Preferred Stock are not convertible or exchangeable for any other property or securities of the Company. On May 23, 2016, in connection with the merger of the Affiliated REITs, the Company redeemed 250 shares of 12.5% Series A Preferred Stock at a total price of \$250,000 plus the accrued unpaid dividend of \$12,413. As of December 31, 2017 and 2016, the Company paid an aggregate of \$188,624 and \$172,999 of dividends on Series A preferred shares, respectively.

**15. Related Party Transactions**

On December 31, 2013, the Company entered into a management assistance agreement with Prospect Administration LLC ("Prospect") to provide significant managerial assistance to the Company on behalf of PSEC. On May 23, 2016, in connection with the merger of the Affiliated REITs, the management assistance agreement was amended to increase the annual fee to \$1,300,000.

In accordance with the Investment Company Act of 1940, PSEC must make available "significant managerial assistance" to the Company. Prospect provides assistance with significant guidance and counsel concerning the management, operations, and business objectives and policies to the Company. Services may include arranging financing, managing relationships with financing sources, restructuring existing debt and evaluating acquisition and divestiture opportunities. Prospect also exercises a controlling influence over the policies of the Company. On a quarterly basis, the Company pays a managerial assistance fee to Prospect for time and effort in assisting and providing commercial and mezzanine lending, investment banking, and private equity investing services. The Company incurred managerial assistance fees of \$1,300,000 for the years ended December 31, 2017 and 2016, which are included in management fees in the accompanying combined consolidated statements of operations.

On a quarterly basis, the Company pays Prospect for professional services provided related to legal counsel, taxation, and general accounting. For the years ended December 31, 2017 and 2016, the Company incurred professional service fees of \$1,735,894 and \$7,089,293, respectively, which is included in general and administrative expenses in the accompanying combined consolidated statements of operations. As of December 31, 2017 and 2016, \$122,179 and \$3,621,627, respectively, is due to Prospect and is recorded by the Company as due to affiliates on the combined consolidated balance sheets.

As of December 31, 2017, \$11,477 and \$19,707 is due to Prospect Capital Management ("PCM") and PSEC, respectively, for reimbursement of expenses paid on behalf of the Company and is recorded by the Company as due to affiliates on the combined consolidated balance sheets.

As of December 31, 2016, \$3,186 is due to PSEC for reimbursement of expenses paid on behalf of the Company and is recorded by the Company as due to affiliates on the combined consolidated balance sheets.

The Company generally incurs a 2% to 3% structuring fee for the PSEC equity portion of each acquired property. The structuring fee is paid to PSEC for structuring and providing guidance for each purchase transaction. For the years ended December 31, 2017 and 2016, the Company incurred structuring fees of \$1,883,103 and \$1,320,255, respectively. These amounts are included in the acquisition costs line item in the accompanying combined consolidated statements of operations.

On February 9, 2016, the Company entered into an Amended and Restated Services Agreement with First Financial Partners, Inc. ("FFP"), whose principal and sole owner is Mr. Stock, Chief Executive Officer of the Company, regarding the Company's engagement of FFP as an independent contractor to provide transaction and execution services. For the year ended December 31, 2017 and 2016, the Company incurred professional service fees and related expenses of \$20,000 and \$50,188, which is included in general and administrative expenses in the accompanying combined consolidated statements of operations.

**National Property REIT Corp.**  
**Notes to Combined Consolidated Financial Statements**

The Company also entered into property management agreements with the non-controlling interest joint venture partners to manage the operations of the properties. The Company pays a monthly management fee of 2% - 6% of the gross monthly rents to the property managers. For the years ended December 31, 2017 and 2016, property management fees were \$7,176,724 and \$5,633,932, respectively. As of December 31, 2017 and 2016, \$721,003 and \$145,367 of management fees, respectively, were payable to property managers, and is included in due to affiliates in the accompanying combined consolidated balance sheets.

The Company also pays a monthly asset management fee up to 1.25% of the gross monthly rents to the property managers. For the years ended December 31, 2017 and 2016, asset management fees were \$927,961 and \$635,019, respectively. These amounts are included in the management fee line item in the accompanying combined consolidated statements of operations. The property management agreements also stipulate that a construction management fee of 5% - 6% of project cost is to be paid to the property managers. For the years ended December 31, 2017 and 2016, capitalized construction management fees were \$812,899 and \$800,033, respectively, and is included within building and improvements in the accompanying combined consolidated balance sheets.

The Company generally incurs an acquisition fee from 0.5% to 1% of the purchase price of each acquired property. The acquisition fee is paid to the Property Managers for services rendered in connection with the investigation, selection, sourcing, due diligence and acquisition of a property or investment. For the years ended December 31, 2017 and 2016, the Company incurred an acquisition fee of \$2,567,250 and \$3,147,500, respectively. These amounts are included in acquisition costs in the accompanying combined consolidated statements of operations.

In connection with the acquisitions of several properties during the year ended December 31, 2017, the Company has retained a portion of the non-controlling joint venture partners' acquisition fees as deferred acquisition fees. These deferred acquisition fees are earned by and payable to the non-controlling joint venture partner upon reaching certain performance measures. No performance measures have been met as of December 31, 2017. As of December 31, 2017, \$4,141,000 of deferred acquisition fees were retained by the Company and included within due to affiliates on the combined consolidated balance sheets. As of December 31, 2017, \$3,691,000 of deferred acquisition fees retained by the Company is included within restricted cash on the combined consolidated balance sheets.

In connection with the acquisitions of several properties during the year ended December 31, 2016, the Company has retained a portion of the non-controlling joint venture partners' acquisition fees as deferred acquisition fees. These deferred acquisition fees are earned by and payable to the non-controlling joint venture partner upon reaching certain performance measures. No performance measures have been met as of December 31, 2016. As of December 31, 2016, deferred acquisition fees retained by the Company were \$1,573,750 and is included within restricted cash and due to affiliates on the combined consolidated balance sheets.

The Company noted that certain expenses are paid for by the property managers and have yet to be reimbursed. As of December 31, 2017 and 2016, unreimbursed advances and other amounts due to related parties were \$136,307 and \$358,566, respectively, and are recorded by the Company as due to affiliates on the combined consolidated balance sheets.

The Company noted that certain contractual property operating distributions are paid on a monthly or quarterly basis to the Company and our non-controlling joint venture partners. As of December 31, 2017 and 2016, distributions payable to our non-controlling joint venture partners were \$0 and \$8,547, respectively. These amounts are recorded by the Company as due to affiliates on the combined consolidated balance sheets.

**16. Senior Secured Term Loans - Related Party**

The Company entered into a credit agreement (the "Credit Agreement"), effective April 1, 2014, with PSEC in the form of a senior secured term loan. The maturity date of the senior secured term loans under the Credit Agreement is April 1, 2019. The credit agreement does not require payments on the outstanding principal until maturity, with prepayments allowed but subject to a prepayment penalty. Senior secured term loans under the Credit Agreement accrue, at a rate per annum, cash interest equivalent to the one-month LIBOR plus the respective senior secured term loans fixed spread with a minimum LIBOR floor of 200 basis points and payment in kind ("PIK") interest based on the respective senior secured term loans fixed rate. Senior secured term loans under the Credit Agreement also incur net operating income interest equivalent to 500 basis points of the net operating income earned during the applicable period. Cash interest and net operating interest are payable in cash quarterly. PIK interest due quarterly is added to the outstanding principal balance of the loan or paid in cash, in whole or in part, at the option of the Company. As of December 31, 2017 and 2016, the total commitment was \$1,500,000,000.

During the year ended December 31, 2017, the Company has voluntarily pre-paid in aggregate \$23,750,000 of the Term Loan A commitment under the Credit Agreement. As a result, the Company recognized a prepayment premium of \$237,500, which is included within interest expense on the combined consolidated statements of

**National Property REIT Corp.**  
**Notes to Combined Consolidated Financial Statements**

operations. For the year ended December 31, 2016, the Company recognized a prepayment premium of \$1,997,479, which is included within interest expense on the combined consolidated statements of operations.

On June 30, 2014, ACLLH, a wholly owned subsidiary of the Company, entered into a credit agreement with PSEC in the form of a senior secured term loan. On December 15, 2015, ACLL, a wholly owned subsidiary of the Company entered into a credit agreement (collectively referred to as the "ACL Credit Agreement") with PSEC in the form of senior secured term loan. The maturity date of the senior secured term loans under the ACL Credit Agreement is April 1, 2019. The ACL Credit Agreement does not require payments on the outstanding principal balance until the maturity date. Senior secured term loans under the ACL Credit Agreement accrue, at a rate per annum, cash interest equivalent to the one-month LIBOR plus the respective senior secured term loans fixed spread with a minimum LIBOR floor of 200 basis points and PIK interest based on the respective senior secured term loans fixed rate. Cash interest is payable in cash quarterly. PIK interest due quarterly is added to the outstanding principal balance of the loan or paid in cash, in whole or in part, at the option of the Company. As of December 31, 2017 and 2016, the total commitment was \$750,000,000.

During the year ended December 31, 2016, the Company made non-cash contributions of \$73,558,293 to NMP through a transfer and assignment from ACLLH to the Company of senior secured term loans with PSEC having an aggregate outstanding principal amount of \$73,558,293. No non-cash contributions were made during the year ended December 31, 2017.

The following table presents a summary of our senior secured term loans payable as of December 31, 2017 and 2016:

Senior Secured Term Loan	As of December 31, 2017			As of December 31, 2016		
	Cash Rate	PIK Rate	Outstanding Principal	Cash Rate	PIK Rate	Outstanding Principal
Term Loan A	1-Mo Libor + 4.00%	10.50%	\$ 293,202,638	1-Mo Libor + 4.00%	5.50%	\$ 281,420,685
Term Loan B	1-Mo Libor + 12.00%	3.00%	—	1-Mo Libor + 12.00%	3.00%	—
Term Loan C	1-Mo Libor + 4.00%	7.50%	—	1-Mo Libor + 4.00%	7.50%	—
Term Loan D	1-Mo Libor + 12.00%	4.50%	—	1-Mo Libor + 12.00%	4.50%	—
Term Loan E	1-Mo Libor + 11.00%	5.00%	113,239,760	1-Mo Libor + 11.00%	5.00%	205,591,036
Term Loan A (ACLLH)	1-Mo Libor + 4.00%	7.50%	—	1-Mo Libor + 4.00%	7.50%	—
Term Loan B (ACLLH)	1-Mo Libor + 12.00%	4.50%	—	1-Mo Libor + 12.00%	4.50%	—
Term Loan C (ACLLH)	1-Mo Libor + 9.00%	5.00%	14,273,602	1-Mo Libor + 9.00%	5.00%	88,556,113
Term Loan A (ACLL)	1-Mo Libor + 4.00%	7.50%	—	1-Mo Libor + 4.00%	7.50%	—
Term Loan B (ACLL)	1-Mo Libor + 12.00%	4.50%	—	1-Mo Libor + 12.00%	4.50%	—
Term Loan C (ACLL)	1-Mo Libor + 9.00%	5.00%	122,578,662	1-Mo Libor + 9.00%	5.00%	46,917,549
<b>Total outstanding principal</b>			<b>553,294,062</b>			<b>625,485,383</b>
Less: unamortized debt issuance costs			(541,055)			(1,481,387)
<b>Total senior secured term loans, net of debt issuance costs</b>			<b>\$ 552,753,007</b>			<b>\$ 624,003,996</b>

For the year ended December 31, 2017, the Company incurred \$50,045,938, \$37,922,021, and \$6,279,251 of cash interest, PIK interest, and net operating income interest, respectively. For the year ended December 31, 2017, a total of \$36,842,136 of PIK interest was paid in cash on the senior secured term loans. As of December 31, 2017, \$446,209 of cash interest, \$303,736 of PIK interest and \$582,483 of net operating income interest is recorded by the Company as due to affiliates on the combined consolidated balance sheets.

For the year ended December 31, 2016, the Company incurred \$50,707,863, \$30,581,744, and \$5,252,590 of cash interest, PIK interest, and net operating income interest, respectively. For the year ended December 31, 2016, a total of \$30,403,096 of PIK interest was paid in cash on the senior secured term loans. As of December 31, 2016, \$303,236 of cash interest, \$181,648 of PIK interest and \$479,169 of net operating income interest is recorded by the Company as due to affiliates on the combined consolidated balance sheets.

For the years ended December 31, 2017 and 2016, the Company incurred \$459,158 and \$2,162,307 of structuring fees for borrowings under the senior secured term loans, respectively. The structuring fees are deferred and amortized over the life of the senior secured term loan. For the years ended December 31, 2017 and 2016, \$1,399,491 and \$2,255,338 were amortized and recorded within interest expense on the combined consolidated statements of operations, respectively.



**National Property REIT Corp.**  
**Notes to Combined Consolidated Financial Statements**

**17. Commitments and Contingencies**

The Company believes that it has complied with the requirements of the mortgage payable by obtaining the requisite third party insurance coverage for losses that may be incurred at the properties. Losses for amounts below the threshold of the deductible amounts specified in certain of the Company's insurance policies are self-insured; however, management does not believe that this exposure will have a material adverse effect on the Company's combined consolidated financial position or results of operations.

Periodically, the Company may become involved in various investigations, claims and legal proceedings that arise in the ordinary course of the business. The Company does not believe that there are any proceedings threatened or pending, if determined adversely, that would have a material adverse effect on the financial position, results of operations, or liquidity of the Company.

**18. Subsequent Events**

On January 1, 2018, the Company amended and restated the managerial assistance agreement. Under the third amended and restated agreement, the annual managerial assistance fee is increased from \$1,300,000 to \$2,100,000.

On January 3, 2018, the Company contributed \$1,663,733 to NMF which was used to pay down A.C.I. VII's credit facility.

On January 9, 2018, the Company, together with a joint venture partner, acquired a multi-family property located in Largo, Maryland for an aggregate purchase price of \$44,500,000 exclusive of acquisition and closing costs. For the purchase of this property, the joint venture obtained bank financing of \$36,668,000.

On January 9, 2018, the Company sold the Central Park property to an unaffiliated third party for a gross sales price of \$52,750,000. The Company recognized a gain of \$20,015,513 in connection with the sale.

On January 23, 2018, the Company contributed \$4,039,384 to NMF for purposes of purchasing additional unsecured consumer loans.

On February 22, 2018, the Company sold the St. Marin property to an unaffiliated third party for a gross sales price of \$94,000,000. The Company recognized a gain of \$28,373,936 in connection with the sale.

On March 1, 2018, the Company contributed \$47,000,000 to NMF. On March 19, 2018, the Company contributed \$50,000,000 to NMF. The funds were used to pay down the ACLL senior secured term loan.

On March 16, 2018, the Company's Board of Directors approved and authorized a dividend to the sole common stockholder in the amount of \$5,639,470, which was paid in cash.

On March 21, 2018, Vesper Tuscaloosa, L.L.C. (Sterling Crimson) and Vesper Kennesaw, L.L.C. (West 22) (collectively, the "Vesper Portfolio") entered into supplemental mortgage agreements. The supplemental mortgages are secured by the respective real estate properties and certain cash reserve accounts required by the borrowing agreements. The following table presents a summary of the supplemental mortgage amounts and the respective interest rate:

Property	Supplemental Mortgage	Interest Rate	Maturity Date
Sterling Crimson	\$ 1,873,000	6.04%	10/1/2026
West 22	3,949,000	6.00%	10/1/2026
<b>Total</b>	<b>\$ 5,822,000</b>		

On March 21, 2018, the Company sold 28,474 of unsecured consumer loans (with a cost of \$200,001,980 and accrued interest of \$2,261,778) previously purchased from LendingClub to Consumer Loan Underlying Bond (CLUB) Depositor, L.L.C. ("Club 2018-NP-1") for proceeds of \$166,701,210 net of related transaction expenses, and a trust certificate with a fair value of \$32,965,958 representing a 56.36% interest in the Club 2018-NP1. At December 31, 2017 the Company had an unrealized loss of \$(6,286,659) with respect to the loans sold into the securitization. On the date of sale, the Company reversed the unrealized loss and recorded a realized loss of \$(2,596,590). The Company acquired an additional residual interest in the securitization for \$928,821, increasing the total interest in the Club 2018-NP1 to 57.95%. The Company utilized \$35,000,000 of the proceeds received from the securitization transaction to pay down the ACLL TLC.

On March 29, 2018, the Company contributed \$14,851,664 to NMF to pay down \$578,062 and \$14,273,602 of the ACLL senior secured term loan and ACLLH senior secured term loan, respectively.

**National Property REIT Corp.**  
**Notes to Combined Consolidated Financial Statements**

On April 25, 2018, the Company amended and restated the credit agreement in order to increase the commitment from \$1,000,000,000 to \$1,250,000,000. Under the seventh amended and restated credit agreement, the TLE incurs cash interest equivalent to one-month LIBOR rate plus 9.00% and PIK interest of 1.50%.

On May 9, 2018, the Company, together with a joint venture partner, acquired two multi-family properties located in Forest Park, Georgia for an aggregate purchase price of \$45,505,000 exclusive of acquisition and closing costs. For the purchase of these properties, the joint venture obtained bank financing of \$36,400,000.

On May 11, 2018, NMF distributed \$14,001,696 to the Company, which was used to pay down the TLE.

On June 1, 2018, the Company, together with a joint venture partner, acquired a multi-family property located in Columbus, Ohio for an aggregate purchase price of \$113,000,000 exclusive of acquisition and closing costs. For the purchase of this property, the joint venture obtained bank financing of \$92,876,000.

On June 4, 2018, NMF distributed \$13,330,217 to the Company, which was used to pay down the TLE.

On June 6, 2018 NMF amended and restated its credit facility agreement with Texas Capital Bank, in which NMF converted the revolving loan facility into a term loan facility. In conjunction with the amended credit facility agreement, NMF borrowed \$22,000,000 from Texas Capital Bank.

On June 14, 2018, NMF distributed \$14,098,024 to the Company, which was used to pay down the TLE.

On June 15, 2018, the Company's Board of Directors approved and authorized a dividend to the sole common stockholder in the amount of \$5,639,470, which was paid in cash.

On June 27, 2018, NMF distributed \$8,938,698 to the Company, which was used to pay down the TLE.

On July 20, 2018, the Company, together with a joint venture partner, acquired a multi-family property located in Fairfield, Ohio for an aggregate purchase price of \$46,500,000 exclusive of acquisition and closing costs. For the purchase of this property, the joint venture obtained bank financing of \$39,525,000.

On August 8, 2018, the Company, together with a joint venture partner, acquired a multi-family property located in Richmond, Virginia for an aggregate purchase price of \$25,000,000 exclusive of acquisition and closing costs. For the purchase of this property, the joint venture obtained bank financing of \$19,335,000.

The Company has evaluated subsequent events through August 20, 2018, the date of which these financial statements were available to be issued, and has determined that, except for the above, there have not been any additional events that have occurred that would require adjustments to, or disclosures in, the combined consolidated financial statements.

**National Property REIT Corp.**  
Combined Consolidated Financial Statements  
December 31, 2016 and 2015  
(With Independent Auditor's Report Thereon)

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**National Property REIT Corp.**  
**Combined Consolidated Financial Statements**  
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## Independent Auditor's Report

Board of Directors  
National Property REIT Corp.  
New York, New York

We have audited the accompanying combined consolidated financial statements of National Property REIT Corp. and its subsidiaries, which comprise the combined consolidated balance sheets as of December 31, 2016 and 2015, and the related combined consolidated statements of operations, changes in (deficit) equity, and cash flows for the years then ended, and the related notes to the combined consolidated financial statements.

### *Management's Responsibility for the Financial Statements*

Management is responsible for the preparation and fair presentation of these combined consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of combined consolidated financial statements that are free from material misstatement, whether due to fraud or error.

### *Auditor's Responsibility*

Our responsibility is to express an opinion on these combined consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the combined consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the combined consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the combined consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the combined consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the combined consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### *Opinion*

In our opinion, the combined consolidated financial statements referred to above present fairly, in all material respects, the financial position of National Property REIT Corp. and its subsidiaries as of December 31, 2016 and 2015, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

BDO USA, L.L.P.

August 9, 2017

BDO USA, L.L.P., a Delaware limited liability partnership, is the U.S. member of BDO International, Limited, a UK company limited by guarantee, and forms part of the BDO network of independent member firms.

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**National Property REIT Corp.**  
**Combined Consolidated Balance Sheets**

	December 31,	
	2016	2015
<b>ASSETS</b>		
<b>Real estate assets</b>		
Land	\$ 160,760,742	\$ 139,432,259
Building and improvement	1,253,399,431	1,035,222,741
Furniture, fixtures, and equipment	51,645,443	35,396,461
Total real estate assets held for investment	1,465,805,616	1,210,051,461
Less: accumulated depreciation	(136,092,392)	(91,154,051)
<b>Net real estate assets held for investment</b>	<b>1,329,713,224</b>	<b>1,118,897,410</b>
Real estate assets held for sale, net	25,938,275	—
<b>Total real estate assets, net</b>	<b>1,355,651,499</b>	<b>1,118,897,410</b>
Cash and cash equivalents	32,609,382	15,301,870
Restricted cash (\$19,596,233 as of December 31, 2016 related to consolidated VIE)	59,724,126	45,279,994
Accounts receivable, net	2,931,470	4,913,305
Interest receivable (\$4,401,157 as of December 31, 2016 related to consolidated VIE)	10,383,189	7,369,309
Due from LendingClub Corporation (\$1,816,471 as of December 31, 2016 related to consolidated VIE)	7,075,357	43,228,085
Due from Prosper Funding LLC	810,467	4,260,501
Due from Avant, Inc.	1,708	93,672
Due from affiliates	848,619	1,382,251
Prepaid expenses and other assets	3,724,480	3,895,847
Unsecured consumer loans at fair value (\$267,642,484 as of December 31, 2016 related to consolidated VIE)	759,589,421	611,374,694
Lease intangibles, net	15,246,687	2,041,130
<b>TOTAL ASSETS</b>	<b>\$ 2,248,596,405</b>	<b>\$ 1,858,038,068</b>
<b>LIABILITIES AND (DEFICIT) EQUITY</b>		
<b>Liabilities</b>		
Mortgages payable, net of unamortized discount and debt issuance costs	\$ 1,168,615,085	\$ 897,988,196
Mortgages payable related to real estate assets held for sale, net of unamortized discount and debt issuance costs	32,141,193	—
Revolving credit facilities at fair value	217,579,369	349,574,835
Debt related to consolidated VIE, net of debt issuance costs	208,872,814	—
Senior secured term loans, net of debt issuance costs	624,003,996	576,214,194
Accounts payable and accrued expenses	22,775,859	18,978,976
Security deposits	4,210,248	3,129,372
Due to affiliates	6,675,096	3,094,210
Prepaid rent and other liabilities	4,030,191	2,684,289
<b>Total liabilities</b>	<b>2,288,903,851</b>	<b>1,851,664,072</b>
Commitments and contingencies (Note 16)		
<b>(Deficit) equity</b>		
Preferred stock, \$0.001 par value, Series A Cumulative Non-Voting, 12.5%; \$125,000 and \$400,000 liquidation preference, respectively, 125 and 375 shares authorized, issued and outstanding, respectively	109,950	322,400
Common stock, \$0.001 par value; 100,000,000 common shares authorized, 1,843,535 and 970,066 issued and outstanding, respectively	1,844	970
Additional paid-in-capital	176,308,017	149,171,459
Accumulated deficit	(243,242,111)	(157,228,021)
Non-controlling interest	26,514,854	14,107,188
<b>Total (deficit) equity</b>	<b>(40,307,446)</b>	<b>6,373,996</b>
<b>TOTAL LIABILITIES AND (DEFICIT) EQUITY</b>	<b>\$ 2,248,596,405</b>	<b>\$ 1,858,038,068</b>

See Notes to Combined Consolidated Financial Statements

**National Property REIT Corp.**  
**Combined Consolidated Statements of Operations**

	Years Ended December 31,	
	2016	2015
<b>Revenues</b>		
Rental income	\$ 162,613,343	\$ 146,190,108
Interest income	145,731,804	73,160,299
Other income	23,128,670	19,632,903
Total revenues	331,473,817	238,983,310
<b>Costs and expenses</b>		
Property operating expenses	76,807,980	69,310,155
Management fees	14,594,401	11,579,047
Depreciation and amortization	59,643,813	56,888,516
General and administrative expenses	23,563,097	15,196,036
Total costs and expenses	174,609,291	152,973,754
<b>Other (expense) income</b>		
Acquisition costs	(7,583,131)	(3,429,388)
Interest expense	(158,128,068)	(128,482,319)
Fair value adjustments	(98,479,188)	(24,051,156)
Gain on sale of real estate	16,673,356	18,559,469
Total other (expense) income, net	(247,517,031)	(137,403,394)
<b>Net loss before income tax</b>	<b>(90,652,505)</b>	<b>(51,393,838)</b>
Income tax expense	(14,757)	(163,854)
<b>Net loss</b>	<b>(90,667,262)</b>	<b>(51,557,692)</b>
Loss attributable to non-controlling interest	4,718,760	1,454,269
Dividends attributable to preferred shares	(65,588)	(46,875)
<b>Net loss attributable to common shares</b>	<b>\$ (86,014,090)</b>	<b>\$ (50,150,298)</b>

See Notes to Combined Consolidated Financial Statements

**National Property REIT Corp.**  
**Combined Consolidated Statements of Changes in (Deficit) Equity**

	Preferred Shares	Common Shares	Additional Paid-in-Capital	Accumulated Deficit	Total Stockholders' (Deficit) Equity	Non-Controlling Interest	Total (Deficit) Equity
<b>Balance at December 31, 2014</b>	\$ 322,400	\$ 364	\$ 76,960,445	\$ (96,061,899)	\$ (18,778,690)	\$ 18,487,455	\$ (291,235)
Issuance of common shares	—	606	107,632,687	—	107,633,293	—	107,633,293
Contribution from non-controlling interest	—	—	—	—	—	5,050,627	5,050,627
Dividends on common shares	—	—	(35,421,673)	(11,015,824)	(46,437,497)	—	(46,437,497)
Dividends on preferred shares	—	—	—	(46,875)	(46,875)	—	(46,875)
Distributions to non-controlling interest	—	—	—	—	—	(7,976,625)	(7,976,625)
Net loss	—	—	—	(50,103,423)	(50,103,423)	(1,454,269)	(51,557,692)
<b>Balance at December 31, 2015</b>	\$ 322,400	\$ 970	\$ 149,171,459	\$ (157,228,021)	\$ (7,733,192)	\$ 14,107,188	\$ 6,373,996
Issuance of common shares	—	874	87,023,403	—	87,024,277	—	87,024,277
Contribution from non-controlling interest	—	—	—	—	—	28,645,727	28,645,727
Dividends on common shares	—	—	(59,886,845)	—	(59,886,845)	—	(59,886,845)
Dividends on preferred shares	—	—	—	(65,588)	(65,588)	—	(65,588)
Distributions to non-controlling interest	—	—	—	—	—	(11,519,301)	(11,519,301)
Redemption of preferred shares	(212,450)	—	—	—	(212,450)	—	(212,450)
Net loss	—	—	—	(85,948,502)	(85,948,502)	(4,718,760)	(90,667,262)
<b>Balance at December 31, 2016</b>	\$ 109,950	\$ 1,844	\$ 176,308,017	\$ (243,242,111)	\$ (66,822,300)	\$ 26,514,854	\$ (40,307,446)

See Notes to Combined Consolidated Financial Statements

**National Property REIT Corp.**  
**Combined Consolidated Statements of Cash Flows**

	Years Ended December 31,	
	2016	2015
<b>Cash Flows from Operating Activities:</b>		
Net loss	\$ (90,667,262)	\$ (51,557,692)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation	53,102,382	48,851,394
Amortization of in-place leases	6,541,431	8,037,122
Amortization of above-market leases	31,801	—
Amortization of below-market leases	(158,354)	—
Debt issuance costs	1,155,542	2,742,272
Amortization of deferred financing costs and debt discounts and premiums	4,002,599	1,020,924
Fair value adjustments	98,479,188	24,051,156
Interest paid in kind	—	4,543,200
Gain on sale of assets	(16,673,356)	(18,559,469)
Gain on involuntary conversions	(175,552)	—
Changes in operating assets and liabilities:		
Restricted cash	(6,451,166)	(982,771)
Accounts receivable, net	1,965,395	(2,688,026)
Interest receivable	(3,013,880)	(5,290,423)
Due to (due from) affiliates, net	2,795,691	1,635,581
Prepaid expenses and other assets	398,698	671,054
Accounts payable and accrued expenses	3,765,012	1,677,486
Security deposits and other liabilities	2,927,201	(256,561)
<b>Net cash provided by operating activities</b>	<b>58,025,370</b>	<b>13,895,247</b>
<b>Cash Flows from Investing Activities:</b>		
Restricted cash	3,892,625	4,580,012
Acquisition of real estate	(295,129,565)	(45,127,212)
Additions to real estate assets	(15,294,175)	(23,621,078)
Additions to lease intangibles	(19,620,435)	(3,175,731)
Proceeds from sales of real estate	18,777,803	24,942,567
Proceeds from insurance	1,055,949	—
Purchases of unsecured consumer loans	(580,599,910)	(610,884,157)
Principal payments received on unsecured consumer loans	328,436,658	154,293,784
Proceeds from recoveries and sales of charged-off loans	5,469,337	803,773
Decrease (increase) in Due from Lending Club Corporation	36,152,728	(17,445,960)
Decrease (increase) in Due from Prosper Funding LLC	3,450,034	(1,080,354)
Decrease (increase) in Due from Avant, Inc.	91,964	(93,672)
<b>Net cash used in investing activities</b>	<b>(513,316,987)</b>	<b>(516,808,028)</b>
<b>Cash Flows from Financing Activities:</b>		
Restricted cash	(11,885,591)	(8,657,068)
Proceeds from mortgages payable	323,458,994	81,636,000
Repayments of mortgages payable	(1,033,817)	(13,824,895)
Proceeds from revolving credit facilities	290,181,851	420,420,000
Repayments of revolving credit facilities	(422,177,317)	(191,945,226)
Proceeds from debt related to consolidated VIE	243,441,829	—
Repayments of debt related to consolidated VIE	(30,543,455)	—
Proceeds from senior secured term loan	189,101,448	248,598,525
Repayments of senior secured term loan	(141,404,677)	(82,896,521)
Deferred financing costs	(11,844,783)	(5,485,026)
Proceeds from issuance of common stock	87,024,277	107,633,293
Capital distributions	(59,886,845)	(35,421,673)
Dividends on common shares	—	(11,015,824)
Dividends on preferred shares	(65,588)	(46,875)
Redemption of preferred stock	(212,450)	—
Contributions from non-controlling interest	28,645,727	5,050,627
Distributions to non-controlling interests	(11,519,301)	(7,976,625)
Increase in due to (due from) affiliates, net	1,318,827	(1,318,827)
<b>Net cash provided by financing activities</b>	<b>472,599,129</b>	<b>504,749,885</b>
<b>Net increase in cash and cash equivalents</b>	<b>17,307,512</b>	<b>1,837,104</b>
Cash and cash equivalents, beginning of year	15,301,870	13,464,766
<b>Cash and cash equivalents, end of year</b>	<b>\$ 32,609,382</b>	<b>\$ 15,301,870</b>

See Notes to Combined Consolidated Financial Statements

**National Property REIT Corp.**  
**Combined Consolidated Statements of Cash Flows (Continued)**

	Year Ended December 31,	
	2016	2015
<b>Supplemental Disclosures</b>		
Cash paid during the period for:		
Interest	\$ 152,445,626	\$ 119,385,305
Income tax	\$ 370,379	\$ 184,276
Non-cash investing and financing activities:		
Mortgage payable assumed	\$ —	\$ 12,602,057
Accrued additions to real estate assets	\$ 183,412	\$ 257,758

*See Notes to Combined Consolidated Financial Statements*



**National Property REIT Corp.**  
**Notes to Combined Consolidated Financial Statements**

**I. Organization**

References herein to the "Company", "we", "us", or "our" refer to National Property REIT Corp. ("NPRC"), formerly known as National Property Holdings Corp., unless the context specifically requires otherwise.

The Company is a Maryland corporation and is a real estate investment trust ("REIT") for U.S. federal income tax purposes. The Company 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. The Company intends to acquire real estate assets, including, but not limited to, industrial, commercial, student housing, self-storage, and multi-family properties. The Company commenced operations on December 31, 2013.

NPH Property Holdings, LLC ("NPH"), a Delaware limited liability company, owns all of the outstanding common stock of the Company. NPH is a wholly owned subsidiary of Prospect Capital Corporation ("PSEC"). On December 31, 2013, PSEC contributed to the Company, through NPH, ownership interests in entities that own real estate properties. In exchange for the contribution of assets, NPH received shares of the Company's common stock. These entities were NPH McDowell, LLC ("Oxford"), APH Carroll 41, LLC ("Bexley"), and 146 Forest Parkway, LLC ("146 FP"). On October 23, 2014, United Property REIT Corp. ("UPRC"), an affiliated entity indirectly owned by PSEC, contributed to the Company, ownership interest in Michigan Storage, LLC ("Michigan"), an entity that owns a portfolio of self-storage real estate properties. UPH Property Holdings, LLC ("UPH"), a Delaware limited liability company, owned all of the outstanding common stock of UPRC. UPH was a wholly owned subsidiary of PSEC. On November 26, 2014, American Property REIT Corp. ("APRC"), an affiliated entity indirectly owned by PSEC, contributed to the Company, ownership interest in APH Carroll Resort, LLC ("The Resort"), an entity that owns a multi-family real estate property. On May 1, 2015, APRC contributed to the Company, ownership interest in 5100 Live Oaks Blvd, LLC ("Amberly"), an entity that owns a multi-family real estate property. APH Property Holdings, LLC ("APH"), a Delaware limited liability company, owned all of the outstanding common stock of APRC. APH was a wholly owned subsidiary of PSEC. These entity contribution transactions are collectively referred to as the "Common Control Transfer".

On May 23, 2016, APRC and UPRC (collectively referred to as the "Affiliated REITs") were merged ("Merger") with and into the Company, with the Company continuing as the surviving corporation. The Affiliated REITs were formed to hold for investment, operate, finance, lease, manage, and sell a portfolio of real estate assets. At the date of Merger, the Affiliated REITs held an investment portfolio of real estate assets owned directly or through joint ventures by making a majority equity investment in property-owning entities. The real estate investments acquired during the Merger are collectively known as the "Merger Investments".

In accordance with FASB ASC 805, "Business Combinations," the Merger and Common Control Transfer transactions noted above were executed between entities under common control. The assets and liabilities of each of the entities acquired through these transactions were recorded at their historical carrying amounts, and the results of operations of these entities have been recognized in the accompanying combined consolidated statements of operations from their respective acquisition dates. NPRC's combined consolidated balance sheets as of December 31, 2016 and 2015 reflect the historical carryover basis in the assets and liabilities acquired. The Company has also retrospectively adjusted its financial statements to combine the operating results of the Company and the entities acquired from the date common control began.

Prospect Finance Company, LLC ("PFAN") is a subsidiary of the Company, and currently owns the online originated unsecured consumer loan portfolio that was purchased by PSEC. PFAN holds the interests in ACL Loan Holdings, Inc. ("ACLLH") and American Consumer Lending Limited ("ACLL").

ACLLH was formed to hold the indirect interest in ACL Consumer Loan Trust ("ACL Trust"), which was contributed to ACLLH on June 30, 2014. ACL Trust and American Consumer Lending (Prime), LLC, a subsidiary of ACLL, (collectively with ACL Trust, referred to as the "ACL Subsidiaries"), holds unsecured consumer loans from Prosper

**National Property REIT Corp.**  
**Notes to Combined Consolidated Financial Statements**

Funding LLC ("Prosper") since October 29, 2013 (inception) to December 31, 2016 and for the period April 1, 2015 to December 31, 2016, respectively. ACL Consumer Loan Trust III ("ACL Trust III"), a subsidiary of ACLLH, formed on June 10, 2014, and American Consumer Lending III (Near-Prime), LLC, a subsidiary of ACLL, (collectively with ACL Trust III, referred to as the "ACL III Subsidiaries"), formed on June 13, 2014, holds unsecured consumer loans from LendingClub Corporation for the period July 28, 2014 to December 31, 2016 and April 1, 2015 to December 31, 2016, respectively. ACL Consumer Loan Trust IV ("ACL Trust IV"), a subsidiary of ACLLH, formed on March 23, 2015, and American Consumer Lending IV (Near-Prime), LLC, a subsidiary of ACLL, (collectively with ACL Trust IV, referred to as the "ACL IV Subsidiaries"), formed on January 15, 2015, holds unsecured consumer loans originated by LendingClub Corporation for the period April 21, 2015 to December 31, 2016 and September 1, 2015 to December 31, 2016, respectively. ACL Patient Solutions Trust ("ACL PS"), a subsidiary of ACLLH, formed on October 14, 2015, holds unsecured consumer loans from NBT Bank, National Association ("NBT"). For the period July 29, 2015 to October 20, 2015, 100.0% participation interest in such unsecured consumer loans were held in ACL Patient Solutions, LLC, a subsidiary of ACLLH, formed on June 22, 2015. As of October 20, 2015, all participation interest acquired by ACL Patient Solutions, LLC were elevated to whole loan assignments and such loans were deposited by ACL Patient Solutions, LLC into ACL PS. From October 20, 2015 to December 31, 2016, ACL PS has acquired and held unsecured consumer loans as part of a loan purchase and sale agreement between ACL PS, NBT and Springstone Financial, LLC ("Springstone"), a wholly-owned subsidiary of LendingClub Corporation. ACL Consumer Loan Trust V ("ACL Trust V"), a subsidiary of ACLL, formed on October 16, 2015, holds unsecured consumer loans from Avant II, LLC ("Avant") for the period November 17, 2015 to December 31, 2016. ACL Consumer Loan Trust VI ("ACL Trust VI"), a subsidiary of ACLLH, formed on April 27, 2016, and American Consumer Lending VI, LLC, a subsidiary of ACLL, (collectively with ACL Trust VI, referred to as the "ACL VI Subsidiaries"), formed on November 30, 2015, holds unsecured consumer loans from LendingClub Corporation for the period May 1, 2016 to December 31, 2016. Murray Hill Securitization Holdings Limited ("Murray Hill"), a subsidiary of ACLL, formed on July 24, 2015, holds interest in Murray Hill Marketplace Trust 2016-LC1, a securitization of unsecured consumer loans from LendingClub Corporation for the period October 13, 2016 to December 31, 2016. Lending Club Corporation and Springstone are hereafter collectively referred to as "Lending Club".

**2. Significant Accounting Policies**

**a. Basis of presentation**

The accompanying combined consolidated financial statements have been prepared in conformity with U.S. Generally Accepted Accounting Principles ("GAAP") and include the accounts of the Company and its subsidiaries, including ventures in which the Company has a controlling interest as well as the consolidated accounts of Oxford, Bexley, 146 FP, Michigan, The Resort, Amberly, and the Merger Investments prior to the Company's ownership in accordance with ASC 805. All intercompany balances and transactions have been eliminated. In addition, we consolidate entities that meet the definition of a variable interest entity ("VIE") for which we are the primary beneficiary. The primary beneficiary is the party who has the power to direct the activities of a VIE that most significantly impact the entity's economic performance and who has an obligation to absorb losses of the entity or a right to receive benefits from the entity that could potentially be significant to the entity.

**National Property REIT Corp.**  
**Notes to Combined Consolidated Financial Statements**

b. ***Principles of Reporting and Use of Estimates***

Financial statements prepared in accordance with GAAP require management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of any contingent assets and liabilities at the date of the combined consolidated financial statements and the reported amounts of revenues and expenses during the reporting period.

Management makes significant estimates regarding the allocation of a property's purchase price to the tangible and intangible assets and liabilities acquired, revenue recognition, and determining whether an asset is impaired. These estimates and assumptions are based on management's best estimates and judgment. Management evaluates its estimates and assumptions on an ongoing basis using historical experience and other factors, including the current economic environment.

As future events and their effects cannot be determined with precision, actual results could materially differ from those estimates.

c. ***Purchase Accounting and Acquisitions of Real Estate***

Upon acquisition, in accordance with FASB ASC 805, "*Business Combinations*," the purchase price of a property is allocated to the acquired tangible assets, consisting of land, building and improvements, furniture, fixtures and equipment, and identified lease intangibles, consisting of in-place leases, tenant relationships, deferred leasing costs, and above-market and below-market leases. Acquisition costs are expensed as incurred.

The value of acquired land, buildings and improvements is estimated by formal appraisals, observed comparable sales transactions and information gathered during pre-acquisition due diligence activities. The valuation approach considers the value of the property as if it were vacant. The values of furniture, fixtures and equipment are estimated by calculating their replacement cost and reducing that value by factors based upon estimates of their remaining useful lives.

The value allocated to acquired lease intangibles is based on management's evaluation of the specific characteristics of each tenant's lease. Characteristics considered by management in allocating these values include the nature and extent of the existing business relationships with the tenant, growth prospects for developing new business with the tenant, the remaining term of the lease and the tenant's credit quality, among other factors.

The value allocable to the above-market or below-market component of an acquired in-place lease is determined based upon the present value, using a market discount rate, of the difference between (i) the contractual rents to be paid pursuant to the lease over its remaining term, and (ii) management's estimate of rents that would be paid using fair market rates over the remaining term of the lease. The amounts allocated to above or below-market leases are amortized on a straight-line basis as an increase or reduction to rental income over the remaining non-cancelable term of the respective leases. Amortization of above and below-market rents resulted in a net increase in rental income of \$126,553 for the year ended December 31, 2016. The Company did not have any above or below market leases for the year ended December 31, 2015.

The value of in-place leases and deferred leasing costs are amortized to expense over the remaining term of the respective leases, which range from less than a year to seventeen years. The amount allocated to acquire in-place leases is determined by calculating the estimated time to fill a hypothetically empty apartment complex to its stabilization level based on historical observed move-in rates for each property. The intangible assets are calculated by estimating the net cash flows of the in-place leases to be realized, as compared to the net cash flows that would have occurred had the property been vacant at the time of acquisition and subject to lease-up. The amount allocated to deferred leasing costs is determined by what



**National Property REIT Corp.**  
**Notes to Combined Consolidated Financial Statements**

the Company would have paid to a third party to secure a new tenant reduced by the expired term of the respective lease. The value of tenant relationships is amortized over the remaining initial lease term and expected renewals, which is thirty seven years. The amount allocated to tenant relationships is the benefit resulting from the likelihood of a tenant renewing its lease. Acquired intangible assets generally have no residual value. Amortization expense related to these assets was \$6,541,431 and \$8,037,122 for years ended December 31, 2016 and 2015, respectively.

Real estate assets, including land, building, improvements, and furniture, fixtures and equipment are stated at historical cost less accumulated depreciation. Costs associated with the development and improvement of the Company's real estate assets are capitalized as incurred. Costs incurred in making repairs and maintaining real estate assets are expensed as incurred. The Company records depreciation expense using the straight-line method over the useful lives of the respective assets. The cost of buildings are depreciated over estimated useful lives of up to 51 years, the costs of improvements are depreciated over the estimated useful life of up to 12 years, and the cost of furniture, fixtures and equipment are depreciated over 4 to 17 years. Depreciation expense for the years ended December 31, 2016 and 2015 was \$53,102,382 and \$48,851,394, respectively, and is included in depreciation and amortization expense in the accompanying combined consolidated statements of operations.

d. ***Impairment of Real Estate***

The Company reviews the carrying value of its real estate assets and intangibles for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. If such reviews indicate that the asset may be impaired, given that the carrying amount of an asset exceeds the sum of its expected future cash flows, on an undiscounted basis, the asset's carrying amount is written down to its fair value. Estimating future cash flows and fair values is highly subjective and such estimates could differ materially from actual results. For the years ended December 31, 2016 and 2015, the Company did not record any impairment charges related to real estate assets.

e. ***Assets Held for Sale and Discontinued Operations***

The Company classifies certain real estate assets as held for sale on the combined consolidated balance sheets once the criteria, as defined by GAAP, have been met. Real estate assets to be disposed of are reported at the lower of their carrying amount or fair value minus cost to sell and are no longer depreciated. The Company reports discontinued operations when the disposal of real estate assets represents a strategic shift that has (or will have) a major effect on an entity's operations and financial results. No disposal met the definition of discontinued operations as of December 31, 2016 and 2015.

f. ***Environmental Matters***

Under various federal, state and local environmental laws, statutes, ordinances, rules and regulations, an owner of real property may be liable for the costs of removal or remediation of certain hazardous or toxic substances at, on, in or under such property as well as certain other potential costs relating to hazardous or toxic substances. These liabilities may include government fines and penalties and damages for injuries to persons and adjacent property. Such laws often impose liability without regard to whether the owner knew of, or was responsible for, the presence or disposal of such substances. The Company recognizes a liability for environmental matters if it is probable a liability has been incurred and the amount of loss can be reasonably estimated. As of December 31, 2016 and 2015, the Company is not aware of any environmental matters that would have an impact on the combined consolidated financial statements.

g. ***Fair Value Measurements***

In accordance with FASB ASC 820, "*Fair Value Measurement and Disclosures*," fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants, in the principal or most advantageous market considering the highest and best use of an asset or nonperformance risk related to a liability, at the measurement date. The Company uses the most observable inputs that are available to measure fair value. Observable inputs are inputs that the

**National Property REIT Corp.**  
**Notes to Combined Consolidated Financial Statements**

market participants would use in pricing the asset or liability developed based on market data obtained from sources independent of the Company. Unobservable inputs are inputs that reflect the Company's views about the assumptions market participants would use in pricing the asset or liability developed based on the best information available in the circumstances. As a basis for considering market participant assumptions in fair value measurements, FASB ASC 820-10 establishes a fair value hierarchy that distinguishes between market participant assumptions based on market data obtained from sources independent of the reporting entity (observable inputs that are classified within Levels 1 and 2 of the hierarchy) and the reporting entity's own assumptions about market participant assumptions (unobservable inputs classified within Level 3 of the hierarchy).

- Level 1 - quoted prices (unadjusted) in active markets that are accessible at the measurement date for assets or liabilities;
- Level 2 - observable prices that are based on inputs not quoted in active markets, but corroborated by market data; and
- Level 3 - unobservable inputs that are used when little or no market data is available.

The fair value hierarchy gives the highest priority to Level 1 inputs and the lowest priority to Level 3 inputs. In determining fair value, the Company utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs to the extent possible, as well as considering counterparty credit risk, where applicable, in the Company's assessment of fair value.

The Company carries its mortgages payable, debt related to consolidated VIE, and senior secured term loan at cost, net of unamortized discount, deferred financing costs, and associated amortization, on the accompanying combined consolidated balance sheets. The fair values of the Company's mortgages payable are estimated using a discounted cash flow analysis based upon indications of market pricing for similar types of instruments with the same remaining maturities and other valuation techniques as appropriate. Although the Company has determined that the majority of inputs used to value its debt fall within Level 2 of the fair value hierarchy, the credit valuation adjustments associated with its debt utilize Level 3 inputs, such as estimates of current credit spreads. The fair value of debt related to consolidated VIE is calculated using a yield analysis, the key unobservable input being the market yield, and is considered a level 3 measurement. The fair value of senior secured term loans is calculated using an enterprise value waterfall, the key unobservable input being fair value of the underlying collateral, and is considered a level 3 measurement. Accordingly, mortgages payable, debt related to consolidated VIE, and the senior secured term loan have been classified as Level 3 fair value measurements. Management estimates the fair values of the mortgages payable, debt related to consolidated VIE, and senior secured term loan, were \$1,218,418,641, \$212,909,545, and \$625,485,383, respectively, as of December 31, 2016. Management estimates the fair values of the mortgages payable and senior secured term loan were \$927,738,173 and \$577,788,610, respectively, as of December 31, 2015. Additionally, the carrying amounts of cash and cash equivalents, restricted cash, accounts receivable, due to/due from affiliates and accounts payable approximate their fair values. See Note 9 for additional disclosure around the Company's fair value measurements of the unsecured consumer loan portfolio and revolving credit facilities.

**h. Fair Value of Financial Instruments**

Pursuant to ASC 825, "*Financial Instruments*" ("ASC 825"), which provides entities with an option to report selected financial assets and liabilities at fair value, the Company has made an election to measure the unsecured consumer loans and revolving credit facilities at fair value. We elected to use the fair value option to align the measurement attributes of both our assets and liabilities while mitigating volatility in earnings from using different measurement attributes. Under this election, unsecured consumer loans charged off, recoveries and net increase or decrease in unrealized appreciation (depreciation) of the unsecured consumer loans and revolving credit facilities are recorded as fair value adjustments on the combined consolidated statements of operations.

**National Property REIT Corp.**  
**Notes to Combined Consolidated Financial Statements**

i. **Revenue Recognition**

Rental revenues from residential and self-storage tenants are recognized on a contractual basis, as lease periods for residential and self-storage tenants are short-term in nature. The Company recognized reimbursement for utilities and other expenses recoveries as other revenue when earned. Rental revenues from industrial and commercial tenants are recognized on a straight-line basis over the term of the lease. The industrial and commercial leases contain rental increases at specified intervals. The Company records as an asset, and includes in rental revenues, deferred rent receivable that will be received if the tenant makes all rent payments required through the expiration of the initial term of the lease. Deferred rent receivable in the accompanying combined consolidated balance sheets includes the cumulative difference between rental revenue recorded on a straight-line basis and rents received from the tenants in accordance with the respective lease terms.

Minimum future rental receipts under the noncancelable portion of commercial and industrial tenant leases, assuming no new or re-negotiated leases, for the next five years is \$1,033,808 per year.

Interest Income is recognized on an accrual basis, in accordance with the terms of the loan agreement, to the extent that such amounts are expected to be collected. Generally, the unsecured consumer loans are placed on non-accrual status if the loan is greater than 60 days contractually delinquent or charged off, at which point the interest receivable amount is reversed against the interest income on the combined consolidated statements of operations.

j. **Cash and Cash Equivalents**

The Company considers all highly liquid instruments with original maturities of three months or less from the date of purchase to be cash equivalents. Cash and cash equivalents includes funds deposited with financial institutions and short-term, highly liquid overnight investment in money market funds. As of December 31, 2016 and 2015, \$48,496 and \$602 of the cash and cash equivalents, respectively, disclosed on the combined consolidated balance sheets represents investments in money market funds.

k. **Restricted Cash**

Restricted cash consists of cash escrowed under the operating agreements and mortgage agreements for debt service, real estate taxes, property insurance, and capital improvements and other restricted deposits. In addition, restricted cash includes funds deposited with Capital One, Bank of New York Mellon and U.S. Bank National Association ("US Bank") and NBT in relation to the revolving credit facilities outlined in Note 11. As of December 31, 2016 and 2015, \$25,091,496 and \$5,926,473 of the restricted cash, respectively, disclosed on the combined consolidated balance sheets represents investments in money market funds.

l. **Due from Avant, Inc., LendingClub Corporation and Prosper Funding LLC**

Avant, LendingClub and Prosper are third party online marketplace lending platforms for unsecured consumer loans. The Due from Avant, Inc. balance represents amounts owed to the Company related to reimbursements of bank fees and other miscellaneous credits. The Due from LendingClub Corporation and Due from Prosper Funding LLC balance disclosed on the combined consolidated balance sheets represents cash deposited at LendingClub and Prosper, respectively, for purchasing unsecured consumer loans. As of December 31, 2016, \$782,775 of the Due from LendingClub Corporation relates to cash on deposit that is committed to unsecured consumer loans that are in the process of being purchased. As of December 31, 2015, \$17,004,950 and \$2,959,654 of the Due from LendingClub Corporation and Due from Prosper Funding LLC, respectively, relates to cash on deposit that is committed to unsecured consumer loans that are in the process of being purchased.

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m. ***Unsecured Consumer Loans***

Unsecured consumer loans consist of individual loans purchased from the third party online marketplace lending platforms under terms of the Company's agreement with these respective platforms, who are sellers of the unsecured consumer loans and who continue to service the unsecured consumer loans. Unsecured consumer loans made through the third party online marketplace lending platforms are issued by WebBank, an FDIC-insured, Utah chartered industrial bank, except for loans issued by NBT. After funding a loan, WebBank sells the loan to the third party online marketplace lending platform, without recourse, in exchange for the principal amount of the loan. Loans issued by NBT are purchased by the Company as part of a loan purchase and sale agreement between ACL PS, NBT, and Springstone. All loans purchased are unsecured obligations of individual borrowers with a fixed interest rate and loan terms set between 12 to 84 months. Unsecured consumer loans are recorded on the date the loan is purchased by the Company, which is generally two days after origination. Unsecured consumer loans are charged off in the month in which the loan becomes greater than 120 days contractually delinquent or in the month in which the borrower has entered bankruptcy, at which point the outstanding principal amount is written off against the principal of the unsecured consumer loans on the combined consolidated balance sheets which results in a fair value adjustment on the combined consolidated statements of operations. Recoveries on charged off loans and sales of charged off loans to third parties are recorded as received, net of fees.

n. ***Allowance for Doubtful Accounts***

The Company continuously monitors collections from its tenants and recognizes an allowance for uncollectible accounts based on a specific tenant collection issues that the Company has identified. When management has determined that receivables are uncollectible, they are written off against the allowance for doubtful accounts.

o. ***Asset Management and Management Services***

Management fee expenses are recognized when incurred in accordance with the terms of each respective management agreement.

p. ***Debt Issuance Costs***

The Company defers costs incurred in connection with obtaining financing and amortizes the costs using the straight-line method, which approximates the effective interest rate method, over the terms of the related debt as a component of interest expense. For the year ending December 31, 2016, we have changed our method of presentation relating to deferred financing costs in accordance with Accounting Standards Update ("ASU") 2015-03, *Interest - Imputation of Interest* (Subtopic 835-30). Prior to January 1, 2016, our policy was to present deferred financing costs as an asset on the combined consolidated balance sheets, net of accumulated amortization. We have presented these costs as a direct deduction to our mortgages payable, mortgages payable related to real estate assets held for sale, debt related to consolidated VIE, and senior secured term loans in the accompanying combined consolidated balance sheets. Unamortized debt issuance costs of \$6,509,207 and \$1,574,417 previously reported as an asset on the combined consolidated balance sheet for the year ended December 31, 2015 have been reclassified as a direct deduction to mortgages payable, debt related to consolidated VIE, and senior secured term loans, respectively. At December 31, 2016 and 2015, the Company had net debt issuance costs of \$14,667,442 and \$8,083,624, respectively. Amortization of debt issuance costs of \$3,906,014 and \$924,339 are included in interest expense in the combined consolidated statements of operations for the years ended December 31, 2016 and 2015, respectively.

q. ***Non-controlling Interests***

Non-controlling interests are comprised of the Company's joint venture partners' interests in the joint ventures in real estate properties that the Company consolidates. The Company reports its joint venture partners' interests in its consolidated real estate joint ventures and other subsidiary interests held by third

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parties as non-controlling interests. The Company records these non-controlling interests at their initial fair value, adjusting the basis prospectively for their share of the respective consolidated investments' net income or loss and equity contributions and distributions. These non-controlling interests are not redeemable by the equity holders and are presented as part of permanent equity. Income and losses are generally allocated pro rata based on the respective ownership percentages until the venture reaches certain performance measures, at which time the other venture party will be entitled to preferred distributions (profit interests). No performance measures have been met as of December 31, 2016 and 2015.

r. **Income Taxes**

The Company elected to be taxed as a REIT for U.S. federal income tax purposes beginning with the taxable year 2013, under Sections 856 through 860 of the Internal Revenue Code of 1986, as amended (the Code). The Company believes it operates in such a manner as to qualify for treatment as a REIT for federal income tax purposes. Accordingly, the Company generally will not be subject to federal income tax, provided that distributions to its stockholders equal at least the amount of its taxable income. A REIT is subject to a number of organizational and operational requirements, including, among others, a requirement that it currently distributes at least 90% of its taxable income to stockholders, subject to certain adjustments. If the Company fails to qualify as a REIT in any taxable year without the benefit of certain relief provisions, it will be subject to federal and state income taxes on its taxable income at regular corporate income tax rates. Even if the Company qualifies for taxation as a REIT, the Company may be subject to certain state or local taxes on its income, property or net worth and federal income and excise taxes on its undistributed income. In addition, taxable income from non-REIT activities managed through the Company's taxable REIT subsidiaries ("TRS") will be fully subject to Federal, state and local income taxes.

The Company accounts for TRS income taxes under the liability method as required by ASC Topic 740, "Income Taxes." Under the liability method, deferred income taxes are recognized for the temporary differences between the GAAP basis and tax basis of the TRS income, assets and liabilities. For the years ended December 31, 2016 and 2015, several of the subsidiaries were considered taxable corporations for U.S. federal income tax purposes. The taxable U.S. corporate subsidiaries are subject to corporate level U.S. federal, state and local income tax on their net taxable income.

s. **Concentration of Credit Risk**

In the normal course of its business, the Company encounters credit risk. Financial instruments that potentially subject the Company to significant concentrations of credit risk consist primarily of cash and cash equivalents, restricted cash, principal and interest outstanding on unsecured consumer loans, amounts deposited with LendingClub and Prosper and amounts due from Avant. Credit risk represents the risk that we would incur if the counterparties failed to perform pursuant to the terms of their agreements with us.

t. **Servicing, Collection and Upfront Fees**

The Company incurs a monthly servicing fee for each outstanding unsecured consumer loan, which is payable to the third party online marketplace lending platforms for managing payments from borrowers and maintaining loan account portfolios. The Company incurs collection fees on amounts recovered from delinquent loans, which is payable to the third party online marketplace lending platforms. The Company incurs an upfront fee on unsecured consumer loans purchased from Avant. All servicing, collection and upfront fees are expensed as incurred.

3. **Recent Real Estate Transactions**

During 2016 and 2015, the Company acquired the following properties:

- On December 7, 2016, the Company, together with a joint venture partner, acquired a multi-family property located in Franklin, Massachusetts for an aggregate purchase price of \$64,750,000 exclusive of acquisition



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and closing costs. For the purchase of this property, the joint venture obtained bank financing of \$51,800,000. On the date of acquisition, the fair value of the non-controlling interest in the joint venture was \$2,298,750.

- On September 28, 2016, the Company, together with a joint venture partner, acquired eight student housing properties located at Division I universities in five states around the country for an aggregate purchase price of \$250,000,000 exclusive of acquisition and closing costs. For the purchase of these properties, the joint venture obtained bank financing of \$189,047,521. On the date of acquisition, the fair value of the non-controlling interest in the joint venture was \$25,816,538.
- On November 5, 2015, the Company, together with a joint venture partner, acquired a multi-family property located in Aurora, Illinois for an aggregate purchase price of \$34,500,000 exclusive of acquisition and closing costs. For the purchase of this property, the joint venture obtained bank financing of \$26,450,000. On the date of acquisition, the fair value of the non-controlling interest in the joint venture was \$2,254,325.
- On January 16, 2015, the Company, together with a joint venture partner, acquired a total of five self-storage properties located throughout Michigan for an aggregate purchase price of \$26,405,000 exclusive of acquisition and closing costs. For the purchases of these properties, the joint ventures assumed mortgages payable of \$12,602,057. On the date of acquisition, the fair value of the non-controlling interest in the joint venture was \$2,444,775.

The below listed properties have been accounted for as business combinations upon acquisition. The purchase prices were allocated to the acquired assets and liabilities based on their estimated fair values at the date of acquisition. The Company allocated the purchase price of the properties acquired during 2016 and 2015 as follows:

Property	Land	Building	Improvements	FF&E	Lease Intangibles <sup>(1)</sup>	Total Purchase Price
<b>2016 Acquisitions:</b>						
Union Place	\$ 3,088,568	\$ 56,490,906	\$ 1,982,661	\$ 2,391,149	\$ 796,716	\$ 64,750,000
Sterling Crimson	6,048,111	41,376,757	1,427,454	1,523,260	3,120,057	53,495,639
Hawks Ridge	3,840,070	25,920,474	796,544	1,082,156	2,467,245	34,106,489
Islander Village	706,433	11,026,080	579,008	489,252	830,536	13,631,309
Campus Quarters	1,152,021	14,496,265	1,010,067	690,541	1,056,019	18,404,913
District on Luther	4,074,120	28,615,840	2,539,865	1,741,491	4,888,944	41,860,260
West 22	8,256,151	40,800,746	3,533,815	1,511,188	3,523,264	57,625,164
Legacy	864,016	4,800,088	486,732	798,159	1,046,419	7,995,414
University Crossing	3,264,060	15,264,279	1,220,056	1,241,183	1,891,234	22,880,812
<b>Total 2016:</b>	<b>\$ 31,293,550</b>	<b>\$ 238,791,435</b>	<b>\$ 13,576,202</b>	<b>\$ 11,468,379</b>	<b>\$ 19,620,434</b>	<b>\$ 314,750,000</b>
<b>2015 Acquisitions:</b>						
Orchard Village	\$ 4,735,011	\$ 26,798,146	\$ 1,611,919	\$ 654,842	\$ 700,082	\$ 34,500,000
Okemos	641,027	5,859,385	250,401	—	741,187	7,492,000
Lansing West	215,065	1,331,353	61,447	—	133,135	1,741,000
Novi	580,043	5,400,403	70,005	—	650,049	6,700,500
Lake Orion	967,075	5,195,459	113,168	—	689,298	6,965,000
Ypsilanti	574,341	2,569,418	100,761	—	261,980	3,506,500
<b>Total 2015:</b>	<b>\$ 7,712,562</b>	<b>\$ 47,154,164</b>	<b>\$ 2,207,701</b>	<b>\$ 654,842</b>	<b>\$ 3,175,731</b>	<b>\$ 60,905,000</b>

(1) Lease intangibles include intangible assets and liabilities related to above and below market rents, net.

The weighted average amortization period of acquired in-place leases, above-market leases, and below-market leases was approximately 10 months and 6 months for the years ended and December 31, 2016 and 2015, respectively.

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On October 28, 2016, the Company sold the Abbington property to an unaffiliated third party for a gross sales price of \$37,000,000. The Company recognized a gain of \$16,698,046 in connection with the sale. On November 17, 2016, the Company made a return of capital equity distribution to NPH in the amount of \$9,629,010. In addition, the Company paid off a portion of the affiliate senior secured term loan to PSEC in the amount of \$6,400,140.

On December 30, 2015, the Company sold the Vista Palma Sola property to an unaffiliated third party for a gross sales price of \$43,000,000. The Company recognized a gain of \$18,594,671 in connection with the sale. On December 31, 2015, the Company made a distribution in the form of a dividend to PSEC in the amount of \$11,015,824. In addition, the Company paid off a portion of the affiliate senior secured term loan to PSEC in the amount of \$9,000,000.

On November 8, 2015, the Island Club property experienced severe flooding caused by heavy rainfall in the area, which damaged 41 of the 204 units, as well as the pool area and clubhouse. In addition, on July 5, 2016, the property experienced a fire in the maintenance shop. The costs basis of the destroyed and damaged assets from the flood and the fire amount to \$880,397. The Company received \$1,055,949 of insurance proceeds resulting in a gain on involuntary conversion of \$175,552, which is recorded as other income on the combined consolidated statements of operations for the year ended December 31, 2016. The Company restored the damaged units and rebuilt the maintenance shop in 2016. The costs were capitalized as a part of building and improvements on the combined consolidated balance sheets. In addition, the Company submitted a claim for loss of rental revenue resulting from the involuntary conversion. As of December 31, 2016, the claim was still under review by the insurance company. The Company expects to receive proceeds relating to this claim in 2017.

**4. Real Estate Assets**

The Company's ownership interests in real estate properties range from 64% to 100% via either direct ownership or ownership of a property owning entity. Through its ownership interests, the Company controls and therefore consolidates the properties and property owning entities. The interest owned by the other joint venture partner is reflected as non-controlling interest in these combined consolidated financial statements.

The Company's real estate assets consisted of the following as of December 31, 2016 and 2015:

Property	Acquisition Date	Ownership Percentage	Asset Type	Location	Real Estate Assets, Net of Accumulated Depreciation	
					2016	2015
Filet of Chicken	10/24/2012	100.0%	Industrial	Forest Park, GA	\$ 5,096,368	\$ 5,300,917
Abbington	12/28/2012	92.7%	Multi-Family	Marietta, GA	—	20,449,327
Amberly	1/17/2013	97.7%	Multi-Family	Tampa, FL	54,460,459	56,454,122
Loflon Place	4/30/2013	93.2%	Multi-Family	Tampa, FL	22,654,564	23,307,969
Arlington Park	5/8/2013	93.3%	Multi-Family	Marietta, GA	12,946,302	13,419,677
The Resort	6/24/2013	95.0%	Multi-Family	Pembroke Pines, FL	212,081,221	216,438,632
Bexley	11/1/2013	94.0%	Multi-Family	Marietta, GA	25,938,275	27,106,247
Conlova Regency	11/15/2013	99.3%	Multi-Family	Pensacola, FL	12,208,727	12,557,115
Crestview at Oakleigh	11/15/2013	99.3%	Multi-Family	Pensacola, FL	15,731,239	16,263,161
Inverness Lakes	11/15/2013	99.3%	Multi-Family	Mobile, AL	25,872,217	26,712,146
Kings Mill	11/15/2013	99.3%	Multi-Family	Pensacola, FL	18,334,194	19,024,408
Plantations at Pine Lake	11/15/2013	99.3%	Multi-Family	Tallahassee, FL	16,003,576	16,436,386
Verandas at Rocky Ridge	11/15/2013	99.3%	Multi-Family	Vestavia Hills, AL	13,476,823	14,068,885
Mathews Reserve	11/19/2013	90.0%	Multi-Family	Mathews, NC	19,964,498	20,330,075
City West	11/19/2013	90.0%	Multi-Family	Orlando, FL	20,629,783	21,453,510
Vinings Corner	11/19/2013	90.0%	Multi-Family	Smyrna, GA	31,977,619	32,956,073
Central Park	11/19/2013	90.0%	Multi-Family	Altamonte Springs, FL	32,831,665	33,826,400
Mission Gate	11/19/2013	90.0%	Multi-Family	Plano, TX	43,496,256	44,076,966
St. Marin	11/19/2013	90.0%	Multi-Family	Coppell, TX	66,828,052	68,450,994

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Property	Acquisition Date	Ownership Percentage	Asset Type	Location	Real Estate Assets, Net of Accumulated Depreciation	
					2016	2015
Eastwood Village	12/12/2013	92.0%	Multi-Family	Stockbridge, GA	22,885,639	23,618,392
Monterey Village	12/12/2013	92.0%	Multi-Family	Jonesboro, GA	10,228,950	10,583,368
Hidden Creek	12/12/2013	92.0%	Multi-Family	Morrov, GA	4,276,588	4,596,627
Meadow Springs	12/12/2013	92.6%	Multi-Family	College Park, GA	11,289,629	11,738,926
Meadow View	12/12/2013	92.6%	Multi-Family	College Park, GA	12,327,181	12,720,844
Peachtree Landing	12/12/2013	92.6%	Multi-Family	Fairburn, GA	15,050,087	15,534,237
Indigo	12/31/2013	93.0%	Multi-Family	Jacksonville, FL	33,286,983	34,403,257
Plantations at Hillcrest	1/17/2014	99.3%	Multi-Family	Mobile, AL	6,437,384	6,572,025
Crestview at Condova	1/17/2014	99.3%	Multi-Family	Pensacola, FL	7,456,426	7,760,286
Island Club	1/31/2014	93.0%	Multi-Family	Atlantic Beach, FL	11,490,530	11,750,038
Taco Bell, OK	6/4/2014	100.0%	Commercial	Yukon, OK	1,414,204	1,473,127
Taco Bell, MO	6/4/2014	100.0%	Commercial	Marshall, MO	1,150,819	1,201,355
Chesterfield	8/19/2014	85.0%	Self-Storage	Chesterfield, MI	4,997,172	5,173,564
Wyoming	8/19/2014	85.0%	Self-Storage	Wyoming, MI	4,300,083	4,429,971
Grand Rapids	8/19/2014	85.0%	Self-Storage	Grand Rapids, MI	6,311,002	6,530,950
Westland	8/28/2014	85.0%	Self-Storage	Westland, MI	4,208,322	4,238,958
State Street	8/28/2014	85.0%	Self-Storage	Ann Arbor, MI	3,812,414	3,911,412
Jackson	8/28/2014	85.0%	Self-Storage	Ann Arbor, MI	7,736,625	7,976,534
Kalamazoo	8/28/2014	85.0%	Self-Storage	Kalamazoo, MI	2,120,045	2,172,399
Canterbury	9/29/2014	92.5%	Multi-Family	Fort Wayne, IN	73,497,490	78,074,671
Abbie Lakes	9/30/2014	72.7%	Multi-Family	Canal Winchester, OH	12,428,735	12,485,569
Brookside	9/30/2014	72.7%	Multi-Family	Reynoldsburg, OH	11,233,895	11,964,651
Reserve at Abbie Lakes	9/30/2014	72.7%	Multi-Family	Canal Winchester, OH	25,638,673	27,009,215
Lakes Edge	9/30/2014	72.7%	Multi-Family	Pickerington, OH	10,260,161	11,314,103
Sunbury Ridge	9/30/2014	72.7%	Multi-Family	Columbus, OH	12,963,284	14,019,359
Stonebridge	9/30/2014	72.7%	Multi-Family	Blacklick, OH	17,466,236	18,679,438
Jefferson Chase	9/30/2014	72.7%	Multi-Family	Blacklick, OH	13,715,354	14,689,390
Lake Ridge	10/29/2014	72.7%	Multi-Family	Hilliard, OH	7,700,911	8,553,816
Okemos	1/16/2015	85.0%	Self-Storage	Okemos, MI	6,318,497	6,555,358
Lansing West	1/16/2015	85.0%	Self-Storage	Lansing West, MI	1,515,228	1,568,456
Novi	1/16/2015	85.0%	Self-Storage	Novi, MI	5,820,712	5,911,332
Lake Orion	1/16/2015	85.0%	Self-Storage	Lake Orion, MI	6,000,438	6,135,765
Ypsilanti	1/16/2015	85.0%	Self-Storage	Ypsilanti, MI	3,106,308	3,195,164
Orchard Village	11/5/2015	80.0%	Multi-Family	Aurora, IL	33,334,381	33,721,843
Sterling Crimson	9/28/2016	64.2%	Student Housing	Tuscaloosa, AL	50,039,115	—
Hawks Ridge	9/28/2016	64.2%	Student Housing	Iowa City, IA	31,393,944	—
Islander Village	9/28/2016	64.2%	Student Housing	Corpus Christi, TX	12,735,013	—
Campus Quarters	9/28/2016	64.2%	Student Housing	Corpus Christi, TX	17,226,595	—
District on Luther	9/28/2016	64.2%	Student Housing	College Station, TX	36,680,313	—
West 22	9/28/2016	64.2%	Student Housing	Kennesaw, GA	53,725,369	—
Legacy	9/28/2016	64.2%	Student Housing	Statesboro, GA	6,917,923	—
University Crossing	9/28/2016	64.2%	Student Housing	Manhattan, KS	20,805,094	—
Union Place	12/7/2016	85.0%	Multi-Family	Franklin, MA	63,815,909	—
<b>Total net real estate assets</b>					<b>\$ 1,355,651,499</b>	<b>\$ 1,118,897,410</b>



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**5. Lease Intangibles**

Lease intangibles consist of the following:

	As of December 31, 2016			As of December 31, 2015		
	Lease Intangibles	Accumulated Amortization	Lease Intangibles, net	Lease Intangibles	Accumulated Amortization	Lease Intangibles, net
In-place leases	\$ 47,182,020	\$ (32,346,147)	\$ 14,835,873	\$ 33,554,487	\$ (32,264,510)	\$ 1,289,977
Above-market leases	106,002	(31,801)	74,201	—	—	—
Below-market leases	(527,848)	158,354	(369,494)	—	—	—
Tenant relationships	239,208	(26,817)	212,391	\$ 239,208	\$ (20,381)	218,827
Deferred leasing costs	635,325	(141,609)	493,716	635,325	(102,999)	532,326
<b>Total</b>	<b>\$ 47,634,707</b>	<b>\$ (32,388,020)</b>	<b>\$ 15,246,687</b>	<b>\$ 34,429,020</b>	<b>\$ (32,387,890)</b>	<b>\$ 2,041,130</b>

Future amortization expense for the Company's lease intangibles is as follows: \$13,980,481 (2017), \$95,686 (2018), \$95,686 (2019), \$95,686 (2020), \$95,686 (2021), and \$883,462 (thereafter).

**6. Real Estate Assets Held for Sale**

As of December 31, 2016, the real estate assets held by the Bexley property met the criteria to be classified as held for sale. The Company entered into a purchase and sale agreement with an unrelated third party on November 23, 2016, which was subsequently amended on December 7, 2016. The sale closed on January 18, 2017. The gain in connection with the sale was \$28,576,947.

Below is a summary of the major classes of real estate assets classified as held for sale:

Real Estate Assets Held for Sale	December 31, 2016	December 31, 2015
Land	\$ 3,718,768	\$ —
Building and improvements	25,196,210	—
Furniture, fixtures, and equipment	1,276,097	—
Less: accumulated depreciation	(4,252,800)	—
<b>Total net real estate assets held for sale</b>	<b>\$ 25,938,275</b>	<b>\$ —</b>

**7. Common Control Merger**

Effective May 23, 2016, the Company completed the Merger with the Affiliated REITs, with the Company continuing as the surviving corporation. The Affiliated REITs held an investment portfolio of real estate assets owned directly or through joint ventures. Substantially all of the Affiliated REITs revenues are derived from real estate operations. As the Company and the Affiliated REITs were under common control at the time of the Merger, the results of operations have been combined from the date common control began.

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Separate results for the Company, APRC and UPRC for the twelve months ended December 31, 2016 and 2015 are as follows:

	For the Year Ended December 31, 2016			
	NPRC	APRC	UPRC	Total
Total revenues	\$ 299,389,681	11,651,730	20,432,406	\$ 331,473,817
Total costs and expenses	146,097,097	9,676,778	18,778,490	174,552,365
Total other (expense) income, net	(234,379,938)	(5,600,462)	(7,536,631)	(247,517,031)
Net loss before income tax	(81,087,354)	(3,625,510)	(5,882,715)	(90,595,579)
Income tax expense	(14,757)	—	—	(14,757)
<b>Net loss</b>	<b>\$ (81,102,111)</b>	<b>(3,625,510)</b>	<b>(5,882,715)</b>	<b>\$ (90,610,336)</b>

	For the Year Ended December 31, 2015			
	NPRC	APRC	UPRC	Total
Total revenues	\$ 154,207,660	35,754,004	49,021,646	\$ 238,983,310
Total costs and expenses	71,813,880	30,498,945	50,659,434	152,972,259
Total other (expense) income, net	(116,829,845)	(1,734,797)	(18,838,752)	(137,403,394)
Net (loss) income before income tax	(34,436,065)	3,520,262	(20,476,540)	(51,392,343)
Income tax expense	(165,349)	—	—	(165,349)
<b>Net (loss) income</b>	<b>\$ (34,601,414)</b>	<b>3,520,262</b>	<b>(20,476,540)</b>	<b>\$ (51,557,692)</b>

**8. Unsecured Consumer Loans**

The Company purchased \$580,599,910 and \$610,884,157 aggregate principal of unsecured consumer loans from Avant, LendingClub, and Prosper for the year ended December 31, 2016 and 2015 respectively. The Company's portfolio of unsecured consumer loans consists of a large number of small balance homogeneous loans. As of December 31, 2016, the portfolio consisted of 113,282 loans having an average outstanding principal of \$7,033 and individual balances of \$50,000 or less. As of December 31, 2016, the unsecured consumer loans were issued with stated interest rates ranging from 4.0% to 36.0% with a weighted average rate of 23.4% based on outstanding principal of the unsecured consumer loans. As of December 31, 2015, the portfolio consisted of 72,132 loans having an average outstanding principal of \$8,603 and individual balances of \$50,000 or less. As of December 31, 2015, the unsecured consumer loans were issued with stated interest rates ranging from 4.0% to 36.0% with a weighted average rate of 20.4% based on outstanding principal of the unsecured consumer loans.

The ability of the borrowers of the unsecured consumer loans to repay the Company are affected by their continuing financial stability. The credit risk of the unsecured consumer loans is considered to be higher than for secured loans.

The third party online marketplace lending platforms classify the unsecured consumer loans into separately identified pools by rating ("Rating") which is based on the associated proprietary risk or associated interest rate of the unsecured consumer loan. Each unsecured consumer loan is assigned a Rating. The Rating is a letter that indicates the expected level of risk associated with the loan. Each letter grade corresponds to an estimated average annualized loss rate range as of the time the Rating is given. The estimated annual loss rate for each loan is based primarily on a proprietary custom risk model developed by each of the third party online marketplace lending platforms using their respective historical data, borrower specific factors and Fair Isaac Corporation score ("FICO score") obtained from a credit reporting agency. As part of the Rating determination, the third party online

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marketplace lending platforms also consider borrower specific factors such as, but not limited to, credit related inquiries in the last six months and debt-to-income ratio.

As Ratings are not consistent between third party online marketplace lending platforms, the Company stratifies the unsecured consumer loans into separately identified pools based on the FICO score obtained from a credit reporting agency and as provided by each online marketplace lending platform at origination. The stratified pools are super prime, prime and near prime. The Company defines super prime loans as loans to borrowers with a FICO score of 720 or greater, prime loans as loans to borrowers with a FICO score of between 660 and 719 and near prime loans as loans to borrowers with a FICO of 659 or less.

The following table summarizes the unsecured consumer loans held as of December 31, 2016:

	Outstanding Principal	Fair Value	Interest Rate Range	Weighted Average Interest Rate*
Super Prime	\$ 54,946,564	\$ 53,641,384	4.0% - 34.0%	11.7%
Prime	156,404,965	149,536,540	5.3% - 36.0%	15.4%
Near Prime	585,331,147	556,411,497	6.0% - 36.0%	26.7%
<b>Total Loans</b>	<b>\$ 796,682,676</b>	<b>\$ 759,589,421</b>		<b>23.4%</b>

The following table summarizes the unsecured consumer loans held as of December 31, 2015:

	Outstanding Principal	Fair Value	Interest Rate Range	Weighted Average Interest Rate*
Super Prime	\$ 71,553,875	\$ 71,597,378	4.0% - 36.0%	11.6%
Prime	192,299,176	191,872,197	5.3% - 36.0%	14.7%
Near Prime	356,683,209	347,905,119	6.0% - 36.0%	25.2%
<b>Total Loans</b>	<b>\$ 620,536,260</b>	<b>\$ 611,374,694</b>		<b>20.4%</b>

\* Based on outstanding principal of the unsecured consumer loans.

The following table summarizes the delinquency status of the unsecured consumer loans:

Delinquency Status	As of December 31, 2016:		As of December 31, 2015:	
	Outstanding Principal	Fair Value	Outstanding Principal	Fair Value
Current	\$ 732,441,199	\$ 728,328,320	\$ 588,671,413	\$ 587,670,646
1 - 30 days	28,801,716	23,898,297	17,433,987	16,937,127
31 - 60 days	13,269,119	4,125,694	5,977,670	3,684,124
61 - 90 days	11,856,214	2,121,720	4,594,417	1,955,013
91 - 120 days	10,314,428	1,115,390	3,858,773	1,127,784
<b>Total Loans</b>	<b>\$ 796,682,676</b>	<b>\$ 759,589,421</b>	<b>\$ 620,536,260</b>	<b>\$ 611,374,694</b>

**9. Fair Value of Financial Instruments**

The fair value of a financial instrument is defined as the price that we would receive upon selling an asset or pay to transfer a liability in an orderly transaction to an independent buyer in the principal or most advantageous market in which that financial instrument is transacted.

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

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of the significance of a particular input to the fair value measurement in its entirety requires judgment and considers factors specific to each investment.

*Unsecured Consumer Loans and Revolving Credit Facilities at Fair Value*

All of our financial instruments measured at fair value on a recurring basis were classified as Level 3 as of December 31, 2016 and 2015. We did not transfer any assets or liabilities in or out of Level 3 during the years ended December 31, 2016 and 2015. Transfers between levels, should they occur, will be recognized at the beginning of the quarter during which the asset or liability was transferred.

The unsecured consumer loans and revolving credit facilities do not trade in an active market with readily observable prices. For the unsecured consumer loans, fair value is estimated by using a discounted cash flow methodology based upon significant unobservable inputs, such as loss adjusted discount rates and projected loss rates. The loss adjusted discount rates are used to discount the estimated future cash flows expected to be received from the underlying unsecured consumer loans, which includes both future principal and interest payments. The projected loss rates are based on the perceived credit risk inherent in each Rating of the unsecured loan portfolio. For the revolving credit facilities, fair value is estimated using a yield analysis methodology based upon significant unobservable inputs, such as market yield. Significant increases or decreases in the unobservable inputs, such as loss adjusted discount rates, projected loss rates or market yield would result in a decrease or increase, respectively, in the fair value measurement.

The following table shows the fair value of our unsecured consumer loans and revolving credit facilities disaggregated into the three levels of the ASC 820, *Fair Value Measurement* ("ASC 820") valuation hierarchy as of December 31, 2016.

	Level 1	Level 2	Level 3	Total
<b>Assets</b>				
Unsecured Consumer Loans	\$ —	\$ —	\$ 759,589,421	\$ 759,589,421
<b>Liabilities</b>				
Revolving Credit Facilities	\$ —		\$ 217,579,369	\$ 217,579,369

The following table shows the fair value of our unsecured consumer loans and revolving credit facilities disaggregated into the three levels of the ASC 820 valuation hierarchy as of December 31, 2015.

	Level 1	Level 2	Level 3	Total
<b>Assets</b>				
Unsecured Consumer Loans	\$ —	\$ —	\$ 611,374,694	\$ 611,374,694
<b>Liabilities</b>				
Revolving Credit Facilities	\$ —	\$ —	\$ 349,574,835	\$ 349,574,835

Refer to Note 8 for details of the unsecured consumer loans.



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The following table shows the aggregate changes in the fair value of our Level 3 unsecured consumer loans during the years ended December 31, 2016 and 2015.

<b>Unsecured Consumer Loans</b>	
<b>Fair Value at December 31, 2014</b>	<b>\$ 179,639,250</b>
Purchases	610,884,157
Principal payments and proceeds from recoveries and sales of charged off loans	(155,097,557)
<b>Carrying value before fair value adjustments</b>	<b>635,425,850</b>
Fair value adjustments:	
Net increase in unrealized depreciation	(8,968,610)
Charge offs	(15,886,319)
Recoveries	803,773
<b>Fair value adjustments</b>	<b>(24,051,156)</b>
<b>Fair Value at December 31, 2015</b>	<b>611,374,694</b>
Purchases	580,599,910
Principal payments and proceeds from recoveries and sales of charged off loans	(333,905,995)
<b>Carrying value before fair value adjustments</b>	<b>858,068,609</b>
Fair value adjustments:	
Net increase in unrealized depreciation	(27,931,689)
Charge offs	(76,016,836)
Recoveries	5,469,337
<b>Fair value adjustments</b>	<b>(98,479,188)</b>
<b>Fair Value at December 31, 2016</b>	<b>\$ 759,589,421</b>

For the year ended December 31, 2016, the net increase in unrealized depreciation on the unsecured consumer loans was \$(36,144,978) for unsecured consumer loans still held as of December 31, 2016. For the year ended December 31, 2015, the net increase in unrealized depreciation on the unsecured consumer loans was \$(9,411,004) for unsecured consumer loans still held as of December 31, 2015.

The net increase in unrealized depreciation of \$(27,931,689) and \$(8,968,610), for the years ended December 31, 2016 and 2015, respectively, which is part of the fair value adjustments included in net loss on the combined consolidated statements of operations is attributable to instrument-specific changes in estimated future credit losses (i.e. default losses). Pools of unsecured consumer loans, based on purchase month and Rating, that are projected to have higher future default losses than previously estimated have lower expected future cash flows over the remaining life, which reduces the estimated fair value. Conversely, the pools of unsecured consumer loans that are projected to have lower future default losses than previously estimated have higher expected future cash flows over the remaining life, which increases the estimated fair value. Changes in the unobservable inputs, such as loss adjusted discount rates and projected loss rates, may have a significant impact on the fair value of unsecured consumer loans. These unobservable inputs will (in isolation) have a directionally opposite impact on the fair value of unsecured consumer loans for a given change in that input.

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The following table shows the aggregate changes in the fair value of our Level 3 revolving credit facilities during the year ended December 31, 2016 and 2015.

Revolving Credit Facilities	
<b>Fair Value at December 31, 2014</b>	<b>\$ 121,100,061</b>
Borrowings	420,420,000
Principal payments	(191,945,226)
<b>Carrying value before fair value adjustments</b>	<b>349,574,835</b>
Fair value adjustments:	
Net increase in unrealized appreciation	—
Fair value adjustments	—
<b>Fair Value at December 31, 2015</b>	<b>349,574,835</b>
Borrowings	290,181,851
Principal payments	(422,177,317)
<b>Carrying value before fair value adjustments</b>	<b>217,579,369</b>
Fair value adjustments:	
Net increase in unrealized appreciation	—
Fair value adjustments	—
<b>Fair Value at December 31, 2016</b>	<b>\$ 217,579,369</b>

*Financial Instruments Not Recorded at Fair Value*

The following table presents fair value estimates of financial instruments not recorded at fair value on a recurring basis:

	December 31, 2016		December 31, 2015	
	Carrying Value	Estimated Fair Value	Carrying Value	Estimated Fair Value
<b>Assets</b>				
Cash and cash equivalents <sup>(1)</sup>	\$ 32,609,382	\$ 32,609,382	\$ 15,301,870	\$ 15,301,870
Restricted cash <sup>(1)</sup>	59,724,126	59,724,126	45,279,994	45,279,994
Due from LendingClub Corporation <sup>(2)</sup>	7,075,357	7,075,357	43,228,085	43,228,085
Due from Prosper Funding LLC <sup>(2)</sup>	810,467	810,467	4,260,501	4,260,501
Due from Avant, Inc. <sup>(2)</sup>	1,708	1,708	93,672	93,672
<b>Liabilities</b>				
Mortgages payable	1,200,756,278	1,218,418,641	897,988,196	927,738,173
Debt related to consolidated VIE <sup>(3)</sup>	208,872,814	212,909,545	—	—
Senior secured term loans <sup>(4)</sup>	624,003,996	625,485,383	576,214,194	577,788,610

*(1) Cash and cash equivalents and restricted cash - The carrying amount of cash and cash equivalents and restricted cash approximated fair value as of December 31, 2016 and 2015.*

*(2) Due from LendingClub Corporation, Due from Prosper Funding LLC and Due from Avant, Inc. - The carrying amount of Due from LendingClub Corporation, Due from Prosper Funding LLC and Due from Avant, Inc. approximated fair value as of December 31, 2016 and 2015, due to the on demand nature of these instruments.*

*(3) Debt related to consolidated VIE - The estimated fair value is calculated using a yield analysis, the key unobservable input being the market yield, and is considered a level 3 measurement.*

*(4) Senior secured term loans - The estimated fair value is calculated using an enterprise value waterfall, the key unobservable input being fair value of the underlying collateral, and is considered a level 3 measurement.*

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**10. Variable Interest Entity**

The Company's variable interests in a VIE include debt and equity interests. Our involvement with the VIE arose from retained interests held as a result of securitization activities. We determine whether we are the primary beneficiary of a VIE upon our initial involvement with the VIE and we reassess whether we are the primary beneficiary of a VIE on an ongoing basis. Our determination of whether we are the primary beneficiary of a VIE is based upon the facts and circumstances for each VIE and requires significant judgment. Our considerations in determining the VIE's most significant activities and whether we have power to direct those activities include, but are not limited to, the VIE's purpose and design and the risks passed through to investors, the voting interests of the VIE, management, service and/or other agreements of the VIE, involvement in the VIE's initial design and the existence of explicit or implicit financial guarantees. In situations where we have determined that the power over a VIE's significant activities is shared, we assess whether we are the party with the power over the most significant activities. If we are the party with the power over the most significant activities, we meet the "power" criteria of the primary beneficiary. If we do not have the power over the most significant activities or we determine that decisions require consent of each sharing party, we do not meet the "power" criteria of the primary beneficiary.

We assess our variable interests in a VIE both individually and in aggregate to determine whether we have an obligation to absorb losses of, or a right to receive benefits from, the VIE that could potentially be significant to the VIE. The determination of whether our variable interest is significant to the VIE requires significant judgment. In determining the significance of our variable interest, we consider the terms, characteristics and size of the variable interests, the design and characteristics of the VIE, our involvement in the VIE and our market-making activities related to the variable interests.

We are the primary beneficiary of a securitization vehicle associated with our financing of unsecured consumer loans. In the creation of the securitization vehicle, we were involved in the decisions made during the establishment and design of the entity and hold variable interests consisting of debt and equity securities retained that could potentially be significant to the securitized vehicle. The assets of the securitized vehicle deemed a VIE, consist of unsecured consumer loans which are available for the benefit of the vehicle's beneficial interest holders. The creditors of the VIE do not have recourse to our general credit, and the assets of the VIE are not available to satisfy any other debt. We have not provided financial or other support during the year ended December 31, 2016 to the VIE that was not previously contractually required to provide.

The following table presents information about our consolidated VIE as of December 31, 2016. The Company did not have any consolidated VIEs as of December 31, 2015. The assets and liabilities in the tables below are presented prior to consolidation and thus a portion of these assets and liabilities are eliminated in consolidation. As of December 31, 2016, the Company holds \$39,266,000 of debt and all the equity interests of the VIE.

	<b>December 31, 2016</b>
Restricted cash	\$ 19,596,223
Unsecured consumer loans at fair value	267,642,484
Due from LendingClub Corporation	1,816,471
Interest receivable	4,401,157
<b>Total assets</b>	<b>\$ 293,456,335</b>
Debt related to consolidated VIE, net of debt issuance costs <sup>(1)</sup>	\$ 248,138,814
Other liabilities	368,746
<b>Total liabilities</b>	<b>\$ 248,507,560</b>

*(1) Debt related to consolidated VIE includes Class A Notes, Class B Notes and Class C Notes with a maturity date of November 25, 2022, outstanding principal balances of \$173,643,545, \$39,266,000 and \$39,266,000 and interest rates of 4.19%, 6.15% and 10.00%, respectively. As of December 31, 2016, \$4,036,731 of unamortized deferred financing costs are recorded as a direct deduction to the debt.*

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**11. Revolving Credit Facilities**

On April 21, 2014, ACL Trust closed a three year \$50,000,000 revolving credit facility relating to Prosper unsecured consumer loans ("ACL Subsidiaries Facility") with Capital One. On November 13, 2014, American Consumer Lending (Prime), LLC was added as a borrower on the ACL Subsidiaries Facility. The ACL Subsidiaries Facility includes an accordion feature which allows the commitment to be increased to \$100,000,000 in the aggregate. The ACL Subsidiaries Facility accordion feature was increased to \$150,000,000 and \$250,000,000 in the aggregate, on April 23, 2015 and October 30, 2015, respectively. The ACL Subsidiaries Facility was increased to \$75,000,000, \$95,000,000, \$115,000,000 and \$165,000,000 on October 7, 2014, November 13, 2014, April 23, 2015 and October 30, 2015 respectively, with the addition of four new lenders. For all advances made prior to April 21, 2015, the lender withheld an interest and fee reserve ("ACL Interest Reserve"). After April 21, 2015, the Company is required to maintain a minimum interest and fee reserve amount which is calculated as a product of 125 basis points of the unpaid principal balance on the ACL Subsidiaries Facility plus the product of 100 basis points of the aggregate outstanding principal balance of the unsecured consumer loans plus \$10,000. On December 15, 2016 the ACL Subsidiaries Facility accordion feature was decreased to \$100,000,000 and the minimum interest and fee reserve amount was updated to be calculated as a product of 250 basis points of the unpaid principal balance on the ACL Subsidiaries Facility plus the product of 100 basis points of the aggregate outstanding principal balance of the unsecured consumer loans plus \$10,000. On a monthly basis, the lender withdraws related interest payments due from the ACL Interest Reserve. As of December 31, 2016 and 2015, the outstanding balances of the ACL Subsidiaries Facility are \$75,211,476 and \$162,769,716, respectively.

On December 30, 2014, ACL III Subsidiaries closed a three year \$50,000,000 revolving credit facility relating to LendingClub unsecured consumer loans ("ACL III Subsidiaries Facility") with Capital One. The ACL III Subsidiaries Facility includes an accordion feature which allows the commitment to be increased to \$100,000,000 in the aggregate. The ACL III Subsidiaries Facility accordion feature was increased to \$150,000,000 in the aggregate on December 21, 2015. The ACL III Subsidiaries Facility was increased to \$75,000,000 and \$95,000,000 on March 31, 2015 and December 21, 2015, respectively, with the addition of two new lenders. For all advances made prior to September 23, 2015, the lender withheld an interest and fee reserve ("ACL III Interest Reserve"). After September 23, 2015, the Company is required to maintain a minimum interest and fee reserve amount which is calculated as a product of 125 basis points of the unpaid principal balance on the ACL III Subsidiaries Facility. On a monthly basis, the lender withdraws related interest payments due from the ACL III Interest Reserve. As of December 31, 2016 and 2015, the outstanding balances of the ACL III Subsidiaries Facility are \$18,542,229 and \$78,706,596, respectively.

On April 9, 2015, ACL IV Subsidiaries closed a three year \$75,000,000 revolving credit facility relating to LendingClub unsecured consumer loans ("ACL IV Subsidiaries Facility") with Morgan Stanley Bank, N.A. The ACL IV Subsidiaries Facility includes an accordion feature which allows the commitment to be increased to \$150,000,000 in the aggregate. The ACL IV Subsidiaries Facility accordion feature was increased to \$200,000,000 in the aggregate, on July 22, 2016. The total commitments under the ACL IV Subsidiaries Facility was increased to \$125,000,000 and \$200,000,000 on November 20, 2015 and July 22, 2016, respectively. For all advances, the lender withholds a cash reserve. The Company is required to maintain a minimum cash reserve amount which is calculated as a product of 175 basis points of the unpaid principal balance on the ACL IV Subsidiaries Facility. As of December 31, 2016 and 2015, the outstanding balance of the ACL IV Subsidiaries Facility are \$96,518,614 and \$101,998,523, respectively.

On December 16, 2015, ACL Trust V closed a one and half year \$75,000,000 revolving credit facility relating to Avant unsecured consumer loans ("ACL Trust V Facility") with Morgan Stanley Bank, N.A. The ACL Trust V Facility includes an accordion feature which allows the commitment to be increased to \$150,000,000 in the aggregate. On July 28, 2016 the revolving credit facility amount and the commitment was decreased to \$25,000,000. For all advances, the lender withholds a cash reserve. The Company is required to maintain a minimum cash reserve amount which is calculated as a product of 100 basis points of the unpaid principal balance



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on the ACL Trust V Facility. As of December 31, 2016 and 2015, the outstanding balance of the ACL Trust V Facility are \$4,736,958 and \$6,100,000, respectively.

On April 20, 2016, ACL PS closed a three year \$50,000,000 revolving credit facility relating to NBT unsecured consumer loans ("ACL PS Facility") with Pacific Western Bank. The ACL PS Facility includes an accordion feature which allows the commitment to be increased to \$100,000,000 in the aggregate. The Company is required to maintain a minimum cash reserve amount which is calculated as a product of 100 basis points of the unpaid principal balance on the ACL PS Facility. As of December 31, 2016, the outstanding balance of the ACL PS Facility is \$22,570,092.

The ACL Subsidiaries Facility, the ACL III Subsidiaries Facility, the ACL IV Subsidiaries Facility, the ACL Trust V Facility and the ACL PS Facility are collectively referred to as "Revolving Credit Facilities".

The Revolving Credit Facilities contain restrictions pertaining to the unsecured consumer loans considered as eligible collateral. Restrictions on eligible collateral include, but are not limited to, the maximum and minimum size, maximum interest rate, original term and credit score of the borrower related to the unsecured consumer loans. The Revolving Credit Facilities also contains certain requirements relating to the portfolio of loans and portfolio performance, including, but are not limited to, minimum FICO score of borrowers, average aggregate principal amount payable, maximum delinquencies and charge-offs, maximum leverage ratios, minimum interest coverage ratios, minimum annual net income, violations of which could result in the early termination of the Revolving Credit Facilities. Borrowings on the Revolving Credit Facilities are generally limited to 50.0% to 80.0% of the outstanding eligible principal balance of the portfolio of unsecured consumer loans. The ACL IV Subsidiaries Facility and the ACL Trust V Facility include portfolio excess concentration tests which if greater than specified concentration limits decrease the amount of eligible collateral. As of December 31, 2016 the Company is in compliance with the requirements of the Revolving Credit Facilities.

The Revolving Credit Facilities require us to hold unsecured consumer loans as collateral in order to borrow under the credit facilities. During the terms of the Revolving Credit Facilities, all principal and interest payments on the unsecured consumer loans held as collateral are used to pay facility expenses, interest expenses or applied to reduce the outstanding balance on the Revolving Credit Facilities. The remaining balance will become due upon maturity.

Interest on borrowings under the ACL Subsidiaries Facility and ACL III Subsidiaries Facility is one-month LIBOR rate plus 350 basis points with a minimum LIBOR floor of 50 basis points. Interest on borrowings under the ACL IV Subsidiaries Facility is one-month LIBOR rate plus an applicable margin. The applicable margin is calculated as the product of 275 or 350 basis points and the applicable eligible unsecured consumer loan balance divided by the aggregate eligible unsecured consumer loan balance. After July 22, 2016 the applicable margin was calculated as the product of 325 or 400 basis points and the applicable eligible unsecured consumer loan balance divided by the aggregate eligible unsecured consumer loan balance. As of December 31, 2016 and 2015, the applicable margin was 374 and 327 basis points, respectively. Interest on borrowings under the ACL V Facility is one-month LIBOR rate plus 450 basis points. Interest on borrowings under the ACL PS Facility is one-month LIBOR rate plus 400 basis points. As of December 31, 2016 and 2015, the one-month LIBOR rate was 77 and 43 basis points, respectively. Additionally, the lender charges a monthly fee on the unused portion of the ACL Subsidiaries Facility and ACL III Subsidiaries Facility equal to the product of 35 basis points per annum and the difference (if any) of the aggregate outstanding available credit facility and the average daily outstanding drawn principal balance. The monthly fee on the unused portion of the ACL IV Subsidiaries Facility, ACL Trust V Facility and ACL PS Facility is equal to the product of 10 to 60 basis points, 25 to 75 basis points, and 35 to 50 basis points, respectively, and the difference (if any) of the average daily outstanding available credit facility and the average daily outstanding drawn principal balance, depending on the amount of the average daily outstanding drawn principal balance versus the maximum revolving credit facility.

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During the years ended December 31, 2016 and 2015, we accrued \$2,274,556 and \$3,288,596 respectively, of agent fees, unused line fees and debt issuance costs on the Revolving Credit Facilities, which are recorded as interest expense on the combined consolidated statements of operations.

The Company intends to refinance the Revolving Credit Facilities which have stated maturity dates within the next year.

**12. Mortgages Payable**

The Company has outstanding mortgages payable that bear interest at either a fixed or variable rate. Each mortgage payable is secured by a respective real estate property and certain cash reserve accounts required by the borrowing agreements, which are included as restricted cash on the accompanying combined consolidated balance sheets. The following table presents a summary of our mortgages payable as of December 31, 2016 and 2015:

Mortgage Note	Interest Rate <sup>(1)</sup>	Maturity Date	Amortizing or Interest Only	Outstanding Principal 12/31/2016	Outstanding Principal 12/31/2015
Abbingdon <sup>(1)</sup>	3.92%	1/1/2023	N/A	\$ —	\$ 15,032,050
Amberly - Loan 1	3.75%	2/1/2023	Interest Only	39,600,000	39,600,000
Amberly - Loan 2	4.97%	2/1/2023	Interest Only	7,100,000	—
Loflon Place - Loan 1	3.97%	5/1/2023	Interest Only	16,965,000	16,965,000
Loflon Place - Loan 2	4.71%	5/1/2023	Interest Only	3,411,407	—
Arlington Park	4.08%	6/1/2023	Amortizing	9,650,000	9,650,000
The Resort - Loan 1	4.17%	7/1/2023	Interest Only	156,361,822	157,500,000
The Resort - Loan 2	4.80%	7/1/2023	Amortizing	24,112,933	24,381,000
Bexley - Loan 1	5.50%	4/1/2021	Amortizing	15,955,158	16,146,118
Bexley - Loan 2	4.86%	4/1/2021	Amortizing	5,714,498	5,793,456
Bexley - Loan 3	4.91%	4/1/2021	Amortizing	10,798,677	11,000,000
Cordova Regency - Loan 1	4.55%	12/1/2023	Amortizing	9,026,000	9,026,000
Cordova Regency - Loan 2	4.61%	12/1/2023	Interest Only	2,349,000	—
Crestview at Oakleigh - Loan 1	4.55%	12/1/2023	Interest Only	11,488,000	11,488,000
Crestview at Oakleigh - Loan 2	4.61%	12/1/2023	Interest Only	2,357,000	—
Inverness Lakes - Loan 1	4.55%	12/1/2023	Interest Only	19,400,000	19,400,000
Inverness Lakes - Loan 2	4.61%	12/1/2023	Interest Only	5,300,000	—
Kings Mill - Loan 1	4.55%	12/1/2023	Interest Only	13,622,000	13,622,000
Kings Mill - Loan 1	4.61%	12/1/2023	Interest Only	3,928,000	—
Plantations at Pine Lake - Loan 1	4.55%	12/1/2023	Interest Only	11,817,000	11,817,000
Plantations at Pine Lake - Loan 2	4.61%	12/1/2023	Interest Only	2,275,000	—
Verandas at Rocky Ridge	4.55%	12/1/2023	Interest Only	10,205,000	10,205,000
Matthews Reserve - Loan 1	4.46%	12/1/2023	Interest Only	17,571,000	17,571,000
Matthews Reserve - Loan 2	5.61%	12/1/2023	Interest Only	2,378,307	—
City West - Loan 1	4.46%	12/1/2023	Amortizing	18,533,000	18,533,000
City West - Loan 2	5.59%	12/1/2023	Interest Only	4,791,107	—
Vinings Corner - Loan 1	4.46%	12/1/2023	Amortizing	26,640,000	26,640,000
Vinings Corner - Loan 2	5.50%	12/1/2023	Interest Only	6,345,738	—
Central Park - Loan 1	4.46%	12/1/2023	Amortizing	27,471,000	27,471,000
Central Park - Loan 2	5.55%	12/1/2023	Interest Only	2,353,251	—
Mission Gate - Loan 1	4.46%	12/1/2023	Amortizing	36,148,000	36,148,000
Mission Gate - Loan 2	5.55%	12/1/2023	Interest Only	5,528,902	—
St. Marin - Loan 1	4.46%	12/1/2023	Amortizing	53,863,000	53,863,000
St. Marin - Loan 2	5.53%	12/1/2023	Interest Only	8,634,847	—
Eastwood Village - Loan 1	4.60%	1/1/2024	Amortizing	19,780,146	19,784,543
Monterey Village - Loan 1	4.60%	1/1/2024	Interest Only	9,190,465	9,193,187

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Mortgage Note	Interest Rate <sup>(2)</sup>	Maturity Date	Amortizing or Interest Only	Outstanding Principal 12/31/2016	Outstanding Principal 12/31/2015
Hidden Creek - Loan 1	4.60%	1/1/2024	Interest Only	3,617,572	3,619,163
Meadow Springs - Loan 1	4.60%	1/1/2024	Interest Only	10,175,845	10,179,915
Meadow View - Loan 1	4.60%	1/1/2024	Interest Only	11,138,592	11,141,442
Peachtree Landing - Loan 1	4.60%	1/1/2024	Interest Only	13,572,132	13,575,000
Indigo	4.49%	7/1/2023	Interest Only	27,874,074	28,321,348
Plantations at Hillcrest	4.43%	12/1/2020	Amortizing	4,834,337	4,926,858
Crestview at Condova - Loan 1	4.43%	12/1/2020	Amortizing	4,813,349	4,905,467
Crestview at Condova - Loan 2	4.43%	12/1/2020	Amortizing	3,230,570	—
Island Club - Loan 1	4.36%	1/1/2019	Amortizing	7,136,427	7,265,784
Island Club - Loan 2	5.14%	1/1/2019	Amortizing	1,551,972	1,575,795
Chesterfield	4.51%	9/6/2024	Amortizing	4,350,000	4,350,000
Wyoming	4.51%	9/6/2024	Interest Only	3,600,000	3,600,000
Grand Rapids	4.51%	9/6/2024	Interest Only	5,460,000	5,460,000
Westland	4.45%	9/6/2024	Interest Only	3,480,000	3,480,000
State Street	4.45%	9/6/2024	Interest Only	3,345,000	3,345,000
Jackson	4.45%	9/6/2024	Interest Only	6,695,000	6,695,000
Kalamazoo	4.45%	9/6/2024	Interest Only	1,775,000	1,775,000
Canterbury Green - Loan 1	4.21%	10/1/2024	Interest Only	65,823,754	65,825,000
Canterbury Green - Loan 2	5.13%	10/1/2024	Interest Only	8,405,359	—
Abbie Lakes	4.20%	10/1/2024	Amortizing	10,440,000	10,440,000
Brooksedge	4.20%	10/1/2024	Interest Only	11,000,000	11,000,000
Reserve at Abbie Lakes	4.20%	10/1/2024	Interest Only	20,142,000	20,142,000
Lakes Edge	4.20%	10/1/2024	Interest Only	10,080,000	10,080,000
Sunbury Ridge	4.20%	10/1/2024	Interest Only	10,480,000	10,480,000
Stonebridge	4.20%	10/1/2024	Interest Only	15,480,000	15,480,000
Jefferson Chase	4.20%	10/1/2024	Interest Only	12,240,000	12,240,000
Lake Ridge	4.11%	11/1/2024	Interest Only	8,040,000	8,040,000
Okemos	4.19%	3/6/2025	Interest Only	5,620,000	5,620,000
Lansing West	4.19%	3/6/2025	Interest Only	1,305,000	1,305,000
Novi	4.19%	3/6/2025	Interest Only	5,025,000	5,025,000
Lake Orion	4.19%	3/6/2025	Interest Only	5,225,000	5,225,000
Ypsilanti	4.19%	3/6/2025	Interest Only	2,630,000	2,630,000
Orchard Village	4.43%	12/1/2025	Interest Only	26,450,000	26,450,000
Sterling Crimson	4.20%	10/1/2026	Interest Only	41,250,000	—
Haw's Ridge	4.20%	10/1/2026	Interest Only	24,825,000	—
Islander Village	4.20%	10/1/2026	Interest Only	10,800,000	—
Campus Quarters	4.20%	10/1/2026	Interest Only	14,175,000	—
District on Luther	4.20%	10/1/2026	Interest Only	32,058,000	—
West 22	4.20%	10/1/2026	Interest Only	44,727,000	—
Legacy <sup>(3)</sup>	3.17%	2/1/2020	Interest Only	5,291,500	—
University Crossing <sup>(3)</sup>	3.17%	2/1/2020	Interest Only	15,921,021	—
Union Place	4.42%	1/1/2027	Interest Only	51,800,000	—
Eastwood Village - Loan 2	4.39%	1/1/2024	Interest Only	3,277,994	—
Monterey Village - Loan 2	4.39%	1/1/2024	Amortizing	2,028,996	—
Hidden Creek - Loan 2	4.39%	1/1/2024	Amortizing	1,185,998	—
Meadow Springs - Loan 2	4.39%	1/1/2024	Amortizing	3,033,994	—
Meadow View - Loan 2	4.39%	1/1/2024	Amortizing	2,124,996	—
Peachtree Landing - Loan 2	4.39%	1/1/2024	Amortizing	2,137,996	—

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Mortgage Note	Interest Rate <sup>(2)</sup>	Maturity Date	Amortizing or Interest Only	Outstanding Principal 12/31/2016	Outstanding Principal 12/31/2015
<b>Total outstanding principal</b>				<b>\$1,210,338,736</b>	<b>\$ 905,027,126</b>
Less: unamortized discount and debt issuance costs				(9,582,458)	(7,038,930)
<b>Total mortgages payable, net of unamortized discount and debt issuance costs</b>				<b>\$1,200,756,278</b>	<b>\$ 897,988,196</b>

(1) Abbington was disposed of on October 28, 2016 (Note 3). The mortgage payable was extinguished at the date of sale.

(2) Interest at a fixed rate unless specifically noted otherwise.

(3) Interest at a variable rate indexed to the one month USD LIBOR interest rate, plus 240 basis points. Rate noted is as of December 31, 2016.

On October 28, 2016, in connection with the Abbington property sale, as described in Note 3, *Recent Real Estate Transactions*, the Company repaid the associated mortgage note for \$17,065,867. As a result, the Company recognized a loss on early extinguishment of debt of \$2,260,169, which is included within interest expense on the combined consolidated statements of operations.

On December 30, 2015, in connection with the Vista Palma Sola property sale, as described in Note 3, *Recent Real Estate Transactions*, the Company repaid the associated mortgage note for \$19,543,663. As a result, the Company recognized a loss on early extinguishment of debt of \$2,117,637, which is included within interest expense on the combined consolidated statements of operations.

The Company recognizes a debt discount in connection with mortgages assumed at fair value in accordance with ASC 805. The unamortized debt discount of \$433,137 and \$529,723 is included in mortgage payables on the accompanying combined consolidated balance sheets at December 31, 2016 and 2015, respectively. Amortization of mortgage discount of \$96,585 is included in interest expense in the combined consolidated statements of operations for the years ended December 31, 2016 and 2015.

Future scheduled principal payments of mortgage payable are as follows: \$6,141,055 (2017), \$10,248,861 (2018), \$21,252,269 (2019), \$49,518,172 (2020), \$47,263,250 (2021), and \$1,075,915,129 (thereafter).

**13. Income Taxes**

Income taxes consisted of the following for the years ended:

	December 31, 2016	December 31, 2015
Current federal tax benefit (expense)	\$ 131,156	\$ 93,606
Current state tax expense	(145,913)	(257,460)
Net deferred federal tax expense	—	—
Net deferred state tax expense	—	—
<b>Income tax expense</b>	<b>\$ (14,757)</b>	<b>\$ (163,854)</b>



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Income tax expense for the years ended December 31, 2016 and 2015 differs from the amount determined by applying the statutory federal rate of 34.0% to income (loss) before income tax expense generated by the Company's taxable REIT subsidiaries as follows:

	December 31, 2016		December 31, 2015	
	Amount	Rate	Amount	Rate
<b>Income tax benefit (expense) at federal tax rate</b>	<b>\$ 3,071,015</b>	<b>(34.0)%</b>	<b>\$ (4,411,778)</b>	<b>34.0%</b>
Change in valuation allowance	(6,840,506)	75.7%	(387,779)	3.0%
Tax benefit from intercompany transaction	2,601,241	(28.8)%	—	—%
Income not subject to entity level tax	1,118,640	(12.4)%	4,603,882	(35.5)%
Prior year tax adjustment	131,155	(1.4)%	201,745	(1.6)%
State income taxes, net of federal tax effect	(96,302)	1.1%	(169,924)	1.3%
<b>Income tax expense</b>	<b>\$ (14,757)</b>	<b>0.2%</b>	<b>\$ (163,854)</b>	<b>1.2%</b>

Deferred tax assets consist of the following:

	December 31, 2016	December 31, 2015
Deferred federal tax benefit	\$ 7,157,597	\$ 674,433
Deferred state tax benefit	1,036,800	149,305
<b>Total deferred tax assets</b>	<b>8,194,397</b>	<b>823,738</b>
Valuation allowance	(8,194,397)	(823,738)
<b>Deferred tax assets after valuation allowance</b>	<b>\$ —</b>	<b>\$ —</b>

The tax effected cumulative temporary differences that give rise to the deferred tax assets as of December 31, 2016 and 2015 are the debt issuance costs on the revolving credit facilities and the federal and state net operating losses from prior periods. Deferred tax assets are recognized subject to our judgment that realization is more likely than not. As of December 31, 2016 and 2015, the Company provided a full allowance on the deferred tax assets as it is more likely than not that these assets will not be utilized.

ASC 740, Income Taxes ("ASC 740") provides guidance for how uncertain tax positions should be recognized, measured, presented, and disclosed in the combined consolidated financial statements. ASC 740 requires the evaluation of tax positions taken or expected to be taken in the course of preparing our tax returns to determine whether the tax positions are "more-likely-than-not" of being sustained by the applicable tax authority. Tax positions not deemed to meet the more-likely-than-not threshold are recorded as a tax benefit or expense in the current year. As of December 31, 2016 and 2015 and for the years ended December 31, 2016 and 2015, we did not have a liability for any unrecognized tax benefits, respectively. 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 ongoing analysis of tax laws, regulations and interpretations thereof. The Company received a notice that one of its subsidiary's 2014 federal tax return has been selected for examination by the Internal Revenue Service, the examination was closed without any adjustments during the year ended December 31, 2016. Our other subsidiaries' 2014 and 2015 tax returns for the federal tax year remain subject to examination by the Internal Revenue Service.

The Company's policy is to classify interest and penalties on tax positions, if any, as expenses. For the year ended December 31, 2016, no interest and penalties have been accrued on the combined consolidated statements of operations. For the year ended December 31, 2015, \$71,752 of interest and penalties has been accrued and is recorded as general and administrative expenses on the combined consolidated statements of operations.

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**Notes to Combined Consolidated Financial Statements**

**14. Equity**

As of December 31, 2016 and 2015, the Company authorized 100,000,000 common shares, par value \$0.001. NPH is the Company's sole common stockholder. As of December 31, 2016 and 2015, the Company paid an aggregate of \$410,319,194 and \$350,432,349 of dividends on common shares, respectively.

As of December 31, 2016 and 2015, the Company had 125 and 375 shares outstanding in connection with a private placement of 12.5% Series A Cumulative Non-Voting Preferred Stock, par value \$0.001 per share (Series A Preferred Stock), respectively. In general, holders of Series A Preferred Stock are entitled to receive cumulative dividends semiannually at a per annum rate equal to 12.5% of the total purchase price of \$1,000 per share plus accumulated and unpaid dividends. The Series A Preferred Stock is redeemable by the Company for \$1,000 per share plus accumulated and unpaid dividends. Upon liquidation and dissolution of the Company, the holders of the Series A Preferred Stock are entitled to a liquidation preference in the amount of the share's purchase price, plus all accumulated and unpaid dividends. Series A Preferred Stock are not convertible or exchangeable for any other property or securities of the Company. On May 23, 2016, in connection with the merger of the Affiliated REITs, the Company redeemed 250 shares of 12.5% Series A Preferred Stock at a total price of \$250,000 plus the accrued unpaid dividend of \$12,413. As of December 31, 2016 and 2015, the Company paid an aggregate of \$172,999 and \$107,411 of dividends on Series A preferred shares, respectively.

**15. Related Party Transactions**

On December 31, 2013, the Company entered into a management assistance agreement with Prospect Administration LLC ("Prospect") to provide significant managerial assistance to the Company on behalf of PSEC. On May 23, 2016, in connection with the merger of the Affiliated REITs, the management assistance agreement was amended to increase the annual fee to \$1,300,000.

In accordance with the Investment Company Act of 1940, PSEC must make available "significant managerial assistance" to the Company. Prospect provides assistance with significant guidance and counsel concerning the management, operations, and business objectives and policies to the Company. Services may include arranging financing, managing relationships with financing sources, restructuring existing debt and evaluating acquisition and divestiture opportunities. Prospect also exercises a controlling influence over the policies of the Company. On a quarterly basis, the Company pays a managerial assistance fee to Prospect for time and effort in assisting and providing commercial and mezzanine lending, investment banking, and private equity investing services. The Company incurred managerial assistance fees of \$1,300,000 for the years ended December 31, 2016 and 2015, which are included in management fees in the accompanying combined consolidated statements of operations.

On a quarterly basis, the Company pays Prospect for professional services provided related to legal counsel, taxation, and general accounting. For the years ended December 31, 2016 and 2015, the Company incurred professional service fees of \$7,089,293 and \$3,253,125, respectively, which is included in general and administrative expenses in the accompanying combined consolidated statements of operations.

As of December 31, 2016, \$3,621,627 and \$3,186 is due to Prospect Administration and PSEC, respectively, for reimbursement of expenses paid on behalf of the Company and is recorded by the Company as due to affiliates on the combined consolidated balance sheets.

As of December 31, 2015, \$1,738,253 and \$14,682 was due to Prospect Administration and PSEC, respectively, for reimbursement of expenses paid on behalf of the Company. As of December 31, 2015, \$8,000 was due to Prospect Capital Management ("PCM") for reimbursement of professional service expenses paid by PCM on behalf of the Company. These items are recorded by the Company as due to affiliates on the combined consolidated balance sheets.

As of December 31, 2015, \$36,576 was due from PSEC in connection to the acquisition of the self-storage portfolio. In addition, as of December 31, 2015, \$1,318,827 was due from Prospect Realty Income Trust, Inc. ("PRIT"), an

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affiliated company. These items are recorded by the Company as due from affiliates on the combined consolidated balance sheets. As of December 31, 2016, it was determined that the amount due from PRIT was unlikely to be recovered, and the associated receivable was expensed through the general and administrative expense line item within the combined consolidated statements of operations.

The Company generally incurs a 2% to 3% structure fee for the PSEC equity portion of each acquired property. The structure fee is paid to Prospect for structuring and providing guidance for each purchase transaction. For the years ended December 31, 2016 and 2015, the Company incurred structure fees of \$1,320,255 and \$669,362, respectively. These amounts are included in the acquisition costs line item in the accompanying combined consolidated statements of operations.

On February 9, 2016, the Company entered into an Amended and Restated Services Agreement with First Financial Partners, Inc. ("FFP"), whose principal and sole owner is Mr. Stock, Chief Executive Officer of the Company, regarding the Company's engagement of FFP as an independent contractor to provide transaction and execution services. For the year ended December 31, 2016, the Company incurred professional service fees and related expenses of \$50,188, which is included in general and administrative expenses in the accompanying combined consolidated statements of operations.

The Company entered into a credit agreement (the "Credit Agreement"), effective April 1, 2014, with NPH in the form of a senior secured term loan with a \$250,000,000 commitment on Term Loan A ("TLA") and a \$250,000,000 commitment on Term Loan B ("TLB"). The maturity date on the TLA and TLB is April 1, 2019. The credit agreement does not require payments on the outstanding TLA or TLB principal until maturity, with prepayments allowed but subject to a prepayment penalty. Loans under the Credit Agreement accrue, at a rate per annum, cash interest equivalent to the one-month LIBOR rate plus 400 basis points with a minimum LIBOR floor of 200 basis points and payment in kind ("PIK") interest of 550 basis points. Loans under the Credit Agreement also incur net operating income interest equivalent to 500 basis points of the net operating income earned during the applicable period. Cash interest and net operating interest are payable in cash quarterly. PIK interest due quarterly is added to the outstanding principal balance of the loan or paid in cash, in whole or in part, at the option of the Company.

On April 1, 2014, the Company declared a dividend to NPH in the amount of \$104,459,091 which was borrowed pursuant to the Credit Agreement. The Credit Agreement was subsequently assigned to PSEC in satisfaction of NPH's existing loan with PSEC. On April 1, 2015, the Company amended and restated the credit agreement in order to increase the commitment from \$500,000,000 to \$1,000,000,000, with such increase in the commitment to consist of the Term Loan C ("TLC") commitment and Term Loan D ("TLD") commitment. The TLC has a \$250,000,000 commitment and a maturity date of April 1, 2019. The TLD also has a \$250,000,000 commitment and a maturity date of April 1, 2019. Under the second amended and restated credit agreement, TLC incurs cash interest equivalent to one-month LIBOR rate plus 400 basis points with a minimum LIBOR floor of 200 basis points and PIK interest of 750 basis points. TLD incurs cash interest equivalent to one-month LIBOR rate plus 1,200 basis points with a minimum LIBOR floor of 200 basis points and PIK interest of 450 basis points. The second amended and restated credit agreement did not impact the TLA, but the TLB now incurs cash interest equivalent to one month LIBOR rate plus 1,200 basis points with a minimum LIBOR floor of 200 basis points and PIK interest of 300 basis points.

On July 1, 2015, the Company converted \$44,147,134 and \$67,443,357 of outstanding TLC and TLD, respectively into Term Loan E ("TLE") under the third amended and restated credit agreement. The TLE has a \$250,000,000 commitment and a maturity date of April 1, 2019. The TLE incurs cash interest equivalent to one month LIBOR rate plus 900 basis points with a minimum LIBOR floor of 200 basis points and PIK interest of 500 basis points. For the years ended December 31, 2016 and 2015, the Company incurred \$25,829 and \$193,720 of structuring fees for borrowings under the TLE, respectively. The structuring fees are deferred and amortized over the life of the TLE. For the years ended December 31, 2016 and 2015, \$64,929 and \$1,575 were amortized and recorded within interest expense on the combined consolidated statements of operations, respectively.

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On May 23, 2016, in connection with the merger of the Affiliated REITs, the Company amended and restated the credit agreement in order to increase the commitment from \$1,250,000,000 to \$1,500,000,000. Such increase in the commitment was to increase the TLA commitment from \$250,000,000 to \$500,000,000.

As of December 31, 2016, \$490,011,721 has been borrowed and is outstanding under the Credit Agreement. For the year ended December 31, 2016, the Company incurred \$37,206,705, \$24,447,854, and \$5,252,590 of cash interest, PIK interest, and net operating income interest, respectively. For the year ended December 31, 2016, a total of \$24,370,041 of PIK interest was paid in cash on the TLA and TLE. For the year ended December 31, 2016, \$64,929 of deferred financing costs was amortized and recorded within interest expense on the combined consolidated statements of operations. As of December 31, 2016, \$153,046 of unamortized deferred financing costs are recorded as a direct deduction to our senior secured term loans, net of debt issuance costs on the combined consolidated balance sheets. As of December 31, 2016, \$220,446 of cash interest, \$144,016 of PIK interest and \$479,169 of net operating income interest is recorded by the Company as due to affiliates on the combined consolidated balance sheets.

As of December 31, 2016, on various dates the Company has voluntarily pre-paid in aggregate \$109,746,078 of the Term Loan A commitment under the Credit Agreement. As a result, the Company recognized a prepayment premium of \$1,997,479, which is included within interest expense on the combined consolidated statements of operations.

As of December 31, 2015, \$445,838,529 has been borrowed and is outstanding under the Credit Agreement. For the year ended December 31, 2015, the Company incurred \$27,894,006, \$25,440,231, and \$4,646,294 of cash interest, PIK interest, and net operating income interest, respectively. For the year ended December 31, 2015, a total of \$25,407,191 of PIK interest was paid in cash on the TLA, TLC, TLD, and TLE. For the year ended December 31, 2015, \$1,575 of deferred financing costs was amortized and recorded within interest expense on the combined consolidated statements of operations. As of December 31, 2015, \$192,145 of unamortized deferred financing costs are recorded as a direct deduction to our senior secured term loans, net of debt issuance costs on the combined consolidated balance sheets. As of December 31, 2015, \$93,410 of cash interest and \$66,204 of PIK interest has been recorded by the Company as due to affiliates on the combined consolidated balance sheets.

ACLLH entered into a credit agreement, effective June 30, 2014, with PSEC in the form of senior secured term loans with a \$250,000,000 commitment on TLA and a \$250,000,000 commitment on TLB. The maturity date on the TLA and TLB is April 1, 2019. The credit agreement does not require payments on the outstanding TLA or TLB principal balance until the maturity date. The TLA incurs cash interest equivalent to one month LIBOR rate plus 400 basis points with a minimum LIBOR floor of 200 basis points and PIK interest of 550 basis points. The TLB incurs cash interest equivalent to one-month LIBOR rate plus 1200 basis points with a minimum LIBOR floor of 200 basis points and PIK interest of 300 basis points. Under the terms of the TLA and TLB agreements, PIK interest is accrued on a daily basis and the total PIK interest accrued at the end of the quarter, if not repaid in cash, is added to the outstanding principal balance of the TLA or TLB, respectively.

Prior to June 30, 2014, the Company had a TLA, with the same terms as above, outstanding with PSEC. A portion of the NPRC TLA was transferred and assigned to ACLLH in the following transaction: on June 30, 2014, ACLLH made a non-cash return of capital distribution of \$22,389,736 to NPRC through a transfer and assignment from the Company to ACLLH of a TLA with the same terms as above and with the aggregate outstanding principal amount of \$22,389,736.

On January 1, 2015, ACLLH converted \$28,570,123 of then outstanding TLA into TLB under the amended credit agreement. Additionally, effective January 1, 2015 the PIK interest rates on the TLA and TLB were increased by 200 and 150 basis points, respectively. Accordingly, as of January 1, 2015, the TLA incurs cash interest equivalent to one-month LIBOR rate plus 400 basis points with a minimum LIBOR floor of 200 basis points and PIK interest



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of 750 basis points. The TLB incurs cash interest equivalent to one-month LIBOR rate plus 1200 basis points with a minimum LIBOR floor of 200 basis points and PIK interest of 450 basis points.

On July 1, 2015, ACLLH converted \$20,412,866 and \$30,581,643 of all then outstanding TLA and TLB, respectively into TLC under the second amended and restated credit agreement. The TLC has a \$250,000,000 commitment and a maturity date of April 1, 2019. The TLC incurs cash interest equivalent to one-month LIBOR rate plus 900 basis points with a minimum LIBOR floor of 200 basis points and PIK interest of 500 basis points.

ACLL entered into a credit agreement, effective December 15, 2015, with PSEC in the form of senior secured term loans with a \$250,000,000 commitment on TLA, a \$250,000,000 commitment on TLB, and a \$250,000,000 commitment on TLC with the same interest rates as the ACLLH TLA, TLB and TLC. The maturity date on the ACLL TLA, TLB and TLC is December 15, 2020.

During the year ended December 31, 2016 and 2015, the Company made non-cash contributions of \$73,558,293 and \$147,395,918, respectively to PFAN through a transfer and assignment from ACLLH to the Company of senior secured term loans with PSEC having an aggregate outstanding principal amount of \$73,558,293 and \$147,395,918, respectively.

As of December 31, 2016, \$88,556,112 of ACLLH TLC and \$46,917,549 of ACLL TLC, have been borrowed and are outstanding. As of December 31, 2016, there were no ACLLH TLA or TLB or ACLL TLA or TLB outstanding. For the year ended December 31, 2016, ACLLH TLC incurred \$12,400,808 and \$5,636,731 of cash and PIK interest, respectively. For the year ended December 31, 2016, ACLL TLC incurred \$1,100,349 and \$500,159 of cash and PIK interest, respectively. For the year ended December 31, 2016, a total of \$6,117,584 of PIK interest was paid in cash on the ACLLH TLC and the ACLL TLC. For the year ended December 31, 2016, the Company incurred \$2,136,478 of structuring fees for borrowings under the ACLLH TLC. For the year ended December 31, 2016, \$2,190,409 of deferred financing costs was amortized and recorded within interest expense on the combined consolidated statements of operations. As of December 31, 2016, \$1,328,341 of unamortized deferred financing costs are recorded as a direct deduction to our senior secured term loans, net of debt issuance costs, on the combined consolidated balance sheets. As of December 31, 2016, \$82,789 of cash interest and \$37,632 of PIK interest is recorded by the Company as due to affiliates on the combined consolidated balance sheets.

As of December 31, 2015, \$131,950,082 of ACLLH TLC, have been borrowed and are outstanding. As of December 31, 2015, there were no ACLLH TLA or TLB or ACLL TLA, TLB or TLC outstanding. For the year ended December 31, 2015, ACLLH TLA incurred \$1,000,552 and \$1,252,428 of cash and PIK interest, respectively. For the year ended December 31, 2015, TLB incurred \$3,384,076 and \$1,085,931 of cash and PIK interest, respectively. For the year ended December 31, 2015, TLC incurred \$5,466,396 and \$2,484,726 of cash and PIK interest, respectively. For the year ended December 31, 2015, a total of \$4,000,304 of PIK interest was paid in cash on the TLA, TLB and TLC. For the year ended December 31, 2015, the Company incurred \$1,463,236 of structuring fees for borrowings under the TLC. For the year ended December 31, 2015, \$80,964 was amortized and recorded within interest expense on the combined consolidated statements of operations. As of December 31, 2015, \$1,382,272 of unamortized deferred financing costs are recorded as a direct deduction to our senior secured term loans, net of debt issuance costs, on the combined consolidated balance sheets. As of December 31, 2015, \$40,318 of cash interest and \$18,326 of PIK interest is recorded by the Company as due to affiliates on the combined consolidated balance sheets.

The Company also entered into property management agreements with the non-controlling interest joint venture partners to manage the operations of the properties. The Company pays a monthly management fee of 2% - 6% of the gross monthly rents to the property managers. For the years ended December 31, 2016 and 2015, property management fees were \$5,633,932 and \$5,353,437, respectively. As of December 31, 2016 and 2015, \$145,367 and \$991,613 of management fees, respectively, were payable to property managers, and is included in due to affiliates in the accompanying combined consolidated balance sheets.

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The Company also pays a monthly asset management fee up to 1.25% of the gross monthly rents to the property managers. For the years ended December 31, 2016 and 2015, asset management fees were \$635,019 and \$571,585, respectively. These amounts are included in the management fee line item in the accompanying combined consolidated statements of operations. The property management agreements also stipulate that a construction management fee of 5% - 6% of project cost is to be paid to the property managers. For the years ended December 31, 2016 and 2015, capitalized construction management fees were \$800,031 and \$731,415, respectively, and is included within building and improvements in the accompanying combined consolidated balance sheets.

The Company generally incurs an acquisition fee from 0.5% to 1% of the purchase price of each acquired property. The acquisition fee is paid to the Property Managers for services rendered in connection with the investigation, selection, sourcing, due diligence and acquisition of a property or investment. For the years ended December 31, 2016 and 2015, the Company incurred an acquisition fee of \$3,147,500 and \$1,284,251, respectively. These amounts are included in acquisition costs in the accompanying combined consolidated statements of operations.

In connection with the acquisitions of several properties during the years ended December 31, 2016, the Company has retained a portion of the non-controlling joint venture partners' acquisition fees as deferred acquisition fees. These deferred acquisition fees are earned by and payable to the non-controlling joint venture partner upon reaching certain performance measures. No performance measures have been met as of December 31, 2016. As of December 31, 2016, deferred acquisition fees retained by the company were \$1,573,750, and is included within restricted cash and due to affiliates on the combined consolidated balance sheets.

The Company noted that certain expenses are paid for by the property managers and have yet to be reimbursed. As of December 31, 2016 and 2015, unreimbursed advances and other amounts due to related parties were \$358,566 and \$22,847, respectively, and are recorded by the Company as due to affiliates on the combined consolidated balance sheets.

The Company noted that certain contractual property operating distributions are paid on a monthly or quarterly basis to the Company and our non-controlling joint venture partners. As of December 31, 2016 and 2015, distributions payable to our non-controlling joint venture partners were \$8,547 and \$100,558, respectively. These amounts are recorded by the Company as due to affiliates on the combined consolidated balance sheets.

**16. Commitments and Contingencies**

The Company believes that it has complied with the requirements of the mortgage payable by obtaining the requisite third party insurance coverage for losses that may be incurred at the properties. Losses for amounts below the threshold of the deductible amounts specified in certain of the Company's insurance policies are self-insured; however, management does not believe that this exposure will have a material adverse effect on the Company's combined consolidated financial position or results of operations.

Periodically, the Company may become involved in various investigations, claims and legal proceedings that arise in the ordinary course of the business. The Company does not believe that there are any proceedings threatened or pending, if determined adversely, that would have a material adverse effect on the financial position, results of operations, or liquidity of the Company.

**17. Subsequent Events**

On January 18, 2017, the Company sold the Bexley property to an unaffiliated third party for a gross sales price of \$54,975,000. The Company recognized a gain of \$28,576,947 in connection with the sale.

On January 30, 2017, the Company, together with a joint venture partner, acquired a multi-family property located in Laurel, Maryland for an aggregate purchase price of \$187,250,000 exclusive of acquisition and closing costs.

**National Property REIT Corp.**  
**Notes to Combined Consolidated Financial Statements**

For the purchase of this property, the joint venture obtained bank financing of \$153,580,000. The fair value of the non-controlling interest in the joint venture is \$3,351,279.

On February 10, 2017, Abbie Lakes OH Partners, LLC, Kengary Way OH Partners, LLC, Lakeview Trail OH Partners, LLC, Lakepoint OH Partners, LLC, Sunbury OH Partners, LLC, Heatherbridge OH Partners, LLC, Jefferson Chase OH Partners, LLC, and Goldenstrand OH Partners, LLC (collectively, the "Columbus OH Portfolio") entered into supplemental mortgage agreements. The supplemental mortgages are secured by the respective real estate properties and certain cash reserve accounts required by the borrowing agreements. The following table presents a summary of the supplemental mortgage amounts and the respective interest rate:

Property	Supplemental Mortgage	Interest Rate	Maturity Date
Abbie Lakes OH Partners, LLC	\$ 2,615,000	5.82 %	10/1/2024
Kengary Way OH Partners, LLC	2,502,000	5.82 %	10/1/2024
Lakeview Trail OH Partners, LLC	3,114,000	5.82 %	10/1/2024
Lakepoint OH Partners, LLC	4,400,000	5.84 %	10/1/2024
Sunbury OH Partners, LLC	3,635,000	5.83 %	10/1/2024
Heatherbridge OH Partners, LLC	2,848,000	5.84 %	10/1/2024
Jefferson Chase OH Partners, LLC	4,960,000	5.82 %	10/1/2024
Goldenstrand OH Partners, LLC	1,560,000	5.82 %	11/1/2024
<b>Total/Weighted Average</b>	<b>\$ 25,634,000</b>		

On February 21, 2017, the ACL IV Subsidiaries Facility issued an amendment to the loan and security agreement which extended the maturity date to February 21, 2020.

On February 27, 2017, the Company used a portion of the proceeds received from the Columbus OH Portfolio supplemental financing and Bexley sale proceeds to pay down the outstanding senior secured term loan in the amount of \$18,000,000. In addition, the Company utilized \$11,648,412 as a return of capital equity distribution to NPH.

On March 30, 2017, the ACL Trust V Facility was terminated; prior to the termination notice, cash on hand was used to pay down the outstanding principal balance on the revolving credit facility.

On April 13, 2017, the ACL Subsidiaries Facility issued an amendment to the loan and security agreement which replaced Capital One with Texas Capital Bank, National Association as lender. The amendment also updated the maximum loan amount to \$52,562,209, the minimum interest and fee reserve amount to \$2,000,000 and the final maturity date was extended to April 21, 2019.

On June 15, 2017, the Company sold the Mission Gate property to an unaffiliated third party for a gross sales price of \$65,400,000.

On June 22, 2017, the Company sold 21,926 of our unsecured consumer loans (with a cost of \$151,472,877 and accrued interest of \$1,731,129) purchased from LendingClub to LendingClub Operated Aggregator Note (LOAN) NP I, LLC ("CLUB 2017-NP1") for proceeds of \$124,528,245 net of related transaction expenses, and a trust certificate with a fair value of \$30,469,823 representing a 42.71% interest in the CLUB 2017-NP1. The Company realized a gain of \$1,794,051 on the sale.

The Company has evaluated subsequent events through August 9, 2017, the date of which these financial statements were available to be issued, and has determined that, except for the above, there have not been any additional

**National Property REIT Corp.**  
**Notes to Combined Consolidated Financial Statements**

events that have occurred that would require adjustments to, or disclosures in, the combined consolidated financial statements.

**First Tower Finance  
Company LLC and  
Subsidiaries**

**Consolidated Financial Statements**

December 31, 2017 and 2016

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**First Tower Finance Company LLC and Subsidiaries**

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December 31, 2017 and 2016**

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RSM US LLP

## Independent Auditor's Report

Board of Members  
First Tower Finance Company LLC and Subsidiaries  
Flowood, Mississippi

### Report on the Financial Statements

We have audited the accompanying consolidated financial statements of First Tower Finance Company LLC and Subsidiaries, which comprise the consolidated balance sheets as of December 31, 2017 and 2016, and the related consolidated statements of operations and comprehensive income loss, changes in members' equity (deficit) and cash flows for the years then ended, and the related notes to the consolidated financial statements.

### Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

### Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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**Opinion**

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of First Tower Finance Company LLC and Subsidiaries as of December 31, 2017 and 2016, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

*RSM US LLP*

Raleigh, North Carolina  
April 4, 2018



**First Tower Finance Company LLC and Subsidiaries**

**Consolidated Balance Sheets  
December 31, 2017 and 2016**

	2017	2016
<b>Assets</b>		
Cash and cash equivalents	\$12,427,931	\$ 8,145,628
Investment in trading securities	1,930,958	1,659,620
Investment securities available for sale	59,488,772	64,230,155
Finance receivables, net	487,237,396	472,839,288
Reinsurance receivable and recoverable	-	971,949
Other receivables	698,033	711,909
Real estate acquired by foreclosure	547,167	619,018
Property and equipment, net	27,129,044	19,726,096
Deferred policy acquisition costs	1,061,858	1,027,044
Intangible assets, net	15,196,379	16,830,548
Goodwill	68,088,216	81,705,864
Debt issue costs, net	186,015	260,822
Other assets	348,474	581,969
<b>Total assets</b>	<u>\$ 674,318,283</u>	<u>\$ 669,309,912</u>
<b>Liabilities and Members' Equity (Deficit)</b>		
Liabilities:		
Notes payable	\$342,654,766	\$ 323,584,995
Subordinated notes payable to members	323,245,579	322,542,697
Unearned premiums	42,561,645	41,635,113
Policy claim reserves	2,783,931	2,665,938
Accounts payable and accrued expenses	12,481,160	14,184,878
Other liabilities	2,024,100	2,877,867
Income taxes payable	88,957	-
Deferred tax liabilities, net	1,674,725	3,706,551
<b>Total liabilities</b>	<u>727,514,862</u>	<u>711,198,039</u>
Commitments and contingencies (Notes 18 and 19)		
Members' Equity (Deficit):		
Class A members	(53,661,217)	(41,986,650)
Class B members	(68,910)	(63,933)
Class D members	386,582	316,810
Accumulated other comprehensive income (loss), net of income tax effect of \$49,000 and \$91,000 as of December 31, 2017 and 2016, respectively	146,966	(154,354)
<b>Total members' equity (deficit)</b>	<u>(53,196,579)</u>	<u>(41,888,127)</u>
<b>Total liabilities and members' equity (deficit)</b>	<u>\$ 674,318,283</u>	<u>\$ 669,309,912</u>

See notes to consolidated financial statements.

**First Tower Finance Company LLC and Subsidiaries**

**Consolidated Statements of Operations and Comprehensive Loss  
Years Ended December 31, 2017 and 2016**

	<b>2017</b>	<b>2016</b>
<b>Revenues:</b>		
Interest and fee income from finance receivables	\$177,571,040	\$ 174,007,911
Insurance premiums	33,450,540	32,915,799
Net investment income	1,324,630	1,109,230
Net realized investment gains	128,388	176,744
Other income	12,695,343	11,689,661
<b>Total revenues</b>	<u>225,170,001</u>	<u>219,899,345</u>
<b>Expenses</b>		
Interest expense	69,096,345	83,237,880
Policyholders' benefits	6,930,652	5,957,517
Salaries and fringe benefits	45,361,234	42,749,012
Provision for credit losses	60,161,397	55,091,488
Other operating expenses	39,656,685	39,914,157
Amortization of goodwill	13,617,648	13,617,648
Management fees	2,997,961	2,997,961
<b>Total expenses</b>	<u>237,821,922</u>	<u>243,565,663</u>
<b>Loss before income taxes</b>	(12,651,921)	(23,666,318)
Provision (benefit) for income taxes	(942,767)	323,019
<b>Net loss</b>	<u>(11,709,154)</u>	<u>(23,989,337)</u>
<b>Other comprehensive income (loss), net of income tax effects of</b>		
approximately \$(140,000) as of December 31, 2017		
and \$281,000 as of December 31, 2016		
Unrealized holding gains (losses) on securities	379,791	(567,208)
Reclassification adjustments for amounts included in net income	(48,861)	93,075
<b>Other comprehensive income (loss)</b>	<u>330,930</u>	<u>(474,133)</u>
<b>Comprehensive loss</b>	<u>\$ (11,378,224)</u>	<u>\$ (24,463,470)</u>

See notes to consolidated financial statements.

First Tower Finance Company LLC and Subsidiaries

Consolidated Statements of Changes in Members' Equity (Deficit)  
Years Ended December 31, 2017 and 2016

	Class A Members Equity (Deficit)	Class B Members Equity (Deficit)	Class D Members Equity	Accumulated Other Comprehensive Income (Loss)	Total
Balance, January 1, 2016	\$ (28,005,274)	\$ (55,972)	\$ 247,054	\$ 319,779	\$ (27,494,413)
Member compensation vested	-	-	69,756	-	69,756
Net loss	(23,975,686)	(13,661)	-	-	(23,989,347)
Equity contribution	9,694,310	5,690	-	-	10,000,000
Change in net unrealized loss on investment securities available for sale	-	-	-	(474,133)	(474,133)
Balance, December 31, 2016	(41,986,650)	(63,933)	316,810	(154,354)	(41,888,127)
Member compensation vested	-	-	69,772	-	69,772
Net loss	(11,702,492)	(6,662)	-	-	(11,709,154)
Equity contribution	-	-	-	-	-
Change in net unrealized gain on investment securities available for sale	-	-	-	330,930	330,930
Reclassification of deferred income taxes	27,925	1,685	-	(29,610)	-
Balance, December 31, 2017	\$ (53,661,217)	\$ (68,910)	\$ 386,582	\$ 145,966	\$ (53,196,579)

See notes to consolidated financial statements.

**First Tower Finance Company LLC and Subsidiaries**

**Consolidated Statements of Cash Flows**  
**Years Ended December 31, 2017 and 2016**

	2017	2016
Cash Flows From Operating Activities		
Net loss	\$ (11,709,154)	\$ (23,989,337)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation and amortization	18,288,898	18,443,352
Amortization of discount on securities, net	1,142,444	922,131
Loss (gain) on sales of investments, net	39,446	(97,180)
Gain on trading securities held	(167,834)	(79,564)
Loss on sales of assets	62,060	22,521
Loss from sales and impairments of real estate	39,046	115,032
Deferred income tax provision (benefit)	(2,031,826)	255,758
Provision for credit losses	60,161,397	55,091,488
Compensation expense	69,772	69,756
Net loan costs deferred	(83,473)	311,681
Paid-in-kind rate interest added to principal	702,882	3,698,697
Purchase of trading securities	(103,505)	(68,445)
Changes in operating assets and liabilities:		
Reinsurance recoverables	971,949	11,858
Receivables	13,876	(20,152)
Other assets	233,495	(80,313)
Deferred policy acquisition cost	(34,854)	(14,974)
Policy claim reserves	117,993	(182,916)
Accounts payable and accrued expenses	(1,703,718)	3,811,985
Unearned premiums	926,532	346,836
Other liabilities	(764,810)	1,303,626
<b>Net cash provided by operating activities</b>	<b>\$ 66,170,646</b>	<b>\$ 59,871,840</b>

(Continued)

See notes to consolidated financial statements.

**First Tower Finance Company LLC and Subsidiaries**

**Consolidated Statements of Cash Flows (Continued)**  
**Years Ended December 31, 2017 and 2016**

	<b>2017</b>	<b>2016</b>
<b>Cash Flows From Investing Activities</b>		
Loans originated	\$ (634,135,341)	\$ (631,178,338)
Loans repaid or sold	559,403,336	562,541,273
Proceeds from sales of investment in real estate	288,781	380,557
Proceeds from calls or maturities of investment securities	6,093,000	5,417,231
Proceeds from sales of investment securities	19,741,494	10,626,635
Purchases of investment securities	(21,922,073)	(21,271,385)
Proceeds from sales of property and equipment	31,332	5,769
Purchase of property and equipment	(10,458,642)	(6,328,560)
<b>Net cash used in investing activities</b>	<u>(80,958,113)</u>	<u>(79,806,818)</u>
<b>Cash Flows From Financing Activities</b>		
Net changes in short-term borrowings	19,069,770	5,960,428
Proceeds from equity contribution	-	10,000,000
<b>Net cash provided by financing activities</b>	<u>19,069,770</u>	<u>15,960,428</u>
<b>Increase (decrease) in cash and cash equivalents</b>	4,282,303	(3,974,550)
<b>Cash and cash equivalents</b>		
Beginning of period	8,145,628	12,120,178
End of period	<u>\$ 12,427,931</u>	<u>\$ 8,145,628</u>
<b>Supplemental Disclosures of Cash Flow Information</b>		
Non-cash activity - real estate acquired in satisfaction of finance receivables	<u>\$ 256,000</u>	<u>\$ 292,000</u>
Cash payments for interest on notes payable	<u>\$ 12,775,000</u>	<u>\$ 11,521,000</u>
Cash payments for interest, including paid-in-kind interest, on subordinated notes payable to members	<u>\$ 56,030,000</u>	<u>\$ 61,756,000</u>
Income taxes paid	<u>\$ 1,075,000</u>	<u>\$ -</u>

See notes to consolidated financial statements.

## First Tower Finance Company LLC and Subsidiaries

### Notes to Consolidated Financial Statements

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#### Note 1. Nature of Business and Significant Accounting Policies

**Nature of Business:** First Tower Finance Company LLC is a Mississippi limited liability company which wholly-owns First Tower, LLC. First Tower, LLC is engaged in consumer lending and related insurance activities through its wholly-owned subsidiaries Tower Loan of Mississippi, LLC, Tower Loan of Illinois, LLC, First Tower Loan, LLC, Gulfco of Mississippi, LLC, Gulfco of Alabama, LLC, Gulfco of Louisiana, LLC, Tower Loan of Missouri, LLC, and Tower Auto Loan, LLC. Tower Loan of Mississippi, LLC is the sole member of American Federated Holding Company, which has two wholly-owned subsidiaries, American Federated Insurance Company (AFIC), and American Federated Life Insurance Company (AFLIC). These entities are collectively referred to as "the Company". The Company acquires and services finance receivables (direct loans, real estate loans and sales finance contracts) through branch offices located in Mississippi, Louisiana, Alabama, Illinois and Missouri. In addition, the Company writes credit insurance when requested by its loan customers.

**Government Regulation:** The Company is subject to various state and federal laws and regulations in each of the states in which it operates that are enforced by the respective state regulatory authorities. These state laws and regulations impact the economic terms of the Company's products. In addition, these laws regulate collection procedures, the keeping of books and records and other aspects of the operation of consumer finance companies. As a result, the terms of products offered by the Company vary among the states in which it operates in order to comply with each state's specific laws and regulations.

Each of the Company's branch offices is separately licensed under the laws of the state in which the office is located. Licenses granted by the regulatory agencies in these states are subject to renewal every year and may be revoked for failure to comply with applicable state and federal laws and regulations.

The Company is also subject to state regulations governing insurance agents in the states in which it sells credit insurance. State insurance regulations require that insurance agents be licensed; govern the commissions that may be paid to agents in connection with the sale of credit insurance and limit the premium amount charged for such insurance.

A summary of the Company's significant accounting policies follows:

**Principles of Consolidation:** The Company's consolidated financial statements include subsidiaries in which the Company has a controlling financial interest. The consolidated financial statements include the accounts of the Company and its subsidiaries, all of which are wholly-owned. All significant intercompany accounts and transactions have been eliminated in consolidation.

**Use of Estimates:** The Company's consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America. In preparing its financial statements, the Company is required to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the dates of the balance sheets and the reported amounts of revenues and expenses for the years ended December 31, 2017 and 2016. Actual results could differ significantly from those estimates. Material estimates that are particularly susceptible to change include the determination of the allowance for credit losses, policy claim reserves, impairment of goodwill, deferred tax assets and liabilities and the valuation of investments.

**Investment in Trading Securities:** The Company has an investment in a large capitalization equity mutual fund which is classified as a trading security. Changes in the unrealized gains and losses of this investment are recognized through earnings. Dividends on trading securities are recognized in net investment income.

**Note 1. Nature of Business and Significant Accounting Policies (Continued)**

**Investment Securities Available for Sale:** Investments in debt securities are classified as available for sale. Available for sale securities are carried at fair value, with changes in the fair value of such securities being reported as other comprehensive income (loss), net of related deferred income taxes (benefit). When the fair value of a security falls below carrying value, an evaluation must be made to determine if the unrealized loss is a temporary or other than temporary impairment. Impaired debt securities that are not deemed to be temporarily impaired are written down to net realizable value by a charge to earnings to the extent the impairment is related to credit losses or if the Company intends, or more-likely-than not will be required, to sell the security before recovery of the security's amortized cost basis. In estimating other than temporary impairments, the Company considers the duration of time and extent to which the amortized cost exceeds fair value, the financial condition of the issuer, and the intent and ability of the Company to retain its investment in the issuer for a period of time sufficient to allow for anticipated recovery in fair value.

Premiums and discounts on debt securities are recognized as adjustments to net investment income by the interest method over the period to maturity and adjusted for prepayments as applicable. Realized gains and losses on sales of investment securities are determined using the specific identification method.

**Fair Value Measurements:** The Company carries its trading securities, and its investment securities available-for-sale at fair value on a recurring basis and measures certain other assets and liabilities at fair value on a nonrecurring basis using a hierarchy of measurements which requires it to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value.

Three levels of inputs are used to measure fair value:

- Level 1** Valuations based on unadjusted quoted prices for identical assets in active markets accessible at the measurement date.
- Level 2** Valuations derived for similar assets in active markets, or other inputs that are observable or can be corroborated by market data.
- Level 3** Valuations derived from unobservable (supported by little or no market activity) inputs that reflect an entity's best estimate of what hypothetical market participants would use to determine a transaction price at the reporting date.

When quoted market prices in active markets are unavailable, the Company determines fair value using various valuation techniques and models based on a range of observable market inputs including pricing models, quoted market price of publicly traded securities with similar duration and yield, time value, yield curve, prepayment speeds, default rates and discounted cash flow. In most cases, these estimates are determined based on independent third party valuation information, and the amounts are disclosed as Level 2. Generally, the Company obtains a single price or quote per instrument from independent third parties to assist in establishing the fair value of these investments.

If quoted market prices and independent third party valuation information are unavailable, the Company produces an estimate of fair value based on internally developed valuation techniques, which, depending on the level of observable market inputs, will render the fair value estimate as Level 2 or 3.

On occasions when pricing service data is unavailable, the Company may rely on bid/ask spreads from dealers in determining fair value.

To the extent the Company determines that a price or quote is inconsistent with actual trading activity observed in that investment or similar investments, or if the Company does not think the quote is reflective of the market value for the investment, the Company internally develops a fair value using this other market information and discloses the input as a Level 3.

Notes to Consolidated Financial Statements

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**Note 1. Nature of Business and Significant Accounting Policies (Continued)**

**Finance Receivables:** Finance receivables are stated at the amount of unpaid principal and finance charges, including deferred loan costs, and reduced by unearned finance charges, unearned discounts and an allowance for credit losses. Non-refundable loan origination fees and certain direct origination costs are deferred and recognized as an adjustment of the finance receivable yield over the contractual life of the related loan using the interest method. Unamortized amounts are recognized in income when finance receivables are renewed or paid in full.

**Real Estate Acquired by Foreclosure:** The Company records real estate acquired by foreclosure at the lesser of the outstanding finance receivable amount (including accrued interest, if any) or fair value, less estimated costs to sell, at the time of foreclosure. Any resulting loss on foreclosure is charged to the allowance for credit losses and a new basis is established in the property. A valuation allowance and a corresponding charge to operations is established to reflect declines in value subsequent to acquisition, if any, below the new basis. Operating expenses of such properties, net of related income, and gains and losses on their disposition are included in other operating expenses.

**Property and Equipment:** Property and equipment are stated at cost. Depreciation is computed using the straight-line method. When assets are retired or otherwise disposed of, the cost and related accumulated depreciation are removed from the accounts and any resulting gain or loss is recognized in income for the period. The cost of maintenance and repairs is charged to income when incurred; significant improvements and betterments are capitalized. The Company evaluates the recoverability of property, plant and equipment and other long-term assets when events or changes in circumstances indicate that the carrying value of such assets may not be recoverable, based upon expectations of non-discounted cash flows and operating income.

**Goodwill and Other Intangible Assets:** Goodwill represents the excess of the consideration transferred in a business combination over the fair value of the identifiable net assets acquired. Other intangible assets represent purchased assets that also lack physical substance but can be distinguished from goodwill because of contractual or other legal rights. Intangibles with finite lives are amortized over their estimated useful lives. The Company uses the alternative permitted for private companies and amortizes goodwill over ten years by the straight-line method. Goodwill and other intangible assets are subject to impairment testing annually or more frequently if events or circumstances indicate possible impairment. Other intangible assets consist of trade names, sales finance relationships, non-competition and license agreements and internally developed technology. Intangible assets are reviewed for events or circumstances which could impact the recoverability of the intangible asset, such as a loss of significant relationships, increased competition or adverse changes in the economy. No impairment was identified for the Company's goodwill or its other intangible assets during 2017 and 2016.

**Debt Issue Costs:** Debt issue costs represent costs associated with obtaining the Company's credit facility, and is amortized on a straight line basis over the life of the related financing agreement which approximates the interest method. Amortization expense for the years ended December 31, 2017 and 2016 approximated \$292,000 and \$134,000, respectively, and is included in interest expense.

**Deferred Policy Acquisition Costs:** Costs incurred to acquire credit insurance policies are deferred and amortized over the life of the underlying insurance contracts.

**Income Recognition:** Precomputed finance charges are included in the gross amount of the Company's finance receivables. These precomputed charges are deferred and recognized as income on an accrual basis using the effective interest method over the terms of receivables. However, with certain exceptions, state regulations allow interest refunds to be made according to the Rule of 78's method for payoffs and renewals. Since a significant percentage of the Company's precomputed accounts are paid off or renewed prior to maturity, the result is that a majority of the precomputed



Notes to Consolidated Financial Statements

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**Note 1. Nature of Business and Significant Accounting Policies (Continued)**

accounts effectively yield on a Rule of 78's basis. The difference between income previously recognized under the interest yield method and the Rule of 78's method is recognized as an adjustment to interest income at the time of the renewal or payoff.

Insurance premiums on credit life and accident and health policies written by the Company are earned over the term of the policy using the pro-rata method, for level-term life policies, and the effective yield method, for decreasing-term life policies. Premiums on accident and health policies are earned based on an average of the pro-rata method and the effective yield method. Property and casualty credit insurance premiums written by the Company are earned over the period of insurance coverage using the pro-rata method or the effective yield method, depending on whether the amount of insurance coverage generally remains level or declines.

Commissions earned from the sale of accidental death and dismemberment insurance coverage and motor club memberships to finance customers are recognized at the time of origination. The Company has no future obligations related to the sale of these products. Other income includes commissions earned of approximately \$10,933,000 and \$10,302,000 for the year ended December 31, 2017 and 2016, respectively.

**Allowance for Credit Losses:** For periods subsequent to the acquisition date of the acquired finance receivables portfolio and for finance receivables originated by the Company, the allowance for credit losses is determined by several factors based upon each portfolio segment. Segments in the finance receivable portfolio include personal property, real estate and sales finance. Historical loss experience is the primary factor in the determination of the allowance for credit losses. An evaluation is performed to compare the amount of accounts charged off, net of recoveries of such accounts, in relation to the average net outstanding finance receivables for the period being reviewed. Historically, management has found that this methodology has provided an adequate allowance due to the Company's loan portfolio segments consisting of a large number of smaller balance homogeneous finance receivables. Further, management routinely evaluates the inherent risks and change in the volume and composition of the Company's finance receivable portfolio based on its extensive experience in the consumer finance industry in consideration of estimating the adequacy of the allowance. Also considered are delinquency trends, economic conditions, and industry factors. Provisions for credit losses are charged to income in amounts sufficient to maintain an allowance for credit losses at a level considered adequate to cover the probable loss inherent in the finance receivable portfolio. Since the estimates used in determining the allowance for credit losses are influenced by outside factors, such as consumer payment patterns and general economic conditions, there is uncertainty inherent in these estimates, making it reasonably possible that they could change. Interest on past due finance receivables is recognized until charge-off. Finance receivables are generally charged off when they are five months contractually past due.

**Policy Claim Reserves:** Policy claim reserves represent (i) the liability for losses and loss-adjustment expenses related to credit property insurance and (ii) the liabilities for future policy benefits related to credit life and accident and health insurance. The liability for loss and loss adjustment expenses includes an amount determined from loss reports and individual cases and an amount based on past experience, for losses incurred but not reported. The liabilities for future policy benefits have been computed utilizing accepted actuarial techniques. Such liabilities are necessarily based on estimates and, while management believes that the amount is adequate, the ultimate liability may be in excess of or less than the amounts provided. The methods for making such estimates and for establishing the resulting liabilities are continually reviewed, and any adjustments are reflected in earnings currently.

**Reinsurance Receivable and Recoverable:** The Company has reduced its exposure relating to credit accident and health insurance through a quota share reinsurance agreement. Amounts recoverable from the reinsurer are estimated in a manner consistent with the claim liability associated with the reinsured policy.

## First Tower Finance Company LLC and Subsidiaries

### Notes to Consolidated Financial Statements

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#### Note 1. Nature of Business and Significant Accounting Policies (Continued)

**Income Taxes:** First Tower Holdings LLC and its finance company subsidiaries are limited liability companies organized as partnerships for federal and state tax purposes and are not considered taxable entities. Taxable income or loss is reported by the Company's members on their respective tax returns in accordance with the limited liability agreement.

American Federated Holding Company and its wholly-owned subsidiaries, AFIC and AFLIC, are subject to income taxes at the corporate level. As such, deferred income taxes are provided for temporary differences between financial statement carrying amounts of assets and liabilities and their respective bases for income tax purposes using enacted tax rates in effect in the years in which the differences are expected to reverse.

Potential exposures involving tax positions taken that may be challenged by taxing authorities contain assumptions based upon past experiences and judgments about potential actions by taxing jurisdictions. Management does not believe that the ultimate settlement of these items will result in a material amount. With minimum exceptions, AFIC and AFLIC are no longer subject to income tax examinations prior to 2014.

**Cash and Cash Equivalents:** For purposes of the consolidated statements of cash flows, the Company considers certificates of deposit and all short-term securities with original maturities of three months or less to be cash equivalents.

**Fair Value Disclosures of Financial Instruments:** The following methods and assumptions were used by the Company to estimate the fair value of each class of financial instruments:

**Cash and Cash Equivalents:** The carrying amounts reported in the consolidated balance sheets for these financial instruments approximate their fair values.

**Investment Securities:** The fair value of investments in trading securities and securities available for sale are generally obtained from independent pricing services based upon valuations for similar assets in active markets or other inputs derived from objectively verifiable information.

**Finance Receivables:** The fair value of finance receivables is estimated using discounted cash flow analysis and an estimated market discount rate required to attract funds for similar investments.

**Other Receivables and Payables:** The carrying amounts reported in the consolidated balance sheets approximate their fair values.

**Notes Payable:** The carrying amounts of borrowings under the line-of-credit agreements reported in the consolidated balance sheets approximate their fair values as the interest charged for these borrowings fluctuate with market changes.

**Subordinated Notes Payable to Members:** The estimated fair value of subordinated notes payable to members was estimated using discounted cash flow analysis.

**Comprehensive Income:** Comprehensive income for the Company consists of net income (loss) and changes in unrealized gains (losses) on investment securities classified as available-for-sale, net of taxes, and are presented in the consolidated statements of income and comprehensive income.

**Advertising:** Advertising costs are expensed as incurred. Advertising expenses approximated \$5,530,000 and \$5,465,000 for the years ended December 31, 2017 and 2016, respectively.

## First Tower Finance Company LLC and Subsidiaries

### Notes to Consolidated Financial Statements

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#### Note 1. Nature of Business and Significant Accounting Policies (Continued)

**Share-Based Compensation:** The Company entered into employment agreements with certain executives and, in connection therewith, granted member interests consisting of Class D share awards which vest over a ten year period. Compensation expense for these awards is determined based on the estimated fair value of the shares awarded on the applicable grant or award date, June 14, 2012, and is recognized over the applicable award's vesting period.

**Accumulated Other Comprehensive Income (Loss):** The Company has recorded certain amounts directly to a component of total members' equity (deficit) reflected on the consolidated balance sheet as accumulated other comprehensive income (loss). Such amounts include unrealized gains and losses on available for sale securities. Realized losses attributable to the credit component of an other-than-temporary security impairment are reclassified to earnings.

In February 2018, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2018-02, "*Income Statement – Reporting Comprehensive Income (Topic 220) Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income*" which allows a reclassification from accumulated other comprehensive income or loss to members' equity (deficit) for stranded tax effects resulting from the Tax Cuts and Jobs Act of 2017. The Company elected to early adopt this accounting standards update, and as a result, reclassified \$29,610 to accumulated other comprehensive income (loss) from members' equity for the impact of the deferred tax effects.

**Reclassifications:** Certain reclassifications have been made in the 2016 financial statements in order to conform to the method of presentation used in 2017.

**Subsequent events:** The Company has evaluated its subsequent events (events occurring after December 31, 2017) through April 4, 2018, which represents the date the financial statements were available to be issued.

**Effects of Recent Accounting Guidance:** In May 2014, FASB issued ASU 2014-09, "*Revenue from Contracts with Customers (Topic 606)*". ASU 2014-09 implements a common revenue standard that clarifies the principles for recognizing revenue. The core principle of ASU 2014-09 is that 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. To achieve that core principle, an entity should apply the following steps: (i) identify the contract(s) with a customer, (ii) identify the performance obligations in the contract, (iii) determine the transaction price, (iv) allocate the transaction price to the performance obligations in the contract and (v) recognize revenue when (or as) the entity satisfies a performance obligation. In August 2015, the FASB issued ASU 2015-14, "*Revenue from Contracts with Customers: Deferral of the Effective Date*", as a revision to ASU 2014-09, which revised the effective date to fiscal years, and interim periods within those years, beginning after December 15, 2017. In March 2016, the FASB issued ASU 2016-06, "*Revenue from Contracts with Customers: Principal versus Agent Considerations*", which clarifies certain aspects of the principal-versus-agent guidance, including how an entity should identify the unit of accounting for the principal versus agent evaluation and how it should apply the control principle to certain types of arrangements, such as service transactions. The amendments also reframe the indicators to focus on evidence that an entity is acting as a principal rather than as an agent that are immaterial in the context of a contract. ASU 2014-09, ASU 2015-14, and ASU 2016-06 are effective for the Company on January 1, 2019. The Company is still evaluating the potential impact on the Company's consolidated financial statements.

In January 2016, the FASB issued ASU 2016-01, "*Recognition and Measurement of Financial Assets and Financial Liabilities*", which is intended to improve the recognition and measurement of financial instruments. ASU 2016-01 significantly revises an entity's accounting related to (1) the classification and measurement of investments in equity securities and (2) the presentation of certain fair value changes for financial liabilities measured at fair value. It also amends certain disclosure requirements associated with the fair value of financial instruments. ASU 2016-01 is effective for annual periods, and interim periods

## First Tower Finance Company LLC and Subsidiaries

### Notes to Consolidated Financial Statements

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#### Note 1. Nature of Business and Significant Accounting Policies (Continued)

within those annual periods, beginning after December 15, 2017. The Company is still evaluating the potential impact on the Company's consolidated financial statements.

In February 2016, the FASB issued ASU 2016-02, "Leases", which establishes a comprehensive lease standard under GAAP for virtually all industries. The new standard requires lessees to recognize a right of use asset and a lease liability for virtually all of their leases, other than leases that meet the definition of short term leases and will apply for annual periods beginning after December 15, 2018, including interim periods therein. Early adoption is permitted. The Company is still evaluating the potential impact on the Company's consolidated financial statements.

In June 2016, the FASB issued ASU 2016-13, "Financial Instruments – Credit Losses (Topic 326)". ASU 2016-13 issued amended guidance on reporting credit losses for assets held at amortized cost basis and available for sale debt securities. For assets held at amortized cost basis, the amended guidance eliminates the probable recognition threshold, and, instead requires an entity to reflect the current estimate of all expected credit losses. For available for sale debt securities, credit losses are measured in a manner similar to current GAAP, however the amended guidance required that credit losses be presented as an allowance rather than as a permanent impairment. The amendments affect loans, debt securities, trade receivables, net investments in leases, off balance sheet credit exposures, reinsurance receivables, and any other financial assets not excluded from the scope that have the contractual right to receive cash. The amended guidance is effective for the Company in 2021. Early adoption is permitted as of the fiscal years beginning after December 15, 2018. The Company is still evaluating the potential impact on the Company's consolidated financial statements.

In August 2016, the FASB issued ASU 2016-15, "Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments", addressing eight specific cash flow issues in an effort to reduce diversity in practice. The amended guidance is effective for the Company in 2019 and early adoption is permitted. The Company is still evaluating the potential impact on the Company's consolidated financial statements.

In January 2017, the FASB issued ASU 2017-04, "Intangibles - Goodwill and Others (Topic 350): Simplifying the Test for Goodwill Impairment". ASU 2017-04 simplifies the measurement of goodwill impairment by eliminating the requirement of performing a hypothetical purchase price allocation to measure goodwill impairment. ASU 2017-04 is effective for annual and any interim impairment tests for periods beginning after December 15, 2021. Early adoption is allowed as of January 1, 2017, for annual and any interim impairment tests occurring after January 1, 2017. The Company is still evaluating the potential impact on the Company's consolidated financial statements.

In March 2017, the FASB issued ASU 2017-08, "Receivables—Nonrefundable Fees and Other Costs (Topic 310-20): Premium Amortization on Purchased Callable Debt Securities". This guidance was issued to shorten the amortization period for certain callable debt securities held at a premium. The guidance requires the premium to be amortized to the earliest call date. It will become effective on January 1, 2019, with early adoption permitted, including during interim periods. The adoption is to be applied on a modified retrospective basis through an adjustment to retained earnings. The Company is still evaluating the potential impact on the Company's consolidated financial statements.

In May 2017, the FASB issued ASU 2017-09, "Compensation-Stock Compensation (Topic 718): Scope of Modification Accounting". ASU 2017-09 seeks to provide clarity, reduce diversity in practice, and to reduce cost and complexity when applying the guidance in Topic 718, Compensation-Stock Compensation, regarding a change to the terms or conditions of a share-based payment award and provides guidance concerning which changes to the terms or conditions of a share-based payment award require an entity to apply modification accounting. The amendments of ASU 2017-09 are effective for the Company on January 1, 2018. The Company is still evaluating the potential impact on the Company's consolidated financial statements.

**First Tower Finance Company LLC and Subsidiaries**

**Notes to Consolidated Financial Statements**

**Note 2. Investment Securities**

The cost or amortized cost of securities available for sale and their fair values at December 31, 2017 and 2016 were as follows:

<i>December 31, 2017</i>	<b>Cost or Amortized Cost</b>	<b>Fair Value</b>	<b>Gross Unrealized Gains</b>	<b>Gross Unrealized Losses</b>
Debt securities:				
U.S. Government agencies and corporations	\$ 9,686,420	\$ 9,617,272	\$ -	\$ 69,148
Obligations of states and political subdivisions	29,912,506	30,145,954	354,295	120,847
Corporate securities	18,949,866	18,978,637	99,544	70,773
Residential mortgage-backed securities	2,785	2,795	10	-
Commercial mortgage-backed securities	719,361	722,114	3,965	1,212
<b>Total investment securities</b>	<b>\$59,270,938</b>	<b>\$59,466,772</b>	<b>\$ 457,814</b>	<b>\$ 261,980</b>
<i>December 31, 2016</i>	<b>Cost or Amortized Cost</b>	<b>Fair Value</b>	<b>Gross Unrealized Gains</b>	<b>Gross Unrealized Losses</b>
Debt securities:				
U.S. Government agencies and corporations	\$ 8,864,899	\$ 8,725,841	\$ 3,902	\$ 162,960
Obligations of states and political subdivisions	34,393,952	34,270,305	218,534	342,181
Corporate securities	20,451,115	20,467,544	126,046	89,619
Residential mortgage-backed securities	7,966	8,075	109	-
Commercial mortgage-backed securities	729,067	738,390	9,323	-
<b>Total investment securities</b>	<b>\$64,466,999</b>	<b>\$64,230,155</b>	<b>\$ 357,916</b>	<b>\$ 594,760</b>

As of December 31, 2017 and 2016, accumulated other comprehensive income (loss) includes unrealized gains (losses) on available for sale securities, net of income tax effects, of approximately \$147,000 and (\$154,000), respectively.

**First Tower Finance Company LLC and Subsidiaries**

**Notes to Consolidated Financial Statements**

**Note 2. Investment Securities (Continued)**

The length of time impaired available-for-sale securities have been held in a loss position are as follows.

	Less than 12 months		12 months or more		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
<i>December 31, 2017</i>						
U.S. Government agencies and corporations	\$ 4,656,454	\$ 24,854	\$ 4,960,817	\$ 44,494	\$ 9,617,271	\$ 69,148
Obligations of states and political subdivisions	4,048,012	39,700	5,423,459	81,147	9,471,471	120,847
Corporate securities	4,094,555	19,770	5,527,689	51,003	9,622,224	70,773
Commercial mortgage-backed securities	593,345	1,212	-	-	593,345	1,212
<b>Total</b>	<b>\$13,392,366</b>	<b>\$ 85,336</b>	<b>\$15,911,945</b>	<b>\$ 176,644</b>	<b>\$29,304,311</b>	<b>\$ 281,980</b>

*December 31, 2016*

U.S. Government agencies and corporations	\$ 6,060,607	\$ 161,820	\$ 667,244	\$ 1,140	\$ 6,728,051	\$ 162,960
Obligations of states and political subdivisions	15,345,769	279,925	1,990,514	62,256	17,342,263	342,181
Corporate securities	4,850,477	64,394	3,934,756	25,225	8,785,233	89,619
<b>Total</b>	<b>\$26,257,053</b>	<b>\$ 506,139</b>	<b>\$ 6,592,514</b>	<b>\$ 88,621</b>	<b>\$32,855,567</b>	<b>\$ 594,760</b>

Substantially all gross unrealized losses at December 31, 2017 and 2016 were attributable to interest rate changes rather than an adverse change in cash flows or a fundamental weakness in the credit quality of the issuer or the underlying assets and are thus considered temporarily impaired. Due to the issuers' continued satisfaction of the securities' obligations in accordance with contractual terms, the expectation that they will continue to do so and the Company's intent and ability to hold these investments, management believes the securities in unrealized loss positions are temporarily depressed. As of December 31, 2017 the Company had 105 debt securities with temporary impairments, including 21 U.S. government securities, 36 securities classified as obligations of state and political subdivisions, 46 securities classified as corporate securities, and 2 securities classified as commercial mortgage-backed securities. As of December 31, 2016 the Company had 109 debt securities with temporary impairments, including 14 U.S. government securities, 57 securities classified as obligations of state and political subdivisions, and 38 investments classified as corporate securities.

Management of the Company evaluates securities for other-than-temporary impairment ("OTTI") no less than annually or when economic or market concerns warrant such evaluation. The evaluation is based upon factors such as the creditworthiness of the issuer, the underlying collateral, if applicable, and the continuing performance of the securities. Management also evaluates other facts and circumstances that may be indicative of an OTTI condition. This includes, but is not limited to, an evaluation of the type of security, length of time and extent to which the fair value has been less than cost, and near-term prospects of the issuer.

The Company segregates the OTTI impact on impaired securities where impairment in value was deemed to be other than temporary between the component representing credit loss and the component representing loss related to other factors.

**First Tower Finance Company LLC and Subsidiaries**

**Notes to Consolidated Financial Statements**

**Note 2. Investment Securities (Continued)**

The Company assesses whether a credit loss exists by considering whether (i) the Company has the intent to sell the security, (ii) it is more likely than not that it will be required to sell the security before recovery, or (iii) it does not expect to recover the entire amortized cost basis of a debt security. The portion of the fair value decline attributable to credit loss is recognized as a charge to earnings. The credit loss evaluation is determined by comparing the present value of the cash flows expected to be collected, discounted at the rate in effect before recognizing any OTTI with the amortized cost basis of the debt security. The Company uses the cash flow expected to be realized from the security, which includes assumptions about interest rates, timing and severity of defaults, estimates of potential recoveries, the cash flow distribution from the bond indenture and other factors, then applies a discount rate equal to the effective yield of the security. The difference between the present value of the expected cash flows and the amortized book value is considered a credit loss. The difference between the fair market value and the security's remaining amortized cost is recognized in other comprehensive income or loss.

The amortized cost and fair value of debt securities at December 31, 2017, by contractual maturity, is shown below. Expected maturities will differ from contractual maturities because issuers may have the right to call or prepay obligations with or without call or prepay penalties.

<i>December 31, 2017</i>	<b>Cost or Amortized Cost</b>	<b>Fair Value</b>
Due in one year or less	\$ 3,989,631	\$ 3,988,540
Due after one year but less than five years	29,733,383	29,820,021
Due after five years but less than ten years	23,212,659	23,318,048
Due after ten years	1,613,119	1,615,254
Residential mortgage-backed securities	2,785	2,795
Commercial mortgage-backed securities	719,361	722,114
Total debt securities	<u>\$ 59,270,938</u>	<u>\$ 59,466,772</u>

Investment securities with amortized cost of approximately \$3,119,000 and with estimated fair values of \$3,088,000 at December 31, 2017, were pledged by the Company with various states as required by state law. Investment securities with amortized cost of approximately \$3,075,000 and with estimated fair values of \$3,062,000 at December 31, 2016, were pledged by the Company with various states as required by state law.

Major categories of net investment income are summarized as follows for the year ended December 31, 2017 and 2016:

<i>December 31,</i>	<b>2017</b>	<b>2016</b>
Debt securities	\$ 1,397,366	\$ 1,212,135
Common stocks	103,504	68,443
Mortgage and collateral loans	7,800	7,800
Cash and short-term investments	40,889	38,977
	<u>1,548,559</u>	<u>1,327,355</u>
Investment expenses	(224,669)	(218,125)
Net investment income	<u>\$ 1,324,690</u>	<u>\$ 1,109,230</u>



**First Tower Finance Company LLC and Subsidiaries****Notes to Consolidated Financial Statements****Note 2. Investment Securities (Continued)**

Net realized investment gains are summarized as follows for the year ended December 31, 2017 and 2016:

<i>December 31,</i>	<b>2017</b>	<b>2016</b>
Gross realized gains on sale of securities available for sale	\$ 22,480	\$ 99,850
Gross realized losses on sale of securities available for sale	(61,926)	(2,670)
Gain (loss) from investments in trading securities	167,834	79,554
Net realized investment gains (losses)	<u>\$ 128,388</u>	<u>\$ 176,744</u>

Proceeds from sales of investment securities available for sale aggregated approximately \$19,741,000 and \$10,627,000 for the years ended December 31, 2017 and 2016, respectively.

**Note 3. Finance Receivables**

Finance receivables were as follows:

<i>December 31,</i>	<b>2017</b>	<b>2016</b>
Consumer finance receivables:		
Personal property	\$ 576,710,971	\$ 555,699,471
Real estate	22,007,481	23,043,808
Sales finance	140,036,489	130,974,487
	<u>738,754,941</u>	<u>709,717,766</u>
Add (deduct):		
Net deferred origination costs	6,136,564	6,053,089
Unearned income	(202,182,397)	(192,278,300)
Allowance for credit losses	(55,471,712)	(50,653,267)
Finance receivables, net	<u>\$ 487,237,396</u>	<u>\$ 472,839,288</u>

Changes in the allowance for credit losses were as follows during the year ended December 31, 2017 and 2016:

<i>December 31,</i>	<b>2017</b>	<b>2016</b>
Balance at beginning of year	\$ 50,653,267	\$ 46,755,242
Provision for credit losses	60,161,397	55,091,488
Receivables charged-off	(71,450,453)	(66,033,079)
Charge-offs recovered	16,107,501	14,839,616
Balance at end of year	<u>\$ 55,471,712</u>	<u>\$ 50,653,267</u>



First Tower Finance Company LLC and Subsidiaries

Notes to Consolidated Financial Statements

Note 3. Finance Receivables (Continued)

The balance in the allowance for credit losses by portfolio segment at December 31, 2017 and 2016 was as follows:

December 31, 2017	Balance at Beginning of Period	Charge-offs	Recoveries	Provision for Credit Losses	Balance at End of Period	Finance Receivables at End of Period	Allowance as Percentage of Finance Receivables at End of Period
Personal Property	\$ 48,144,397	\$ (98,375,538)	\$ 14,906,788	\$ 56,471,785	\$ 52,187,422	\$ 430,358,276	12.1%
Real Estate	89,698	(89,453)	45,778	48,105	85,128	14,852,493	0.4%
Sales Finance	2,439,174	(4,976,462)	1,104,925	4,641,527	3,209,164	91,553,775	3.5%
<b>Total loans</b>	<b>\$ 50,653,267</b>	<b>\$ (71,450,453)</b>	<b>\$ 16,107,501</b>	<b>\$ 60,161,367</b>	<b>\$ 56,471,712</b>	<b>\$ 538,572,544</b>	<b>10.3%</b>

December 31, 2016	Balance at Beginning of Period	Charge-offs	Recoveries	Provision for Credit Losses	Balance at End of Period	Finance Receivables at End of Period	Allowance as Percentage of Finance Receivables at End of Period
Personal Property	\$ 44,380,882	\$ (62,262,895)	\$ 13,847,668	\$ 52,168,732	\$ 48,144,397	\$ 415,741,620	11.6%
Real Estate	180,323	(182,103)	52,480	38,986	89,698	15,823,210	0.4%
Sales Finance	2,203,927	(3,587,981)	939,458	2,883,770	2,439,174	85,774,838	2.8%
<b>Total loans</b>	<b>\$ 46,755,242</b>	<b>\$ (65,033,079)</b>	<b>\$ 14,838,616</b>	<b>\$ 55,091,488</b>	<b>\$ 50,653,267</b>	<b>\$ 517,428,468</b>	<b>8.8%</b>

The Company classifies delinquent accounts based upon the number of contractual installments past due. An aging of delinquent gross finance receivables as of December 31, 2017 and 2016 is as follows:

December 31, 2017	Current	Past Due 30-90 Days	Past Due 91-150 Days	Past Due Greater Than 150 Days	Total
Personal Property	\$ 508,478,880	\$ 52,307,346	\$ 15,913,400	\$ 11,345	\$ 576,710,971
Real Estate	19,305,897	2,306,110	52,986	342,478	22,007,481
Sales Finance	135,006,652	3,950,139	1,079,439	259	140,036,489
<b>Gross Finance Receivables</b>	<b>\$ 662,791,429</b>	<b>\$ 58,563,595</b>	<b>\$ 17,045,835</b>	<b>\$ 354,082</b>	<b>\$ 738,754,941</b>

**First Tower Finance Company LLC and Subsidiaries****Notes to Consolidated Financial Statements**

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**Note 3. Finance Receivables (Continued)**

<i>December 31, 2016</i>	<b>Current</b>	<b>Past Due 30-90 Days</b>	<b>Past Due 91-150 Days</b>	<b>Past Due Greater Than 150 Days</b>	<b>Total</b>
Personal Property	\$ 469,832,703	\$50,046,034	\$15,815,575	\$ 5,159	\$555,699,471
Real Estate	20,056,558	2,304,396	336,373	346,481	23,043,808
Sales Finance	125,766,142	4,038,001	1,170,110	234	130,974,487
Gross Finance Receivables	<u>\$ 635,655,403</u>	<u>\$56,388,431</u>	<u>\$17,322,058</u>	<u>\$ 351,874</u>	<u>\$709,717,766</u>

Nonperforming loans consisted of loans past due greater than 150 days and approximated \$354,000 and \$352,000 at December 31, 2017 and 2016, respectively. Additionally, the Company had gross finance receivables relating to customers in bankruptcy and which the terms of the original contract have been modified approximating \$3,023,000 and \$3,056,000 at December 31, 2017 and 2016, respectively.

**Note 4. Reinsurance**

The Company is party to a quota share reinsurance agreement that ceded 40% of its credit accident and health business written prior to January 1, 2013 in order to limit its exposure on credit disability coverages. Reinsurance contracts do not relieve the Company from its primary obligation to policyholders. Failure of any reinsurer to honor its obligations could result in losses to the Company. On February 13, 2017, the reinsurance agreement was commuted resulting in the release of the reinsurer's liability and the payment to the Company of the reinsurance receivable and recoverable.

The ceded reinsurance agreement contained a retrospective rating provision that results in a favorable adjustment to the reinsurance premiums if certain underwriting results were achieved on the reinsured business during the experience period. The Company estimated the amount of ultimate premium adjustment that the Company may earn upon completion of the experience period and recognized an asset for the difference between the initial reinsurance premiums paid and the estimated ultimate premium. The Company adjusted such estimated ultimate premium amounts during the course of the experience period based on actual results to date. The resulting adjustment was recorded as either a reduction of or an increase to the ceded premiums for the year. Included in reinsurance recoverable at December 31, 2016 were estimated receivables relating to retrospective ratings provisions of approximately \$969,000. During the year ended December 31, 2016 ceded premiums were reduced by retrospective premium adjustments of approximately \$3,000.

**First Tower Finance Company LLC and Subsidiaries****Notes to Consolidated Financial Statements****Note 4. Reinsurance (Continued)**

The effect of reinsurance on premiums written and earned is as follows for the year-end December 31, 2017 and 2016:

<i>December 31, 2017</i>	<b>Written</b>	<b>Earned</b>
Direct	\$ 34,377,704	\$ 33,450,540
Ceded	-	-
Net premiums	<u>\$ 34,377,704</u>	<u>\$ 33,450,540</u>

<i>December 31, 2016</i>		
Direct	\$ 33,264,929	\$ 32,919,353
Ceded	(3,554)	(3,554)
Net premiums	<u>\$ 33,261,375</u>	<u>\$ 32,915,799</u>

**Note 5. Property and Equipment**

Property and equipment at December 31, 2017 and 2016 is as follows:

	<b>Estimated Useful Lives</b>	<b>December 31, 2017</b>	<b>December 31, 2016</b>
Land		\$ 441,890	\$ 408,188
Building and improvements	15 to 40 years	3,739,546	3,539,514
Office furniture and fixtures	5 to 10 years	2,700,915	2,554,800
Data processing equipment	3 years	10,676,558	7,697,897
Automotive equipment	3 years	1,408,493	1,425,000
Leasehold improvements	5 years	2,442,125	2,370,531
Information systems in development	-	17,591,799	11,135,600
		39,001,326	29,131,530
Less accumulated depreciation		11,872,282	9,405,432
Property and equipment, net		<u>\$ 27,129,044</u>	<u>\$ 19,726,098</u>

Depreciation expense for the years ended December 31, 2017 and 2016 approximated \$2,962,000 and \$2,853,000, respectively.

**First Tower Finance Company LLC and Subsidiaries****Notes to Consolidated Financial Statements****Note 6. Goodwill and Intangible Assets**

A summary of goodwill and its estimated finite life is as follows:

	Estimated Useful Lives	December 31, 2017	December 31, 2016
Goodwill	10 years	\$ 136,176,452	\$ 136,176,452
Less accumulated amortization		68,088,236	54,470,588
Goodwill, net		\$ 68,088,216	\$ 81,705,864

A summary of the other intangible assets and their estimated finite lives were as follows:

	Estimated Useful Lives	December 31, 2017	December 31, 2016
Trade names	5 to 15 years	\$ 24,400,000	\$ 24,400,000
Non-competition and license agreements	2 to 4 years	2,323,800	2,323,800
Internally developed technology	2 years	1,000,000	1,000,000
Customer relationships and other	2 to 3 years	488,700	488,700
		28,212,500	28,212,500
Less accumulated amortization		13,016,121	11,381,952
Intangible assets, net		\$ 15,196,379	\$ 16,830,548

Aggregate amortization expense for goodwill and intangible assets for the year ended December 31, 2017 approximated \$13,618,000 and \$1,634,000, respectively. Aggregate amortization expense for goodwill and intangible assets for the year ended December 31, 2016 approximated \$13,618,000 and \$1,838,000, respectively. The estimated amortization expense of goodwill and the finite-lived intangible assets for future years is summarized as follows:

Fiscal Year 2018	\$ 15,224,312
Fiscal Year 2019	15,224,312
Fiscal Year 2020	15,224,312
Fiscal Year 2021	15,224,312
Fiscal Year 2022	15,224,312
Thereafter	7,163,035
Total	\$ 83,284,595

**Note 7. Notes Payable and Credit Arrangements for Business Operations**

In July 2017, the Company extended its agreement of June 15, 2012, a revolving loan agreement, which provides for a total credit facility of up to \$400,000,000 which terminates on July 19, 2020. The agreement provides for an increase in the credit facility of an additional \$50,000,000, if needed. Borrowings are limited to a borrowing base as defined in the related agreement.

## First Tower Finance Company LLC and Subsidiaries

### Notes to Consolidated Financial Statements

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#### Note 7. Notes Payable and Credit Arrangements for Business Operations (Continued)

Borrowings under the revolving loan agreement bear interest at an annualized referenced rate equal to the higher of (i) the federal funds rate plus 0.50%, (ii) the lenders prime rate, or (iii) LIBOR plus 1%, and adjusted for an applicable margin based upon the current borrowing availability. The applicable margin ranges from 1.50% to 3.00% depending on the reference rate and borrowing availability percentage as defined in the agreement. Borrowings are collateralized by substantially all of the Company's consumer finance assets, including finance receivables and intangibles.

The revolving loan agreement contains covenants which place restrictions on the Company, including limitations on distributions, additional indebtedness, transactions with affiliates, and require that certain minimum interest coverage and senior debt leverage ratios be maintained. At December 31, 2017 and 2016, the Company was in compliance with the covenants.

The Company has another line of credit that was extended in June 2017 which terminates June 30, 2019. The line of credit was increased from \$10,000,000 to \$11,000,000 upon extension. Advances under the line of credit bear interest at one-month LIBOR plus 2.75% with a floor rate of 3.75% adjusted monthly, and are collateralized by all of the outstanding shares of American Federated Life Insurance Company and a first deed of trust on the Company's corporate office, located in Flowood, MS. The increase in this line of credit was used to issue a letter of credit in the amount of \$650,000 expiring on June 30, 2018.

At December 31, 2017 and 2016, the amount outstanding under the revolving loan agreement was approximately \$333,128,000 and \$316,707,000, respectively, with an average effective interest rate of 4.02% and 3.57%, respectively. The amount outstanding under the revolving line of credit with the bank was approximately \$9,526,000 with an interest rate of 4.32% and \$6,878,000 with an interest rate of 3.75% at December 31, 2017 and 2016, respectively. Interest is payable monthly.

#### Note 8. Subordinated Notes Payable to Members

On June 24, 2014, First Tower, LLC ("FT LLC") issued subordinated term loan notes payable to the members of the Company in the aggregate amount of \$313,644,000 pursuant to a subordinated loan agreement (the "Subordinated Loan Agreement"). The proceeds of the subordinated term loans were distributed to the Company, which were then distributed to its members as a return of capital.

Under the terms of the Subordinated Loan Agreement, these subordinated term loans initially bore interest at a rate per annum equal to 10% plus a paid-in-kind rate (the "PIK Rate") of 7%. Effective October 1, 2014, the PIK Rate was increased to 12%. On January 4, 2017, the PIK Rate was decreased to 7%. Interest accruing at the 10% rate is payable monthly in cash and the PIK Rate interest is payable monthly in cash, at FT LLC's option, subject to certain restrictions as specified by the terms of a subordination and intercreditor agreement with lenders of the Company's credit facility and revolving line of credit (See Note 7). Accruing PIK Rate interest that may be prohibited from being paid currently under the subordination and intercreditor agreement as a result of distributable income limitations from operating subsidiaries is automatically added to the principal of the subordinated term loan notes.

The subordinated term loan notes mature on the earlier of June 24, 2019 or six months after the termination of the Company's credit facility. Subject to the subordination and intercreditor agreement, FT LLC may prepay in whole or in part amounts outstanding. However, any amounts prepaid prior to the third anniversary of the issuance would be subject to a prepayment premium ranging from 1% – 3% depending on the timing of the prepayment. FT LLC's obligations under the subordinated term loan notes are secured by a lien granted to Prospect Capital Corporation as collateral agent for the benefit of the holders of the subordinated term loan notes against all of the LLC interests of its wholly-owned finance company subsidiaries and all other First Tower, LLC assets.

## First Tower Finance Company LLC and Subsidiaries

### Notes to Consolidated Financial Statements

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#### Note 8. Subordinated Notes Payable to Members (Continued)

The Subordinated Loan Agreement contains various provisions which require FT LLC to make mandatory prepayments, subject to specified exceptions, with the proceeds of asset dispositions, debt and specified equity issuances, changes of control, and certain other events. In addition to other covenants, the Subordinated Loan Agreement places limits on FT LLC and its subsidiaries' ability to declare dividends or redeem or repurchase capital stock, prepay, redeem or purchase debt, incur liens and engage in sale-leaseback transactions, make loans and investments, incur additional indebtedness, amend or otherwise alter debt and other material agreements, make capital expenditures, engage in mergers, acquisitions and asset sales, transact with affiliates and alter its business. Further, the Subordinated Loan Agreement contains events of default, including cross defaults under other debt obligations of the Company.

In December 2015, the Company issued an additional \$5,000,000 in subordinated term loan notes under the same terms. At December 31, 2017 and 2016, the principal amount outstanding of the subordinated term loan notes payable was approximately \$323,246,000 and \$322,543,000, respectively. Interest expense, including PIK Rate interest, incurred on the subordinated term loan notes approximated \$56,030,000 during 2017 and \$71,565,000 during 2016.

#### Note 9. Policy Claim Liabilities

Activity in policy claim reserves, including claim adjustment expenses, by significant lines of business for the years ended December 31, 2017 and 2016, is summarized as follows:

<i>For the year ending December 31, 2017</i>	<b>Property &amp; Casualty Business</b>	<b>Life &amp; Accident/ Health Business</b>	<b>Total</b>
Balance at January 1,	\$ 444,362	\$ 2,221,576	\$ 2,665,938
Less reinsurance recoverables	-	1,228	1,228
Net balance, beginning of year	444,362	2,220,348	2,664,710
Incurred related to current year	1,087,685	6,222,197	7,309,882
Incurred related to prior years	(128,314)	(250,916)	(379,230)
Total incurred	959,371	5,971,281	6,930,652
Paid related to current year	815,772	4,196,224	5,011,996
Paid related to prior years	169,868	1,629,567	1,799,435
Total paid	985,640	5,825,791	6,811,431
Net balance, end of year	418,093	2,365,838	2,783,931
Plus reinsurance recoverables	-	-	-
Balance at December 31, 2017	\$ 418,093	\$ 2,365,838	\$ 2,783,931

First Tower Finance Company LLC and Subsidiaries

Notes to Consolidated Financial Statements

Note 9. Policy Claim Liabilities (Continued)

<i>For the year ending December 31, 2016</i>	<b>Property &amp; Casualty Business</b>	<b>Life &amp; Accident/ Health Business</b>	<b>Total</b>
Balance at January 1,	\$ 539,425	\$ 2,309,429	\$ 2,848,854
Less reinsurance recoverables	-	12,734	12,734
Net balance, beginning of year	539,425	2,296,695	2,836,120
Incurred related to current year	1,016,680	5,585,881	6,602,561
Incurred related to prior years	(131,564)	(513,480)	(645,044)
Total incurred	885,116	5,072,401	5,957,517
Paid related to current year	770,472	3,718,818	4,489,290
Paid related to prior years	209,707	1,429,930	1,639,637
Total paid	980,179	5,148,748	6,128,927
Net balance, end of year	444,362	2,220,348	2,664,710
Plus reinsurance recoverables	-	1,228	1,228
Balance at December 31, 2016	\$ 444,362	\$ 2,221,576	\$ 2,665,938

**First Tower Finance Company LLC and Subsidiaries**

**Notes to Consolidated Financial Statements**

**Note 9. Policy Claim Liabilities (Continued)**

Incurred and paid claim development, by accident year for the property and casualty lines of business, for the year ended December 31, 2017, is summarized as follows:

<i>AFIC Property &amp; Casualty Accounts</i>	Net Incurred Claims for the Year Ended December 31,			As of December 31, 2017	
	2015	2016	2017	Total of Incurred- but-Not-Reported Liabilities Plus Expected Development	Cumulative Number of Reported Claims
Accident year					
2015	\$ 938,767	\$ 1,285,380	\$ 1,189,164	\$ 40,078	875
2016	-	1,016,880	1,027,156	106,142	810
2017	-	-	1,087,655	271,875	782
<b>Net incurred claims</b>	<b>\$ 938,767</b>	<b>\$ 2,282,060</b>	<b>\$ 3,304,004</b>		
	Net Cumulative Claim Payments for the Year Ended December 31,				
<i>AFIC Property &amp; Casualty Accounts</i>	2015	2016	2017		
Accident year					
2015	\$ 938,767	\$ 1,133,792	\$ 1,149,126		
2016	-	770,472	821,013		
2017	-	-	815,772		
<b>Net cumulative claim payments</b>	<b>\$ 938,767</b>	<b>\$ 1,904,264</b>	<b>\$ 2,985,911</b>		
Liabilities for claims and claim adjustment expenses, net of reinsurance			<u>\$ 418,093</u>		

The incurred but not reported liability for the property and casualty lines of business approximated \$418,000 and \$444,000 as of December 31, 2017 and 2016, respectively. The average annual percentage payout of incurred claims for the property and casualty lines of business was 82.7% in year 1, 16.3% in year 2 and 1.0% in year 3.



**First Tower Finance Company LLC and Subsidiaries**

**Notes to Consolidated Financial Statements**

**Note 9. Policy Claim Liabilities (Continued)**

Incurred and paid claim development, by accident year for the life and accident/health lines of business, for the year ended December 31, 2017, is summarized as follows:

<i>AFLIC Life &amp; Accident/Health Accounts</i>	Net Incurred Claims for the Year Ended December 31,			As of December 31, 2017	
	2015	2016	2017	Total of Incurred- but-Not-Reported Liabilities Plus Expected Development	Cumulative Number of Reported Claims
Accident year					
2015	\$ 5,071,789	\$ 4,619,942	\$ 4,583,886	\$ 31,127	9,637
2016	-	5,585,881	5,345,542	61,027	10,733
2017	-	-	8,222,197	980,964	11,003
<b>Net incurred claims</b>	<b>\$ 5,071,789</b>	<b>\$ 10,205,823</b>	<b>\$ 18,151,435</b>		
	Net Cumulative Claim Payments for the Year Ended December 31,				
<i>AFLIC Life &amp; Accident/Health Accounts</i>	2015	2016	2017		
Accident year					
2015	\$ 3,130,989	\$ 4,306,873	\$ 4,555,092		
2016	-	3,718,818	5,044,017		
2017	-	-	4,186,224		
<b>Net cumulative claim payments</b>	<b>\$ 3,130,989</b>	<b>\$ 8,025,781</b>	<b>\$ 13,785,333</b>		
All outstanding liabilities before 2015, net of reinsurance				8,736	
Liabilities for claims and claim adjustment expenses, net of reinsurance				<b>\$ 2,365,838</b>	

The incurred but not reported liability for the life and accident/health lines of business approximated \$953,000 and \$771,000 as of December 31, 2017 and 2016, respectively.

## First Tower Finance Company LLC and Subsidiaries

### Notes to Consolidated Financial Statements

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#### Note 10. Income Taxes

The Company's insurance subsidiaries file income tax returns in the U. S. federal jurisdiction and in the states in which they operate. The multiple state tax jurisdictions in which the insurance subsidiaries operate require the appropriate allocation of income and expense to each state based on a variety of apportionment or allocation bases.

The provisions for income taxes of the Company's insurance subsidiaries for the year ended December 31, 2017 and 2016 consisted of the following:

<i>December 31,</i>	<b>2017</b>	<b>2016</b>
Current expense	\$ 1,259,270	\$ 67,261
Deferred expense (benefit)	(2,202,037)	255,758
Provision for income taxes	<u>\$ (942,767)</u>	<u>\$ 323,019</u>

The Tax Cuts and Jobs Act (the "Act") was enacted on December 22, 2017. The Act contains several key provisions that impact the Company's business, including a reduction in the U.S. federal corporate tax rate from 34% to 21% effective January 1, 2018 as well as a change in how insurance companies discount loss reserves. At December 31, 2017, the Company has not completed its accounting for the tax effects of enactment of the Act; however, it has made a reasonable estimate of the effects on its existing deferred tax balances. The deferred tax assets and deferred tax liabilities as of December 31, 2017 have been re-measured based on the rates at which they are expected to reverse in the future, which is generally 21%. The Company is still analyzing certain aspects of the Act, and any future guidance from the Treasury, Internal Revenue Service, or the Company's regulators could potentially affect the measurement of those balances or give rise to new deferred tax amounts. The Company recognized a provisional benefit of approximately \$926,000 in 2017 related to the re-measurement of deferred taxes, which is included as a component of income tax expense from continuing operations.

The Company did not have unrecognized tax benefits as of December 31, 2017 and does not expect this to change significantly over the next 12 months. It is the Company's policy to recognize interest and penalties accrued on any unrecognized tax benefits as a component of income tax expense. As of December 31, 2017, the Company had no accrued interest or penalties related to uncertain tax positions.

**First Tower Finance Company LLC and Subsidiaries**

**Notes to Consolidated Financial Statements**

**Note 10. Income Taxes (Continued)**

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes relating to the Company's insurance subsidiaries. The tax effects of significant items comprising the Company's net deferred tax liability and asset were as follows:

<u>December 31,</u>	<u>2017</u>	<u>2016</u>
Deferred tax assets:		
Policy claim reserves and unearned premiums	\$ 1,949,951	\$ 1,831,607
Goodwill and intangible assets	1,210,372	1,474,587
Net operating and capital losses carryforward	378,744	949,433
Unrealized loss on securities available for sale	-	90,757
	<u>3,539,067</u>	<u>4,346,384</u>
Deferred tax liabilities:		
Reinsurance recoverables	-	349,139
Deferred acquisition costs	5,091,560	7,656,710
Unrealized holding gain on trading securities	73,371	47,086
Unrealized gain on securities available for sale	48,861	-
	<u>5,213,792</u>	<u>8,052,935</u>
Deferred tax liabilities, net	<u>\$ (1,674,725)</u>	<u>\$ (3,706,551)</u>

The provision for income taxes differs from the amount computed by applying the federal statutory rate of 34% to income before income taxes as follows:

<u>December 31,</u>	<u>2017</u>	<u>2016</u>
Consolidated loss before taxes	\$ (12,651,921)	\$ (23,666,318)
Less: non-taxable entities	(12,998,575)	(24,585,204)
Income before taxes from taxable entities	<u>\$ 346,654</u>	<u>\$ 918,866</u>
Tax based on federal statutory rate	\$ 117,862	\$ 312,421
Non-taxable interest income	(220,361)	(185,493)
State income taxes and other	(32,185)	(34,582)
Transactional costs	(44,812)	(44,812)
Enacted tax law rate change from revaluation of deferred taxes	(926,123)	-
Goodwill	211,075	211,075
AMT and adjustments to prior year taxes	(48,223)	64,410
Provision for income taxes	<u>\$ (942,767)</u>	<u>\$ 323,019</u>

The Company's insurance subsidiaries have approximately \$2,400,000 in federal net operating loss carryforwards that will expire in 2032, if not used.

## First Tower Finance Company LLC and Subsidiaries

### Notes to Consolidated Financial Statements

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#### Note 11. Employee Profit Sharing Plan

The Company established three profit sharing plans covering substantially all the Company's employees. A nonstandardized profit sharing plan was established for managers on January 1, 2015. Employer and participants contributions are nonelective and at the sole discretion of the employer. Contributions are allocated as a uniform percentage of participant compensation.

The Company also established a plan which is intended to providing selected officers, members of the executive group, home office or district supervisors of the Company or its Affiliates, or the assistant to the chief executive officer of the Company, incentive awards for superior performance. The plan is intended to be a nonqualified deferred compensation plan that complies with the provisions of Section 409A of the Internal Revenue Code. The plan is also intended to be an unfunded plan maintained primarily for the purpose of providing deferred compensation benefits for a select group of management or highly compensated employees under Sections 201(2), 301(a)(3) and 401(a)(1) of the Employee Retirement Income Security Act of 1974 ("ERISA").

Remaining employees are covered by a 401(k) provision which allows employees to contribute salary subject to the maximum contribution allowed by the IRS. The Company matches 50% of the first 6% of employee contributions. Additional contributions may be made at the discretion of the Company. Profit sharing expense approximated \$501,000 and \$338,000 for the years ended December 31, 2017 and 2016, respectively.

#### Note 12. Members Equity

The Company's capital structure consists of four classes of member common units. All classes of common units, except for Class D common units, share in the profits and losses of the Company and in the distributions of member capital on a pro-rata basis in proportion to total number of such units outstanding. The four classes of member common units are as follows:

- Class A common units – These units have voting rights in proportion to the total number of Class A, Class B and Class C common units outstanding. There were 117,350,228 Class A common units issued to members outstanding as of December 31, 2017 and 2016. Issuance of additional Class A common units in excess of 10% of the fully diluted outstanding units of Class A and Class B common units require the approval of at least 81% of the outstanding Class A common units.
- Class B common units – These units have voting rights in proportion to the total number of Class A, Class B and Class C common units outstanding. There were 66,814 Class B common units as of December 31, 2017 and 2016.
- Class C common units – These units have voting rights in proportion to the total number of Class A, Class B and Class C common units outstanding. As of December 31, 2017 and 2016, no Class C common units have been issued. These units will be issued upon the conversion of Class D common units.
- Class D common units – These units have no voting rights and are unvested upon issuance. Class D common units vest over a ten year period beginning June 15, 2012 at 10% per year. Unvested Class D common units are forfeited upon the termination of the holder's employment for any reason. Each holder of Class D common units has the right to convert such units to Class C common units at a ratio of four Class D common units for one Class C common unit provided that (i) the date of such conversion occurs no earlier than the 10th anniversary of June 15, 2012, (ii) such holder notifies the Company thirty days prior to conversion, and (iii) the internal rate of return as of the most recent fiscal quarter exceeds a pre-defined minimum. On June 14, 2012, the Company entered into employment contracts with two key executives and, in connection therewith, granted these executives 12,941,176 unvested Class D common units with an estimated fair value at date of grant of approximately \$698,000. Compensation expense related to Class D common units approximated \$70,000 annually for the years ended December 31, 2017 and 2016.

## First Tower Finance Company LLC and Subsidiaries

### Notes to Consolidated Financial Statements

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#### Note 12. Members Equity (Continued)

Members have no power to vote on any matter except matters on which a vote of units is required pursuant to the Company's Operating Agreement. The Operating Agreement provides for, among other things, limitations on the transfer of member units, rights of first refusal, pre-emptive rights, and certain call and put provisions.

#### Note 13. Statutory Financial Information of Insurance Subsidiaries

Generally accepted accounting principles (GAAP) differ in certain respects from the accounting practices prescribed or permitted by insurance regulatory authorities (Statutory). A reconciliation between net income and stockholder's equity of the Company's insurance subsidiaries as reported under GAAP and Statutory follows as of December 31, 2017 and 2016:

<i>December 31, 2017</i>	<b>Net Income (Loss)</b>	<b>Stockholder's Equity</b>
GAAP basis, including effects of purchase accounting	\$ 1,289,419	\$ 64,687,583
Adjustments to:		
Non-admitted assets	1,600	(69,025)
Accumulated depreciation	-	(20,743)
Investment securities and related unrealized gains	94,441	(463,583)
Deferred acquisition costs	(805,349)	(23,347,454)
Goodwill and intangible assets	4,225,052	(20,987,717)
Policy claim reserves and unearned premiums	2,813,978	1,212,017
Deferred income taxes and income taxes payable	(2,228,356)	4,047,994
Asset valuation and interest maintenance reserves	41,073	(141,953)
Statutory Basis	<u>\$ 5,631,858</u>	<u>\$ 24,917,109</u>

<i>December 31, 2016</i>	<b>Net Income (Loss)</b>	<b>Stockholder's Equity</b>
GAAP basis, including effects of purchase accounting	\$ 595,867	\$ 75,947,881
Adjustments to:		
Non-admitted assets	1,600	(69,506)
Accumulated depreciation	-	(22,343)
Investment securities and related unrealized gains	161,424	(366,184)
Deferred acquisition costs	(270,989)	(22,742,105)
Goodwill and intangible assets	4,298,902	(25,212,767)
Policy claim reserves and unearned premiums	1,307,517	(1,601,964)
Deferred income taxes and income taxes payable	209,490	7,174,429
Asset valuation and interest maintenance reserves	47,930	(233,481)
Statutory Basis	<u>\$ 6,351,641</u>	<u>\$ 32,673,960</u>

Under state statutes, each of the insurance subsidiaries is required to maintain minimum capital and surplus of \$1,500,000. The Company's insurance subsidiaries paid extraordinary dividends, which were approved by the Mississippi Insurance Department, of \$9,500,000 in 2017 in addition to regular dividends.

## First Tower Finance Company LLC and Subsidiaries

### Notes to Consolidated Financial Statements

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#### Note 13. Statutory Financial Information of Insurance Subsidiaries (Continued)

Insurance regulations limit the amount of dividends that may be paid without approval of the insurance subsidiaries' regulatory agency. At December 31, 2017 and 2016, there were no undistributed earnings and surplus available for future distributions as dividends are not permitted, without the prior approval of the State of Mississippi Insurance Department.

The National Association of Insurance Commissioners (NAIC) measures the adequacy of an insurance company's capital by its risk-based capital ratio (the ratio of its total capital, as defined, to its risk-based capital). The requirements provide a measurement of minimum capital appropriate for an insurance company to support its overall business operations based upon its size and risk profile which considers (i) asset risk, (ii) insurance risk, (iii) interest rate risk, and (iv) business risk. An insurance company's risk-based capital is calculated by applying a defined factor to various statutory-based assets, premiums, and reserve items, wherein the factor is higher for items with greater underlying risk.

The State of Mississippi statutes have provided levels of progressively increasing regulatory action for remedies when an insurance company's risk-based capital ratio falls below a ratio of 2:1. As of December 31, 2017 and 2016 (latest information available), the Company's insurance subsidiaries were in compliance with these minimum capital requirements as follows:

<i>December 31, 2017</i>	<b>AFLIC</b>	<b>AFIC</b>
Total adjusted capital	\$ 11,667,125	\$ 13,140,267
Authorized control level risk-based capital	769,363	2,491,828
Ratio of adjusted capital to risk based capital	15.2:1	5.3:1

<i>December 31, 2016</i>	<b>AFLIC</b>	<b>AFIC</b>
Total adjusted capital	\$ 11,901,162	\$ 20,873,275
Authorized control level risk-based capital	776,692	2,354,027
Ratio of adjusted capital to risk based capital	15.3:1	8.9:1

#### Note 14. Leases

The Company leases office facilities under non-cancellable operating leases. Rental expense approximated \$2,780,000 and \$2,655,000 for the years ended December 31, 2017 and 2016, respectively. Future minimum lease payments at December 31, 2017 are as follows:

Fiscal Year 2018	\$ 2,261,510
Fiscal Year 2019	1,639,109
Fiscal Year 2020	1,163,340
Fiscal Year 2021	552,760
Fiscal Year 2022	153,487
Thereafter	20,350
	<u>\$ 5,790,556</u>

**First Tower Finance Company LLC and Subsidiaries**

**Notes to Consolidated Financial Statements**

**Note 15. Concentration of Credit Risk**

Financial instruments that potentially subject the Company to concentrations of credit risk consist principally of finance receivables. Concentrations of credit risk with respect to finance receivables are limited due to the large number of customers comprising the Company's customer base. These finance receivables are mainly from customers located in Mississippi, Louisiana, Alabama, Illinois and Missouri.

At December 31, 2017 and 2016, the Company had funds on deposit with depository and investment institutions in excess of insured limits of approximately \$4,350,000 and \$7,351,000, respectively. The Company periodically assesses the financial condition of the financial institutions in which it conducts transactions and believes the risk of any loss is minimal.

**Note 16. Fair Value Measurements**

The fair value measurements by input level at December 31, 2017 and 2016 for assets and liabilities measured at fair value on a recurring basis follow:

<i>December 31, 2017</i>	<b>Total</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>
Trading securities - equity mutual funds	\$ 1,930,958	\$ 1,930,958	\$ -	\$ -
Available-for-sale securities:				
U.S. Government agencies and corporations	9,617,272	9,617,272	-	-
Obligations of states and political subdivisions	30,145,954	-	30,145,954	-
Corporate securities	18,978,637	-	18,978,637	-
Residential mortgage-backed securities	2,795	-	2,795	-
Commercial mortgage-backed securities	722,114	-	722,114	-
	<u>\$ 61,397,730</u>	<u>\$ 11,548,230</u>	<u>\$ 49,849,500</u>	<u>\$ -</u>

*December 31, 2016*

Trading securities - equity mutual funds	\$ 1,659,620	\$ 1,659,620	\$ -	\$ -
Available-for-sale securities:				
U.S. Government agencies and corporations	8,725,841	8,725,841	-	-
Obligations of states and political subdivisions	34,270,305	-	34,270,305	-
Corporate securities	20,487,544	-	20,487,544	-
Residential mortgage-backed securities	8,075	-	8,075	-
Commercial mortgage-backed securities	738,390	-	738,390	-
	<u>\$ 65,889,775</u>	<u>\$ 10,385,461</u>	<u>\$ 55,504,314</u>	<u>\$ -</u>

## First Tower Finance Company LLC and Subsidiaries

### Notes to Consolidated Financial Statements

#### Note 16. Fair Value Measurements (Continued)

Certain assets and liabilities are potentially measured at fair value on a nonrecurring basis (for example, when there is evidence of impairment). In addition to the assets and liabilities measured at fair value at date of acquisition (see Note 2), assets measured at fair value on a non-recurring basis include foreclosed assets (upon initial recognition or subsequent impairment), and intangible assets and other non-financial long-lived assets subject to measurement at fair value for impairment assessment. During the years ended December 31, 2017 and 2016, certain foreclosed real estate assets, upon initial recognition, were remeasured and reported at fair value through a charge-off to the allowance for credit losses based upon the fair value of the foreclosed asset. The fair value of a foreclosed asset, upon initial recognition, is estimated using Level 2 inputs based on observable market data or Level 3 inputs based on customized discounting criteria. Foreclosed assets measured at fair value upon initial recognition during the year ended December 31, 2017 and 2016 were not material.

#### Note 17. Disclosures About Fair Value of Financial Instruments

The carrying values and approximate fair values of the Company's financial instruments were as follows:

<i>December 31,</i>	<b>2017</b>		<b>2016</b>	
	<b>Carrying Value</b>	<b>Fair Value</b>	<b>Carrying Value</b>	<b>Fair Value</b>
Financial Assets:				
Cash and cash equivalents	\$ 12,427,931	\$ 12,427,931	\$ 8,145,628	\$ 8,145,628
Trading securities	1,930,958	1,930,958	1,659,620	1,659,620
Investment securities available for sale	59,466,772	59,466,772	64,230,155	64,230,155
Finance receivables - net	487,237,396	453,109,406	472,839,288	442,016,640
Financial Liabilities:				
Notes payable	342,654,765	342,654,765	323,584,966	323,584,935
Subordinated notes payable to members	323,245,579	323,245,579	322,542,697	322,542,697

Certain financial instruments are not carried at fair value in the accompanying consolidated balance sheets, including receivables, payables and accrued liabilities. The carrying amount of financial instruments not carried at fair value is a reasonable estimate of their fair value because of the generally short periods of time in which these related assets or liabilities are expected to be realized or liquidated, and because they do not present unanticipated credit concerns.

The estimated fair values are significantly affected by assumptions used, principally the timing of future cash flows, the discount rate, judgments regarding current economic conditions, risk characteristics of various financial instruments and other factors. Because assumptions are inherently subjective in nature, the estimated fair values cannot be substantiated by comparison to independent quotes and, in many cases, the estimated fair values could not necessarily be realized in an immediate sale or settlement of the instrument. Potential tax ramifications related to the realization of unrealized gains and losses that would be incurred in an actual sale and/or settlement have not been taken into consideration.



## First Tower Finance Company LLC and Subsidiaries

### Notes to Consolidated Financial Statements

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#### Note 18. Contingencies

As of December 31, 2017, the Company is involved in various legal actions resulting from normal business activities. Many of these actions do not specify an amount of damages. Also, many of these actions are in very early stages of discovery or discovery has not begun. As a result, legal counsel is unable to provide an estimate of the probability or range of potential exposure. However, and based on its experience with lawsuits alleging similar claims and except for the two suits described below, management is of the opinion that the resolution of such actions will not result in a material adverse effect on the consolidated financial statements.

The Company has been named defendant in one legal action, in which the Company has accrued \$320,000 at December 31, 2017 for contingent liabilities as a result of on-going negotiations related to potential settlements in the specific matter.

#### Note 19. Subsequent Event

On March 9, 2018, the Company acquired 100% of the equity interests of Harrison Finance LLC ("HF"), a finance company operating in the Gulf Coastal region including the states of Alabama, Florida, Louisiana and Mississippi, for approximately \$79,000,000 in cash. Concurrent with the acquisition of HF, the Company sold the loans made and serviced by HF's Florida locations for approximately \$14,000,000 to a third party finance company. Management has not completed the allocation of the acquisition-related consideration to the estimated fair values of the assets acquired and liabilities assumed.

Also on March 9, 2018, in connection with the acquisition of HF, the Company amended its revolving loan agreement which increased its total credit facility to \$475,000,000 and extended its termination date from July 19, 2020 to March 9, 2021. The Company issued an additional \$21,000,000 in subordinated term loan notes on March 9, 2018 under the same terms as those outstanding at December 31, 2017 as partial funding of the acquisition of HF. Borrowings from the revolving loan agreement provided the remainder of the funding.

**First Tower Finance  
Company LLC and  
Subsidiaries**

**Consolidated Financial Statements**

December 31, 2016 and 2015

**First Tower Finance Company LLC and Subsidiaries**

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**December 31, 2016 and 2015**

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RSM US LLP

## Independent Auditor's Report

To the Board of Members  
First Tower Finance Company LLC and Subsidiaries  
Flowood, Mississippi

### Report on the Financial Statements

We have audited the accompanying consolidated financial statements of First Tower Finance Company LLC and Subsidiaries, which comprise the consolidated balance sheets as of December 31, 2016 and 2015, and the related consolidated statements of operations and comprehensive income (loss), changes in members' equity (deficit) and cash flows for the years then ended, and the related notes to the consolidated financial statements.

### Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

### Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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**Opinion**

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of First Tower Finance Company LLC and Subsidiaries as of December 31, 2016 and 2015, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

*RSM US LLP*

Raleigh, North Carolina  
March 17, 2017

First Tower Finance Company LLC and Subsidiaries

Consolidated Balance Sheets  
December 31, 2016 and 2015

	2016	2015
<b>Assets</b>		
Cash and cash equivalents	\$ 8,145,628	\$ 12,120,178
Investment in trading securities	1,659,620	1,511,611
Investment securities available for sale	64,230,155	60,582,608
Finance receivables, net	472,839,288	459,897,605
Prepaid reinsurance premiums	-	2,925
Reinsurance receivable and recoverable	971,949	980,882
Other receivables	711,909	691,757
Real estate acquired by foreclosure	619,018	822,394
Property and equipment, net	19,726,098	16,279,290
Deferred policy acquisition costs	1,027,044	1,012,070
Intangible assets, net	16,830,548	18,669,091
Goodwill	81,705,864	95,323,512
Debt issue costs, net	260,822	394,521
Other assets	581,969	501,656
<b>Total assets</b>	<b>\$ 669,309,912</b>	<b>\$ 668,790,100</b>
<b>Liabilities and Members' Equity (Deficit)</b>		
Liabilities:		
Notes payable	\$ 323,584,995	\$ 317,624,567
Subordinated notes payable to members	322,542,697	318,844,000
Unearned premiums	41,635,113	41,288,277
Policy claim reserves	2,665,938	2,848,854
Accounts payable and accrued expenses	14,184,878	10,372,893
Other liabilities	2,877,867	1,574,241
Deferred tax liabilities, net	3,706,551	3,731,681
<b>Total liabilities</b>	<b>711,198,039</b>	<b>696,284,513</b>
Commitments and contingencies		
Members' Equity (Deficit):		
Class A members	(41,986,650)	(28,005,274)
Class B members	(63,933)	(55,972)
Class D members	316,810	247,054
Accumulated other comprehensive income (loss), net of income tax effect of \$91,000 and \$190,000 as of December 31, 2016 and 2015, respectively	(154,354)	319,779
<b>Total members' equity (deficit)</b>	<b>(41,888,127)</b>	<b>(27,494,413)</b>
<b>Total liabilities and members' equity (deficit)</b>	<b>\$ 669,309,912</b>	<b>\$ 668,790,100</b>

See notes to consolidated financial statements.

First Tower Finance Company LLC and Subsidiaries

Consolidated Statements of Operations and Comprehensive Loss  
Years Ended December 31, 2016 and 2015

	2016	2015
Revenues:		
Interest and fee income from finance receivables	\$ 174,007,911	\$ 164,869,636
Insurance premiums	32,915,799	32,054,065
Net investment income	1,109,230	887,908
Net realized investment gains	176,744	1,283
Other income	11,689,661	11,443,757
Total revenues	<u>219,899,345</u>	<u>209,256,649</u>
Expenses:		
Interest expense	83,237,880	81,809,279
Policyholders' benefits	5,957,517	6,160,714
Salaries and fringe benefits	42,749,012	40,631,512
Provision for credit losses	55,091,488	45,096,401
Other operating expenses	39,914,157	34,399,654
Amortization of goodwill	13,617,648	13,617,648
Management fees	2,997,961	2,248,470
Total expenses	<u>243,565,663</u>	<u>223,963,678</u>
Loss before income taxes	(23,666,318)	(14,707,029)
Provision for income taxes	323,019	81,856
Net loss	<u>(23,989,337)</u>	<u>(14,788,885)</u>
Other comprehensive loss, net of income tax effects of approximately \$281,000 as of December 31, 2016 and \$6,000 as of December 31, 2015		
Unrealized holding losses on securities	(567,208)	(9,642)
Reclassification adjustments for amounts included in net income	93,075	(792)
Other comprehensive loss	<u>(474,133)</u>	<u>(10,434)</u>
Comprehensive loss	<u>\$ (24,463,470)</u>	<u>\$ (14,799,319)</u>

See notes to consolidated financial statements.

First Tower Finance Company LLC and Subsidiaries

Consolidated Statements of Changes in Members' Equity (Deficit)  
Years Ended December 31, 2016 and 2015

	Class A Members Equity (Deficit)	Class B Members Equity (Deficit)	Class D Members Equity	Accumulated Other Comprehensive Income (Loss)	Total
Balance, January 1, 2015	\$ (18,221,959)	\$ (50,402)	\$ 177,298	\$ 330,213	\$ (17,764,850)
Member compensation vested	-	-	69,756	-	69,756
Net loss	(14,780,470)	(8,415)	-	-	(14,788,885)
Equity contribution	4,997,155	2,845	-	-	5,000,000
Change in net unrealized gain (loss) on investment securities available for sale	-	-	-	(10,434)	(10,434)
Balance, December 31, 2015	(28,005,274)	(55,972)	247,054	319,779	(27,494,413)
Member compensation vested	-	-	69,756	-	69,756
Net loss	(23,975,686)	(13,651)	-	-	(23,989,337)
Equity contribution	9,994,310	5,690	-	-	10,000,000
Change in net unrealized gain (loss) on investment securities available for sale	-	-	-	(474,133)	(474,133)
<b>Balance, December 31, 2016</b>	<b>\$ (41,986,650)</b>	<b>\$ (63,933)</b>	<b>\$ 316,810</b>	<b>\$ (154,354)</b>	<b>\$ (41,888,127)</b>

See notes to consolidated financial statements.



**First Tower Finance Company LLC and Subsidiaries**

**Consolidated Statements of Cash Flows**  
**Years Ended December 31, 2016 and 2015**

	2016	2015
<b>Cash Flows From Operating Activities</b>		
Net loss	\$ (23,989,337)	\$ (14,788,885)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation and amortization	18,443,352	18,741,061
Amortization of discount on securities, net	922,131	835,462
Gain on sales of investments, net	(97,180)	(134,873)
Loss (gain) on trading securities held	(79,564)	133,590
Loss (gain) on sales of assets	22,521	(37,028)
Loss from sales and impairments of real estate	115,032	140,327
Deferred income tax provision	255,758	(93,417)
Provision for credit losses	55,091,488	45,096,401
Compensation expense	69,756	69,756
Net loan costs deferred	311,681	(1,014,501)
Paid-in-kind rate interest added to principal	3,698,697	-
Purchase of trading securities	(68,445)	(50,810)
Changes in operating assets and liabilities:		
Reinsurance recoverables	11,858	280,452
Receivables	(20,152)	(89,963)
Other assets	(80,313)	2,071
Deferred policy acquisition cost	(14,974)	(35,103)
Policy claim reserves	(182,916)	461,987
Accounts payable and accrued expenses	3,811,985	3,664,093
Unearned premiums	346,836	702,607
Other liabilities	1,303,626	55,737
<b>Net cash provided by operating activities</b>	<b>\$ 59,871,840</b>	<b>\$ 53,938,964</b>

(Continued)

See notes to consolidated financial statements.

**First Tower Finance Company LLC and Subsidiaries**

**Consolidated Statements of Cash Flows (Continued)**  
**Years Ended December 31, 2016 and 2015**

	2016	2015
<b>Cash Flows From Investing Activities</b>		
Loans originated	\$ (631,178,338)	\$ (614,128,938)
Loans repaid or sold	562,541,273	540,888,146
Proceeds from sales of investment in real estate	380,557	528,795
Proceeds from calls or maturities of investment securities	5,417,231	8,440,146
Proceeds from sales of investment securities	10,626,635	10,738,618
Purchases of investment securities	(21,271,385)	(28,536,458)
Proceeds from sales of property and equipment	5,769	583,073
Purchase of property and equipment	(6,328,560)	(7,365,892)
<b>Net cash used in investing activities</b>	<u>(79,806,818)</u>	<u>(88,852,510)</u>
<b>Cash Flows From Financing Activities</b>		
Net changes in short-term borrowings	5,960,428	26,126,899
Proceeds from issuance of subordinated debt	-	5,000,000
Proceeds from equity contribution	10,000,000	5,000,000
<b>Net cash provided by financing activities</b>	<u>15,960,428</u>	<u>36,126,899</u>
<b>Increase (decrease) in cash and cash equivalents</b>	(3,974,550)	1,213,353
<b>Cash and cash equivalents</b>		
Beginning of period	12,120,178	10,906,825
End of period	<u>\$ 8,145,628</u>	<u>\$ 12,120,178</u>
<b>Supplemental Disclosures of Cash Flow Information</b>		
Real estate acquired in satisfaction of finance receivables	<u>\$ 292,000</u>	<u>\$ 657,000</u>
Cash payments for interest on notes payable	<u>\$ 11,521,000</u>	<u>\$ 10,615,000</u>
Cash payments for interest, including paid-in-kind interest, on subordinated notes payable to members	<u>\$ 61,756,000</u>	<u>\$ 70,075,000</u>

See notes to consolidated financial statements.

## First Tower Finance Company LLC and Subsidiaries

### Notes to Consolidated Financial Statements

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#### Note 1. Nature of Business and Significant Accounting Policies

**Nature of Business:** First Tower Finance Company LLC is a Mississippi limited liability company which wholly-owns First Tower, LLC. First Tower, LLC is engaged in consumer lending and related insurance activities through its wholly-owned subsidiaries Tower Loan of Mississippi, LLC, Tower Loan of Illinois, LLC, First Tower Loan, LLC, Gulfco of Mississippi, LLC, Gulfco of Alabama, LLC, Gulfco of Louisiana, LLC, Tower Loan of Missouri, LLC, and Tower Auto Loan, LLC. Tower Loan of Mississippi, LLC is the sole member of American Federated Holding Company, which has two wholly-owned subsidiaries, American Federated Insurance Company (AFIC), and American Federated Life Insurance Company (AFLIC). These entities are collectively referred to as "the Company". The Company acquires and services finance receivables (direct loans, real estate loans and sales finance contracts) through branch offices located in Mississippi, Louisiana, Alabama, Illinois and Missouri. In addition, the Company writes credit insurance when requested by its loan customers.

**Government Regulation:** The Company is subject to various state and federal laws and regulations in each of the states in which it operates that are enforced by the respective state regulatory authorities. These state laws and regulations impact the economic terms of the Company's products. In addition, these laws regulate collection procedures, the keeping of books and records and other aspects of the operation of consumer finance companies. As a result, the terms of products offered by the Company vary among the states in which it operates in order to comply with each state's specific laws and regulations.

Each of the Company's branch offices is separately licensed under the laws of the state in which the office is located. Licenses granted by the regulatory agencies in these states are subject to renewal every year and may be revoked for failure to comply with applicable state and federal laws and regulations.

The Company is also subject to state regulations governing insurance agents in the states in which it sells credit insurance. State insurance regulations require that insurance agents be licensed; govern the commissions that may be paid to agents in connection with the sale of credit insurance and limit the premium amount charged for such insurance.

A summary of the Company's significant accounting policies follows:

**Principles of Consolidation:** The Company's consolidated financial statements include subsidiaries in which the Company has a controlling financial interest. The consolidated financial statements include the accounts of the Company and its subsidiaries, all of which are wholly-owned. All significant intercompany accounts and transactions have been eliminated in consolidation.

**Use of Estimates:** The Company's consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America. In preparing its financial statements, the Company is required to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the dates of the balance sheets and the reported amounts of revenues and expenses for the years ended December 31, 2016 and 2015. Actual results could differ significantly from those estimates. Material estimates that are particularly susceptible to change include the determination of the allowance for credit losses, policy claim reserves, impairment of goodwill, deferred tax assets and liabilities and the valuation of investments.

**Investment in Trading Securities:** The Company has an investment in a large capitalization equity mutual fund which is classified as a trading security. Changes in the unrealized gains and losses of this investment are recognized through earnings. Dividends on trading securities are recognized in net investment income.

**Note 1. Nature of Business and Significant Accounting Policies (Continued)**

**Investment Securities Available for Sale:** Investments in debt securities are classified as available for sale. Available for sale securities are carried at fair value, with changes in the fair value of such securities being reported as other comprehensive income (loss), net of related deferred income taxes (benefit). When the fair value of a security falls below carrying value, an evaluation must be made to determine if the unrealized loss is a temporary or other than temporary impairment. Impaired debt securities that are not deemed to be temporarily impaired are written down to net realizable value by a charge to earnings to the extent the impairment is related to credit losses or if the Company intends, or more-likely-than not will be required, to sell the security before recovery of the security's amortized cost basis. In estimating other than temporary impairments, the Company considers the duration of time and extent to which the amortized cost exceeds fair value, the financial condition of the issuer, and the intent and ability of the Company to retain its investment in the issuer for a period of time sufficient to allow for anticipated recovery in fair value.

Premiums and discounts on debt securities are recognized as adjustments to net investment income by the interest method over the period to maturity and adjusted for prepayments as applicable. Realized gains and losses on sales of investment securities are determined using the specific identification method.

**Fair Value Measurements:** The Company carries its trading securities, and its investment securities available-for-sale at fair value on a recurring basis and measures certain other assets and liabilities at fair value on a nonrecurring basis using a hierarchy of measurements which requires it to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value.

Three levels of inputs are used to measure fair value:

- Level 1** Valuations based on unadjusted quoted prices for identical assets in active markets accessible at the measurement date.
- Level 2** Valuations derived for similar assets in active markets, or other inputs that are observable or can be corroborated by market data.
- Level 3** Valuations derived from unobservable (supported by little or no market activity) inputs that reflect an entity's best estimate of what hypothetical market participants would use to determine a transaction price at the reporting date.

When quoted market prices in active markets are unavailable, the Company determines fair value using various valuation techniques and models based on a range of observable market inputs including pricing models, quoted market price of publicly traded securities with similar duration and yield, time value, yield curve, prepayment speeds, default rates and discounted cash flow. In most cases, these estimates are determined based on independent third party valuation information, and the amounts are disclosed as Level 2. Generally, the Company obtains a single price or quote per instrument from independent third parties to assist in establishing the fair value of these investments.

If quoted market prices and independent third party valuation information are unavailable, the Company produces an estimate of fair value based on internally developed valuation techniques, which, depending on the level of observable market inputs, will render the fair value estimate as Level 2 or 3.

On occasions when pricing service data is unavailable, the Company may rely on bid/ask spreads from dealers in determining fair value.

To the extent the Company determines that a price or quote is inconsistent with actual trading activity observed in that investment or similar investments, or if the Company does not think the quote is reflective of the market value for the investment, the Company internally develops a fair value using this other market information and discloses the input as a Level 3.

Notes to Consolidated Financial Statements

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**Note 1. Nature of Business and Significant Accounting Policies (Continued)**

**Finance Receivables:** Finance receivables are stated at the amount of unpaid principal and finance charges, including deferred loan costs, and reduced by unearned finance charges, unearned discounts and an allowance for credit losses. Non-refundable loan origination fees and certain direct origination costs are deferred and recognized as an adjustment of the finance receivable yield over the contractual life of the related loan using the interest method. Unamortized amounts are recognized in income when finance receivables are renewed or paid in full.

**Real Estate Acquired by Foreclosure:** The Company records real estate acquired by foreclosure at the lesser of the outstanding finance receivable amount (including accrued interest, if any) or fair value, less estimated costs to sell, at the time of foreclosure. Any resulting loss on foreclosure is charged to the allowance for credit losses and a new basis is established in the property. A valuation allowance and a corresponding charge to operations is established to reflect declines in value subsequent to acquisition, if any, below the new basis. Operating expenses of such properties, net of related income, and gains and losses on their disposition are included in other operating expenses.

**Property and Equipment:** Property and equipment are stated at cost. Depreciation is computed using the straight-line method. When assets are retired or otherwise disposed of, the cost and related accumulated depreciation are removed from the accounts and any resulting gain or loss is recognized in income for the period. The cost of maintenance and repairs is charged to income when incurred; significant improvements and betterments are capitalized. The Company evaluates the recoverability of property, plant and equipment and other long-term assets when events or changes in circumstances indicate that the carrying value of such assets may not be recoverable, based upon expectations of non-discounted cash flows and operating income.

**Goodwill and Other Intangible Assets:** Goodwill represents the excess of the consideration transferred in a business combination over the fair value of the identifiable net assets acquired. Other intangible assets represent purchased assets that also lack physical substance but can be distinguished from goodwill because of contractual or other legal rights. Intangibles with finite lives are amortized over their estimated useful lives. The Company uses the alternative permitted for private companies and amortizes goodwill over ten years by the straight-line method. Goodwill and other intangible assets are subject to impairment testing annually or more frequently if events or circumstances indicate possible impairment. Other intangible assets consist of trade names, sales finance relationships, non-competition and license agreements and internally developed technology. Intangible assets are reviewed for events or circumstances which could impact the recoverability of the intangible asset, such as a loss of significant relationships, increased competition or adverse changes in the economy. No impairment was identified for the Company's goodwill or its other intangible assets during 2016 and 2015.

**Debt Issue Costs:** Debt issue costs represent costs associated with obtaining the Company's credit facility, and is amortized on a straight line basis over the life of the related financing agreement which approximates the interest method. Amortization expense for the years ended December 31, 2016 and 2015 approximated \$134,000 and \$1,043,000, respectively, and is included in interest expense.

**Deferred Policy Acquisition Costs:** Costs incurred to acquire credit insurance policies are deferred and amortized over the life of the underlying insurance contracts.

**Income Recognition:** Precomputed finance charges are included in the gross amount of the Company's finance receivables. These precomputed charges are deferred and recognized as income on an accrual basis using the effective interest method over the terms of receivables. However, with certain exceptions, state regulations allow interest refunds to be made according to the Rule of 78's method for payoffs and renewals. Since a significant percentage of the Company's precomputed accounts are paid off or renewed prior to maturity, the result is that a majority of the precomputed

## First Tower Finance Company LLC and Subsidiaries

### Notes to Consolidated Financial Statements

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#### Note 1. Nature of Business and Significant Accounting Policies (Continued)

accounts effectively yield on a Rule of 78's basis. The difference between income previously recognized under the interest yield method and the Rule of 78's method is recognized as an adjustment to interest income at the time of the renewal or payoff.

Insurance premiums on credit life and accident and health policies written by the Company are earned over the term of the policy using the pro-rata method, for level-term life policies, and the effective yield method, for decreasing-term life policies. Premiums on accident and health policies are earned based on an average of the pro-rata method and the effective yield method. Property and casualty credit insurance premiums written by the Company are earned over the period of insurance coverage using the pro-rata method or the effective yield method, depending on whether the amount of insurance coverage generally remains level or declines.

Commissions earned from the sale of accidental death and dismemberment insurance coverage and motor club memberships to finance customers are recognized at the time of origination. The Company has no future obligations related to the sale of these products. Other income includes commissions earned of approximately \$10,302,000 and \$10,182,000 for the year ended December 31, 2016 and 2015, respectively.

**Credit Losses:** For periods subsequent to the acquisition date of the acquired finance receivables portfolio and for finance receivables originated by the Company, the allowance for credit losses is determined by several factors based upon each portfolio segment. Segments in the finance receivable portfolio include personal property, real estate and sales finance. Historical loss experience is the primary factor in the determination of the allowance for credit losses. An evaluation is performed to compare the amount of accounts charged off, net of recoveries of such accounts, in relation to the average net outstanding finance receivables for the period being reviewed. Historically, management has found that this methodology has provided an adequate allowance due to the Company's loan portfolio segments consisting of a large number of smaller balance homogeneous finance receivables. Further, management routinely evaluates the inherent risks and change in the volume and composition of the Company's finance receivable portfolio based on its extensive experience in the consumer finance industry in consideration of estimating the adequacy of the allowance. Also considered are delinquency trends, economic conditions, and industry factors. Provisions for credit losses are charged to income in amounts sufficient to maintain an allowance for credit losses at a level considered adequate to cover the probable loss inherent in the finance receivable portfolio. Since the estimates used in determining the allowance for credit losses are influenced by outside factors, such as consumer payment patterns and general economic conditions, there is uncertainty inherent in these estimates, making it reasonably possible that they could change. Interest on past due finance receivables is recognized until charge-off. Finance receivables are generally charged off when they are five months contractually past due.

**Policy Claim Reserves:** Policy claim reserves represent (i) the liability for losses and loss-adjustment expenses related to credit property insurance and (ii) the liabilities for future policy benefits related to credit life and accident and health insurance. The liability for loss and loss adjustment expenses includes an amount determined from loss reports and individual cases and an amount based on past experience, for losses incurred but not reported. The liabilities for future policy benefits have been computed utilizing accepted actuarial techniques. Such liabilities are necessarily based on estimates and, while management believes that the amount is adequate, the ultimate liability may be in excess of or less than the amounts provided. The methods for making such estimates and for establishing the resulting liabilities are continually reviewed, and any adjustments are reflected in earnings currently.

**Reinsurance Receivable:** The Company has reduced its exposure relating to credit accident and health insurance through a quota share reinsurance agreement. Amounts recoverable from the reinsurer are estimated in a manner consistent with the claim liability associated with the reinsured policy.

## First Tower Finance Company LLC and Subsidiaries

### Notes to Consolidated Financial Statements

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#### Note 1. Nature of Business and Significant Accounting Policies (Continued)

**Income Taxes:** First Tower Holdings LLC and its finance company subsidiaries are limited liability companies organized as partnerships for federal and state tax purposes and are not considered taxable entities. Taxable income or loss is reported by the Company's members on their respective tax returns in accordance with the limited liability agreement.

American Federated Holding Company and its wholly-owned subsidiaries, AFIC and AFLIC, are subject to income taxes at the corporate level. As such, deferred income taxes are provided for temporary differences between financial statement carrying amounts of assets and liabilities and their respective bases for income tax purposes using enacted tax rates in effect in the years in which the differences are expected to reverse.

Potential exposures involving tax positions taken that may be challenged by taxing authorities contain assumptions based upon past experiences and judgments about potential actions by taxing jurisdictions. Management does not believe that the ultimate settlement of these items will result in a material amount. With minimum exceptions, AFIC and AFLIC are no longer subject to income tax examinations prior to 2013.

**Cash and Cash Equivalents:** For purposes of the consolidated statements of cash flows, the Company considers certificates of deposit and all short-term securities with original maturities of three months or less to be cash equivalents.

**Fair Value Disclosures of Financial Instruments:** The following methods and assumptions were used by the Company to estimate the fair value of each class of financial instruments:

**Cash and Cash Equivalents:** The carrying amounts reported in the consolidated balance sheets for these financial instruments approximate their fair values.

**Investment Securities:** The fair value of investments in trading securities and securities available for sale are generally obtained from independent pricing services based upon valuations for similar assets in active markets or other inputs derived from objectively verifiable information.

**Finance Receivables:** The fair value of finance receivables is estimated using discounted cash flow analysis and an estimated market discount rate required to attract funds for similar investments.

**Other Receivables and Payables:** The carrying amounts reported in the consolidated balance sheets approximate their fair values.

**Notes Payable:** The carrying amounts of borrowings under the line-of-credit agreements reported in the consolidated balance sheets approximate their fair values as the interest charged for these borrowings fluctuate with market changes.

**Subordinated Notes Payable to Members:** The estimated fair value of subordinated notes payable to members was estimated using discounted cash flow analysis.

**Comprehensive Income:** Comprehensive income for the Company consists of net income (loss) and changes in unrealized gains (losses) on investment securities classified as available-for-sale, net of taxes, and are presented in the consolidated statements of income and comprehensive income.

**Advertising:** Advertising costs are expensed as incurred. Advertising expenses approximated \$5,465,000 and \$4,668,000 for the years ended December 31, 2016 and 2015, respectively.



**Note 1. Nature of Business and Significant Accounting Policies (Continued)**

**Share-Based Compensation:** The Company entered into employment agreements with certain executives and, in connection therewith, granted member interests consisting of Class D share awards which vest over a ten year period. Compensation expense for these awards is determined based on the estimated fair value of the shares awarded on the applicable grant or award date, June 14, 2012, and is recognized over the applicable award's vesting period.

**Subsequent events:** The Company has evaluated its subsequent events (events occurring after December 31, 2016) through March 17, 2017, which represents the date the financial statements were available to be issued.

**Effects of Recent Accounting Guidance:** In May 2014, the Financial Accounting Standard Board (FASB) issued Accounting Standards Update (ASU) 2014-09, "*Revenue from Contracts with Customers (Topic 606)*." ASU 2014-09 implements a common revenue standard that clarifies the principles for recognizing revenue. The core principle of ASU 2014-09 is that 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. To achieve that core principle, an entity should apply the following steps: (i) identify the contract(s) with a customer, (ii) identify the performance obligations in the contract, (iii) determine the transaction price, (iv) allocate the transaction price to the performance obligations in the contract and (v) recognize revenue when (or as) the entity satisfies a performance obligation. ASU 2014-09 is effective for the Company on January 1, 2018. The Company is still evaluating the potential impact on the Company's consolidated financial statements.

In August 2014, the FASB issued ASU 2014-15, "*Presentation of Financial Statements – Going Concern (Subtopic 205-40): Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern.*" Per the ASU, in connection with preparing financial statements for each annual and interim reporting period, an entity's management should evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the entity's ability to continue as a going concern within one year after the date that the financial statements are issued (or within one year after the date that the financial statements are available to be issued when applicable). The new requirements are effective for annual periods ending after December 15, 2016, and interim periods within annual periods beginning after December 15, 2016. The adoption of the new evaluation and disclosure requirements as of January 1, 2016 did not have a significant impact on the Company's consolidated financial statements.

In May 2015, the FASB issued ASU 2015-09, "*Financial Services – Insurance (Topic 944): Disclosures about Short-Duration Contracts*", to make targeted improvements to disclosure requirements for insurance companies that issue short-duration contracts. In such contracts, insurance coverage is provided for a fixed period of short duration. ASU 2015-09 is effective for annual periods beginning after December 15, 2016, and interim periods within annual periods beginning after December 15, 2017. The adoption of this guidance as of January 1, 2017 did not have a material effect on the Company's consolidated financial statements.

In January 2016, the FASB issued ASU 2016-01, "*Recognition and Measurement of Financial Assets and Financial Liabilities*", which was implemented to improve the recognition and measurement of financial instruments. The update is effective for interim and annual periods beginning after December 15, 2017, and early adoption is not permitted, with the exception of specific early application guidance. ASU 2016-01 is not expected to have a significant impact on the Company's consolidated financial statements.



**First Tower Finance Company LLC and Subsidiaries**

**Notes to Consolidated Financial Statements**

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**Note 1. Nature of Business and Significant Accounting Policies (Continued)**

In February 2016, the FASB issued ASU 2016-02, "*Leases*", which establishes a comprehensive lease standard under GAAP for virtually all industries. The new standard requires lessees to recognize a right of use asset and a lease liability for virtually all of their leases, other than leases that meet the definition of short term leases and will apply for annual periods beginning after December 15, 2018, including interim periods therein. Early adoption is permitted. The Company is still evaluating what impact, if any, the adoption of this standard may have on the Company's consolidated financial statements.

In June 2016 the FASB issued ASU 2016-13, "*Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*", which adds a new Topic 326 to the Codification and removes the thresholds that companies apply to measure credit losses on financial instruments measured at amortized cost, such as loans, receivables, and held-to-maturity debt securities. Under current U.S. GAAP, companies generally recognize credit losses when it is probable that the loss has been incurred. The revised guidance will remove all recognition thresholds and will require companies to recognize an allowance for credit losses for the difference between the amortized cost basis of a financial instrument and the amount of amortized cost that the company expects to collect over the instrument's contractual life. The guidance is effective for fiscal years and for interim periods with those fiscal years beginning after December 15, 2020. The Company is still evaluating what impact, if any, the adoption of this standard may have on the Company's consolidated financial statements.

In August 2016, the FASB issued ASU 2016-15, "*Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments*", which provides greater clarity to preparers on the treatment of eight specific items within an entity's statement of cash flows. ASU 2016-15 becomes effective for all private entities in fiscal years beginning after December 15, 2018, including interim periods therein. Early adoption of the guidance, including within an interim period, is permitted. The Company is still evaluating what impact, if any, the adoption of this standard may have on the Company's consolidated financial statements.

In January 2017, the FASB issued ASU 2017-04, "*Intangibles - Goodwill and Others (Topic 350): Simplifying the Test for Goodwill Impairment*." ASU 2017-04 simplifies the measurement of goodwill impairment by eliminating the requirement of performing a hypothetical purchase price allocation to measure goodwill impairment. ASU 2017-04 is effective for annual and any interim impairment tests for periods beginning after December 15, 2021. Early adoption is allowed as of January 1, 2017, for annual and any interim impairment tests occurring after January 1, 2017. The Company is still evaluating the potential impact on the Company's consolidated financial statements.

**First Tower Finance Company LLC and Subsidiaries**

**Notes to Consolidated Financial Statements**

**Note 2. Investment Securities**

The cost or amortized cost of securities available for sale and their fair values at December 31, 2016 and 2015 were as follows:

<i>December 31, 2016</i>	<b>Cost or Amortized Cost</b>	<b>Fair Value</b>	<b>Gross Unrealized Gains</b>	<b>Gross Unrealized Losses</b>
Debt securities:				
U.S. Government agencies and corporations	\$ 8,884,899	\$ 8,725,841	\$ 3,902	\$ 162,960
Obligations of states and political subdivisions	34,393,952	34,270,305	218,534	342,181
Corporate securities	20,451,115	20,487,544	126,048	89,619
Residential mortgage-backed securities	7,966	8,075	109	-
Commercial mortgage-backed securities	729,067	738,390	9,323	-
<b>Total investment securities</b>	<b>\$64,466,999</b>	<b>\$64,230,155</b>	<b>\$ 357,916</b>	<b>\$ 594,760</b>

<i>December 31, 2015</i>	<b>Cost or Amortized Cost</b>	<b>Fair Value</b>	<b>Gross Unrealized Gains</b>	<b>Gross Unrealized Losses</b>
Debt securities:				
U.S. Government agencies and corporations	\$ 6,664,597	\$ 6,633,316	\$ -	\$ 31,281
Obligations of states and political subdivisions	32,132,846	32,721,165	644,797	56,478
Corporate securities	20,521,548	20,468,677	85,660	138,531
Residential mortgage-backed securities	15,227	15,545	318	-
Commercial mortgage-backed securities	738,482	743,905	5,423	-
<b>Total investment securities</b>	<b>\$60,072,700</b>	<b>\$60,582,608</b>	<b>\$ 736,198</b>	<b>\$ 226,290</b>

As of December 31, 2016 and 2015, accumulated other comprehensive income (loss) includes unrealized gains (losses) on available for sale securities, net of income tax effects, of approximately (\$154,000) and \$320,000, respectively.

**First Tower Finance Company LLC and Subsidiaries**

**Notes to Consolidated Financial Statements**

**Note 2. Investment Securities (Continued)**

The length of time impaired available-for-sale securities have been held in a loss position are as follows.

	Less than 12 months		12 months or more		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
<i>December 31, 2016</i>						
U.S. Government agencies and corporations	\$ 6,060,807	\$ 161,820	\$ 667,244	\$ 1,140	\$ 6,728,051	\$ 162,960
Obligations of states and political subdivisions	15,345,769	279,925	1,996,514	62,256	17,342,283	342,181
Corporate securities	4,850,477	64,394	3,934,756	25,225	8,785,233	89,619
<b>Total</b>	<b>\$26,257,053</b>	<b>\$ 506,139</b>	<b>\$6,598,514</b>	<b>\$ 88,621</b>	<b>\$32,855,567</b>	<b>\$ 594,760</b>

*December 31, 2015*

U.S. Government agencies and corporations	\$ 3,784,358	\$ 23,970	\$2,848,958	\$ 7,311	\$ 6,633,316	\$ 31,281
Obligations of states and political subdivisions	2,516,217	53,247	507,991	3,231	3,024,208	56,478
Corporate securities	6,760,528	129,466	5,269,928	9,065	12,030,456	138,531
<b>Total</b>	<b>\$13,061,103</b>	<b>\$ 206,683</b>	<b>\$8,626,877</b>	<b>\$ 19,607</b>	<b>\$21,687,980</b>	<b>\$ 226,290</b>

Substantially all gross unrealized losses at December 31, 2016 and 2015 were attributable to interest rate changes rather than an adverse change in cash flows or a fundamental weakness in the credit quality of the issuer or the underlying assets and are thus considered temporarily impaired. Due to the issuers' continued satisfaction of the securities' obligations in accordance with contractual terms, the expectation that they will continue to do so and the Company's intent and ability to hold these investments, management believes the securities in unrealized loss positions are temporarily depressed. As of December 31, 2016 the Company had 109 debt securities with temporary impairments, including 14 U.S. government securities, 57 securities classified as obligations of state and political subdivisions, and 38 investments classified as corporate securities. As of December 31, 2015 the Company had 64 debt securities with temporary impairments, including 10 U.S. government securities, 50 securities classified as obligations of state and political subdivisions, and 4 securities classified as corporate securities.

Management of the Company evaluates securities for other-than-temporary impairment ("OTTI") no less than annually or when economic or market concerns warrant such evaluation. The evaluation is based upon factors such as the creditworthiness of the issuer, the underlying collateral, if applicable, and the continuing performance of the securities. Management also evaluates other facts and circumstances that may be indicative of an OTTI condition. This includes, but is not limited to, an evaluation of the type of security, length of time and extent to which the fair value has been less than cost, and near-term prospects of the issuer.

The Company segregates the OTTI impact on impaired securities where impairment in value was deemed to be other than temporary between the component representing credit loss and the component representing loss related to other factors.

The Company assesses whether a credit loss exists by considering whether (i) the Company has the intent to sell the security, (ii) it is more likely than not that it will be required to sell the security before recovery, or (iii) it does not expect to recover the entire amortized cost basis of a debt security. The portion of the fair value decline attributable to credit loss is recognized as a charge to earnings. The credit loss evaluation is determined by comparing the present value of the cash flows expected to be collected,

**First Tower Finance Company LLC and Subsidiaries**

**Notes to Consolidated Financial Statements**

**Note 2. Investment Securities (Continued)**

discounted at the rate in effect before recognizing any OTTI with the amortized cost basis of the debt security. The Company uses the cash flow expected to be realized from the security, which includes assumptions about interest rates, timing and severity of defaults, estimates of potential recoveries, the cash flow distribution from the bond indenture and other factors, then applies a discount rate equal to the effective yield of the security. The difference between the present value of the expected cash flows and the amortized book value is considered a credit loss. The difference between the fair market value and the security's remaining amortized cost is recognized in other comprehensive income or loss.

The amortized cost and fair value of debt securities at December 31, 2016, by contractual maturity, is shown below. Expected maturities will differ from contractual maturities because issuers may have the right to call or prepay obligations with or without call or prepay penalties.

<i>December 31, 2016</i>	<b>Cost or Amortized Cost</b>	<b>Fair Value</b>
Due in one year or less	\$ 6,096,797	\$ 6,106,104
Due after one year but less than five years	27,902,709	27,960,236
Due after five years but less than ten years	27,479,788	27,229,332
Due after ten years	2,250,672	2,188,018
Residential mortgage-backed securities	7,966	8,075
Commercial mortgage-backed securities	729,067	738,390
Total debt securities	<u>\$ 64,466,999</u>	<u>\$ 64,230,155</u>

Investment securities with amortized cost of approximately \$3,075,000 and with estimated fair values of \$3,062,000 at December 31, 2016, were pledged by the Company with various states as required by state law. Investment securities with amortized cost of approximately \$3,053,000 and with estimated fair values of \$3,050,000 at December 31, 2015, were pledged by the Company with various states as required by state law.

Major categories of net investment income are summarized as follows for the year ended December 31, 2016 and 2015:

<i>December 31,</i>	<b>2016</b>	<b>2015</b>
Debt securities	\$ 1,212,135	\$ 1,024,427
Common stocks	68,443	50,810
Mortgage and collateral loans	7,800	7,800
Cash and short-term investments	38,977	1,542
	<u>1,327,355</u>	<u>1,084,579</u>
Investment expenses	(218,125)	(196,671)
Net investment income	<u>\$ 1,109,230</u>	<u>\$ 887,908</u>

**First Tower Finance Company LLC and Subsidiaries****Notes to Consolidated Financial Statements**

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**Note 2. Investment Securities (Continued)**

Net realized investment gains are summarized as follows for the year ended December 31, 2016 and 2015:

<i>December 31,</i>	<b>2016</b>	<b>2015</b>
Gross realized gains on sale of securities available for sale	\$ 99,850	\$ 161,854
Gross realized losses on sale of securities available for sale	(2,670)	(26,981)
Gain (loss) from investments in trading securities	79,564	(133,590)
Net realized investment gains (losses)	<u>\$ 176,744</u>	<u>\$ 1,283</u>

Proceeds from sales of investment securities available for sale aggregated approximately \$10,627,000 and \$10,739,000 for the years ended December 31, 2016 and 2015, respectively.

**Note 3. Finance Receivables**

Finance receivables were as follows:

<i>December 31,</i>	<b>2016</b>	<b>2015</b>
Consumer finance receivables:		
Personal property	\$ 555,699,471	\$ 537,473,977
Real estate	23,043,808	27,862,648
Sales finance	130,974,487	124,024,974
	<u>709,717,766</u>	<u>689,361,599</u>
Add (deduct):		
Net deferred origination costs	6,053,089	6,364,773
Unearned income	(192,278,300)	(189,073,525)
Allowance for credit losses	(50,653,267)	(46,755,242)
Finance receivables, net	<u>\$ 472,839,288</u>	<u>\$ 459,897,605</u>

Changes in the allowance for credit losses were as follows during the year ended December 31, 2016 and 2015:

<i>December 31,</i>	<b>2016</b>	<b>2015</b>
Balance at beginning of year	\$ 46,755,242	\$ 44,668,180
Provision for credit losses	55,091,488	45,096,401
Receivables charged-off	(66,033,079)	(56,908,673)
Charge-offs recovered	14,839,616	13,899,334
Balance at end of year	<u>\$ 50,653,267</u>	<u>\$ 46,755,242</u>

First Tower Finance Company LLC and Subsidiaries

Notes to Consolidated Financial Statements

Note 3. Finance Receivables (Continued)

The balance in the allowance for credit losses by portfolio segment at December 31, 2016 and 2015 was as follows:

<i>December 31, 2016</i>	Balance at Beginning of Period	Charge-offs	Recoveries	Provision for Credit Losses	Balance at End of Period	Finance Receivables at End of Period	Allowance as Percentage of Finance Receivables at End of Period
Personal Property	\$ 44,390,992	\$ (62,262,995)	\$ 13,847,668	\$ 52,168,732	\$ 48,144,397	\$ 415,741,620	11.6%
Real Estate	160,323	(182,103)	52,490	38,986	69,696	15,923,210	0.4%
Sales Finance	2,203,927	(3,587,981)	939,458	2,883,770	2,439,174	85,774,636	2.8%
<b>Total loans</b>	<b>\$ 46,755,242</b>	<b>\$ (66,033,079)</b>	<b>\$ 14,839,616</b>	<b>\$ 55,091,488</b>	<b>\$ 50,653,267</b>	<b>\$ 517,439,466</b>	<b>9.8%</b>

<i>December 31, 2015</i>	Balance at Beginning of Period	Charge-offs	Recoveries	Provision for Credit Losses	Balance at End of Period	Finance Receivables at End of Period	Allowance as Percentage of Finance Receivables at End of Period
Personal Property	\$ 42,525,817	\$ (53,441,351)	\$ 13,087,464	\$ 42,219,062	\$ 44,390,992	\$ 399,734,721	11.1%
Real Estate	228,515	(263,591)	40,316	155,083	160,323	19,292,711	0.8%
Sales Finance	1,913,848	(3,203,731)	771,554	2,722,256	2,203,927	81,260,642	2.7%
<b>Total loans</b>	<b>\$ 44,668,180</b>	<b>\$ (56,908,673)</b>	<b>\$ 13,899,334</b>	<b>\$ 45,096,401</b>	<b>\$ 46,755,242</b>	<b>\$ 500,288,074</b>	<b>9.3%</b>

The Company classifies delinquent accounts based upon the number of contractual installments past due. An aging of delinquent gross finance receivables as of December 31, 2016 and 2015 is as follows:

<i>December 31, 2016</i>	Current	Past Due 30-90 Days	Past Due 91-150 Days	Past Due Greater Than 150 Days	Total
Personal Property	\$ 489,832,703	\$ 50,046,034	\$ 15,815,575	\$ 5,159	\$ 555,699,471
Real Estate	20,056,558	2,304,396	336,373	346,481	23,043,808
Sales Finance	125,766,142	4,038,001	1,170,110	234	130,974,487
<b>Gross Finance Receivables</b>	<b>\$ 635,655,403</b>	<b>\$ 56,388,431</b>	<b>\$ 17,322,058</b>	<b>\$ 351,874</b>	<b>\$ 709,717,766</b>
<i>December 31, 2015</i>					
Personal Property	\$ 475,879,820	\$ 47,438,924	\$ 14,140,480	\$ 14,753	\$ 537,473,977
Real Estate	24,719,467	2,633,329	38,947	470,905	27,862,648
Sales Finance	119,413,100	3,611,260	998,386	2,228	124,024,974
<b>Gross Finance Receivables</b>	<b>\$ 620,012,387</b>	<b>\$ 53,683,513</b>	<b>\$ 15,177,813</b>	<b>\$ 487,886</b>	<b>\$ 689,361,599</b>

## First Tower Finance Company LLC and Subsidiaries

### Notes to Consolidated Financial Statements

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#### Note 3. Finance Receivables (Continued)

Nonperforming loans consisted of loans past due greater than 150 days and approximated \$352,000 and \$488,000 at December 31, 2016 and 2015, respectively. Additionally, the Company had gross finance receivables relating to customers in bankruptcy and which the terms of the original contract have been modified approximating \$3,056,000 and \$3,503,000 at December 31, 2016 and 2015, respectively.

#### Note 4. Reinsurance

The Company is party to a quota share reinsurance agreement that ceded 40% of its credit accident and health business written prior to January 1, 2013 in order to limit its exposure on credit disability coverages. Reinsurance contracts do not relieve the Company from its primary obligation to policyholders. Failure of any reinsurer to honor its obligations could result in losses to the Company. On February 13, 2017, the reinsurance agreement was commuted resulting in the release of the reinsurer's liability and the payment to the Company of the reinsurance receivable and recoverable.

The ceded reinsurance agreement contains a retrospective rating provision that results in a favorable adjustment to the reinsurance premiums if certain underwriting results are achieved on the reinsured business during the experience period. The Company estimates the amount of ultimate premium adjustment that the Company may earn upon completion of the experience period and recognizes an asset for the difference between the initial reinsurance premiums paid and the estimated ultimate premium. The Company adjusts such estimated ultimate premium amounts during the course of the experience period based on actual results to date. The resulting adjustment is recorded as either a reduction of or an increase to the ceded premiums for the year. Included in reinsurance recoverable at December 31, 2016 and 2015 are estimated receivables relating to retrospective ratings provisions of approximately \$969,000 and \$965,000, respectively. During the years ended December 31, 2016 and 2015 ceded premiums have been reduced by retrospective premium adjustments of approximately \$3,000 and \$6,000, respectively.

The effect of reinsurance on premiums written and earned is as follows for the year end December 31, 2016 and 2015:

<i>December 31, 2016</i>	<b>Written</b>	<b>Earned</b>
Direct	\$ 33,264,929	\$ 32,919,353
Ceded	(3,554)	(3,554)
Net premiums	<u>\$ 33,261,375</u>	<u>\$ 32,915,799</u>
 <i>December 31, 2015</i>		
Direct	\$ 32,794,797	\$ 32,065,567
Ceded	(11,502)	(11,502)
Net premiums	<u>\$ 32,783,295</u>	<u>\$ 32,054,065</u>

**First Tower Finance Company LLC and Subsidiaries**

**Notes to Consolidated Financial Statements**

**Note 5. Property and Equipment**

Property and equipment at December 31, 2016 and 2015 is as follows:

	<b>Estimated Useful Lives</b>	<b>December 31, 2016</b>	<b>December 31, 2015</b>
Land		\$ 408,188	\$ 408,188
Building and improvements	15 to 40 years	3,539,514	3,422,216
Office furniture and fixtures	5 to 10 years	2,554,800	2,110,535
Data processing equipment	3 years	7,697,897	6,610,338
Automotive equipment	3 years	1,425,000	1,478,903
Leasehold improvements	5 years	2,370,531	1,931,422
Information systems in development	-	11,135,600	7,131,612
		29,131,530	23,093,214
Less accumulated depreciation		9,405,432	6,813,924
Property and equipment, net		<u>\$ 19,726,098</u>	<u>\$ 16,279,290</u>

Depreciation expense for the years ended December 31, 2016 and 2015 approximated \$2,853,000 and \$2,841,000, respectively.

**Note 6. Goodwill and Intangible Assets**

A summary of goodwill and its estimated finite life is as follows:

	<b>Estimated Useful Lives</b>	<b>December 31, 2016</b>	<b>December 31, 2015</b>
Goodwill	10 years	\$ 136,176,452	\$ 136,176,452
Less accumulated amortization		54,470,588	40,852,940
Goodwill, net		<u>\$ 81,705,864</u>	<u>\$ 95,323,512</u>

A summary of the other intangible assets and their estimated finite lives were as follows:

	<b>Estimated Useful Lives</b>	<b>December 31, 2016</b>	<b>December 31, 2015</b>
Trade names	5 to 15 years	\$ 24,400,000	\$ 24,400,000
Non-competition and license agreements	2 to 4 years	2,323,800	2,323,800
Internally developed technology	2 years	1,000,000	1,000,000
Customer relationships and other	2 to 3 years	488,700	488,700
		28,212,500	28,212,500
Less accumulated amortization		11,381,952	9,543,409
Intangible assets, net		<u>\$ 16,830,548</u>	<u>\$ 18,669,091</u>



**First Tower Finance Company LLC and Subsidiaries**

**Notes to Consolidated Financial Statements**

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**Note 6. Goodwill and Intangible Assets (Continued)**

Aggregate amortization expense for goodwill and intangible assets for the year ended December 31, 2016 approximated \$13,618,000 and \$1,838,000, respectively. Aggregate amortization expense for goodwill and intangible assets for the year ended December 31, 2015 approximated \$13,618,000 and \$2,100,000, respectively. The estimated amortization expense of goodwill and the finite-lived intangible assets for future years is summarized as follows:

Fiscal Year 2017	\$ 15,251,812
Fiscal Year 2018	15,224,312
Fiscal Year 2019	15,224,312
Fiscal Year 2020	15,224,312
Fiscal Year 2021	15,224,312
Thereafter	<u>22,387,352</u>
Total	<u>\$ 98,536,412</u>

**Note 7. Notes Payable and Credit Arrangements for Business Operations**

In December 2015, the Company extended its agreement of June 15, 2012, a revolving loan agreement, which provides for a total credit facility of up to \$400,000,000 which terminates on December 11, 2018. The agreement provides for an increase in the credit facility of an additional \$50,000,000, if needed. Borrowings are limited to a borrowing base as defined in the related agreement.

Borrowings under the revolving loan agreement bear interest at an annualized referenced rate equal to the higher of (i) the federal funds rate plus 0.50%, (ii) the lenders prime rate, or (iii) LIBOR plus 1%, and adjusted for an applicable margin based upon the current borrowing availability. The applicable margin ranges from 1.50% to 3.00% depending on the reference rate and borrowing availability percentage as defined in the agreement. Borrowings are collateralized by substantially all of the Company's consumer finance assets, including finance receivables and intangibles.

The revolving loan agreement contains covenants which place restrictions on the Company, including limitations on distributions, additional indebtedness, transactions with affiliates, and require that certain minimum interest coverage and senior debt leverage ratios be maintained. At December 31, 2016 and 2015, the Company was in compliance with the covenants.

The Company has another line of credit that was extended in January 2017 which terminates June 30, 2018. The line of credit was increased from \$10,000,000 to \$11,000,000 upon extension. Advances under the line of credit bear interest at one-month LIBOR plus 2.75% with a floor rate of 3.75%, adjusted monthly, and are collateralized by all of the outstanding shares of American Federated Life Insurance Company and a first deed of trust on the Company's corporate office, located in Flowood, MS. The increase in this line of credit was used to issue a letter of credit in the amount of \$650,000 also expiring on June 30, 2018.

At December 31, 2016 and 2015, the amount outstanding under the revolving loan agreement was approximately \$316,707,000 and \$308,358,000, respectively, with an average effective interest rate of 3.57% and 3.74%, respectively. The amount outstanding under the revolving line of credit with the bank was approximately \$6,878,000 with an interest rate of 3.75% and \$9,267,000 with an interest rate of 3.75% at December 31, 2016 and 2015, respectively. Interest is payable monthly.

## First Tower Finance Company LLC and Subsidiaries

### Notes to Consolidated Financial Statements

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#### Note 8. Subordinated Notes Payable to Members

On June 24, 2014, First Tower, LLC ("FT LLC") issued subordinated term loan notes payable to the members of the Company in the aggregate amount of \$313,844,000 pursuant to a subordinated loan agreement (the "Subordinated Loan Agreement"). The proceeds of the subordinated term loans were distributed to the Company, which were then distributed to its members as a return of capital.

Under the terms of the Subordinated Loan Agreement, these subordinated term loans initially bore interest at a rate per annum equal to 10% plus a paid-in-kind rate (the "PIK Rate") of 7%. Effective October 1, 2014, the PIK Rate was increased to 12%. Interest accruing at the 10% rate is payable monthly in cash and the PIK Rate interest is payable monthly in cash, at FT LLC's option, subject to certain restrictions as specified by the terms of a subordination and intercreditor agreement with lenders of the Company's credit facility and revolving line of credit (See Note 7). Accruing PIK Rate interest that may be prohibited from being paid currently under the subordination and intercreditor agreement as a result of distributable income limitations from operating subsidiaries is automatically added to the principal of the subordinated term loan notes.

The subordinated term loan notes mature on the earlier of June 24, 2019 or six months after the termination of the Company's credit facility. Subject to the subordination and intercreditor agreement, FT LLC may prepay in whole or in part amounts outstanding. However, any amounts prepaid prior to the third anniversary of the issuance would be subject to a prepayment premium ranging from 1% – 3% depending on the timing of the prepayment. FT LLC's obligations under the subordinated term loan notes are secured by a lien granted to Prospect Capital Corporation as collateral agent for the benefit of the holders of the subordinated term loan notes against all of the LLC interests of its wholly-owned finance company subsidiaries and all other First Tower, LLC assets.

The Subordinated Loan Agreement contains various provisions which require FT LLC to make mandatory prepayments, subject to specified exceptions, with the proceeds of asset dispositions, debt and specified equity issuances, changes of control, and certain other events. In addition to other covenants, the Subordinated Loan Agreement places limits on FT LLC and its subsidiaries' ability to declare dividends or redeem or repurchase capital stock, prepay, redeem or purchase debt, incur liens and engage in sale-leaseback transactions, make loans and investments, incur additional indebtedness, amend or otherwise alter debt and other material agreements, make capital expenditures, engage in mergers, acquisitions and asset sales, transact with affiliates and alter its business. Further, the Subordinated Loan Agreement contains events of default, including cross defaults under other debt obligations of the Company.

In December 2015, the Company issued an additional \$5,000,000 in subordinated term loan notes under the same terms. At December 31, 2016 and 2015, the principal amount outstanding of the subordinated term loan notes payable was \$322,542,697 and \$318,844,000, respectively. Interest expense, including PIK Rate interest, incurred on the subordinated term loan notes approximated \$71,565,000 during 2016 and \$70,075,000 during 2015.

**First Tower Finance Company LLC and Subsidiaries****Notes to Consolidated Financial Statements****Note 9. Policy Claim Liabilities**

Activity in policy claim reserves, including claim adjustment expenses for the year ended from December 31, 2016 and 2015, is summarized as follows:

<i>December 31,</i>	<b>2016</b>	<b>2015</b>
Balance at beginning of year	\$ 2,848,854	\$ 2,386,867
Less reinsurance recoverables	12,734	58,149
Net balance at beginning of year	2,836,120	2,328,718
Incurred related to:		
Current period	6,658,382	6,610,882
Prior years	(700,865)	(450,168)
Total incurred	5,957,517	6,160,714
Paid related to:		
Current period	4,897,417	4,538,475
Prior years	1,231,510	1,114,837
Total paid	6,128,927	5,653,312
Net balance at end of year	2,664,710	2,836,120
Plus reinsurance recoverables	1,228	12,734
Balance at end of year	\$ 2,665,938	\$ 2,848,854

**Note 10. Income Taxes**

The Company's insurance subsidiaries file income tax returns in the U. S. federal jurisdiction and in the states in which they operate. The multiple state tax jurisdictions in which the insurance subsidiaries operate require the appropriate allocation of income and expense to each state based on a variety of apportionment or allocation bases.

The provisions for income taxes of the Company's insurance subsidiaries for the year ended December 31, 2016 and 2015 consisted of the following:

<i>December 31,</i>	<b>2016</b>	<b>2015</b>
Current expense	\$ 67,261	\$ 175,273
Deferred expense (benefit)	255,758	(93,417)
Provision for income taxes	\$ 323,019	\$ 81,856

The Company did not have unrecognized tax benefits as of December 31, 2016 and does not expect this to change significantly over the next 12 months. It is the Company's policy to recognize interest and penalties accrued on any unrecognized tax benefits as a component of income tax expense. As of December 31, 2016, the Company had no accrued interest or penalties related to uncertain tax positions.

**First Tower Finance Company LLC and Subsidiaries**

**Notes to Consolidated Financial Statements**

**Note 10. Income Taxes (Continued)**

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes relating to the Company's insurance subsidiaries. The tax effects of significant items comprising the Company's net deferred tax liability and asset were as follows:

<u>December 31,</u>	<u>2016</u>	<u>2015</u>
Deferred tax assets:		
Policy claim reserves and unearned premiums	\$ 1,831,607	\$ 1,332,491
Goodwill and intangible assets	1,474,587	1,032,175
Net operating and capital losses carryforward	949,433	2,070,016
Unrealized loss on securities available for sale	90,757	-
	<u>4,346,384</u>	<u>4,434,682</u>
Deferred tax liabilities:		
Reinsurance recoverables	349,139	346,353
Deferred acquisition costs	7,656,710	7,612,473
Unrealized holding gain on trading securities	47,086	17,408
Unrealized gain on securities available for sale	-	190,129
	<u>8,052,935</u>	<u>8,166,363</u>
Deferred tax liabilities, net	<u>\$ (3,706,551)</u>	<u>\$ (3,731,681)</u>

The provision for income taxes differs from the amount computed by applying the federal statutory rate of 34% to income before income taxes as follows:

<u>December 31,</u>	<u>2016</u>	<u>2015</u>
Consolidated loss before taxes	\$ (23,666,318)	\$ (14,707,029)
Less: non-taxable entities	(24,585,204)	(14,999,167)
Income before taxes from taxable entities	<u>\$ 918,886</u>	<u>\$ 292,138</u>
Tax based on federal statutory rate	\$ 312,421	\$ 99,327
Non-taxable interest income	(185,493)	(230,925)
State income taxes and other	(34,582)	16,417
Adjustment to prior year taxes	64,410	115,776
Transactional costs	(44,812)	(129,814)
Goodwill	211,075	211,075
Provision for income taxes	<u>\$ 323,019</u>	<u>\$ 81,856</u>

The Company's insurance subsidiaries have approximately \$2,400,000 in federal net operating loss carryforwards that will expire in 2032, if not used.

## First Tower Finance Company LLC and Subsidiaries

### Notes to Consolidated Financial Statements

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#### Note 11. Employee Profit Sharing Plan

The Company established three profit sharing plans covering substantially all the Company's employees. A nonstandardized profit sharing plan was established for managers on January 1, 2015. Employer and participants contributions are nonelective and at the sole discretion of the employer. Contributions are allocated as a uniform percentage of participant compensation.

The Company also established a plan which is intended to providing selected officers, members of the executive group, home office or district supervisors of the Company or its Affiliates, or the assistant to the chief executive officer of the Company, incentive awards for superior performance. The plan is intended to be a nonqualified deferred compensation plan that complies with the provisions of Section 409A of the Internal Revenue Code. The plan is also intended to be an unfunded plan maintained primarily for the purpose of providing deferred compensation benefits for a select group of management or highly compensated employees under Sections 201(2), 301(a)(3) and 401(a)(1) of the Employee Retirement Income Security Act of 1974 ("ERISA").

Remaining employees are covered by a 401(k) provision which allows employees to contribute salary subject to the maximum contribution allowed by the IRS. The Company matches 50% of the first 6% of employee contributions. Additional contributions may be made at the discretion of the Company. Profit sharing expense approximated \$338,200 and \$1,782,000 for the years ended December 31, 2016 and 2015, respectively.

#### Note 12. Members Equity

The Company's capital structure consists of four classes of member common units. All classes of common units, except for Class D common units, share in the profits and losses of the Company and in the distributions of member capital on a pro-rata basis in proportion to total number of such units outstanding. The four classes of member common units are as follows:

- Class A common units – These units have voting rights in proportion to the total number of Class A, Class B and Class C common units outstanding. There were 117,350,228 and 108,254,213 Class A common units issued to members outstanding as of December 31, 2016 and 2015, respectively. Issuance of additional Class A common units in excess of 10% of the fully diluted outstanding units of Class A and Class B common units require the approval of at least 81% of the outstanding Class A common units.
- Class B common units – These units have voting rights in proportion to the total number of Class A, Class B and Class C common units outstanding. There were 66,814 and 61,635 Class B common units as of December 31, 2016 and 2015, respectively.
- Class C common units – These units have voting rights in proportion to the total number of Class A, Class B and Class C common units outstanding. As of December 31, 2016 and 2015, no Class C common units have been issued. These units will be issued upon the conversion of Class D common units.
- Class D common units – These units have no voting rights and are unvested upon issuance. Class D common units vest over a ten year period beginning June 15, 2012 at 10% per year. Unvested Class D common units are forfeited upon the termination of the holder's employment for any reason. Each holder of Class D common units has the right to convert such units to Class C common units at a ratio of four Class D common units for one Class C common unit provided that (i) the date of such conversion occurs no earlier than the 10th anniversary of June 15, 2012, (ii) such holder notifies the Company thirty days prior to conversion, and (iii) the internal rate of return as of the most recent

**First Tower Finance Company LLC and Subsidiaries**

**Notes to Consolidated Financial Statements**

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**Note 12. Members' Equity (Continued)**

fiscal quarter exceeds a pre-defined minimum. On June 14, 2012, the Company entered into employment contracts with two key executives and, in connection therewith, granted these executives 12,941,176 unvested Class D common units with an estimated fair value at date of grant of approximately \$698,000. Compensation expense related to Class D common units approximated \$70,000 annually for the years ended December 31, 2016 and 2015.

Members have no power to vote on any matter except matters on which a vote of units is required pursuant to the Company's Operating Agreement. The Operating Agreement provides for, among other things, limitations on the transfer of member units, rights of first refusal, pre-emptive rights, and certain call and put provisions.

**First Tower Finance Company LLC and Subsidiaries**

**Notes to Consolidated Financial Statements**

**Note 13. Statutory Financial Information of Insurance Subsidiaries**

Generally accepted accounting principles (GAAP) differ in certain respects from the accounting practices prescribed or permitted by insurance regulatory authorities (Statutory). A reconciliation between net income and stockholder's equity of the Company's insurance subsidiaries as reported under GAAP and Statutory follows as of December 31, 2016 and 2015:

<i>December 31, 2016</i>	<b>Net Income (Loss)</b>	<b>Stockholder's Equity</b>
GAAP basis, including effects of purchase accounting	\$ 595,867	\$ 75,947,881
Adjustments to:		
Non-admitted assets	1,600	(69,506)
Accumulated depreciation	-	(22,343)
Investment securities and related unrealized gains	161,424	(566,184)
Deferred acquisition costs	(270,989)	(22,742,105)
Goodwill and intangible assets	4,298,802	(25,212,767)
Policy claim reserves and unearned premiums	1,307,517	(1,601,964)
Deferred income taxes and income taxes payable	209,490	7,174,429
Asset valuation and interest maintenance reserves	47,930	(233,481)
Statutory Basis	<u>\$ 6,351,641</u>	<u>\$ 32,673,960</u>

<i>December 31, 2015</i>	<b>Net Income (Loss)</b>	<b>Stockholder's Equity</b>
GAAP basis, including effects of purchase accounting	\$ (203,383)	\$ 70,237,503
Adjustments to:		
Non-admitted assets	1,600	(47,043)
Accumulated depreciation	-	35,260
Investment securities and related unrealized gains	430,306	(1,235,189)
Deferred acquisition costs	68,653	(15,283,121)
Goodwill and intangible assets	4,197,552	(31,405,411)
Policy claim reserves and unearned premiums	(1,750,750)	(998,628)
Deferred income taxes and income taxes payable	(302,487)	4,433,278
Asset valuation and interest maintenance reserves	44,525	(179,333)
Statutory Basis	<u>\$ 2,486,016</u>	<u>\$ 25,557,316</u>

Under state statutes, each of the insurance subsidiaries is required to maintain minimum capital and surplus of \$1,500,000.

Insurance regulations limit the amount of dividends that may be paid without approval of the insurance subsidiaries' regulatory agency. At December 31, 2016 and 2015, there were no undistributed earnings and surplus available for future distributions as dividends are not permitted, without the prior approval of the State of Mississippi Insurance Department.

**First Tower Finance Company LLC and Subsidiaries**

**Notes to Consolidated Financial Statements**

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**Note 13. Statutory Financial Information of Insurance Subsidiaries (Continued)**

The National Association of Insurance Commissioners (NAIC) measures the adequacy of an insurance company's capital by its risk-based capital ratio (the ratio of its total capital, as defined, to its risk-based capital). The requirements provide a measurement of minimum capital appropriate for an insurance company to support its overall business operations based upon its size and risk profile which considers (i) asset risk, (ii) insurance risk, (iii) interest rate risk, and (iv) business risk. An insurance company's risk-based capital is calculated by applying a defined factor to various statutory-based assets, premiums, and reserve items, wherein the factor is higher for items with greater underlying risk.

The State of Mississippi statutes have provided levels of progressively increasing regulatory action for remedies when an insurance company's risk-based capital ratio falls below a ratio of 2:1. As of December 31, 2016 and 2015 (latest information available), the Company's insurance subsidiaries were in compliance with these minimum capital requirements as follows:

<i>December 31, 2016</i>	<b>AFLIC</b>	<b>AFIC</b>
Total adjusted capital	\$ 11,901,162	\$ 20,873,275
Authorized control level risk-based capital	776,692	2,354,027
Ratio of adjusted capital to risk based capital	15.3:1	8.9:1
<i>December 31, 2015</i>	<b>AFLIC</b>	<b>AFIC</b>
Total adjusted capital	\$ 8,960,739	\$ 16,686,165
Authorized control level risk-based capital	765,937	2,251,248
Ratio of adjusted capital to risk based capital	11.7:1	7.41:1

**Note 14. Leases**

The Company leases office facilities under non-cancellable operating leases. Rental expense approximated \$2,655,000 and \$2,390,000 for the years ended December 31, 2016 and 2015, respectively. Future minimum lease payments at December 31, 2016 are as follows:

Fiscal Year 2017	\$ 2,433,077
Fiscal Year 2018	2,196,933
Fiscal Year 2019	1,665,351
Fiscal Year 2020	1,161,585
Fiscal Year 2021	702,337
Thereafter	205,891
	<u>\$ 8,365,174</u>



**First Tower Finance Company LLC and Subsidiaries****Notes to Consolidated Financial Statements****Note 15. Concentration of Credit Risk**

Financial instruments that potentially subject the Company to concentrations of credit risk consist principally of finance receivables. Concentrations of credit risk with respect to finance receivables are limited due to the large number of customers comprising the Company's customer base. These finance receivables are mainly from customers located in Mississippi, Louisiana, Alabama, Illinois and Missouri.

At December 31, 2016 and 2015, the Company had funds on deposit with depository and investment institutions in excess of insured limits of approximately \$7,351,000 and \$7,204,000, respectively.

**Note 16. Fair Value Measurements**

The fair value measurements by input level at December 31, 2016 and 2015 for assets and liabilities measured at fair value on a recurring basis follow:

<i>December 31, 2016</i>	<b>Total</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>
Trading securities - equity mutual funds	\$ 1,659,620	\$ 1,659,620	\$ -	\$ -
Available-for-sale securities:				
U.S. Government agencies and corporations	8,725,841	8,725,841	-	-
Obligations of states and political subdivisions	34,270,305	-	34,270,305	-
Corporate securities	20,487,544	-	20,487,544	-
Residential mortgage-backed securities	8,075	-	8,075	-
Commercial mortgage-backed securities	738,390	-	738,390	-
	<u>\$ 65,889,775</u>	<u>\$ 10,385,461</u>	<u>\$ 55,504,314</u>	<u>\$ -</u>
<i>December 31, 2015</i>				
Trading securities - equity mutual funds	\$ 1,511,611	\$ 1,511,611	\$ -	\$ -
Available-for-sale securities:				
U.S. Government agencies and corporations	6,633,316	6,633,316	-	-
Obligations of states and political subdivisions	32,721,165	-	32,721,165	-
Corporate securities	20,468,677	-	20,468,677	-
Residential mortgage-backed securities	15,545	-	15,545	-
Commercial mortgage-backed securities	743,905	-	743,905	-
	<u>\$ 62,094,219</u>	<u>\$ 8,144,927</u>	<u>\$ 53,949,292</u>	<u>\$ -</u>

## First Tower Finance Company LLC and Subsidiaries

### Notes to Consolidated Financial Statements

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#### Note 16. Fair Value Measurements (Continued)

Certain assets and liabilities are potentially measured at fair value on a nonrecurring basis (for example, when there is evidence of impairment). In addition to the assets and liabilities measured at fair value at date of acquisition (see Note 2), assets measured at fair value on a non-recurring basis include foreclosed assets (upon initial recognition or subsequent impairment), and intangible assets and other non-financial long-lived assets subject to measurement at fair value for impairment assessment. During the years ended December 31, 2016 and 2015, certain foreclosed real estate assets, upon initial recognition, were remeasured and reported at fair value through a charge-off to the allowance for credit losses based upon the fair value of the foreclosed asset. The fair value of a foreclosed asset, upon initial recognition, is estimated using Level 2 inputs based on observable market data or Level 3 inputs based on customized discounting criteria. Foreclosed assets measured at fair value upon initial recognition during the year ended December 31, 2016 and 2015 were not material.

#### Note 17. Disclosures About Fair Value of Financial Instruments

The carrying values and approximate fair values of the Company's financial instruments were as follows:

<i>December 31,</i>	2016		2015	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Financial Assets:				
Cash and cash equivalents	\$ 8,145,628	\$ 8,145,628	\$ 12,120,178	\$ 12,120,178
Trading securities	1,659,620	1,659,620	1,511,611	1,511,611
Investment securities available for sale	64,230,155	64,230,155	60,582,608	60,582,608
Finance receivables - net	472,839,288	442,016,640	459,897,605	428,789,522
Financial Liabilities:				
Notes payable	323,584,995	323,584,995	317,624,567	317,624,567
Subordinated notes payable to members	322,542,697	322,542,697	318,844,000	318,844,000

Certain financial instruments are not carried at fair value in the accompanying consolidated balance sheets, including receivables, payables and accrued liabilities. The carrying amount of financial instruments not carried at fair value is a reasonable estimate of their fair value because of the generally short periods of time in which these related assets or liabilities are expected to be realized or liquidated, and because they do not present unanticipated credit concerns.

The estimated fair values are significantly affected by assumptions used, principally the timing of future cash flows, the discount rate, judgments regarding current economic conditions, risk characteristics of various financial instruments and other factors. Because assumptions are inherently subjective in nature, the estimated fair values cannot be substantiated by comparison to independent quotes and, in many cases, the estimated fair values could not necessarily be realized in an immediate sale or settlement of the instrument. Potential tax ramifications related to the realization of unrealized gains and losses that would be incurred in an actual sale and/or settlement have not been taken into consideration.

**First Tower Finance Company LLC and Subsidiaries**

**Notes to Consolidated Financial Statements**

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**Note 18. Contingencies**

As of December 31, 2016, the Company is involved in various legal actions resulting from normal business activities. Many of these actions do not specify an amount of damages. Also, many of these actions are in very early stages of discovery or discovery has not begun. As a result, legal counsel is unable to provide an estimate of the probability or range of potential exposure. However, and based on its experience with lawsuits alleging similar claims and except for the two suits described below, management is of the opinion that the resolution of such actions will not result in a material adverse effect on the consolidated financial statements.

The Company has been named defendant in two legal actions, in which the Company has accrued \$1,300,000 at December 31, 2016 for contingent liabilities as a result of on-going negotiations related to potential settlements in these specific matters.