

FRESH DEL MONTE PRODUCE INC  
 Form 4  
 September 09, 2015

**FORM 4**

UNITED STATES SECURITIES AND EXCHANGE COMMISSION  
 Washington, D.C. 20549

OMB APPROVAL

OMB Number: 3235-0287  
 Expires: January 31, 2015  
 Estimated average burden hours per response... 0.5

Check this box if no longer subject to Section 16. Form 4 or Form 5 obligations may continue. See Instruction 1(b).

**STATEMENT OF CHANGES IN BENEFICIAL OWNERSHIP OF SECURITIES**

Filed pursuant to Section 16(a) of the Securities Exchange Act of 1934, Section 17(a) of the Public Utility Holding Company Act of 1935 or Section 30(h) of the Investment Company Act of 1940

(Print or Type Responses)

1. Name and Address of Reporting Person \*  
**CONTRERAS RICHARD**

2. Issuer Name and Ticker or Trading Symbol  
**FRESH DEL MONTE PRODUCE INC [FDP]**

5. Relationship of Reporting Person(s) to Issuer  
 (Check all applicable)

(Last) (First) (Middle)  
**C/O FRESH DEL MONTE PRODUCE INC., P.O. BOX 149222**  
 (Street)

3. Date of Earliest Transaction (Month/Day/Year)  
**09/04/2015**

\_\_\_\_ Director \_\_\_\_\_ 10% Owner  
 Officer (give title below) \_\_\_\_\_ Other (specify below)  
**SVP and CFO**

**CORAL GABLES, FL 33114-9222**

4. If Amendment, Date Original Filed(Month/Day/Year)

6. Individual or Joint/Group Filing(Check Applicable Line)  
 Form filed by One Reporting Person  
 \_\_\_ Form filed by More than One Reporting Person

(City) (State) (Zip)

**Table I - Non-Derivative Securities Acquired, Disposed of, or Beneficially Owned**

1. Title of Security (Instr. 3)	2. Transaction Date (Month/Day/Year)	2A. Deemed Execution Date, if any (Month/Day/Year)	3. Transaction Code (Instr. 8)	4. Securities Acquired (A) or Disposed of (D) (Instr. 3, 4 and 5)	5. Amount of Securities Beneficially Owned Reported Transaction(s) (Instr. 3 and 4)	6. Ownership Form: Direct (D) or Indirect (I) (Instr. 4)	7. Nature of Ownership (Instr. 4)		
				(A) or (D)	Code	V	Amount	(D)	Price

Reminder: Report on a separate line for each class of securities beneficially owned directly or indirectly.

**Persons who respond to the collection of information contained in this form are not required to respond unless the form displays a currently valid OMB control number.**

SEC 1474 (9-02)

**Table II - Derivative Securities Acquired, Disposed of, or Beneficially Owned (e.g., puts, calls, warrants, options, convertible securities)**

1. Title of Derivative	2. Conversion	3. Transaction Date (Month/Day/Year)	3A. Deemed Execution Date, if	4. Transaction	5. Number of	6. Date Exercisable and Expiration Date	7. Title and Amount of Underlying Securities	8. Price
------------------------	---------------	--------------------------------------	-------------------------------	----------------	--------------	---	--	----------

Edgar Filing: FRESH DEL MONTE PRODUCE INC - Form 4

Security (Instr. 3)	or Exercise Price of Derivative Security	any (Month/Day/Year)	Code (Instr. 8)	Derivative Securities Acquired (A) or Disposed of (D) (Instr. 3, 4, and 5)	(Month/Day/Year)	(Instr. 3 and 4)	Securi (Instr.				
			Code	V	(A)	(D)	Date Exercisable	Expiration Date	Title	Amount or Number of Shares	
Dividend Equivalent Units <sup>(1)</sup>	\$ 39.45	09/04/2015	A		176 <sup>(2)</sup>		<sup>(1)</sup>	<sup>(3)</sup>	Ordinary Shares	55,432 <sup>(4)</sup>	\$

## Reporting Owners

Reporting Owner Name / Address	Relationships			
	Director	10% Owner	Officer	Other
CONTRERAS RICHARD C/O FRESH DEL MONTE PRODUCE INC. P.O. BOX 149222 CORAL GABLES, FL 33114-9222			SVP and CFO	

## Signatures

/s/ Bruce Jordan, Attorney-in-fact for Richard Contreras 09/09/2015

<sup>(1)</sup>Signature of Reporting Person Date

## Explanation of Responses:

- \* If the form is filed by more than one reporting person, see Instruction 4(b)(v).
  - \*\* Intentional misstatements or omissions of facts constitute Federal Criminal Violations. See 18 U.S.C. 1001 and 15 U.S.C. 78ff(a).
- (1) Dividend Equivalent Units (DEUs) were granted under the Fresh Del Monte Produce Inc. 2014 Omnibus Share Incentive Plan. Each DEU represents a contingent right to receive one ordinary share of FDP. DEUs are subject to vesting and/or performance criteria based on the underlying Restricted Stock Units (RSUs). Certain DEUs are subject to meeting minimum performance criteria set by the Compensation Committee of the Board of Directors of FDP.
- (2) Reflects DEUs received by the Reporting Person as a result of dividend equivalents accrued with respect to outstanding RSUs granted to the Reporting Person. Dividend equivalents are accrued at the same rate and at the same time as dividends are paid to Ordinary Shareholders. Dividend equivalents on RSUs are subject to the same restrictions and vesting conditions as the underlying RSUs.
- (3) DEUs do not have an expiration date.
- (4) 34,445 of these securities are RSUs, including associated DEUs, which have not yet vested.

Note: File three copies of this Form, one of which must be manually signed. If space is insufficient, see Instruction 6 for procedure. Potential persons who are to respond to the collection of information contained in this form are not required to respond unless the form displays a currently valid OMB number. align:right;font-size:10pt;">4,062

6.00%–6.25%

6.21

%

July 15, 2031 – August 15, 2031

20

2,791

6.00%

6.00

%

September 15, 2033 – October 15, 2033

25

34,886

6.25%–6.50%

6.39

%

August 15, 2038 – May 15, 2039

30

20,150

6.50%–6.75%

6.60

%

July 15, 2043 – October 15, 2043

\$

473,762

During the year ended June 30, 2013, we issued \$343,139 aggregate principal amount of our Prospect Capital InterNotes® for net proceeds of \$334,244. These notes were issued with stated interest rates ranging from 3.28% to 6.625% with a weighted average interest rate of 5.59%. These notes mature between July 15, 2019 and June 15, 2043. Below is a summary of the Prospect Capital InterNotes® issued during the year ended June 30, 2013:

Explanation of Responses:

Edgar Filing: FRESH DEL MONTE PRODUCE INC - Form 4

Tenor at Origination (in years)	Principal Amount	Interest Rate Range	Weighted Average Interest Rate	Maturity Date Range
7	\$ 190,937	4.00%–6.45%	5.35	% July 15, 2019 – June 15, 2020
10	1,489	3.28%–3.78%	3.37	% March 15, 2023 – April 15, 2023
15	15,000	5.00%	5.00	% May 15, 2028 – June 15, 2028
18	22,157	4.125%–6.00%	5.34	% December 15, 2030 – June 15, 2031
20	3,106	5.625%–5.75%	5.70	% November 15, 2032 – December 15, 2032
30	110,450	5.50%–6.625%	6.15	% November 15, 2042 – June 15, 2043
	\$ 343,139			

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

Table of Contents

Tenor at Origination (in years)	Principal Amount	Interest Rate Range	Weighted Average Interest Rate	Maturity Date Range
3	\$ 5,710	4.00%	4.00	% October 15, 2016
3.5	3,149	4.00%	4.00	% April 15, 2017
4	45,751	3.75%–4.00%	3.92	% November 15, 2017 – May 15, 2018
5	212,915	4.25%–5.00%	4.92	% July 15, 2018 – August 15, 2019
5.5	3,820	5.00%	5.00	% February 15, 2019
6.5	1,800	5.50%	5.50	% February 15, 2020
7	256,903	4.00%–6.55%	5.39	% June 15, 2019 – May 15, 2021
7.5	1,996	5.75%	5.75	% February 15, 2021
10	41,952	3.23%–7.00%	6.18	% March 15, 2022 – May 15, 2024
12	2,978	6.00%	6.00	% November 15, 2025 – December 15, 2025
15	17,465	5.00%–6.00%	5.14	% May 15, 2028 – November 15, 2028
18	25,435	4.125%–6.25%	5.49	% December 15, 2030 – August 15, 2031
20	5,847	5.625%–6.00%	5.85	% November 15, 2032 – October 15, 2033
25	34,886	6.25%–6.50%	6.39	% August 15, 2038 – May 15, 2039
30	125,063	5.50%–6.75%	6.22	% November 15, 2042 – October 15, 2043
	\$ 785,670			

Below are the Prospect Capital InterNotes® outstanding as of June 30, 2013:

Tenor at Origination (in years)	Principal Amount	Interest Rate Range	Weighted Average Interest Rate	Maturity Date Range
7	\$ 194,937	4.00%–6.55%	5.37	% June 15, 2019 – June 15, 2020
10	18,127	3.28%–7.00%	6.56	% March 15, 2022 – April 15, 2023
15	15,000	5.00%	5.00	% May 15, 2028 – June 15, 2028
18	22,157	4.125%–6.00%	5.34	% December 15, 2030 – June 15, 2031
20	3,106	5.625%–5.75%	5.70	% November 15, 2032 – December 15, 2032
30	110,450	5.50%–6.625%	6.15	% November 15, 2042 – June 15, 2043
	\$ 363,777			

In connection with the issuance of the Prospect Capital InterNotes®, we incurred \$20,235 of fees which are being amortized over the term of the notes, of which \$18,889 remains to be amortized and is included within deferred financing costs on the Consolidated Statements of Assets and Liabilities as of June 30, 2014.

During the years ended June 30, 2014, 2013 and 2012, we recorded \$33,857, \$9,707 and \$276, respectively, of interest costs and amortization of financing costs on the Prospect Capital InterNotes® as interest expense.

#### Net Asset Value

During the year ended June 30, 2014, we issued \$1,045,856 of additional equity, net of underwriting and offering costs, by issuing 94,789,672 shares of our common stock. The following table shows the calculation of net asset value per share as of June 30, 2014 and June 30, 2013:

	June 30, 2014	June 30, 2013
Net assets	\$3,618,182	\$2,656,494
Shares of common stock issued and outstanding	342,626,637	247,836,965
Net asset value per share	\$ 10.56	\$ 10.72



Table of Contents

## Results of Operations

Net increase in net assets resulting from operations for the years ended June 30, 2014, 2013 and 2012 was \$319,020, \$220,856 and \$190,904, respectively, representing \$1.06, \$1.07 and \$1.67 per weighted average share, respectively. During the year ended June 30, 2014, the decrease is primarily due to a \$32,300, or \$0.38 per weighted average share, decline in net investment income primarily due to a decrease in dividend income from our investment in Energy Solutions, a decrease in the average rate of interest earned on investments, a decline in structuring fee income (during the quarter ended June 30, 2014) and an increase in interest expense due to additional debt financing. (See "Investment Income" for further discussion of dividend and structuring fee income.) The decline in net investment income is partially offset by a \$65,865, or \$0.37 per weighted average share, favorable decrease in our net realized losses and net change in unrealized depreciation on investments. (See "Net Realized Losses and Net Decrease in Net Assets from Changes in Unrealized Depreciation" for further discussion.)

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

## Investment Income

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

Investment income, which consists of interest income, including accretion of loan origination fees and prepayment penalty fees, dividend income and other income, including settlement of net profits interests, overriding royalty interests and structuring fees, was \$712,291, \$576,336 and \$320,910 for the years ended June 30, 2014, 2013 and 2012, respectively. During the year ended June 30, 2014, the increase in investment income is primarily the result of a larger income producing portfolio. During the year ended June 30, 2013, the increase in investment income is primarily the result of a larger income producing portfolio, increased structuring, advisory and amendment fees from the deployment of additional capital in revenue-producing assets, make-whole fees from Energy Solutions for early repayment of our outstanding loan, and increased dividends received from Energy Solutions and R-V.

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

	Year Ended June 30,			
	2014	2013	2012	
Interest income	\$ 613,741	\$ 435,455	\$ 219,536	
Dividend income	26,837	82,705	64,881	
Other income	71,713	58,176	36,493	
Total investment income	\$ 712,291	\$ 576,336	\$ 320,910	
Average debt principal of performing investments	\$ 4,886,846	\$ 2,878,421	\$ 1,466,703	
Weighted average interest rate earned on performing assets	12.56	% 15.13	% 14.97	%

Average interest income producing assets have increased from \$1,466,703 for the year ended June 30, 2012 to \$2,878,421 for the year ended June 30, 2013 to \$4,886,846 for the year ended June 30, 2014. The average yield on interest bearing performing assets decreased from 15.1% for the year ended June 30, 2013 to 12.6% for the year ended June 30, 2014. The decrease in annual returns during the comparable period is primarily due to a decline in

prepayment penalty income driven by a \$14,731 decrease in the make-whole fees we received from Energy Solutions. The decrease in our current yield is primarily due to originations at lower rates than our average existing portfolio yield. Excluding the adjustment for make-whole fees our annual return would have been 14.1% for the year ended June 30, 2013.

65

---



Table of Contents

Investment income is also generated from dividends and other income. Dividend income decreased from \$82,705 for the year ended June 30, 2013 to \$26,837 for the year ended June 30, 2014. The decrease in dividend income is primarily attributed to a \$53,820 decrease in the level of dividends received from our investment in Energy Solutions. The sale of Gas Solutions by Energy Solutions resulted in significant earnings and profits, as defined by the Internal Revenue Code, at Energy Solutions for calendar year 2012. As a result, distributions from Energy Solutions to us were recognized as dividend income, in accordance with ASC 946, Financial Services—Investment Companies, as cash distributions are received from Energy Solutions to the extent there are earnings and profits sufficient to support such recognition. As a result, we received dividends from Energy Solutions of \$53,820 during the year ended June 30, 2013. No such dividends were received during the year ended June 30, 2014 related to our investment in Energy Solutions. The decrease in dividend income is also attributed to a \$23,361 decrease in the level of dividends received from our investment in R-V. We received dividends from R-V of \$1,100 and \$24,462 during the years ended June 30, 2014 and 2013, respectively. The \$24,462 of dividends received from R-V during the year ended June 30, 2013 include a \$11,073 distribution as part of R-V's recapitalization in November 2012 for which we provided an additional \$9,500 of senior secured financing. The decrease in dividend income is further attributed to a \$2,945 decrease in dividends received from our investment in American Gilsonite Company ("AGC"). We received dividends of \$2,945 from AGC during the year ended June 30, 2013. No such dividends were received during the year ended June 30, 2014 related to our investment in AGC. The decrease in dividend income was partially offset by dividends of \$12,000, \$4,841 and \$5,000 received from our investments in AIRMALL, Credit Central and Nationwide, respectively, during the year ended June 30, 2014. The dividends received from Credit Central and Nationwide include distributions as part of follow-on financings in March 2014 for which we provided an additional \$6,500 of financing, as discussed above. No dividends were received from AIRMALL, Credit Central or Nationwide during the year ended June 30, 2013.

Dividend income increased from \$64,881 for the year ended June 30, 2012 to \$82,705 for the year ended June 30, 2013. This \$17,824 increase in dividend income is primarily attributed to an increase in the level of dividends received from our investments in Energy Solutions and R-V due to increased profits generated by the portfolio companies. We received dividends from Energy Solutions of \$53,820 and \$47,850 during the years ended June 30, 2013 and June 30, 2012, respectively. The sale of Gas Solutions by Energy Solutions has resulted in significant earnings and profits, as defined by the Internal Revenue Code, at Energy Solutions for calendar year 2012. We received dividends from R-V of \$24,462 and \$283 during the years ended June 30, 2013 and June 30, 2012, respectively. The \$24,462 of dividends received from R-V during the year ended June 30, 2013 include a \$11,073 distribution as part of R-V's recapitalization in November 2012 for which we provided an additional \$9,500 of senior secured financing. The increases in dividend income from our investments in Energy Solutions and R-V were offset by a reduction in dividends received from NRG. We received dividends from NRG of \$15,011 during the year ended June 30, 2012. There were no dividends from NRG received during the year ended June 30, 2013 as NRG has been sold.

Other income has come primarily from structuring fees, overriding royalty interests, and settlement of net profits interests. Income from other sources increased from \$58,176 for the year ended June 30, 2013 to \$71,713 for the year ended June 30, 2014. The increase is primarily due to a \$4,998 increase in structuring fees, \$5,825 of legal cost reimbursement from a litigation settlement which had been expensed in prior years, and a \$1,771 increase in royalty interests from our controlled investments, particularly APH, Credit Central, First Tower, Nationwide, NPH and UPH. During the years ended June 30, 2014 and 2013, we recognized structuring fees of \$57,697 and \$52,699, respectively, from new originations, restructurings and follow-on investments. Included within the \$57,697 of structuring fees recognized during the year ended June 30, 2014 is an \$8,000 fee from First Tower Delaware related to the renegotiation and expansion of First Tower's third party revolver for which a fee was received in December 2013. The remaining \$49,697 of structuring fees recognized during the year ended June 30, 2014 resulted from follow-on investments and new originations, primarily from our investments in Echelon, Harbortouch, IWCO and Matrixx. Income from other sources increased from \$36,493 for the year ended June 30, 2012 to \$58,176 for the year ended June 30, 2013. The increase is primarily due to \$52,699 of structuring fees recognized during the year ended June 30, 2013 primarily from our investments in APH, Arctic Glacier, Broder, InterDent, Progrexion, Ryan, TransPlace, USC

and Wolf, in comparison to \$26,443 of structuring fees recognized during the year ended June 30, 2012. The increase in structuring fees is partially offset by a decrease in advisory fees recognized during the year ended June 30, 2013 from our investments in Energy Solutions and NRG. We received \$8,783 of advisory fees from Energy Solutions and NRG during the year ended June 30, 2012. No such fee was received during the year ended June 30, 2013. The remaining increase is primarily due to \$4,122 of royalty income recognized during the year ended June 30, 2013 primarily from First Tower and Wolf, in comparison to \$224 of royalty income recognized during the year ended June 30, 2012.

Table of Contents

While we were in discussions with the SEC regarding consolidation, we elected to suspend our debt and equity raising activities for the remainder of the quarter and continuing through the filing of this Form 10-K. This curtailment of capital raising activities suppressed our levels of origination and growth in the fourth quarter of the fiscal year ended June 30, 2014. While structuring fees increased from the fiscal year ended June 30, 2013 to the fiscal year ended June 30, 2014, the reduction in originations in the quarter ended June 30, 2014 suppressed our level of structuring fees recognized and reduced our earnings for the quarter. Originations were \$1,343,356 in the quarter ended March 31, 2014 versus \$444,104 in the quarter ended June 30, 2014. As a result, structuring fees fell from \$24,659 in the quarter ended March 31, 2014 to \$5,026 in the quarter ended June 30, 2014.

Operating Expenses

Our primary operating expenses consist of investment advisory fees (base management and income incentive fees), borrowing costs, legal and professional fees and other operating and overhead-related expenses. These expenses include our allocable portion of overhead under the Administration Agreement with Prospect Administration under which Prospect Administration provides administrative services and facilities for us. Our investment advisory fees compensate Prospect Capital Management (the "Investment Adviser") for its work in identifying, evaluating, negotiating, closing and monitoring our investments. We bear all other costs and expenses of our operations and transactions. Operating expenses were \$355,068, \$251,412 and \$134,226 for the years ended June 30, 2014, 2013 and 2012, respectively.

The base management fee was \$108,990, \$69,800 and \$35,836 for the years ended June 30, 2014, 2013 and 2012, respectively. The increases are directly related to our growth in total assets. For the years ended June 30, 2014, 2013 and 2012, we incurred \$89,306, \$81,231 and \$46,671 of income incentive fees, respectively. These increases are driven by corresponding increases in pre-incentive fee net investment income from \$233,355 for the year ended June 30, 2012 to \$406,155 for the year ended June 30, 2013 to \$446,529 for the year ended June 30, 2014, primarily due to an increase in interest income from a larger asset base. No capital gains incentive fee has yet been incurred pursuant to the Investment Advisory Agreement.

During the years ended June 30, 2014, 2013 and 2012, we incurred \$130,103, \$76,341 and \$38,534, respectively, of expenses related to our Revolving Credit Facility, Convertible Notes, Public Notes and Prospect Capital InterNotes® (collectively, our "Notes"). These expenses are related directly to the leveraging capacity put into place for each of those periods and the levels of indebtedness actually undertaken in those periods. The table below describes the various expenses of our Notes and the related indicators of leveraging capacity and indebtedness during these periods.

	Year Ended June 30,			
	2014	2013	2012	
Interest on borrowings	\$ 111,900	\$ 62,657	\$ 27,346	
Amortization of deferred financing costs	11,491	8,232	8,511	
Accretion of discount on Public Notes	156	50	—	
Facility commitment fees	6,556	5,402	2,677	
Total interest and credit facility expenses	\$ 130,103	\$ 76,341	\$ 38,534	
Average principal debt outstanding	\$ 1,982,054	\$ 1,066,368	\$ 502,038	
Weighted average stated interest rate on borrowings(1)	5.65	% 5.88	% 5.45	%
Weighted average interest rate on borrowings(2)	6.23	% 6.65	% 7.14	%
Revolving Credit Facility amount at beginning of year	\$ 552,500	\$ 492,500	\$ 325,000	

(1) Includes only the stated interest expense.

(2) Includes the stated interest expense, amortization of deferred financing costs, accretion of discount on Public Notes and commitment fees on the undrawn portion of our Revolving Credit Facility.

The increase in interest expense for the year ended June 30, 2014 is primarily due to the issuance of additional Prospect Capital InterNotes®, the 2019 Notes, the 5.00% 2019 Notes, the 2020 Notes, and the 2023 Notes for which we incurred an incremental \$49,101 of collective interest expense, respectively. The weighted average interest rate on borrowings (excluding amortization, accretion and undrawn facility fees) decreased from 5.88% for the year ended June 30, 2013 to 5.65% for the year ended June 30, 2014. This decrease is primarily due to issuances of debt at lower

coupon rates. For example, the weighted average interest rate on our Prospect Capital InterNotes® decreased from 5.65% as of June 30, 2013 to 5.38% as of June 30, 2014.

The allocation of overhead expense from Prospect Administration was \$14,373, \$8,737 and \$6,848 for the years ended June 30, 2014, 2013 and 2012, respectively. As our portfolio continues to grow, we expect Prospect Administration to continue to

67

---

Table of Contents

increase the size of its administrative and financial staff. During the years ended June 30, 2014, 2013 and 2012, Prospect Administration received payments of \$7,582, \$1,394, and \$1,092 directly from our controlled portfolio companies for legal, tax and portfolio level accounting services. We were given a credit for these payments as a reduction of the administrative services cost payable by us to Prospect Administration. Had Prospect Administration not received these payments, Prospect Administration's charges for its administrative services would have increased by these amounts.

Excise tax decreased from an expense of \$6,500 for the year ended June 30, 2013 to a benefit of \$4,200 for the year ended June 30, 2014. As of June 30, 2013, we accrued \$5,000 as an estimate of the excise tax due for continuing to retain a portion of our annual taxable income for the calendar year ended December 31, 2013. We previously paid \$4,500 for the undistributed ordinary income retained at December 31, 2012. During the year ended June 30, 2014, we amended our excise tax returns resulting in the \$4,200 reversal of previously recognized expense and we recorded a \$2,200 prepaid asset for the amount our \$4,500 excise tax payment exceeded the excise tax liability estimated through June 30, 2014. There was no excise tax expense for the year ended June 30, 2012.

Total operating expenses, net of investment advisory fees, interest and credit facility expenses, allocation of overhead from Prospect Administration and excise tax ("Other Operating Expenses") were \$16,496, \$8,803 and \$6,337 for the years ended June 30, 2014, 2013 and 2012, respectively. The increase of \$7,693 during the year ended June 30, 2014 is primarily due to an increase in our investor relations expense which is included within other general and administrative expenses. Investor relations expense increased due to increased proxy costs incurred for our larger investor base. The increase of \$2,466 during the year ended June 30, 2013 is primarily the result of a \$1,000 insurance claim settlement for legal fees expensed in previous periods which reduced legal fees in the year ended June 30, 2012.

**Net Investment Income**

Net investment income was \$357,223, \$324,924 and \$186,684 for the years ended June 30, 2014, 2013 and 2012, respectively (\$1.19, \$1.57 and \$1.63 per weighted average share, respectively). The \$32,299 increase during the year ended June 30, 2014 is primarily the result of a \$135,955 increase in investment income partially offset by a \$103,656 increase in operating expenses. The \$0.38 per weighted average share decrease in net investment income for the year ended June 30, 2014 is primarily due to a \$0.31 per weighted average share decrease in dividend income primarily due to a decline in the level of dividends received from our investment in Energy Solutions. The \$138,240 increase in net investment income during the year ended June 30, 2013 is primarily the result of a \$255,426 increase in investment income partially offset by a \$117,186 increase in operating expenses. The \$0.06 per weighted average share decrease in net investment income for the year ended June 30, 2013 is primarily due to an increase in excise taxes and higher levels of cash awaiting deployment. (Refer to "Investment Income" and "Operating Expenses" above for further discussion.)

**Net Realized Gains (Losses)**

Net realized gains (losses) were \$(3,346), \$(26,234) and \$36,588 for the years ended June 30, 2014, 2013 and 2012, respectively. The net realized loss during the year ended June 30, 2014 was due primarily to realized losses of \$7,853 and \$1,669 related to the sale of our investments in NBS and ICON, respectively. These losses were partially offset by a distribution of \$3,252 related to our investment in NRG for which we realized a gain of the same amount; a \$1,183 gain realized when the subordinated notes from Apidos CLO VIII were called in October 2013; \$954 gains received from the release of escrowed amounts due to us from several portfolio companies; and \$762 gains realized on sales of other investments described above in "Portfolio Investment Activity."

The net realized loss for the year ended June 30, 2013 was primarily due to the sale of New Meatco Provisions, LLC (realized loss of \$10,814), the other-than-temporary impairment of ICS (realized loss of \$12,117) and restructuring of the H&M debt in conjunction with the foreclosure on the assets of H&M (realized loss of \$19,647). These losses were partially offset by net realized gains from the sale of our assets in Wolf Energy (realized gain of \$11,826), assets formerly held by H&M, and distributions received from our escrow receivable account, primarily NRG (realized gains of \$3,252).

**Net Decrease in Net Assets from Changes in Unrealized Depreciation**

Net decrease in net assets from changes in unrealized depreciation was \$34,857, \$77,834 and \$32,368 for the years ended June 30, 2014, 2013 and 2012, respectively. The variability in results is primarily due to the valuation of equity

positions in our portfolio susceptible to significant changes in value, both increases as well as decreases, due to operating results. For the year ended June 30, 2014, the \$34,857 net change in unrealized depreciation was driven by significant write-down of our investment in NCT, which filed for bankruptcy in June 2014. As we hold a second lien position and do not expect liquidation proceeds to exceed the first lien liability, we decreased the fair value of our debt investment in NCT to zero. We also experienced significant write-downs in our investments in AIRMALL, Ajax, Gulf Coast and Valley Electric. These instances of unrealized depreciation

68

---

Table of Contents

were partially offset by unrealized appreciation related to CP Well, First Tower, Harbortouch and our CLO equity investments. During the year ended June 30, 2014, we partially sold our debt investment in ICON at a discount and realized a loss of \$1,669, reducing the amount previously recorded as unrealized depreciation. Included within the change in net unrealized appreciation for the year ended June 30, 2014 is \$1,669 of unrealized appreciation resulting from the partial sale of ICON recognized as a realized loss.

For the year ended June 30, 2013, the \$77,834 decrease in net assets from the net change in unrealized depreciation was driven by a reduction in the fair value of our investments in Ajax, Boxercraft and First Tower because of changes in current market conditions; and Energy Solutions for which we received \$19,543 of make-whole fees for early repayment of the outstanding loan and distributions of \$53,820 during the year, which were recorded as interest and dividend income, respectively, reducing the amount previously recorded as unrealized appreciation. These instances of unrealized depreciation were partially offset by the elimination of the unrealized depreciation resulting from the H&M foreclosure mentioned above.

#### Financial Condition, Liquidity and Capital Resources

For the years ended June 30, 2014, 2013 and 2012, our operating activities used \$1,725,387, \$1,786,208 and \$229,415 of cash, respectively. There were no investing activities for the years ended June 30, 2014, 2013 and 2012. Financing activities provided \$1,656,376, \$1,868,250 and \$289,214 of cash during the years ended June 30, 2014, 2013 and 2012, respectively, which included dividend payments of \$377,070, \$242,301 and \$127,564, respectively.

Our primary uses of funds have been to continue to invest in portfolio companies, through both debt and equity investments, repay outstanding borrowings and to make cash distributions to holders of our common stock.

Our primary sources of funds have been issuances of debt and equity. We have and may continue to fund a portion of our cash needs through borrowings from banks, issuances of senior securities or secondary offerings. We may also securitize a portion of our investments in unsecured or senior secured loans or other assets. Our objective is to put in place such borrowings in order to enable us to expand our portfolio. During the year ended June 30, 2014, we borrowed \$1,078,500 and made repayments totaling \$1,110,500 under our Revolving Credit Facility. As of June 30, 2014, we had \$92,000 outstanding on our Revolving Credit Facility, \$1,247,500 outstanding on our Convertible Notes, Public Notes with a carrying value of \$647,881 and \$785,670 outstanding on our Prospect Capital InterNotes®. (See "Capitalization" above.)

Undrawn committed revolvers to our portfolio companies incur commitment fees ranging from 0.00% to 2.00%. As of June 30, 2014 and June 30, 2013, we have \$143,597 and \$202,518 of undrawn revolver commitments to our portfolio companies, respectively.

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

On October 15, 2013, our Registration Statement on Form N-2 was declared effective by the SEC. Under this Shelf Registration Statement, we can issue up to \$3,691,792 of additional debt and equity securities in the public market as of June 30, 2014.

We also continue to generate liquidity through public and private stock offerings.

On May 8, 2013, we entered into an ATM Program with BB&T Capital Markets, BMO Capital Markets, and KeyBanc Capital Markets through which we could sell, by means of at-the-market offerings from time to time, up to 45,000,000 shares of our common stock. During the period from July 5, 2013 to August 21, 2013, we sold 9,818,907 shares of our common stock at an average price of \$10.97 per share, and raised \$107,725 of gross proceeds, under the ATM Program. Net proceeds were \$106,654 after commissions to the broker-dealer on shares sold and offering costs. On August 22, 2013, we entered into an ATM Program with BMO Capital Markets, Goldman Sachs, KeyBanc Capital Markets, and RBC Capital Markets through which we could sell, by means of at-the-market offerings from time to time, up to 45,000,000 shares of our common stock. During the period from August 29, 2013 to November 4, 2013, we sold 24,127,242 shares of our common stock at an average price of \$11.28 per share, and raised \$272,114 of gross proceeds, under the ATM Program. Net proceeds were \$268,997 after commissions to the broker-dealer on shares sold and offering costs.

On November 5, 2013, we entered into an ATM Program with Barclays Capital, Goldman Sachs, KeyBanc Capital Markets, and RBC Capital Markets through which we could sell, by means of at-the-market offerings from time to time, up to 50,000,000 shares of our common stock. During the period from November 12, 2013 to February 5, 2014, we sold 27,301,889

69

---



Table of Contents

shares of our common stock at an average price of \$11.25 per share, and raised \$307,045 of gross proceeds, under the ATM Program. Net proceeds were \$303,540 after commissions to the broker-dealer on shares sold and offering costs. On February 4, 2014, we entered into an ATM Program with BMO Capital Markets, BNP Paribas, Goldman Sachs, KeyBanc Capital Markets, and UBS Investment Bank through which we could sell, by means of at-the-market offerings from time to time, up to 50,000,000 shares of our common stock. During the period from February 10, 2014 to April 9, 2014, we sold 21,592,715 shares of our common stock at an average price of \$11.08 per share, and raised \$239,305 of gross proceeds, under the ATM Program. Net proceeds were \$236,904 after commissions to the broker-dealer on shares sold and offering costs.

On April 9, 2014, we entered into an ATM Program with Barclays Capital through which we could sell, by means of at-the-market offerings from time to time, up to 20,000,000 shares of our common stock. During the period from April 15, 2014 to May 2, 2014, we sold 5,213,900 shares of our common stock at an average price of \$10.93 per share, and raised \$56,995 of gross proceeds, under the ATM Program. Net proceeds were \$56,357 after commissions to the broker-dealer on shares sold and offering costs.

Off-Balance Sheet Arrangements

As of June 30, 2014, we did not have any off-balance sheet liabilities or other contractual obligations that are reasonably likely to have a current or future material effect on our financial condition, other than those which originate from 1) the investment advisory and management agreement and the administration agreement and 2) the portfolio companies.

Recent Developments

On July 11, 2014, we increased total commitments to our Revolving Credit Facility by \$10,000 to \$867,500 in the aggregate.

On July 22, 2014, Injured Workers Pharmacy, LLC repaid the \$22,678 loan receivable to us.

On July 23, 2014, Correctional Healthcare Holding Company, Inc. repaid the \$27,100 loan receivable to us.

On July 23, 2014, we increased total commitments to our Revolving Credit Facility by \$10,000 to \$877,500 in the aggregate.

On July 24, 2014, we issued 98,503 shares of our common stock in connection with the dividend reinvestment plan.

On July 28, 2014, Tectum Holdings, Inc. repaid the \$10,000 loan receivable to us.

On August 1, 2014, we sold our investments in AMU Holdings Inc. and Airmall Inc. for net proceeds of \$51,379. In addition, there is \$6,000 being held in escrow, of which 98% is due to Prospect, which will be recognized as a realized gain if and when received.

On August 5, 2014, we made an investment of \$39,105 to purchase 70.94% of the subordinated notes in CIFIC Funding 2014-IV, Ltd.

On August 13, 2014, we provided \$210,000 of senior secured financing, of which \$200,000 was funded at closing, to support the recapitalization of Trinity Services Group, Inc., a leading food services company in the H.I.G. Capital portfolio.

On August 14, 2014, we announced the then current conversion rate on the 2018 Notes as 83.6661 shares of common stock per \$1 principal amount of the 2018 Notes converted, which is equivalent to a conversion price of approximately \$11.95.

On August 18, 2014 and August 27, 2014, we made a combined \$11,046 investment in United Property REIT Corp. to acquire Michigan Storage, LLC, purchasing seven self-storage facilities located in Michigan. We invested \$1,657 of equity through UPH Property Holdings, LLC and \$9,389 of debt in United Property REIT Corp.

On August 21, 2014, we issued 129,435 shares of our common stock in connection with the dividend reinvestment plan.

On August 22, 2014, Byrider Systems Acquisition Corp. repaid the \$11,177 loan receivable to us.

On August 22, 2014, Capstone Logistics, LLC repaid the \$189,941 loan receivable to us.

On August 22, 2014, TriMark USA, LLC repaid the \$10,000 loan receivable to us.

On August 29, 2014, we completed the extension of the revolving credit facility (the "Facility") for Prospect Capital Funding LLC ("PCF"), a consolidated subsidiary of Prospect, extending the term 5.5 years and reducing pricing to one-month Libor plus



Table of Contents

2.25%. The new Facility, for which \$810,000 of commitments have been closed to date, includes an accordion feature that allows the Facility, at Prospect's discretion, to accept up to a total of \$1,500,000 of commitments.

On August 29, 2014, we made a \$15,050 follow-on investment in BNN Holdings Corp. (f/k/a Biotronic NeuroNetwork) in connection with a corporate recapitalization.

On September 10, 2014 and October 6, 2014, we collectively made an \$86,090 follow-on investment in Onyx Payments (f/k/a Pegasus Business Intelligence, LP) of which part of the proceeds were used to fund an acquisition.

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

On September 18, 2014, we issued 113,020 shares of our common stock in connection with the dividend reinvestment plan.

On September 24, 2014, we announced the declaration of monthly dividends in the following amount and with the following date:

\$0.110625 per share for January 2015 to holders of record on January 30, 2015 with a payment date of February 19, 2015.

On September 26, 2014, we provided \$215,000 of senior secured financing, of which \$202,500 was funded at closing, to Pacific World Corporation, a supplier of nail and beauty care products to food, drug, mass, and value retail channels worldwide.

On September 26, 2014, we made a secured second lien investment of \$144,000 to support the recapitalization of Progrexion Holdings, Inc. As part of the recapitalization, we received a repayment of the \$436,647 loan receivable to us.

On September 29, 2014, we made a \$22,618 follow-on investment in United Property REIT Corp. to acquire Canterbury Green, a multi-family property located in Fort Wayne, Indiana. We invested \$3,393 of equity through UPH Property Holdings, LLC and \$19,225 of debt in United Property REIT Corp.

On September 30, 2014, we made a \$26,431 follow-on investment in Harbortouch Payments, LLC to support an acquisition.

On September 30, 2014, we made a \$42,200 follow-on investment in PrimeSport, Inc. to fund a dividend recapitalization.

On September 30, 2014, we made a \$22,216 follow-on investment in United Property REIT Corp. to acquire the Cortland Columbus Ohio Portfolio, a portfolio of eight multi-family residential properties located in Ohio. We invested \$3,316 of equity through UPH Property Holdings, LLC and \$18,900 of debt in United Property REIT Corp.

On September 30, 2014, we made a \$938 follow-on investment in the equity of Nationwide Acceptance LLC.

On August 29, 2014, we entered into an ATM Program with BB&T Capital Markets, Goldman Sachs, KeyBanc Capital Markets, and RBC Capital Markets through which we could sell, by means of at-the-market offerings from time to time, up to 50,000,000 shares of our common stock. During the period from September 8, 2014 through October 29, 2014 (with settlement dates of September 11, 2014 to November 3, 2014), we sold 9,490,975 shares of our common stock at an average price of \$10.03 per share, and raised \$95,149 of gross proceeds, under the ATM Program. Net proceeds were \$94,675 after commissions to the broker-dealer on shares sold and offering costs.

On October 3, 2014, we sold our \$35,000 investment in Babson CLO Ltd. 2011-I.

On October 7, 2014, Grocery Outlet, Inc. repaid the \$14,457 loan receivable to us.

On October 8, 2014, we made a \$65,000 investment in Capstone Logistics, LLC, a logistics services portfolio company.

On October 9, 2014, we made an investment of \$50,743 to purchase 83.60% of the subordinated notes in Babson CLO Ltd. 2014-III.

On October 10, 2014, Ajax Rolled Ring & Machine, LLC repaid the \$19,337 loan receivable to us.

On October 17, 2014, we made an investment of \$48,994 to purchase 90.54% of the subordinated notes in Symphony CLO XV, Ltd.

On October 20, 2014, we sold our \$22,000 investment in Galaxy XII CLO, Ltd. and realized a loss on the sale.

## Table of Contents

On October 21, 2014, we made a \$22,500 secured debt investment in Hollander Sleep Products, a manufacturer of bed pillows and mattress pads in the United States.

On October 22, 2014, we issued 138,721 shares of our common stock in connection with the dividend reinvestment plan.

In addition to the transactions noted above, during the period from July 1, 2014 through November 3, 2014, we made sixteen follow-on investments in National Property REIT Corp. totaling \$92,500 to support the online lending initiative. We invested \$13,875 of equity through NPH Property Holdings, LLC and \$78,625 of debt directly to National Property REIT Corp. In addition, during this period, we received a partial repayment of \$10,965 of the National Property REIT Corp. loan previously outstanding and \$1,935 as a return of capital on the equity investment in National Property REIT Corp.

### Critical Accounting Policies and Estimates

#### Basis of Presentation

The accompanying consolidated financial statements have been prepared in accordance with United States generally accepted accounting principles (“GAAP”) and pursuant to the requirements for reporting on Form 10-K, ASC 946, Financial Services—Investment Companies (“ASC 946”), and Articles 6 and 12 of Regulation S-X. The financial results of our portfolio investments are not consolidated in the financial statements.

#### Reclassifications

Certain reclassifications have been made in the presentation of prior consolidated financial statements and accompanying notes to conform to the presentation as of and for the year ended June 30, 2014.

#### Use of Estimates

The preparation of the consolidated financial statements in accordance with GAAP requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the consolidated financial statements and the reported amounts of income, expenses, and gains and losses during the reported period. Changes in the economic environment, financial markets, creditworthiness of our portfolio companies and any other parameters used in determining these estimates could cause actual results to differ, and these differences could be material.

#### Basis of Consolidation

Under the 1940 Act, the regulations pursuant to Article 6 of Regulation S-X and ASC 946, we are precluded from consolidating any entity other than another investment company or an operating company which provides substantially all of its services to benefit us. Our consolidated financial statements include our accounts and the accounts of PCF and PSBL, our wholly-owned, closely-managed subsidiaries that are also investment companies. All intercompany balances and transactions have been eliminated in consolidation.

On May 6, 2014, we announced in our filing on Form 10-Q for the quarter ended March 31, 2014 that the SEC Staff had asserted certain of our wholly-owned holding companies were investment companies, such companies were required to be consolidated in our historical financial results and financial position, and restatement of such financial statements was needed. At that time, we disclosed that we disagreed with the views of the SEC Staff and wished to appeal the conclusion through the Office of the Chief Accountant. On June 10, 2014, based on those discussions with the Office of the Chief Accountant, we concluded the following:

• Our historical non-consolidation of wholly-owned and substantially wholly-owned holding companies did not require restatement of our prior period financial statements.

Upon our adoption of ASU 2013-08 for the fiscal year ended June 30, 2015, we will begin consolidating on a prospective basis certain of our wholly-owned and substantially wholly-owned holding companies formed by us in order to facilitate our investment strategy.

The following companies will be consolidated: AMU Holdings Inc.; APH Property Holdings, LLC; Arctic Oilfield Equipment USA, Inc.; CCPI Holdings Inc.; CP Holdings of Delaware LLC; Credit Central Holdings of Delaware, LLC; Energy Solutions Holdings Inc.; First Tower Holdings of Delaware LLC; Harbortouch Holdings of Delaware Inc.; MITY Holdings of Delaware Inc.; Nationwide Acceptance Holdings LLC; NMMB Holdings, Inc.; NPH Property Holdings, LLC; STI Holding, Inc.; UPH Property Holdings, LLC; Valley Electric Holdings I, Inc.; Valley Electric Holdings II, Inc.; and Wolf Energy Holdings Inc.



## Table of Contents

Any operating companies owned by the holding companies will not be consolidated. We do not expect this consolidation to have any material effect on our financial position or results of operations.

### Cash and Cash Equivalents

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

### Investment Classification

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

Investments are recognized when we assume an obligation to acquire a financial instrument and assume the risks for gains or losses related to that instrument. Investments are derecognized when we assume an obligation to sell a financial instrument and forego the risks for gains or losses related to that instrument. Specifically, we record all security transactions on a trade date basis. Amounts for investments recognized or derecognized but not yet settled are reported as receivables for investments sold and payables for investments purchased, respectively, in the Consolidated Statements of Assets and Liabilities.

### Investment Risks

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

#### Market Risk

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

#### Credit Risk

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

#### Liquidity Risk

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

#### Interest Rate Risk

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

#### Prepayment Risk

Many of our debt investments allow for prepayment of principal without penalty. Downward changes in interest rates may cause prepayments to occur at a faster than expected rate, thereby effectively shortening the maturity of the security and making the security less likely to be an income producing instrument.

#### Investment Valuation

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

## Table of Contents

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

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

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

Level 3: Unobservable inputs for the asset or liability.

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

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

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

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

1. Each portfolio company or investment is reviewed by our investment professionals with independent valuation firms engaged by our Board of Directors;
2. The independent valuation firms conduct independent valuations and make their own independent assessments;
3. The Audit Committee of our Board of Directors reviews and discusses the preliminary valuation of Prospect Capital Management LLC (the “Investment Adviser”) and that of the independent valuation firms; and
4. The Board of Directors discusses valuations and determines the fair value of each investment in our portfolio in good faith based on the input of the Investment Adviser, the respective independent valuation firm and the Audit Committee.

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

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

Our investments in CLOs are classified as ASC 820 Level 3 securities and are valued using a discounted cash flow model. The valuations have been accomplished through the analysis of the CLO deal structures to identify the risk exposures from the modeling point of view. For each CLO security, the most appropriate valuation approach has been chosen from alternative approaches to ensure the most accurate valuation for such security. To value a CLO, both the assets and the liabilities of the CLO capital structure are modeled. We use a waterfall engine to store the collateral data, generate collateral cash flows from the assets based on various assumptions for the risk factors, distribute the

cash flows to the liability structure based on the payment priorities, and discount them back using current market discount rates. The main risk factors are: default risk, interest rate risk, downgrade risk, and credit spread risk.

74

---



## Table of Contents

### Valuation of Other Financial Assets and Financial Liabilities

The Fair Value Option within ASC 825, Financial Instruments, specifically ASC 825-10-25, permits an entity to elect fair value as the initial and subsequent measurement attribute for eligible assets and liabilities for which the assets and liabilities are measured using another measurement attribute. For our non-investment assets and liabilities, we have elected not to value them at fair value as would be permitted by ASC 825-10-25.

### Convertible Notes

We have recorded the Convertible Notes (see Note 5) at their contractual amounts. The Convertible Notes were analyzed for any features that would require their accounting to be bifurcated and such features were determined to be immaterial.

### Revenue Recognition

Realized gains or losses on the sale of investments are calculated using the specific identification method.

Interest income, adjusted for amortization of premium and accretion of discount, is recorded on an accrual basis.

Origination, closing and/or commitment fees associated with investments in portfolio companies are accreted into interest income over the respective terms of the applicable loans. Accretion of such purchase discounts or amortization of premiums is calculated by the effective interest method as of the purchase date and adjusted only for material amendments or prepayments. Upon the prepayment of a loan or debt security, any prepayment penalties and unamortized loan origination, closing and commitment fees are recorded as interest income. The purchase discount for portfolio investments acquired from Patriot Capital Funding, Inc. ("Patriot") was determined based on the difference between par value and fair value as of December 2, 2009, and continues to accrete until maturity or repayment of the respective loans (see Note 3). As of June 30, 2014, the purchase discount from the assets acquired from Patriot has been fully accreted.

Loans are placed on non-accrual status when there is reasonable doubt that principal or interest will be collected.

Unpaid accrued interest is generally reversed when a loan is placed on non-accrual status. Interest payments received on non-accrual loans may be recognized as income or applied to principal depending upon management's judgment. Non-accrual loans are restored to accrual status when past due principal and interest is paid and in management's judgment, are likely to remain current. As of June 30, 2014, approximately 0.1% of our total assets are in non-accrual status.

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

Dividend income is recorded on the ex-dividend date.

Structuring fees and similar fees are recognized as income as earned, usually when paid. Structuring fees, excess deal deposits, net profits interests and overriding royalty interests are included in other income.

### Federal and State Income Taxes

We have elected to be treated as a regulated investment company and intend to continue to comply with the requirements of the Internal Revenue Code applicable to regulated investment companies. We are required to distribute at least 90% of our investment company taxable income and intend to distribute (or retain through a deemed distribution) all of our investment company taxable income and net capital gain to stockholders; therefore, we have made no provision for income taxes. The character of income and gains that we will distribute is determined in accordance with income tax regulations that may differ from GAAP. Book and tax basis differences relating to stockholder dividends and distributions and other permanent book and tax differences are reclassified to paid-in capital.

If we do not distribute (or are not deemed to have distributed) at least 98% of our annual ordinary income and 98.2% of our capital gains in the calendar year earned, we will generally be required to pay an excise tax equal to 4% of the amount by which 98% of our annual ordinary income and 98.2% of our capital gains exceed the distributions from such taxable income for the year. To the extent that we determine that our estimated current year annual taxable income will be in excess of estimated current year dividend distributions from such taxable income, we accrue excise

taxes, if any, on estimated excess taxable income. We had an excise tax liability of \$1,918 for the calendar year ended December 31, 2012 and zero for the calendar year ended December 31, 2013. As of June 30, 2014, we had an accrued prepaid excise tax balance of \$2,200 because we have made estimated excise tax payments in excess of our expected excise tax liability for the calendar year ending December 31, 2014.

75

---

## Table of Contents

If we fail to satisfy the annual distribution requirement or otherwise fail to qualify as a RIC in any taxable year, we would be subject to tax on all of our taxable income at regular corporate rates. We would not be able to deduct distributions to stockholders, nor would we be required to make distributions. Distributions would generally be taxable to our individual and other non-corporate taxable stockholders as ordinary dividend income eligible for the reduced maximum rate applicable to qualified dividend income to the extent of our current and accumulated earnings and profits, provided certain holding period and other requirements are met. Subject to certain limitations under the Internal Revenue Code, corporate distributions would be eligible for the dividends-received deduction. To qualify again to be taxed as a RIC in a subsequent year, we would be required to distribute to our shareholders our accumulated earnings and profits attributable to non-RIC years reduced by an interest charge of 50% of such earnings and profits payable by us as an additional tax. In addition, if we failed to qualify as a RIC for a period greater than two taxable years, then, in order to qualify as a RIC in a subsequent year, we would be required to elect to recognize and pay tax on any net built-in gain (the excess of aggregate gain, including items of income, over aggregate loss that would have been realized if we had been liquidated) or, alternatively, be subject to taxation on such built-in gain recognized for a period of ten years.

We follow ASC 740, Income Taxes (“ASC 740”). ASC 740 provides guidance for how uncertain tax positions should be recognized, measured, presented, and disclosed in the consolidated financial statements. ASC 740 requires the evaluation of tax positions taken or expected to be taken in the course of preparing our tax returns to determine whether the tax positions are “more-likely-than-not” of being sustained by the applicable tax authority. Tax positions not deemed to meet the more-likely-than-not threshold are recorded as a tax benefit or expense in the current year. As of June 30, 2014 and for the year then ended, we did not have a liability for any unrecognized tax benefits. Management’s determinations regarding ASC 740 may be subject to review and adjustment at a later date based upon factors including, but not limited to, an on-going analysis of tax laws, regulations and interpretations thereof. Although we file both federal and state income tax returns, our major tax jurisdiction is federal. Our tax returns for each of our federal tax years since 2010 remain subject to examination by the Internal Revenue Service.

### Dividends and Distributions

Dividends and distributions to common stockholders are recorded on the ex-dividend date. The amount, if any, to be paid as a monthly dividend or distribution is approved by our Board of Directors quarterly and is generally based upon our management’s estimate of our future earnings. Net realized capital gains, if any, are distributed at least annually.

### Financing Costs

We record origination expenses related to our Revolving Credit Facility and Convertible Notes, Public Notes and Prospect Capital InterNotes® (collectively, our “Notes”), as deferred financing costs. These expenses are deferred and amortized as part of interest expense using the straight-line method for our Revolving Credit Facility and the effective interest method for our Notes, over the respective expected life or maturity.

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

### Guarantees and Indemnification Agreements

We follow ASC 460, Guarantees (“ASC 460”). ASC 460 elaborates on the disclosure requirements of a guarantor in its interim and annual consolidated financial statements about its obligations under certain guarantees that it has issued. It also requires a guarantor to recognize, at the inception of a guarantee, for those guarantees that are covered by ASC 460, the fair value of the obligation undertaken in issuing certain guarantees.

### Per Share Information

Net increase or decrease in net assets resulting from operations per share is calculated using the weighted average number of common shares outstanding for the period presented. In accordance with ASC 946, convertible securities are not considered in the calculation of net asset value per share.

### Recent Accounting Pronouncements

In June 2013, the FASB issued Accounting Standards Update 2013-08, Financial Services — Investment Companies (Topic 946), Amendments to the Scope, Measurement, and Disclosure Requirements (“ASU 2013-08”). The update clarifies the approach to be used for determining whether an entity is an investment company and provides new

measurement and disclosure requirements. ASU 2013-08 is effective for interim and annual reporting periods in fiscal years that begin after December 15,

76

---

Table of Contents

2013. Earlier application is prohibited. The adoption of the amended guidance in ASU 2013-08 is not expected to have a significant effect on our consolidated financial statements and disclosures.

In May 2014, the FASB issued Accounting Standards Update 2014-09, Revenue from Contracts with Customers (Topic 606) ("ASU 2014-09"). The update supersedes the revenue recognition requirements in ASC 605, Revenue Recognition. Under the new guidance, an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. ASU 2014-09 is effective for annual reporting periods beginning after December 15, 2016, including interim periods within that reporting period. Early adoption is not permitted. The adoption of the amended guidance in ASU 2014-09 is not expected to have a significant effect on our consolidated financial statements and disclosures.

**QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

We are subject to financial market risks, including changes in interest rates and equity price risk. Some of the loans in our portfolio have floating interest rates.

We may hedge against interest rate fluctuations by using standard hedging instruments such as futures, options and forward contracts subject to the requirements of the 1940 Act. While hedging activities may insulate us against adverse changes in interest rates, they may also limit our ability to participate in the benefits of higher interest rates with respect to our portfolio of investments. During the year ended June 30, 2014, we did not engage in hedging activities.

**REPORT OF MANAGEMENT ON INTERNAL CONTROL OVER FINANCIAL REPORTING**

Management is responsible for establishing and maintaining adequate internal control over financial reporting, and for performing an assessment of the effectiveness of internal control over financial reporting as of June 30, 2014. Internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. The Company's internal control over financial reporting includes those policies and procedures that (i) pertain to assets of the Company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the Company are being made only in accordance with authorizations of management and directors of the Company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the Company's assets that could have a material effect on the financial statements.

Management performed an assessment of the effectiveness of the Company's internal control over financial reporting as of June 30, 2014 based upon criteria in Internal Control—Integrated Framework (1992) issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO"). Based on our assessment, management determined that the Company's internal control over financial reporting was effective as of June 30, 2014 based on the criteria on Internal Control—Integrated Framework (1992) issued by COSO. There were no changes in our internal control over financial reporting during the quarter ended June 30, 2014 that have materially affected, or are reasonably likely to affect, our internal control over financial reporting.

Our management's assessment of the effectiveness of our internal control over financial reporting as of June 30, 2014 has been audited by BDO USA, LLP, an independent registered public accounting firm, as stated in their report which appears herein.

**USE OF PROCEEDS**

Unless otherwise specified in a prospectus supplement, we intend to use the net proceeds from selling Securities pursuant to this prospectus initially to maintain balance sheet liquidity, involving repayment of debt under our credit facility, if any, investments in high quality short-term debt instruments or a combination thereof, and thereafter to make long-term investments in accordance with our investment objective. Interest on borrowings under the credit facility is one-month LIBOR plus 225 basis points, with no minimum LIBOR floor. Additionally, the lenders charge a fee on the unused portion of the credit facility equal to either 50 basis points if at least thirty-five percent of the credit facility is drawn or 100 basis points otherwise. A supplement to this prospectus relating to each offering will provide additional detail, to the extent known at the time, regarding the use of the proceeds from such offering including any

intention to utilize proceeds to pay expenses in order to avoid sales of long-term assets.

On August 29, 2014, we completed a first closing on an expanded five-and-one-half year \$1.5 billion revolving credit facility (the "Facility") for Prospect Capital Funding LLC with reduced pricing. The new Facility, for which twenty lenders have closed on \$800 million to date, includes an accordion feature that allows the Facility, at our discretion, to accept up to a total of \$1.5 billion of commitments, an objective we target reaching with additional lenders. The Facility matures in March

77

---

Table of Contents

2020 and is substantially similar to the terms of the prior revolving credit facility. It includes a revolving period that extends through March 2019, followed by an additional one-year amortization period, with distributions allowed to us after the completion of the revolving period. Pricing for the Facility is one-month Libor plus 2.25%, achieving 50 basis point reduction in pricing from the previous five-year facility pricing of Libor plus 2.75%. The new Facility has an investment grade Moody's rating of Aa3.

We anticipate that substantially all of the net proceeds of an offering of Securities pursuant to this prospectus will be used for the above purposes within six months, depending on the availability of appropriate investment opportunities consistent with our investment objective and market conditions. In addition, we expect that there will be several offerings pursuant to this prospectus; we expect that substantially all of the proceeds from all offerings will be used within three years. Pending our new investments, we plan to invest a portion of net proceeds in cash equivalents, U.S. government securities and other high-quality debt investments that mature in one year or less from the date of investment and other general corporate purposes. The management fee payable by us will not be reduced while our assets are invested in such securities, which may generate a loss to the Company. See "Regulation—Temporary Investments" for additional information about temporary investments we may make while waiting to make longer-term investments in pursuit of our investment objective.

Table of Contents

## FORWARD-LOOKING STATEMENTS

Our annual report on Form 10-K for the year ended June 30, 2014, any of our quarterly reports on Form 10-Q or current reports on Form 8-K, or any other oral or written statements made in press releases or otherwise by or on behalf of Prospect Capital Corporation including this prospectus may contain forward-looking statements within the meaning of the Section 21E of the Securities Exchange Act of 1934, as amended, which involve substantial risks and uncertainties. Forward-looking statements predict or describe our future operations, business plans, business and investment strategies and portfolio management and the performance of our investments and our investment management business. These forward-looking statements are not historical facts, but rather are based on current expectations, estimates and projections about our industry, our beliefs, and our assumptions. Words such as "intends," "intend," "intended," "goal," "estimate," "estimates," "expects," "expect," "expected," "project," "projected," "projections," "plans," "seeks," "anticipates," "anticipated," "should," "could," "may," "will," "designed to," "foreseeable future," "believe," "believes," and "scheduled" and variations of these words and similar expressions are intended to identify forward-looking statements. Our actual results or outcomes may differ materially from those anticipated. Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date the statement was made. We undertake no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. These forward-looking statements do not meet the safe harbor for forward-looking statements pursuant to Section 27A of the Securities Act. These statements are not guarantees of future performance and are subject to risks, uncertainties, and other factors, some of which are beyond our control and difficult to predict and could cause actual results to differ materially from those expressed or forecasted in the forward-looking statements, including without limitation:

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

Although we believe that the assumptions on which these forward-looking statements are based are reasonable, any of those assumptions could prove to be inaccurate, and as a result, the forward-looking statements based on those assumptions also could be inaccurate. Important assumptions include our ability to originate new loans and investments, certain margins and levels of profitability and the availability of additional capital. In light of these and other uncertainties, the inclusion of a projection or forward-looking statement in this prospectus should not be



regarded as a representation by us that our plans and objectives will be achieved. These risks and uncertainties include those described or identified in "Risk Factors" and elsewhere in this prospectus. You should not place undue reliance on these forward-looking statements, which apply only as of the date of this prospectus.

79

---

Table of Contents

**DISTRIBUTIONS**

Through March 2010, we made quarterly distributions to our stockholders out of assets legally available for distribution. In June 2010, we changed our distribution policy from a quarterly payment to a monthly payment. To the extent prudent and practicable, we currently intend to continue making distributions on a monthly basis. Our ability to pay distributions could be affected by future business performance, liquidity, capital needs, alternative investment opportunities and loan covenants. Our distributions, if any, will be determined by our Board of Directors. Certain amounts of the monthly distributions may from time to time be paid out of our capital rather than from earnings for the quarter as a result of our deliberate planning or by accounting reclassifications.

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

We had no excise tax liability for the calendar year ended December 31, 2013. Through June 30, 2014, we have an accrued prepaid excise tax balance of \$2.2 million because we have made estimated excise tax payments in excess of our expected excise tax liability for the calendar year ending December 31, 2014. Tax characteristics of all distributions will be reported to stockholders, as appropriate, on Form 1099-DIV after the end of the calendar year. In addition, although we currently intend to distribute realized net capital gains (which we define as net long-term capital gains in excess of short-term capital losses), if any, at least annually out of the assets legally available for such distributions, we may decide in the future to retain such capital gains for investment. In such event, the consequences of our retention of net capital gains are described under "Material U.S. Federal Income Tax Considerations." We can offer no assurance that we will achieve results that will permit the payment of any cash distributions and, if we issue senior securities, we may be prohibited from making distributions if doing so causes us to fail to maintain the asset coverage ratios stipulated by the 1940 Act or if distributions are limited by the terms of any of our borrowings.

Table of Contents

During the years ended June 30, 2014 and 2013, we distributed approximately \$403.2 million and \$271.5 million, respectively, to our stockholders. The following table summarizes our distributions declared and payable for 2013 and 2014:

Declaration Date	Record Date	Payment Date	Amount Per Share	Amount Distributed (in thousands)
5/7/2012	7/31/2012	8/24/2012	\$ 0.101575	\$ 16,886
5/7/2012	8/31/2012	9/21/2012	0.101600	16,897
8/21/2012	9/28/2012	10/24/2012	0.101625	17,597
8/21/2012	10/31/2012	11/22/2012	0.101650	17,736
11/7/2012	11/30/2012	12/20/2012	0.101675	21,308
12/7/2012	12/31/2012	1/23/2013	0.110000	23,669
12/7/2012	1/31/2013	2/20/2013	0.110025	24,641
2/7/2013	2/28/2013	3/21/2013	0.110050	25,307
2/7/2013	3/29/2013	4/18/2013	0.110075	26,267
2/7/2013	4/30/2013	5/23/2013	0.110100	26,620
5/6/2013	5/31/2013	6/20/2013	0.110125	27,280
5/6/2013	6/28/2013	7/18/2013	0.110150	27,299
Total declared and payable for 2013				\$ 271,507
5/6/2013	7/31/2013	8/22/2013	\$ 0.110175	\$ 28,001
5/6/2013	8/30/2013	9/19/2013	0.110200	28,759
6/17/2013	9/30/2013	10/24/2013	0.110225	29,915
6/17/2013	10/31/2013	11/21/2013	0.110250	31,224
6/17/2013	11/29/2013	12/19/2013	0.110275	32,189
6/17/2013	12/31/2013	1/23/2014	0.110300	33,229
8/21/2013	1/31/2014	2/20/2014	0.110325	34,239
8/21/2013	2/28/2014	3/20/2014	0.110350	35,508
8/21/2013	3/31/2014	4/17/2014	0.110375	36,810
11/4/2013	4/30/2014	5/22/2014	0.110400	37,649
11/4/2013	5/30/2014	6/19/2014	0.110425	37,822
11/4/2013	6/30/2014	7/24/2014	0.110450	37,843
Total declared and payable for 2014				\$ 403,188

Dividends and distributions to common stockholders are recorded on the ex-dividend date. As such, the table above includes distributions with record dates during the years ended June 30, 2014 and 2013. It does not include distributions previously declared to stockholders of record on any future dates, as those amounts are not yet determinable.

Table of Contents

## SENIOR SECURITIES

Information about our senior securities is shown in the following table as of each fiscal year ended June 30 since the Company commenced operations and as of June 30, 2014.

Credit Facility	Total Amount Outstanding(1)	Asset Coverage per Unit(2)	Involuntary Liquidating Preference per Unit(3)	Average Market Value per Unit(4)
Fiscal 2014 (as of June 30, 2014)	\$92,000	\$69,470	—	—
Fiscal 2013 (as of June 30, 2013)	124,000	34,996	—	—
Fiscal 2012 (as of June 30, 2012)	96,000	22,668	—	—
Fiscal 2011 (as of June 30, 2011)	84,200	18,065	—	—
Fiscal 2010 (as of June 30, 2010)	100,300	8,093	—	—
Fiscal 2009 (as of June 30, 2009)	124,800	5,268	—	—
Fiscal 2008 (as of June 30, 2008)	91,167	5,712	—	—
Fiscal 2007 (as of June 30, 2007)	—	N/A	—	—
Fiscal 2006 (as of June 30, 2006)	28,500	4,799	—	—
Fiscal 2005 (as of June 30, 2005)	—	N/A	—	—
Fiscal 2004 (as of June 30, 2004)	—	N/A	—	—
2015 Notes				
Fiscal 2014 (as of June 30, 2014)	\$150,000	\$42,608	—	—
Fiscal 2013 (as of June 30, 2013)	150,000	28,930	—	—
Fiscal 2012 (as of June 30, 2012)	150,000	14,507	—	—
Fiscal 2011 (as of June 30, 2011)	150,000	10,140	—	—
2016 Notes				
Fiscal 2014 (as of June 30, 2014)	\$167,500	\$38,157	—	—
Fiscal 2013 (as of June 30, 2013)	167,500	25,907	—	—
Fiscal 2012 (as of June 30, 2012)	167,500	12,992	—	—
Fiscal 2011 (as of June 30, 2011)	172,500	8,818	—	—
2017 Notes				
Fiscal 2014 (as of June 30, 2014)	\$130,000	\$49,163	—	—
Fiscal 2013 (as of June 30, 2013)	130,000	33,381	—	—
Fiscal 2012 (as of June 30, 2012)	130,000	16,739	—	—
2018 Notes				
Fiscal 2014 (as of June 30, 2014)	\$200,000	\$31,956	—	—
Fiscal 2013 (as of June 30, 2013)	200,000	21,697	—	—
2019 Notes				
Fiscal 2014 (as of June 30, 2014)	\$200,000	\$31,956	—	—
Fiscal 2013 (as of June 30, 2013)	200,000	21,697	—	—
5.00% 2019 Notes				
Fiscal 2014 (as of June 30, 2014)	\$300,000	\$21,304	—	—
2020 Notes				
Fiscal 2014 (as of June 30, 2014)	\$400,000	\$15,978	—	—

Explanation of Responses:

2022 Notes

Fiscal 2014 (as of June 30, 2014)	\$ 100,000	\$ 63,912	—	\$ 103,920
Fiscal 2013 (as of June 30, 2013)	100,000	43,395	—	101,800
Fiscal 2012 (as of June 30, 2012)	100,000	21,761	—	99,560

82

---

Table of Contents

	Total Amount Outstanding(1)	Asset Coverage per Unit(2)	Involuntary Liquidating Preference per Unit(3)	Average Market Value per Unit(4)
2023 Notes				
Fiscal 2014 (as of June 30, 2014)	\$247,881	\$25,783	—	—
Fiscal 2013 (as of June 30, 2013)	247,725	17,517	—	—
Prospect Capital InterNotes®				
Fiscal 2014 (as of June 30, 2014)	\$785,670	\$8,135	—	—
Fiscal 2013 (as of June 30, 2013)	363,777	11,929	—	—
Fiscal 2012 (as of June 30, 2012)	20,638	105,442	—	—
All Senior Securities				
Fiscal 2014 (as of June 30, 2014)	\$2,773,051	\$2,305	—	—
Fiscal 2013 (as of June 30, 2013)	1,683,002	2,578	—	—
Fiscal 2012 (as of June 30, 2012)	664,138	3,277	—	—
Fiscal 2011 (as of June 30, 2011)	406,700	3,740	—	—

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

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

(3) This column is inapplicable.

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

Table of Contents

## PRICE RANGE OF COMMON STOCK

Our common stock is quoted on the NASDAQ Global Select Market under the symbol "PSEC." The following table sets forth, for the periods indicated, our NAV per share of common stock and the high and low sales prices per share of our common stock as reported on the NASDAQ Global Select Market. Our common stock historically trades at prices both above and below its NAV per share. There can be no assurance, however, that such premium or discount, as applicable, to NAV per share will be maintained. Common stock of business development companies, like that of closed-end investment companies, frequently trades at a discount to current NAV per share. In the past, our common stock has traded at a discount to our NAV per share. The risk that our common stock may continue to trade at a discount to our NAV per share is separate and distinct from the risk that our NAV per share may decline.

	Stock Price			Premium	Premium	Dividends Declared
	NAV(1)	High(2)	Low(2)	(Discount) of High to NAV	(Discount) of Low to NAV	
Twelve Months Ending June 30, 2013						
First quarter	\$ 10.88	\$ 12.21	\$ 10.83	12.2	% (0.5)	% \$ 0.304800
Second quarter	10.81	11.98	9.89	10.8	% (8.5)	% 0.313325
Third quarter	10.71	11.49	10.91	7.3	% 1.9	% 0.330150
Fourth quarter	10.72	11.11	10.08	3.6	% (6.0)	% 0.330375
Twelve Months Ending June 30, 2014						
First quarter	\$ 10.72	\$ 11.61	\$ 10.76	8.3	% 0.4	% \$ 0.330600
Second quarter	10.73	11.48	10.80	7.0	% 0.7	% 0.330825
Third quarter	10.68	11.39	10.73	6.6	% 0.5	% 0.331050
Fourth quarter	10.56	10.99	9.64	4.1	% (8.7)	% 0.331275
Twelve Months Ending June 30, 2015						
First quarter	(3)(4)	\$ 11.00	\$ 9.90	(4)	(4)	\$ 0.331500
Second quarter (through October 31, 2014)	(3)(4)	\$ 9.92	\$ 9.08	(4)	(4)	\$ 0.331725 (5)

Net asset value per share is determined as of the last day in the relevant quarter and therefore may not reflect the (1) net asset value per share on the date of the high or low sales price. The NAVs shown are based on outstanding shares of our common stock at the end of each period.

(2) The High/Low Stock Price is calculated as of the closing price on a given day in the applicable quarter.

Our most recently estimated NAV per share is 10.54 on an as adjusted basis solely to give effect to our issuance of common stock since June 30, 2014 in connection with our dividend reinvestment plan and our issuance of

(3) 9,490,975 shares of common stock for the period from September 8, 2014 to October 29, 2014 (including shares with settlement dates through November 3, 2014) under our at the market program, \$0.02 lower than the \$10.56

determined by us as of June 30, 2014. NAV per share as of September 30, 2014, may be higher or lower than \$10.54 based on potential changes in valuations, issuances of securities, dividends paid and earnings for the quarter then ended.

(4) NAV has not yet been finally determined for any day after June 30, 2014.

(5) On February 3, 2014, Prospect announced the declaration of a monthly dividend in the following amount and with the following date:

\$0.110525 per share for September 2014 to holders of record on September 30, 2014 with a payment date of October 22, 2014.

On May 6, 2014, Prospect announced the declaration of monthly dividends in the following amounts and with the following dates:

\$0.110550 per share for October 2014 to holders of record on October 31, 2014 with a payment date of November 20, 2014;

•

\$0.110575 per share for November 2014 to holders of record on November 28, 2014 with a payment date of December 18, 2014; and

\$0.110600 per share for December 2014 to holders of record on December 31, 2014 with a payment date of January 22, 2015.

84

---



Table of Contents

On September 24, 2014, Prospect announced the declaration of a monthly dividend in the following amount and with the following date:

\$0.110625 per share for January 2015 to holders of record on January 30, 2015 with a payment date of February 19, 2015.

On October 31, 2014, the last reported sales price of our common stock was \$9.58 per share.

As of October 31, 2014, we had approximately 123 stockholders of record.

The below table sets forth each class of our outstanding securities as of October 31, 2014, including sales of shares under our at-the-market offering program which will settle through November 3, 2014.

Title of Class	Amount Authorized	Amount Held by Registrant or for its Account	Amount Outstanding
Common Stock	1,000,000,000	—	352,597,291

Table of Contents

## BUSINESS

## General

We are a financial services company that primarily lends to and invests in middle market privately-held companies. In this prospectus, we use the term "middle-market" to refer to companies with annual revenues of less than \$750 million and enterprise values of less than \$1 billion. We are a closed-end investment company that has filed an election to be treated as a business development company under the Investment Company Act of 1940, or the "1940 Act." We invest primarily in senior and subordinated debt and equity of companies in need of capital for acquisitions, divestitures, growth, development, recapitalizations and other purposes. We work with the management teams or financial sponsors to seek investments with historical cash flows, asset collateral or contracted pro-forma cash flows.

We currently have nine origination strategies in which we make investments: (1) lending in private equity sponsored transactions, (2) lending directly to companies not owned by private equity firms, (3) control investments in corporate operating companies, (4) control investments in financial companies, (5) investments in structured credit, (6) real estate investments, (7) investments in syndicated debt, (8) aircraft leasing and (9) online lending. We continue to evaluate other origination strategies in the ordinary course of business with no specific tops-down allocation to any single origination strategy.

**Lending in Private Equity Sponsored Transactions** – We make loans to companies which are controlled by leading private equity firms. This debt can take the form of first lien, second lien, unitranche or unsecured loans. In making these investments, we look for a diversified customer base, recurring demand for the product or service, barriers to entry, strong historical cash flow and experienced management teams. These loans typically have significant equity subordinate to our loan position. Historically, this strategy has comprised approximately 50%-60% of our business, but more recently it is less than 50% of our business.

**Lending Directly to Companies** – We provide debt financing to companies owned by non-private equity firms, the company founder, a management team or a family. Here, in addition to the strengths we look for in a sponsored transaction, we also look for the alignment with the management team with significant invested capital. This strategy often has less competition than the private equity sponsor strategy because such company financing needs are not easily addressed by banks and often require more diligence preparation. Direct lending can result in higher returns and lower leverage than sponsor transactions and may include warrants or equity to us. Historically, this strategy has comprised approximately 5%-15% of our business, but more recently it is less than 5% of our business.

**Control Investments in Corporate Operating Companies** – This strategy involves acquiring controlling stakes in non-financial operating companies. Our investments in these companies are generally structured as a combination of yield-producing debt and equity. We provide certainty of closure to our counterparties, give the seller personal liquidity and generally look for management to continue on in their current roles. This strategy has comprised approximately 10%-15% of our business.

**Control Investments in Financial Companies** – This strategy involves acquiring controlling stakes in financial companies, including consumer direct lending, sub-prime auto lending and other strategies. Our investments in these companies are generally structured as a combination of yield-producing debt and equity. These investments are often structured in a tax-efficient RIC (as defined below) -compliant partnership, enhancing returns. This strategy has comprised approximately 5%-15% of our business.

**Investments in Structured Credit** – We make investments in collateralized loan obligations ("CLOs"), generally taking a significant position in the subordinated interests (equity) of the CLOs. The CLOs include a diversified portfolio of broadly syndicated loans and do not have direct exposure to real estate, mortgages, sub-prime debt, or consumer based debt. The CLOs in which we invest are managed by top-tier collateral managers that have been thoroughly diligenced prior to investment. This strategy has comprised approximately 10%-20% of our business.

**Real Estate Investments** – We make investments in real estate through our three wholly-owned tax-efficient real estate investment trusts ("REITs"), American Property REIT Corp., National Property REIT Corp. and United Property REIT Corp. (collectively, "our REITs"). Our real estate investments are in various classes of fully developed and occupied real estate properties that generate current yields. We seek to identify properties that have historically high occupancy and steady cash flow generation. Our REITs partner with established property managers with experience in managing the property type to manage such properties after acquisition. This is a more recent investment strategy that

has comprised approximately 5%-10% of our business.

Investments in Syndicated Debt – On an opportunistic basis, we make investments in loans and high yield bonds that have been sold to a syndicate of buyers. Here we look for investments with attractive risk-adjusted returns after we have completed a fundamental credit analysis. These investments are purchased with a long term, buy-and-hold outlook and we look

86

---

Table of Contents

to provide significant structuring input by providing anchoring orders. This strategy has comprised approximately 5%-10% of our business.

**Aircraft Leasing** – We invest debt as well as equity in aircraft assets subject to commercial leases to credit-worthy airlines across the globe. These investments present attractive return opportunities due to cash flow consistency from long-lived assets coupled with hard asset collateral. We seek to deliver risk-adjusted returns with strong downside protection by analyzing relative value characteristics across the spectrum of aircraft types of all vintages. Our target portfolio includes both in-production and out-of-production jet and turboprop aircraft and engines, operated by airlines across the globe. This strategy comprised approximately 1.5% of our business in the fiscal year ended June 30, 2014.

**Online Lending** – We make investments in loans originated by certain consumer loan and small and medium sized business (“SME”) originators. We purchase each loan in its entirety (i.e., a “whole loan”). The borrowers are consumers and SMEs. The loans are typically serviced by the originators of the loans. This strategy comprised approximately 1% of our business in the fiscal year ended June 30, 2014.

Typically, we concentrate on making investments in companies with annual revenues of less than \$750 million and enterprise values of less than \$1 billion. Our typical investment involves a secured loan of less than \$250 million. We also acquire controlling interests in companies in conjunction with making secured debt investments in such companies. In most cases, companies in which we invest are privately held at the time we invest in them. We refer to these companies as “target” or “middle market” companies and these investments as “middle market investments.” We seek to maximize total returns to our investors, including both current yield and equity upside, by applying rigorous credit analysis and asset-based and cash-flow based lending techniques to make and monitor our investments. We are constantly pursuing multiple investment opportunities, including purchases of portfolios from private and public companies, as well as originations and secondary purchases of particular securities. We also regularly evaluate control investment opportunities in a range of industries, and some of these investments could be material to us. There can be no assurance that we will successfully consummate any investment opportunity we are currently pursuing. If any of these opportunities are consummated, there can be no assurance that investors will share our view of valuation or that any assets acquired will not be subject to future write downs, each of which could have an adverse effect on our stock price.

We have been organized as a closed-end investment company since April 13, 2004 and have filed an election to be treated as a business development company under the Investment Company Act of 1940 (the “1940 Act”). We are a non-diversified company within the meaning of the 1940 Act. Our headquarters are located at 10 East 40th Street, 42nd Floor, New York, NY 10016, and our telephone number is (212) 448-0702. Our investment adviser is Prospect Capital Management LLC.

On July 27, 2004, we completed our initial public offering (“IPO”) and sold 7 million shares of common stock at a price of \$15.00 per share, less underwriting discounts and commissions totaling \$1.05 per share. An additional 55,000 shares were issued through the exercise of an over-allotment option with respect to the IPO on August 27, 2004. Since the IPO and the exercise of the related over-allotment option, we have made other common stock share offerings (including options exercised by underwriters) resulting in the issuance of 294,799,101 shares at prices ranging from \$7.75 to \$17.70. We issued the 2015 Notes on December 21, 2010, the 2016 Notes on February 18, 2011, the 2017 Notes on April 16, 2012, the 2022 Notes on May 1, 2012, the 2018 Notes on August 14, 2012, the 2019 Notes on December 21, 2012, the 2023 Notes on March 15, 2013, the 5.00% 2019 Notes on April 7, 2014, the 2020 Notes on April 11, 2014 and have issued Prospect Capital InterNotes® since February 16, 2012. Each of our Unsecured Notes are our general, unsecured obligations and rank equal in right of payment with all of our existing and future unsecured indebtedness and senior in right of payment to any of our subordinated indebtedness. As a result, the Unsecured Notes are effectively subordinated to our existing secured indebtedness, such as our credit facility, and future secured indebtedness to the extent of the value of the assets securing such indebtedness and structurally subordinated to any existing and future liabilities and other indebtedness of any of our subsidiaries.

**Convertible Notes**

On December 21, 2010, we issued \$150.0 million aggregate principal amount of convertible notes that mature on December 15, 2015 (the “2015 Notes”), unless previously converted or repurchased in accordance with their terms. The 2015 Notes bear interest at a rate of 6.25% per year, payable semi-annually on June 15 and December 15 of each year,

beginning June 15, 2011. Total proceeds from the issuance of the 2015 Notes, net of underwriting discounts and offering costs, were \$145.2 million.

On February 18, 2011, we issued \$172.5 million aggregate principal amount of convertible notes that mature on August 15, 2016 (the "2016 Notes"), unless previously converted or repurchased in accordance with their terms. The 2016 Notes bear interest at a rate of 5.50% per year, payable semi-annually on February 15 and August 15 of each year, beginning August 15, 2011. Total proceeds from the issuance of the 2016 Notes, net of underwriting discounts and offering costs, were \$167.3 million. Between January 30, 2012 and February 2, 2012, we repurchased \$5.0 million of the 2016 Notes at a price of

Table of Contents

97.5, including commissions. The transactions resulted in our recognizing \$0.10 million of loss in the year ended June 30, 2012.

On April 16, 2012, we issued \$130.0 million aggregate principal amount of convertible notes that mature on October 15, 2017 (the “2017 Notes”), unless previously converted or repurchased in accordance with their terms. The 2017 Notes bear interest at a rate of 5.375% per year, payable semi-annually on April 15 and October 15 of each year, beginning October 15, 2012. Total proceeds from the issuance of the 2017 Notes, net of underwriting discounts and offering costs, were \$126.0 million.

On August 14, 2012, we issued \$200.0 million aggregate principal amount of convertible notes that mature on March 15, 2018 (the “2018 Notes”), unless previously converted or repurchased in accordance with their terms. The 2018 Notes bear interest at a rate of 5.75% per year, payable semi-annually on March 15 and September 15 of each year, beginning March 15, 2013. Total proceeds from the issuance of the 2018 Notes, net of underwriting discounts and offering costs, were \$193.6 million.

On December 21, 2012, we issued \$200.0 million aggregate principal amount of convertible notes that mature on January 15, 2019 (the “2019 Notes”), unless previously converted or repurchased in accordance with their terms. The 2019 Notes bear interest at a rate of 5.875% per year, payable semi-annually on January 15 and July 15 of each year, beginning July 15, 2013. Total proceeds from the issuance of the 2019 Notes, net of underwriting discounts and offering costs, were \$193.6 million.

On April 11, 2014, we issued \$400.0 million aggregate principal amount of convertible notes that mature on April 15, 2020 (the “2020 Notes”), unless previously converted or repurchased in accordance with their terms. The 2020 Notes bear interest at a rate of 4.75% per year, payable semi-annually on April 15 and October 15 each year, beginning October 15, 2014. Total proceeds from the issuance of the 2020 Notes, net of underwriting discounts and offering costs, were \$387.5 million.

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

	2015 Notes	2016 Notes	2017 Notes	2018 Notes	2019 Notes	2020 Notes
Initial conversion rate(1)	88.0902	78.3699	85.8442	82.3451	79.7766	80.6647
Initial conversion price	\$ 11.35	\$ 12.76	\$ 11.65	\$ 12.14	\$ 12.54	\$ 12.40
Conversion rate at June 30, 2014(1)(2)	89.0157	79.3176	86.9426	82.8631	79.7865	80.6647
Conversion price at June 30, 2014(2)(3)	\$ 11.23	\$ 12.61	\$ 11.50	\$ 12.07	\$ 12.53	\$ 12.40
Last conversion price calculation date	12/21/2013	2/18/2014	4/16/2014	8/14/2013	12/21/2013	4/11/2014
Dividend threshold amount (per share)(4)	\$ 0.101125	\$ 0.101150	\$ 0.101500	\$ 0.101600	\$ 0.110025	\$ 0.110525

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

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

The conversion price in effect at June 30, 2014 was calculated on the last anniversary of the issuance and will be (3) adjusted again on the next anniversary, unless the exercise price shall have changed by more than 1% before the anniversary.

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

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

conversion rate cap and will also, to the extent that we make any such adjustment without regard to the conversion rate cap pursuant to the Guidance, adjust the conversion rate cap accordingly. We will use our commercially reasonable efforts to obtain such Guidance as promptly as practicable.

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

Table of Contents

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

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

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

**Public Notes**

On May 1, 2012, we issued \$100.0 million aggregate principal amount of unsecured notes that mature on November 15, 2022 (the "2022 Notes"). The 2022 Notes bear interest at a rate of 6.95% per year, payable quarterly on February 15, May 15, August 15 and November 15 of each year, beginning August 15, 2012. Total proceeds from the issuance of the 2022 Notes, net of underwriting discounts and offering costs, were \$97.0 million.

On March 15, 2013, we issued \$250.0 million aggregate principal amount of unsecured notes that mature on March 15, 2023 (the "2023 Notes"). The 2023 Notes bear interest at a rate of 5.875% per year, payable semi-annually on March 15 and September 15 of each year, beginning September 15, 2013. Total proceeds from the issuance of the 2023 Notes, net of underwriting discounts and offering costs, were \$245.9 million.

On April 7, 2014, we issued \$300.0 million aggregate principal amount of unsecured notes that mature on July 15, 2019 (the "5.00% 2019 Notes"). Included in the issuance is \$45.0 million of Prospect Capital InterNotes® that were exchanged for the 5.00% 2019 Notes. The 5.00% 2019 Notes bear interest at a rate of 5.00% per year, payable semi-annually on January 15 and July 15 of each year, beginning July 15, 2014. Total proceeds from the issuance of the 5.00% 2019 Notes, net of underwriting discounts and offering costs, were \$250.8 million.

The 2022 Notes, the 2023 Notes and the 5.00% 2019 Notes (collectively, the "Public Notes") are direct unsecured obligations and rank equally with all of our unsecured indebtedness from time to time outstanding.

**Prospect Capital InterNotes®**

On February 16, 2012, we entered into a Selling Agent Agreement (the "Selling Agent Agreement") with Incapital LLC, as purchasing agent for our issuance and sale from time to time of up to \$500.0 million of Prospect Capital InterNotes® (the "InterNotes® Offering"), which was increased to \$1.5 billion in May 2014. Additional agents may be appointed by us from time to time in connection with the InterNotes® Offering and become parties to the Selling Agent Agreement.

On March 4, 2013, the Company entered into a Second Amended and Restated Selling Agent Agreement (the "Selling Agent Agreement") with Incapital LLC and Merrill Lynch, Pierce, Fenner & Smith Incorporated, as purchasing agents for the Company's issuance and sale from time to time of up to \$500 million of Prospect Capital InterNotes® (the "InterNotes® Offering"). The initial Selling Agent Agreement was entered into on February 16, 2012. Citigroup Global Markets Inc. joined the Selling Agent Agreement by the Agent Joinder Letter dated April 15, 2013. Additional agents appointed by us from time to time in connection with the InterNotes Offering may become parties to the Selling Agent Agreement. On August 23, 2013, we amended the Selling Agent Agreement to increase the aggregate principal amount of notes that may be issued from time to time under such agreement from \$500.0 million to \$1.0 billion.



These Prospect Capital InterNotes® are and will be the Company's direct unsecured obligations and will and do rank equally with all of the Company's unsecured indebtedness from time to time outstanding. Each series of Prospect Capital InterNotes® will be issued by a separate supplemental indenture. The Prospect Capital InterNotes® bear interest at fixed interest rates and offer a variety of maturities no less than twelve months from the original date of issuance. Since the inception of the InterNotes® Offering, the Company has issued \$430.1 million in aggregate principal amount of Prospect Capital

## Table of Contents

InterNotes® for net proceeds of approximately \$419.3 million. The Prospect Capital InterNotes® were issued with variable and fixed interest rates ranging from 3.28% to 7.00% with an average rate of 5.63%, and maturities ranging from July 15, 2018 to October 15, 2043. The Prospect Capital InterNotes® may be issued with a Survivor's Option, which is a provision in such Note's supplemental indenture pursuant to which the Company will repay that Note, if requested by the authorized representative of the beneficial owner of that Note, following the death of the beneficial owner of the Note, so long as the Note was owned by that beneficial owner or the estate of that beneficial owner at least six months prior to the request. Each of the Prospect Capital InterNotes® issued thus far includes a Survivor's Option.

Under each indenture governing the Unsecured Notes, there are certain events of default, the occurrence of which may lead to the Unsecured Notes being due and payable immediately. An event of default under an indenture could have a material adverse effect on our business, financial conditions and results of operations.

If the Company undergoes a "fundamental change" as described in the indenture for each of the Convertible Notes or Public Notes, holders may require the Company to repurchase all or part of their Convertible Notes or Public Notes at a price equal to 100% of the principal amount of the Convertible Notes or Public Notes, plus accrued and unpaid interest (including additional interest, if any).

### Our Investment Objective and Policies

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

We invest primarily in first and second lien secured loans and unsecured debt, which in some cases includes an equity component. First and second lien secured loans generally are senior debt instruments that rank ahead of unsecured debt of a given portfolio company. These loans also have the benefit of security interests on the assets of the portfolio company, which may rank ahead of or be junior to other security interests. Our investments in CLOs are subordinated to senior loans and are generally unsecured. We invest in debt and equity positions of CLOs which are a form of securitization in which the cash flows of a portfolio of loans are pooled and passed on to different classes of owners in various tranches. Our CLO investments are derived from portfolios of corporate debt securities which are generally risk rated from BB to B. Our investments have generally ranged between \$5 million and \$250 million each, although the investment size may be more or less than this range. Our investment sizes are expected to grow as our capital base expands.

We also acquire controlling interests in companies in conjunction with making secured debt investments in such companies. These may be in several industries, including industrial, service, real estate and financial businesses. We seek to maximize returns and minimize risk for our investors by applying rigorous analysis to make and monitor our investments. While the structure of our investments varies, we can invest in senior secured debt, senior unsecured debt, subordinated secured debt, subordinated unsecured debt, convertible debt, convertible preferred equity, preferred equity, common equity, warrants and other instruments, many of which generate current yield. While our primary focus is to seek current income through investment in the debt and/or dividend-paying equity securities of eligible privately-held, thinly-traded or distressed companies and long-term capital appreciation by acquiring accompanying warrants, options or other equity securities of such companies, we may invest up to 30% of the portfolio in opportunistic investments in order to seek enhanced returns for stockholders. Such investments may include investments in the debt and equity instruments of broadly-traded public companies. We expect that these public companies generally will have debt securities that are non-investment grade. Such investments may also include purchases (either in the primary or secondary markets) of the equity and junior debt tranches of a type of such pools known as CLOs. Structurally, CLOs are entities that are formed to hold a portfolio of senior secured loans made to companies whose debt is rated below investment grade or, in limited circumstances, unrated. These securities, which are often referred to as "junk" or "high yield," have predominantly speculative characteristics with respect to the issuer's capacity to pay interest and repay principal. They may also be difficult to value and illiquid. The senior secured loans within a CLO are limited to senior secured loans which meet specified credit and diversity criteria and are subject to concentration limitations in order to create an investment portfolio that is diverse by senior secured loan, borrower, and industry, with limitations on non-U.S. borrowers. Within this 30% basket, we have and may make additional

investments in debt and equity securities of financial companies and companies located outside of the United States. Our investments may include other equity investments, such as warrants, options to buy a minority interest in a portfolio company, or contractual payment rights or rights to receive a proportional interest in the operating cash flow or net income of such company. When determined by the Investment Adviser to be in our best interest, we may acquire a controlling interest in a portfolio company. Any warrants we receive with our debt securities may require only a nominal cost to exercise, and thus, as a portfolio company appreciates in value, we may achieve additional investment return from this equity interest. We have structured, and will continue to structure, some warrants to include provisions protecting our rights as a minority-interest or, if applicable, controlling-

90

---

## Table of Contents

interest holder, as well as puts, or rights to sell such securities back to the company, upon the occurrence of specified events. In many cases, we obtain registration rights in connection with these equity interests, which may include demand and "piggyback" registration rights.

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

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

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

### Industry Sectors

Our portfolio is invested across 30 industry categories. Excluding our CLO investments, which do not have industry concentrations, no individual industry comprises more than 9.8% of the portfolio on either a cost or fair value basis.

### Ongoing Relationships with Portfolio Companies

#### Monitoring

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

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

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

#### Investment Valuation

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

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

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

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

Level 3: Unobservable inputs for the asset or liability.

Table of Contents

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

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

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

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

1. Each portfolio company or investment is reviewed by our investment professionals with independent valuation firms engaged by our Board of Directors;
2. The independent valuation firms conduct independent valuations and make their own independent assessments;
3. The Audit Committee of our Board of Directors reviews and discusses the preliminary valuation of the Investment Adviser and that of the independent valuation firms; and
4. The Board of Directors discusses valuations and determines the fair value of each investment in our portfolio in good faith based on the input of the Investment Adviser, the respective independent valuation firm and the Audit Committee.

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

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

Our investments in CLOs are classified as ASC 820 Level 3 securities and are valued using a discounted cash flow model. The valuations have been accomplished through the analysis of the CLO deal structures to identify the risk exposures from the modeling point of view. For each CLO security, the most appropriate valuation approach has been chosen from alternative approaches to ensure the most accurate valuation for such security. To value a CLO, both the assets and the liabilities of the CLO capital structure are modeled. We use a waterfall engine to store the collateral data, generate collateral cash flows from the assets based on various assumptions for the risk factors, distribute the cash flows to the liability structure based on the payment priorities, and discount them back using current market discount rates. The main risk factors are: default risk, interest rate risk, downgrade risk, and credit spread risk.

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

to the value of our portfolio investments."

92

---

## Table of Contents

### Valuation of Other Financial Assets and Financial Liabilities

The Fair Value Option within ASC 825, Financial Instruments, specifically ASC 825-10-25, permits an entity to elect fair value as the initial and subsequent measurement attribute for eligible assets and liabilities for which the assets and liabilities are measured using another measurement attribute. For our non-investment assets and liabilities, we have elected not to value them at fair value as would be permitted by ASC 825-10-25.

### Managerial Assistance

As a BDC, we are obligated under the 1940 Act to make available to certain of our portfolio companies significant managerial assistance. "Making available significant managerial assistance" refers to any arrangement whereby we provide significant guidance and counsel concerning the management, operations, or business objectives and policies of a portfolio company. We are also deemed to be providing managerial assistance to all portfolio companies that we control, either by ourselves or in conjunction with others. The nature and extent of significant managerial assistance provided by us will vary according to the particular needs of each portfolio company. Examples of such activities include advice on marketing, operations, fulfillment and overall strategy, capital budgeting, managing relationships with financing sources, recruiting management personnel, evaluating acquisition and divestiture opportunities, participating in board and management meetings, consulting with and advising officers of portfolio companies, and providing other organizational and financial guidance.

Prospect Administration, through a managerial assistance agreement executed with each portfolio company to which we provide managerial assistance, provides such managerial assistance on our behalf. In doing so, Prospect Administration utilizes personnel of our Investment Adviser, Prospect Capital Management. We, on behalf of Prospect Administration, invoice portfolio companies receiving and paying for managerial assistance, and we remit to Prospect Administration its allocated cost of providing such services, including payments to Prospect Capital Management for personnel it utilizes for that purpose. Our payments to Prospect Administration are periodically reviewed by our Board of Directors.

### Investment Adviser

Prospect Capital Management manages our investments as the Investment Adviser. Prospect Capital Management is a Delaware limited liability corporation that has been registered as an investment adviser under the Investment Advisers Act of 1940 (the "Advisers Act") since March 31, 2004. Prospect Capital Management is led by John F. Barry III and M. Grier Eliasek, two senior executives with significant investment advisory and business experience. Both Messrs. Barry and Eliasek spend a significant amount of their time in their roles at Prospect Capital Management working on our behalf. The principal executive offices of Prospect Capital Management are 10 East 40th Street, 42nd Floor, New York, NY 10016. We depend on the due diligence, skill and network of business contacts of the senior management of the Investment Adviser. We also depend, to a significant extent, on the Investment Adviser's investment professionals and the information and deal flow generated by those investment professionals in the course of their investment and portfolio management activities. The Investment Adviser's senior management team evaluates, negotiates, structures, closes, monitors and services our investments. Our future success depends to a significant extent on the continued service of the senior management team, particularly John F. Barry III and M. Grier Eliasek. The departure of any of the senior managers of the Investment Adviser could have a materially adverse effect on our ability to achieve our investment objective. In addition, we can offer no assurance that Prospect Capital Management will remain the Investment Adviser or that we will continue to have access to its investment professionals or its information and deal flow. Under the Investment Advisory Agreement (as defined below), we pay Prospect Capital Management investment advisory fees, which consist of an annual base management fee based on our gross assets as well as a two-part incentive fee based on our performance. Mr. Barry currently controls Prospect Capital Management.

### Staffing

Mr. John F. Barry III, our chairman and chief executive officer, Mr. Grier Eliasek, our chief operating officer and president, and Mr. Brian H. Oswald, our chief financial officer, chief compliance officer, treasurer and secretary, comprise our senior management. Over time, we expect to add additional officers and employees.

Messrs. Barry and Eliasek each also serves as an officer of Prospect Administration and performs his respective functions under the terms of the Administration Agreement. Our day-to-day investment operations are managed by

Prospect Capital Management. In addition, we reimburse Prospect Administration for our allocable portion of expenses incurred by it in performing its obligations under the Administration Agreement, including rent and our allocable portion of the costs of our chief executive officer, president, chief financial officer, chief operating officer, chief compliance officer, treasurer and secretary and their respective staffs. See "Business—Management Services—Administration Agreement."



Table of Contents

Properties

We do not own any real estate or other physical properties materially important to our operation. Our corporate headquarters are located at 10 East 40th Street, 42nd Floor, New York, NY 10016, where we occupy an office space pursuant to the Administration Agreement.

Legal Proceedings

From time to time, we may become involved in various investigations, claims and legal proceedings that arise in the ordinary course of our business. These matters may relate to intellectual property, employment, tax, regulation, contract or other matters. The resolution of such matters that may arise out of these investigations, claims and proceedings will be subject to various uncertainties and, even if such matters are without merit, could result in the expenditure of significant financial and managerial resources.

We are not aware of any material pending legal proceeding, and no such material proceedings are contemplated to which we are a party or of which any of our property is subject.

Management

Our business and affairs are managed under the direction of our Board of Directors. Our Board of Directors currently consists of five directors, three of whom are not "interested persons" of the Company as defined in Section 2(a)(19) of the 1940 Act. We refer to these individuals as our independent directors. Our Board of Directors elects our officers to serve for a one-year term and until their successors are duly elected and qualify, or until their earlier removal or resignation.

Board Of Directors And Executive Officers

Under our charter, our directors are divided into three classes. Directors are elected for a staggered term of three years each, with a term of office of one of the three classes of directors expiring each year. At each annual meeting of our stockholders, the successors to the class of directors whose terms expire at such meeting are elected to hold office for a term expiring at the annual meeting of stockholders held in the third year following the year of their election. Each director holds office for the term to which he or she is elected and until his or her successor is duly elected and qualifies.

Directors and Executive Officers

Our directors and executive officers and their positions are set forth below. The address for each director and executive officer is c/o Prospect Capital Corporation, 10 East 40th Street, 42nd Floor, New York, NY 10016.

Table of Contents

## Independent Directors

Name and Age	Position(s) Held with the Company	Term of Office(1) and Length of Time Served	Principal Occupation(s) During Past 5 Years	Number of Funds in Fund Complex(2) Overseen by Director	Other Directorships Held by Director
William J. Grempe, 71	Director	Class II Director from 2006 to 2009; Class I Director since April 2010; Term expires 2014	Mr. Grempe is responsible for traditional banking services, credit and lending, private equity and corporate cash management with Merrill Lynch & Co. from 1999 to present.	Three	Priority Income Fund, Inc. since October 28, 2012(3), Pathway Energy Infrastructure Fund, Inc. since February 19, 2013(3)
Eugene S. Stark, 56	Director	Class III Director since September 2008; Term expires 2016	Principal Financial Officer, Chief Compliance Officer and Vice President—Administration of General American Investors Company, Inc. from May 2005 to present.	Three	Priority Income Fund, Inc. since October 28, 2012(3), Pathway Energy Infrastructure Fund, Inc. since February 19, 2013(3)
Andrew C. Cooper, 52	Director	Class II Director since February 2009; Term expires 2015	Mr. Cooper is an entrepreneur, who over the last 15 years has founded, built, run and sold three companies. He is Co-Chief Executive Officer of Unison Energy, LLC, a company that develops, owns and operates, distributed combined heat and power co-generation solutions.	Three	Priority Income Fund, Inc. since October 28, 2012(3), Pathway Energy Infrastructure Fund, Inc. since February 19, 2013(3)

(1) Our Board of Directors is divided into three classes of directors serving staggered three-year terms. Mr. Eliasek and Mr. Cooper are Class II directors with terms that will expire in 2015, Mr. Barry and Mr. Stark are Class III directors with terms that will expire in 2016, and Mr. Grempe is a Class I director with a term that will expire in 2014.

(2) The Fund Complex consists of the Company, Prospect Senior Secured Income Fund, Inc. and Pathway Energy Infrastructure Fund, Inc.

(3) An investment company subject to the 1940 Act.

## Interested Directors

Name and Age	Position(s) Held with the Company	Term of Office(1) and Length of Time Served	Principal Occupation(s) During Past 5 Years	Number of Funds in Fund Complex(2)	Other Directorships Held by Director
--------------	-----------------------------------	---	---	------------------------------------	--------------------------------------

Explanation of Responses:

				Overseen by Director	
John F. Barry III, 62(3)	Director, Chairman of the Board of Directors, and Chief Executive Officer	Class III Director since June 2004; Term expires 2016	Chairman and Chief Executive Officer of the Company; Managing Director of Prospect Capital Management and Prospect Administration since June 2004	One	None
M. Grier Eliasek, 41(3)	Director, Chief Operating Officer	Class II Director since June 2004; Term expires 2015	President and Chief Operating Officer of the Company, Managing Director of Prospect Capital Management and Prospect Administration, President and CEO of Priority Income Fund, Inc., President and COO of Priority Senior Secured Income Management, LLC, President and CEO of Pathway Energy Infrastructure Fund, Inc., President and COO of Pathway Energy Infrastructure Management, LLC.	Three	Priority Income Fund, Inc. since October 28, 2012(4), Pathway Energy Infrastructure Fund, Inc. since February 19, 2013(4)

(1) Our Board of Directors is divided into three classes of directors serving staggered three-year terms. Mr. Eliasek and Mr. Cooper are Class II directors with terms that will expire in 2015, Mr. Barry and Mr. Stark are Class III directors with terms that will expire in 2016 and Mr. Grempe is a Class I director with a term that will expire in 2014.

(2) The Fund Complex consists of the Company, Prospect Income Fund, Inc. and Pathway Energy Infrastructure Fund, Inc.

(3) Messrs. Barry and Eliasek are each considered an "interested person" under the 1940 Act by virtue of serving as one of our officers and having a relationship with Prospect Capital Management.

(4) An investment company subject to the 1940 Act.

Table of Contents

## Information about Executive Officers who are not Directors

Name and Age	Position(s) Held with the Company	Term of Office and Length of Time Served	Principal Occupation(s) During Past Five Years
Brian H. Oswald, 53	Chief Financial Officer, Chief Compliance Officer, Treasurer and Secretary	November 2008 to present as Chief Financial Officer, Treasurer and Secretary and October 2008 to present as Chief Compliance Officer.	Joined Prospect Administration as Managing Director in June 2008.

## Board Leadership Structure

The Board of Directors believes that the combined position of Chief Executive Officer of the Company and Chairman of the Board of Directors of the Company is a superior model that results in greater efficiency regarding management of the Company, reduced confusion due to the elimination of the need to transfer substantial information quickly and repeatedly between a chief executive officer and chairman, and business advantages to the Company arising from the specialized knowledge acquired from the duties of the dual roles. The need for efficient decision making is particularly acute in the line of business of the Company, whereby multiple factors including market factors, interest rates and innumerable other financial metrics change on an ongoing and daily basis.

The Board of Directors does not currently have a designated lead independent director. Instead, all of the independent directors play an active role on the Board of Directors. The independent directors compose a majority of the Board of Directors, and are closely involved in all material board level deliberations related to the Company. The Board of Directors believes that, with these practices, each independent director has an equal stake in the Board's actions and oversight role and equal accountability to the Company and its stockholders. The Company believes that Eugene Stark acts as the de facto lead independent director, by virtue of his role as an accounting expert and Chairman of the Audit Committee.

## Director Independence

On an annual basis, each member of our Board of Directors is required to complete an independence questionnaire designed to provide information to assist the Board of Directors in determining whether the director is independent. Our Board of Directors has determined that each of our directors, other than Messrs. Barry and Eliasek, is independent under the 1940 Act.

## Role of the Chairman and Chief Executive Officer

As Chairman of the Board of Directors and Chief Executive Officer, Mr. Barry assumes a leading role in mid- and long-term strategic planning and supports major transaction initiatives of the Company. Mr. Barry also manages the day-to-day operations of the Company, with the support of the other executive officers. As Chief Executive Officer, Mr. Barry has general responsibility for the implementation of the policies of the Company, as determined by the Board of Directors, and for the management of the business and affairs of the Company. The Board of Directors has determined that its leadership structure, in which the majority of the directors are not affiliated with the Company, Prospect Capital Management or Prospect Administration, is appropriate in light of the services that Prospect Capital Management and Prospect Administration and their affiliates provide to the Company and the potential conflicts of interest that could arise from these relationships.

## Experience, Qualifications, Attributes and/or Skills that Led to the Board's Conclusion that such Members Should Serve as Director of the Company

The Board believes that, collectively, the directors have balanced and diverse experience, qualifications, attributes and skills, which allow the Board to operate effectively in governing the Company and protecting the interests of its stockholders. Below is a description of the various experiences, qualifications, attributes and/or skills with respect to each director considered by the Board.

## John F. Barry III

The Board benefits from Mr. Barry's years of experience as a lawyer, investment banker, venture capitalist, and private equity investor, and his service on various boards of directors, over the past 35 years. In addition to overseeing the

Company, Mr. Barry has served on the boards of directors of private and public companies, including financial services, financial technology and energy companies. Mr. Barry also managed the Corporate Finance Department of L.F. Rothschild & Company, focusing on private equity and debt financing for energy and other companies, and was a founding member of the project finance group at Merrill Lynch & Co. The Board also benefits from Mr. Barry's past experience as a corporate securities lawyer at Davis Polk & Wardwell, advising energy companies and their commercial and investment bankers. Mr. Barry's service as Chairman and Chief Executive Officer of the Company and as a Managing Director of PCM and Prospect

Table of Contents

Administration provides him with a continuously updated understanding of the Company, its operation, and the business and regulatory issues facing the Company.

M. Grier Eliasek

Mr. Eliasek brings to the Board business leadership and experience and knowledge of senior loan, mezzanine, bridge loan, private equity and venture capital investments, as well as a knowledge of diverse management practices.

Mr. Eliasek is the President and Chief Operating Officer of the Company and a Managing Director of Prospect Capital Management and Prospect Administration. He is also responsible for leading the origination and assessment of investments for the Company. The Board also benefits from Mr. Eliasek's experience as a consultant with Bain & Company, a global strategy consulting firm, where he managed engagements for companies in several different industries, by providing the Company with unique views on investment and management issues. At Bain & Company, Mr. Eliasek analyzed new lines of businesses, developed market strategies, revamped sales organizations, and improved operational performance for Bain & Company clients. Mr. Eliasek's longstanding service as Director, President and Chief Operating Officer of the Company and as a Managing Director of Prospect Capital Management and Prospect Administration provide him with a specific understanding of the Company, its operation, and the business and regulatory issues facing the Company.

Andrew C. Cooper

Mr. Cooper's over 25 years of experience in venture capital management, venture capital investing and investment banking provides the Board with a wealth of leadership, business investing and financial experience. Mr. Cooper's experience as the co-founder, director and former co-CEO of Unison Site Management LLC, a leading cellular site owner with 2,000 plus cell sites which generate more than \$40 million in annual cash flow, and as co-founder, CFO and VP of business development for Avesta Technologies, an enterprise, information and technology management software company bought by Visual Networks in 2000, provides the Board with the benefit of leadership and experience in finance and management. Mr. Cooper also serves on the board of Brand Asset Digital, Aquatic Energy and the Madison Square Boys and Girls Club of New York. Further, Mr. Cooper's time as a director of CSG Systems, Protection One Alarm, LionBridge Technologies and Weblink Wireless, provides the Board with a wealth of experience and an in-depth understanding of management practices. Mr. Cooper's knowledge of financial and accounting matters qualifies him to serve on the Company's Audit Committee and his independence from the Company, Prospect Capital Management and Prospect Administration enhances his service as a member of the Nominating, Corporate Governance and Compensation Committee.

William J. Grempp

Mr. Grempp brings to the Board a broad and diverse knowledge of business and finance as a result of his career as an investment banker, spanning over 40 years working in corporate finance and originating and executing transactions and advisory assignments for energy and utility related clients. Since 1999, Mr. Grempp has been responsible for traditional banking services, credit and lending, private equity and corporate cash management with Merrill Lynch & Co.. From 1996 to 1999, he served at Wachovia as senior vice president, managing director and co-founder of the utilities and energy investment banking group, responsible for origination, structuring, negotiation and successful completion of transactions utilizing investment banking, capital markets and traditional commercial banking products. From 1990 to 1996, Mr. Grempp was the managing director of global power and project finance at JPMorgan Chase & Co., and from 1970 to 1990, Mr. Grempp was with Merrill Lynch & Co., starting out as an associate in the mergers and acquisitions department, then in 1986 becoming the senior vice president, managing director and head of the regulated industries group. Mr. Grempp's knowledge of financial and accounting matters qualifies him to serve on the Company's Audit Committee and his independence from the Company, Prospect Capital Management and Prospect Administration enhances his service as a member of the Nominating, Corporate Governance and Compensation Committee.

Eugene S. Stark

Mr. Stark brings to the Board over 25 years of experience in directing the financial and administrative functions of investment management organizations. The Board benefits from his broad experience in financial management; SEC reporting and compliance; strategic and financial planning; expense, capital and risk management; fund administration; due diligence; acquisition analysis; and integration activities. Since May 2005, Mr. Stark's position as

the Principal Financial Officer, Chief Compliance Officer and Vice President of Administration at General American Investors Company, Inc., where he is responsible for operations, compliance, and financial functions, allows him to provide the Board with added insight into the management practices of other financial companies. From January to April of 2005, Mr. Stark was the Chief Financial Officer of the Company, prior to which he worked at Prudential Financial, Inc. between 1987 and 2004. His many positions within Prudential include 10 years as Vice President and Fund Treasurer of Prudential Mutual Funds, 4 years as Senior Vice President of Finance of Prudential Investments, and 2 years as Senior Vice President of Finance of Prudential Amenities. Mr. Stark is also a Certified Public Accountant (inactive status). Mr. Stark's knowledge of financial and accounting matters qualifies him to serve

97

---

Table of Contents

on the Company's Audit Committee and his independence from the Company, Prospect Capital Management and Prospect Administration enhances his service as a member of the Nominating, Corporate Governance and Compensation Committee. Mr. Stark is also a member of Mount Saint Mary Academy's Finance Committee.

Means by Which the Board of Directors Supervises Executive Officers

The Board of Directors is regularly informed on developments and issues related to the Company's business, and monitors the activities and responsibilities of the executive officers in various ways.

At each regular meeting of the Board of Directors, the executive officers report to the Board of Directors on developments and important issues. Each of the executive officers, as applicable, also provide regular updates to the members of the Board of Directors regarding the Company's business between the dates of regular meetings of the Board of Directors.

Executive officers and other members of Prospect Capital Management, at the invitation of the Board of Directors, regularly attend portions of meetings of the Board of Directors and its committees to report on the financial results of the Company, its operations, performance and outlook, and on areas of the business within their responsibility, including risk management and management information systems, as well as other business matters.

The Board's Role in Risk Oversight

The Company's Board of Directors performs its risk oversight function primarily through (a) its two standing committees, which report to the entire Board of Directors and are comprised solely of independent directors and (b) monitoring by the Company's Chief Compliance Officer in accordance with its compliance policies and procedures.

As set forth in the descriptions regarding the Audit Committee and the Nominating, Governance and Compensation Committee, the Audit Committee and the Nominating, Governance and Compensation Committee assist the Board of Directors in fulfilling its risk oversight responsibilities. The Audit Committee's risk oversight responsibilities include reviewing and discussing with management and the independent accountants the annual audited financial statements of the Company, including disclosures made in management's discussion and analysis; reviewing and discussing with management and the independent accountants the Company's quarterly financial statements prior to the filings of its quarterly reports on Form 10-Q; pre-approving the independent accountants' engagement to render audit and/or permissible non-audit services; and evaluating the qualifications, performance and independence of the independent accountants. The Nominating, Governance and Compensation Committee's risk oversight responsibilities include selecting qualified nominees to be elected to the Board of Directors by stockholders; selecting qualified nominees to fill any vacancies on the Board of Directors or a committee thereof; developing and recommending to the Board of Directors a set of corporate governance principles applicable to the Company; and overseeing the evaluation of the Board of Directors and management. Both the Audit Committee and the Nominating, Governance and Compensation Committee consist solely of independent directors.

The Board of Directors also performs its risk oversight responsibilities with the assistance of the Chief Compliance Officer. The Company's Chief Compliance Officer prepares a written report annually discussing the adequacy and effectiveness of the compliance policies and procedures of the Company and certain of its service providers. The Chief Compliance Officer's report, which is reviewed by the Board of Directors, addresses at a minimum (a) the operation of the compliance policies and procedures of the Company and certain of its service providers since the last report; (b) any material changes to such policies and procedures since the last report; (c) any recommendations for material changes to such policies and procedures as a result of the Chief Compliance Officer's annual review; and (d) any compliance matter that has occurred since the date of the last report about which the Board of Directors would reasonably need to know to oversee the Company's compliance activities and risks. In addition, the Chief Compliance Officer meets separately in executive session with the independent directors at least once each year.

The Company believes that its Board of Director's role in risk oversight is effective and appropriate given the extensive regulation to which it is already subject as a business development company, or BDC, under the 1940 Act. Specifically, as a BDC the Company must comply with certain regulatory requirements that control certain types of risk in its business and operations. For example, the Company's ability to incur indebtedness is limited such that its asset coverage must equal at least 200% immediately after each time it incurs indebtedness, the Company generally has to invest at least 70% of its total assets in "qualifying assets." In addition, the Company elected to be treated as a



regulated investment company, or RIC, under Subchapter M of the Internal Revenue Code, as amended. As a RIC, the Company must, among other things, meet certain income source and asset diversification requirements.

The Company believes that the extent of its Board of Directors' (and its committees') role in risk oversight complements its Board's leadership structure because it allows the Company's independent directors to exercise oversight of risk without any conflict that might discourage critical review through the two fully independent board committees, auditor and independent valuation providers, and otherwise.

Table of Contents

The Company believes that a board's roles in risk oversight must be evaluated on a case by case basis and that the Board of Directors' practices concerning risk oversight is appropriate. However, the Company continually re-examines the manners in which the Board administers its oversight function on an ongoing basis to ensure that they continue to meet the Company's needs.

Committees of the Board of Directors

Our Board of Directors has established an Audit Committee and a Nominating, Corporate Governance and Compensation Committee. For the fiscal year ended June 30, 2014, our Board of Directors held 15 Board meetings, 10 Audit Committee meetings, and one Nominating, Corporate Governance and Compensation Committee meeting. All directors attended at least 75% of the aggregate number of meetings of the Board and of the respective committees on which they served. We require each director to make a diligent effort to attend all board and committee meetings, as well as each annual meeting of stockholders. Two directors attended last year's annual meeting of stockholders in person.

The Audit Committee. The Audit Committee operates pursuant to a charter approved by the Board of Directors. The charter sets forth the responsibilities of the Audit Committee, which include selecting or retaining each year an independent registered public accounting firm, or independent accountants, to audit the accounts and records of the Company; reviewing and discussing with management and the independent accountants the annual audited financial statements of the Company, including disclosures made in management's discussion and analysis, and recommending to the Board of Directors whether the audited financial statements should be included in the Company's annual report on Form 10 K; reviewing and discussing with management and the independent accountants the Company's quarterly financial statements prior to the filings of its quarterly reports on Form 10 Q; pre approving the independent accountants' engagement to render audit and/or permissible non audit services; and evaluating the qualifications, performance and independence of the independent accountants. The Audit Committee is presently composed of three persons: Messrs. Cooper, Grempe and Stark, each of whom is not an "interested person" as defined in the 1940 Act and is considered independent under applicable NASDAQ rules, with Mr. Stark serving as chairman of the committee. The Board of Directors has determined that Mr. Stark is an "audit committee financial expert" as that term is defined under Item 407 of Regulation S K. The Audit Committee may delegate its pre approval responsibilities to one or more of its members. The member(s) to whom such responsibility is delegated must report, for informational purposes only, any pre approval decisions to the Audit Committee at its next scheduled meeting. Messrs. Cooper, Grempe and Stark were added to the Audit Committee concurrent with their election or appointment to the Board of Directors on February 12, 2009, April 1, 2010 and September 4, 2008, respectively.

The function of the Audit Committee is oversight. Our management is primarily responsible for maintaining appropriate systems for accounting and financial reporting principles and policies and internal controls and procedures that provide for compliance with accounting standards and applicable laws and regulations. The independent accountants are primarily responsible for planning and carrying out a proper audit of our annual financial statements in accordance with generally accepted accounting standards. The independent accountants are accountable to the Board of Directors and the Audit Committee, as representatives of our stockholders. The Board of Directors and the Audit Committee have the ultimate authority and responsibility to select, evaluate and, where appropriate, replace our independent accountants (subject, if applicable, to stockholder ratification).

In fulfilling their responsibilities, it is recognized that members of the Audit Committee are not our full time employees or management and are not, and do not represent themselves to be, accountants or auditors by profession. As such, it is not the duty or the responsibility of the Audit Committee or its members to conduct "field work" or other types of auditing or accounting reviews or procedures, to determine that the financial statements are complete and accurate and are in accordance with generally accepted accounting principles, or to set auditor independence standards. Each member of the Audit Committee shall be entitled to rely on (a) the integrity of those persons within and outside us and management from which it receives information; (b) the accuracy of the financial and other information provided to the Audit Committee absent actual knowledge to the contrary (which shall be promptly reported to the Board of Directors); and (c) statements made by our officers and employees, our investment adviser or other third parties as to any information technology, internal audit and other non audit services provided by the independent accountants to us.

The Nominating, Corporate Governance and Compensation Committee. The Nominating, Corporate Governance and Compensation Committee is responsible for selecting qualified nominees to be elected to the Board of Directors by stockholders; selecting qualified nominees to fill any vacancies on the Board of Directors or a committee thereof; developing and recommending to the Board of Directors a set of corporate governance principles applicable to the Company; overseeing the evaluation of the Board of Directors and management; determining or recommending to the Board of Directors for determination the compensation of any executive officers of the Company to the extent the Company pays any executive officers' compensation; and undertaking such other duties and responsibilities as may from time to time be delegated by the Board of Directors to the Nominating, Corporate Governance and Compensation Committee. Currently, the Company's executive officers do not receive any direct compensation from the Company. The Nominating, Corporate Governance and

Table of Contents

Compensation Committee takes into consideration the educational, professional and technical backgrounds and diversity of each nominee when evaluating such nominees to be elected to the Board of Directors. The Nominating, Corporate Governance and Compensation Committee does not have a formal policy with respect to diversity. The Nominating, Corporate Governance and Compensation Committee is presently composed of three persons: Messrs. Cooper, Grempe and Stark, each of whom is not an "interested person" as defined in the 1940 Act and is considered independent under applicable NASDAQ rules, with Mr. Grempe serving as chairman of the committee. Messrs. Cooper, Grempe and Stark were added to the Nominating, Corporate Governance and Compensation Committee concurrent with their election or appointment to the Board of Directors on February 12, 2009, April 1, 2010 and September 4, 2008, respectively.

The Nominating, Corporate Governance and Compensation Committee will consider stockholder recommendations for possible nominees for election as directors when such recommendations are submitted in accordance with the Company's Bylaws and any applicable law, rule or regulation regarding director nominations. Nominations should be sent to the Corporate Secretary c/o Prospect Capital Corporation, 10 East 40th Street, 42nd Floor, New York, New York 10016. When submitting a nomination to the Company for consideration, a stockholder must provide all information that would be required under applicable Commission rules to be disclosed in connection with election of a director, including the following minimum information for each director nominee: full name, age and address; principal occupation during the past five years; current directorships on publicly held companies and investment companies; number of shares of our common stock owned, if any; and, a written consent of the individual to stand for election if nominated by the Board of Directors and to serve if elected by the stockholders. Criteria considered by the Nominating, Corporate Governance and Compensation Committee in evaluating the qualifications of individuals for election as members of the Board of Directors include compliance with the independence and other applicable requirements of the NASDAQ rules and the 1940 Act and all other applicable laws, rules, regulations and listing standards, the criteria, policies and principles set forth in the Nominating, Corporate Governance and Compensation Committee Charter, and the ability to contribute to the effective management of the Company, taking into account our needs and such factors as the individual's experience, perspective, skills, expertise and knowledge of the industries in which the Company operates, personal and professional integrity, character, business judgment, time availability in light of other commitments, dedication, and conflicts of interest. The Nominating, Corporate Governance and Compensation Committee also may consider such other factors as it may deem to be in our best interests and those of our stockholders. The Board of Directors also believes it is appropriate for certain key members of our management to participate as members of the Board of Directors.

Corporate Governance

Corporate Governance Guidelines. Upon the recommendation of the Nominating, Governance and Compensation Committee, the Board of Directors has adopted Corporate Governance Guidelines on behalf of the Company. These Corporate Governance Guidelines address, among other things, the following key corporate governance topics: director responsibilities; the size, composition, and membership criteria of the Board of Directors; composition and responsibilities of directors serving on committees of the Board of Directors; director access to officers, employees, and independent advisors; director orientation and continuing education; director compensation; and an annual performance evaluation of the Board of Directors.

Code of Conduct. We have adopted a code of conduct which applies to, among others, our senior officers, including our Chief Executive Officer and Chief Financial Officer, as well as all of our employees. Our code of conduct can be accessed via our website at [www.prospectstreet.com](http://www.prospectstreet.com). We intend to disclose amendments to or waivers from a required provision of the code of conduct on our website.

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

Internal Reporting and Whistle Blower Protection Policy. The Company's Audit Committee has established guidelines and procedures regarding the receipt, retention and treatment of complaints regarding accounting, internal

accounting controls or auditing matters, collectively, Accounting Matters, and the confidential, anonymous submission by our employees of concerns regarding questionable accounting or auditing matters. Persons with complaints or concerns regarding Accounting Matters may submit their complaints to our Chief Compliance Officer, or CCO. Persons who are uncomfortable submitting complaints to the CCO, including complaints involving the CCO, may submit complaints directly to our Audit Committee Chairman. Complaints may be submitted on an anonymous basis.

The CCO may be contacted at: Prospect Capital Corporation, Chief Compliance Officer, 10 East 40th Street, 42nd Floor, New York, New York 10016.

100

---

Table of Contents

The Audit Committee Chairman may be contacted at: Prospect Capital Corporation, Audit Committee Chairman, 10 East 40th Street, 42nd Floor, New York, New York 10016.

## Independent Directors

The Board of Directors, in connection with the 1940 Act and the applicable Marketplace Rules of NASDAQ, has considered the independence of members of the Board of Directors who are not employed by Prospect Capital Management and has concluded that Messrs. Cooper, Grempp and Stark are not "interested persons" as defined by the 1940 Act and therefore qualify as independent directors under the standards promulgated by the Marketplace Rules of NASDAQ. In reaching this conclusion, the Board of Directors concluded that Messrs. Cooper, Grempp and Stark had no relationships with Prospect Capital Management or any of its affiliates, other than their positions as directors of the Company and, if applicable, investments in us that are on the same terms as those of other stockholders.

## Proxy Voting Policies And Procedures

We have delegated our proxy voting responsibility to Prospect Capital Management. The guidelines are reviewed periodically by Prospect Capital Management and our non-interested directors, and, accordingly, are subject to change. See "Regulation—Proxy Voting Policies and Procedures."

## Compensation of Directors and Officers

The following table sets forth information regarding the compensation received by the directors and executive officers from the Company for the fiscal year ended June 30, 2014. No compensation is paid to the interested directors by the Company.

Name and Position	Aggregate Compensation from the Company	Pension or Retirement Benefits Accrued as Part of the Company's Expenses(1)	Total Compensation Paid to Director/ Officer
Interested Directors			
John F. Barry III(2)	None	None	None
M. Grier Eliasek(2)	None	None	None
Independent Directors			
Andrew C. Cooper(3)	\$ 108,833	None	\$ 108,833
William J. Grempp(4)	\$ 108,833	None	\$ 108,833
Eugene S. Stark(5)	\$ 108,833	None	\$ 108,833
Executive Officers			
Brian H. Oswald(2)	None	None	None

(1) We do not have a bonus, profit sharing or retirement plan, and directors do not receive any pension or retirement benefits.

We have not paid, and we do not intend to pay, any annual cash compensation to our executive officers for their services as executive officers. Messrs. Barry and Eliasek are compensated by Prospect Capital Management from (2) the income Prospect Capital Management receives under the management agreement between Prospect Capital Management and us. Mr. Oswald is compensated from the income Prospect Administration receives under the administration agreement.

(3) Mr. Cooper joined our Board of Directors on February 12, 2009.

(4) Mr. Grempp joined our Board of Directors on April 1, 2010.

(5) Mr. Stark joined our Board of Directors on September 4, 2008.

No compensation was paid to directors who are interested persons of the Company as defined in 1940 Act. In addition, the Company purchases directors' and officers' liability insurance on behalf of the directors and officers.

## Management Services

## Investment Advisory Agreement

We have entered into the Investment Advisory Agreement with Prospect Capital Management under which the Investment Adviser, subject to the overall supervision of our Board of Directors, manages the day-to-day operations

of, and provides investment advisory services to, us. Under the terms of the Investment Advisory Agreement, our Investment Adviser: (i) determines the composition of our portfolio, the nature and timing of the changes to our portfolio and the manner of implementing such changes, (ii) identifies, evaluates and negotiates the structure of the investments we make (including performing due diligence on our prospective portfolio companies); and (iii) closes and monitors investments we make.

101

---

Table of Contents

Prospect Capital Management's services under the Investment Advisory Agreement are not exclusive, and it is free to furnish similar services to other entities so long as its services to us are not impaired. For providing these services the Investment Adviser receives a fee from us, consisting of two components: a base management fee and an incentive fee. The base management fee is calculated at an annual rate of 2% on our gross assets (including amounts borrowed). For services rendered under the Investment Advisory Agreement, the base management fee is payable quarterly in arrears. The base management fee is calculated based on the average value of our gross assets at the end of the two most recently completed calendar quarters and appropriately adjusted for any share issuances or repurchases during the current calendar quarter. Base management fees for any partial month or quarter are appropriately prorated.

The incentive fee has two parts. The first part, the income incentive fee, which is payable quarterly in arrears, will equal 20% of the excess, if any, of our pre-incentive fee net investment income that exceeds a 1.75% quarterly (7% annualized) hurdle rate, subject to a "catch up" provision measured as of the end of each calendar quarter. In the three months ended June 30, 2014, we paid an incentive fee of \$21.0 million (see calculation below). For this purpose, pre-incentive fee net investment income means interest income, dividend income and any other income (including any other fees (other than fees for providing managerial assistance), such as commitment, origination, structuring, diligence and consulting fees and other fees that we receive from portfolio companies) accrued during the calendar quarter, minus our operating expenses for the quarter (including the base management fee, expenses payable under the Administration Agreement described below, and any interest expense and dividends paid on any issued and outstanding preferred stock, but excluding the incentive fee). Pre-incentive fee net investment income includes, in the case of investments with a deferred interest feature (such as original issue discount, debt instruments with payment in kind interest and zero coupon securities), accrued income that we have not yet received in cash. Pre-incentive fee net investment income does not include any realized capital gains, realized capital losses or unrealized capital appreciation or depreciation. Pre-incentive fee net investment income, expressed as a rate of return on the value of our net assets at the end of the immediately preceding calendar quarter, is compared to a "hurdle rate" of 1.75% per quarter (7% annualized).

We expect the incentive fees we pay to increase to the extent we earn greater interest and dividend income through our investments in portfolio companies and, to a lesser extent, realize capital gains upon the sale of warrants or other equity investments in our portfolio companies and to decrease if our interest and dividend income and capital gains decrease. The "catch-up" provision requires us to pay 100% of our pre-incentive fee net investment income with respect to that portion of such income, if any, that exceeds the hurdle rate but is less than 125% of the quarterly hurdle rate in any calendar quarter (8.75% annualized assuming an annualized hurdle rate of 7%). The catch-up provision is meant to provide Prospect Capital Management with 20% of our pre-incentive fee net investment income as if a hurdle rate did not apply when our pre-incentive fee net investment income exceeds 125% of the quarterly hurdle rate in any calendar quarter (8.75% annualized assuming an annualized hurdle rate of 7%). The income incentive fee will be computed and paid on income that may include interest that is accrued but not yet received in cash. If interest income is accrued but never paid, the Board of Directors would decide to write off the accrual in the quarter when the accrual is determined to be uncollectible. The write off would cause a decrease in interest income for the quarter equal to the amount of the prior accrual. The Investment Adviser is not under any obligation to reimburse us for any part of the incentive fee it received that was based on accrued income that we never receive as a result of a default by an entity on the obligation that resulted in the accrual of such income.

The net investment income used to calculate this part of the incentive fee is also included in the amount of the gross assets used to calculate the 2% base management fee. We pay the Investment Adviser an income incentive fee with respect to our pre-incentive fee net investment income in each calendar quarter as follows:

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

- 100.00% of our pre-incentive fee net investment income with respect to that portion of such pre-incentive fee net investment income, if any, that exceeds the hurdle rate but is less than 125.00% of the quarterly hurdle rate in any calendar quarter (8.75% annualized assuming a 7.00% annualized hurdle rate); and

- 20.00% of the amount of our pre-incentive fee net investment income, if any, that exceeds 125.00% of the quarterly hurdle rate in any calendar quarter (8.75% annualized assuming a 7.00% annualized hurdle rate).



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

The second part of the incentive fee, the capital gains incentive fee, is determined and payable in arrears as of the end of each calendar year (or upon termination of the Investment Advisory Agreement, as of the termination date), and equals 20% of our realized capital gains for the calendar year, if any, computed net of all realized capital losses and unrealized capital depreciation at the end of such year. In determining the capital gains incentive fee payable to the Investment Adviser, we calculate the aggregate realized capital gains, aggregate realized capital losses and aggregate unrealized capital depreciation, as applicable, with respect to each investment that has been in our portfolio. For the purpose of this calculation, an "investment" is

102

---

Table of Contents

defined as the total of all rights and claims which may be asserted against a portfolio company arising out of our participation in the debt, equity, and other financial instruments issued by that company. Aggregate realized capital gains, if any, equals the sum of the differences between the aggregate net sales price of each investment and the aggregate cost basis of such investment when sold or otherwise disposed. Aggregate realized capital losses equal the sum of the amounts by which the aggregate net sales price of each investment is less than the aggregate cost basis of such investment when sold or otherwise disposed. Aggregate unrealized capital depreciation equals the sum of the differences, if negative, between the aggregate valuation of each investment and the aggregate cost basis of such investment as of the applicable calendar year-end. At the end of the applicable calendar year, the amount of capital gains that serves as the basis for our calculation of the capital gains incentive fee involves netting aggregate realized capital gains against aggregate realized capital losses on a since-inception basis and then reducing this amount by the aggregate unrealized capital depreciation. If this number is positive, then the capital gains incentive fee payable is equal to 20% of such amount, less the aggregate amount of any capital gains incentive fees paid since inception. The actual transfer or sale of assets by Prospect to a SPE established by Prospect and consolidated with Prospect is disregarded for purposes of calculating the incentive fee.

The following is a calculation of the most recently paid incentive fee paid in July 2014 (for the quarter ended June 30, 2014) (in thousands):

Prior Quarter Net Asset Value (adjusted for stock offerings during the quarter)	\$ 3,627,282	
Quarterly Hurdle Rate	1.75	%
Current Quarter Hurdle	\$ 63,477	
125% of the Quarterly Hurdle Rate	2.1875	%
125% of the Current Quarter Hurdle	\$ 79,347	
Current Quarter Pre Incentive Fee Net Investment Income	\$ 105,185	
Incentive Fee—"Catch-Up"	\$ 15,869	
Incentive Fee—20% in excess of 125% of the Current Quarter Hurdle	\$ 5,168	
Total Current Quarter Incentive Fee	\$ 21,037	

The total base management fees earned by and paid to Prospect Capital Management during the twelve months ended June 30, 2014, June 30, 2013 and June 30, 2012 were \$109.0 million, \$69.8 million, and \$35.8 million, respectively. The income incentive fees were \$89.3 million, \$81.2 million and \$46.7 million for the twelve months ended June 30, 2014, June 30, 2013 and June 30, 2012, respectively. No capital gains incentive fees were earned for the twelve months ended June 30, 2014, June 30, 2013 and June 30, 2012.

The total investment advisory fees were \$198.3 million, \$151.0 million and \$82.5 million for the twelve months ended June 30, 2014, June 30, 2013 and June 30, 2012, respectively.

Because of the structure of the incentive fee, it is possible that we may have to pay an incentive fee in a quarter where we incur a loss. For example, if we receive pre-incentive fee net investment income in excess of the hurdle rate for a quarter, we will pay the applicable income incentive fee even if we have incurred negative total return in that quarter due to realized or unrealized losses on our investments.

## Examples of Quarterly Incentive Fee Calculation

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

## Alternative 1

## Assumptions

Investment income (including interest, dividends, fees, etc.) = 1.25%

Hurdle rate(1) = 1.75%

## Explanation of Responses:



Table of Contents

Base management fee(2) = 0.50%

Other expenses (legal, accounting, custodian, transfer agent, etc.)(3) = 0.20%

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

(1) Represents 7% annualized hurdle rate

(2) Represents 2% annualized base management fee.

(3) Excludes organizational and offering expenses.

Pre-incentive fee net investment income (investment income -- (base management fee + other expenses)) = 0.55%

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

Alternative 2

Assumptions

Investment income (including interest, dividends, fees, etc.) = 2.70%

Hurdle rate(1) = 1.75%

Base management fee(2) = 0.50%

Other expenses (legal, accounting, custodian, transfer agent, etc.)(3) = 0.20%

(1) Represents 7% annualized hurdle rate

(2) Represents 2% annualized base management fee.

(3) Excludes organizational and offering expenses.

Pre-incentive fee net investment income (investment income - (base management fee + other expenses)) = 2%

Pre-incentive net investment income exceeds hurdle rate, therefore there is an income incentive fee payable by us to our Investment Adviser.

Income incentive Fee	$= 100\% \times \text{"Catch Up"} + \text{the greater of } 0\% \text{ AND } (20\% \times (\text{pre-incentive fee net investment income} - 2.1875)\%)$ $= (100\% \times (2\% - 1.75\%)) + 0\%$ $= 100\% \times 0.25\% + 0\% = 0.25\%$
----------------------	---

Alternative 3

Assumptions

Investment income (including interest, dividends, fees, etc.) = 3%

Hurdle rate(1) = 1.75%

Base management fee(2) = 0.50%

Other expenses (legal, accounting, custodian, transfer agent, etc.)(3) = 0.20%

(1) Represents 7% annualized hurdle rate.

(2) Represents 2% annualized base management fee.

(3) Excludes organizational and offering expenses.

Pre-incentive fee net investment income (investment income - (base management fee + other expenses)) = 2.30%

Pre-incentive net investment income exceeds hurdle rate, therefore there is an income incentive fee payable by us to our Investment Adviser.

Table of Contents

Income incentive Fee  $= 100\% \times \text{"Catch Up"} + \text{the greater of } 0\% \text{ AND } (20\% \times (\text{pre-incentive fee net}))\text{investment income} - 2.1875\%$   
 $= (100\% \times (2.1875\% - 1.75\%)) + \text{the greater of } 0\% \text{ AND } (20\% \times (2.30\% - 2.1875\%))$   
 $= (100\% \times 0.4375\%) + (20\% \times 0.1125\%)$   
 $= 0.4375\% + 0.0225\%$   
 $= 0.46\%$

Example 2: Capital Gains Incentive Fee:

Alternative 1

Assumptions

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

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

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

Alternative 2

Assumptions

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

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

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

Alternative 3

Assumptions

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

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

- Year 1: No impact



Table of Contents

Year 2: Decrease base amount on which the second part of the incentive fee is calculated by \$2 million (realized capital loss on Investment B)

Year 3: Increase base amount on which the second part of the incentive fee is calculated by \$3 million (realized capital gain on Investment A)

Alternative 4

Assumptions

Year 1: \$20 million investment made in company A, or Investment A, and \$20 million investment made in company B, or Investment B

Year 2: FMV of Investment A is determined to be \$21 million, and FMV of Investment B is determined to be \$17 million

Year 3: FMV of Investment A is determined to be \$18 million, and FMV of Investment B is determined to be \$18 million

Year 4: FMV of Investment A is determined to be \$19 million, and FMV of Investment B is determined to be \$21 million

Year 5: Investment A is sold for \$17 million, and Investment B is sold for \$23 million

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

Year 1: No impact

Year 2: Decrease base amount on which the second part of the incentive fee is calculated by \$3 million (unrealized capital depreciation on Investment B)

Year 3: Decrease base amount on which the second part of the incentive fee is calculated by \$1 million (\$2 million in unrealized capital depreciation on Investment A and \$1 million recovery in unrealized capital depreciation on Investment B)

Year 4: Increase base amount on which the second part of the incentive fee is calculated by \$3 million (\$1 million recovery in unrealized capital depreciation on Investment A and \$2 million recovery in unrealized capital depreciation on Investment B)

Year 5: Increase base amount on which the second part of the incentive fee is calculated by \$1 million (\$3 million realized capital gain on Investment B offset by \$3 million realized capital loss on Investment A plus a \$1 million reversal in unrealized capital depreciation on Investment A from Year 4)

Payment of our expenses

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

Duration and Termination

Explanation of Responses:

The Investment Advisory Agreement was originally approved by our Board of Directors on June 23, 2004 and was recently re-approved by the Board of Directors on May 5, 2014 for an additional one-year term expiring June 22, 2015. Unless terminated earlier as described below, it will remain in effect from year to year thereafter if approved annually by our Board of Directors or by the affirmative vote of the holders of a majority of our outstanding voting securities, including, in either case, approval by a majority of our directors who are not interested persons. The Investment Advisory Agreement will automatically

106

---



Table of Contents

terminate in the event of its assignment. The Investment Advisory Agreement may be terminated by either party without penalty upon not more than 60 days' written notice to the other. See "Risk Factors—Risks Relating to Our Business—We are dependent upon Prospect Capital Management's key management personnel for our future success." Administration Agreement

We have also entered into an Administration Agreement with Prospect Administration LLC ("Prospect Administration") under which Prospect Administration, among other things, provides (or arranges for the provision of) administrative services and facilities for us. For providing these services, we reimburse Prospect Administration for our allocable portion of overhead incurred by Prospect Administration in performing its obligations under the Administration Agreement, including rent and our allocable portion of the costs of our Chief Financial Officer and Chief Compliance Officer and his staff. For the years ended June 30, 2014, 2013 and 2012, the reimbursement was approximately \$14.4 million, \$8.7 million and \$6.8 million, respectively. Under this agreement, Prospect Administration furnishes us with office facilities, equipment and clerical, bookkeeping and record keeping services at such facilities. Prospect Administration also performs, or oversees the performance of, our required administrative services, which include, among other things, being responsible for the financial records that we are required to maintain and preparing reports to our stockholders and reports filed with the SEC. In addition, Prospect Administration assists us in determining and publishing our net asset value, overseeing the preparation and filing of our tax returns and the printing and dissemination of reports to our stockholders, and generally oversees the payment of our expenses and the performance of administrative and professional services rendered to us by others. Under the Administration Agreement, Prospect Administration also provides on our behalf managerial assistance to those portfolio companies to which we are required to provide such assistance (see "Managerial Assistance" below). After identifying those whole and partial portions of its internal and external costs and expenses incurred by Prospect Administration to provide administrative services to us or our portfolio companies (e.g., personnel (compensation and overhead), infrastructure, vendors, etc.) and that are reimbursable under the Administration Agreement, Prospect Administration allocates to us all such costs and expenses not previously reimbursed to Prospect Administration by us or our portfolio companies. Our payments to Prospect Administration for these allocated costs and expenses are periodically reviewed by our Board of Directors, which oversees the allocation of the foregoing costs and expenses. The Administration Agreement may be terminated by either party without penalty upon 60 days' written notice to the other party. Prospect Administration is a subsidiary of the Investment Adviser.

During the years ended June 30, 2014, 2013 and 2012, Prospect Administration received payments of \$7.6 million, \$1.4 million and \$1.1 million directly from our controlled portfolio companies for legal, tax and portfolio level accounting services. We were given a credit for these payments as a reduction of the administrative services cost payable by us to Prospect Administration. Had Prospect Administration not received these payments, Prospect Administration's charges for its administrative services would have increased by these amounts.

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

**Indemnification**

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

The Administration Agreement provides that, absent willful misfeasance, bad faith or negligence in the performance of its duties or by reason of the reckless disregard of its duties and obligations, Prospect Administration and its

officers, managers, partners, agents, employees, controlling persons, members and any other person or entity affiliated with it are entitled to indemnification from us for any damages, liabilities, costs and expenses (including reasonable attorneys' fees and amounts reasonably paid in settlement) arising from the rendering of Prospect Administration's services under the Administration Agreement or otherwise as our administrator.

Board of Directors approval of the Investment Advisory Agreement

On May 5, 2014, our Board of Directors voted unanimously to renew the Investment Advisory Agreement for the 12-month period ending June 22, 2015. In its consideration of the Investment Advisory Agreement, the Board of Directors focused

107

---

Table of Contents

on information it had received relating to, among other things: (a) the nature, quality and extent of the advisory and other services to be provided to us by Prospect Capital Management; (b) comparative data with respect to advisory fees or expense ratios paid by other business development companies with similar investment objectives; (c) our projected operating expenses; (d) the projected profitability of Prospect Capital Management and any existing and potential sources of indirect income to Prospect Capital Management or Prospect Administration from their relationships with us and the profitability of those relationships; (e) information about the services to be performed and the personnel performing such services under the Investment Advisory Agreement; (f) the organizational capability and financial condition of Prospect Capital Management and its affiliates and (g) the possibility of obtaining similar services from other third party service providers or through an internally managed structure. In approving the renewal of the Investment

Advisory Agreement, the Board of Directors, including all of the directors who are not "interested persons," considered the following:

**Nature, Quality and Extent of Services.** The Board of Directors considered the nature, extent and quality of the investment selection process employed by Prospect Capital Management. The Board of Directors also considered Prospect Capital Management's personnel and their prior experience in connection with the types of investments made by us. The Board of Directors concluded that the services to be provided under the Investment Advisory Agreement are generally the same as those of comparable business development companies described in the available market data.

**Investment Performance.** The Board of Directors reviewed our investment performance as well as comparative data with respect to the investment performance of other externally managed business development companies. The Board of Directors concluded that Prospect Capital Management was delivering results consistent with our investment objective and that our investment performance was satisfactory when compared to comparable business development companies.

**The reasonableness of the fees paid to Prospect Capital Management.** The Board of Directors considered comparative data based on publicly available information on other business development companies with respect to services rendered and the advisory fees (including the management fees and incentive fees) of other business development companies as well as our projected operating expenses and expense ratio compared to other business development companies. The Board of Directors, on behalf of the Company, also considered the profitability of Prospect Capital Management. Based upon its review, the Board of Directors concluded that the fees to be paid under the Investment Advisory Agreement are reasonable compared to other business development companies.

**Economies of Scale.** The Board of Directors considered information about the potential of Prospect Capital Management to realize economies of scale in managing our assets, and determined that at this time there were not economies of scale to be realized by Prospect Capital Management.

Based on the information reviewed and the discussions detailed above, the Board of Directors (including all of the directors who are not "interested persons") concluded that the investment advisory fee rates and terms are fair and reasonable in relation to the services provided and approved the renewal of the Investment Advisory Agreement with Prospect Capital Management as being in the best interests of the Company and its stockholders.

**Portfolio Managers**

The following individuals function as portfolio managers primarily responsible for the day-to-day management of our portfolio. Our portfolio managers are not responsible for day-to-day management of any other accounts. For a description of their principal occupations for the past five years, see above.

Name	Position	Length of Service with Company (Years)
John F. Barry III	Chairman and Chief Executive Officer	10
M. Grier Eliasek	President and Chief Operating Officer	10

Mr. Eliasek receives no compensation from the Company. Mr. Eliasek receives a salary and bonus from Prospect Capital Management that takes into account his role as a senior officer of the Company and of Prospect Capital Management, his performance and the performance of each of Prospect Capital Management and the Company. Mr. Barry receives no compensation from the Company. Mr. Barry, as the sole member of Prospect Capital

Management, receives a salary and/or bonus from Prospect Capital Management and is entitled to equity distributions after all other obligations of Prospect Capital Management are met.

The following table sets forth the dollar range of our common stock beneficially owned by each of the portfolio managers described above as of June 30, 2014.

108

---

Table of Contents

Name	Aggregate Dollar Range of Common Stock Beneficially Owned by Prospect Capital Management
John F. Barry III	Over \$100,000
M. Grier Eliasek	Over \$100,000

**Managerial Assistance**

As a BDC, we are obligated under the 1940 Act to make available to certain of our portfolio companies significant managerial assistance. "Making available significant managerial assistance" refers to any arrangement whereby we provide significant guidance and counsel concerning the management, operations, or business objectives and policies of a portfolio company. We are also deemed to be providing managerial assistance to all portfolio companies that we control, either by ourselves or in conjunction with others. The nature and extent of significant managerial assistance provided by us will vary according to the particular needs of each portfolio company. Examples of such activities include advice on marketing, operations, fulfillment and overall strategy, capital budgeting, managing relationships with financing sources, recruiting management personnel, evaluating acquisition and divestiture opportunities, participating in board and management meetings, consulting with and advising officers of portfolio companies, and providing other organizational and financial guidance.

Prospect Administration, through a managerial assistance agreement executed with each portfolio company to which we provide managerial assistance, provides such managerial assistance on our behalf. In doing so, Prospect Administration utilizes personnel of our Investment Adviser, Prospect Capital Management. We, on behalf of Prospect Administration, invoice portfolio companies receiving and paying for managerial assistance, and we remit to Prospect Administration its allocated cost of providing such services, including payments to Prospect Capital Management for personnel it utilizes for that purpose. Our payments to Prospect Administration are periodically reviewed by our Board of Directors.

During the years ended June 30, 2014, 2013 and 2012, we received payments of \$7.5 million, \$5.4 million and \$1.8 million, respectively, from our portfolio companies for managerial assistance and subsequently remitted these amounts to Prospect Administration.

**License Agreement**

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

**CERTAIN RELATIONSHIPS AND TRANSACTIONS**

We have entered into the Investment Advisory Agreement with Prospect Capital Management. Our Chairman of the Board of Directors is the sole member of and controls Prospect Capital Management. Our senior management may in the future also serve as principals of other investment managers affiliated with Prospect Capital Management that may in the future manage investment funds with investment objectives similar to ours. In addition, our executive officers and directors and the principals of Prospect Capital Management may serve as officers, directors or principals of entities that operate in the same or related lines of business as we do or of investment funds managed by affiliates. Accordingly, we may not be given the opportunity to participate in certain investments made by investment funds managed by advisers affiliated with Prospect Capital Management. However, our Investment Adviser and other members of the affiliated present and predecessor companies of Prospect Capital Management intend to allocate investment opportunities in a fair and equitable manner consistent with our investment objectives and strategies so that we are not disadvantaged in relation to any other client. See "Risk Factors—Risks Relating To Our Business—Potential conflicts of interest could impact our investment returns" and "Risk Factors—Risks Relating To Our Securities—Our ability to enter into transactions with our affiliates is restricted."

In addition, pursuant to the terms of the Administration Agreement, Prospect Administration provides, or arranges to provide, the Company with the office facilities and administrative services necessary to conduct our day-to-day

operations. Prospect Capital Management is the sole member of and controls Prospect Administration.

**CONTROL PERSONS AND PRINCIPAL STOCKHOLDERS**

As of October 31, 2014, there were no persons that owned 25% or more of our outstanding voting securities, and we believe no person should be deemed to control us, as such term is defined in the 1940 Act.

109

---

Table of Contents

The following table sets forth, as of October 31, 2014, certain ownership information with respect to our common stock for those persons who directly or indirectly own, control or hold with the power to vote, 5% or more of our outstanding common stock and all officers and directors, as a group. Unless otherwise indicated, we believe that the beneficial owners set forth in the tables below have sole voting and investment power.

Name and Address of Beneficial Owner	Number of Shares Beneficially Owned	Percentage of Class(1)
5% or more holders		
None		
Executive officers and directors as a group	4,788,229	1.4 %

Based on a total of 352,597,291 shares of our common stock issued and outstanding as of October 31, (1)2014, including sales of shares under our at-the-market offering program which will settle through November 3, 2014.

The following table sets forth the dollar range of our equity securities beneficially owned by each of our directors and officers as of June 30, 2014. We are not part of a "family of investment companies" as that term is defined in the 1940 Act.

Name of Director or Officer	Dollar Range of Equity Securities in the Company(1)
Independent Directors	
William J. Grempp	\$10,001 - \$50,000
Andrew C. Cooper	None
Eugene S. Stark	Over \$100,000
Interested Directors	
John F. Barry III(2)	Over \$100,000
M. Grier Eliasek	Over \$100,000
Officer	
Brian H. Oswald	Over \$100,000

(1)Dollar ranges are as follows: none, \$1-\$10,000, \$10,001-\$50,000, \$50,001-\$100,000 or over \$100,000.

Represents an indirect beneficial ownership in shares of our common stock, that are beneficially owned directly by (2)Prospect Capital Management, by reason of Mr. Barry's position as a control person of Prospect Capital Management.

Table of Contents

## PORTFOLIO COMPANIES

The following is a listing of our portfolio companies at June 30, 2014. Values are as of June 30, 2014.

The portfolio companies are presented in three categories: "companies more than 25% owned" are portfolio companies in which Prospect directly or indirectly owns more than 25% of the outstanding voting securities of such portfolio company and, therefore, such portfolio company is presumed to be controlled by us under the 1940 Act; "companies owned 5% to 25%" are portfolio companies where Prospect directly or indirectly owns 5% to 25% of the outstanding voting securities of such portfolio company and/or holds one or more seats on the portfolio company's Board of Directors and, therefore, such portfolio company is deemed to be an affiliated person with us under the 1940 Act; "companies less than 5% owned" are portfolio companies where Prospect directly or indirectly owns less than 5% of the outstanding voting securities of such portfolio company and where it has no other affiliations with such portfolio company. As of June 30, 2014, Prospect owned controlling interests in AMU Holdings Inc.; APH Property Holdings, LLC; Arctic Oilfield Equipment USA, Inc.; ARRM Services, Inc. (f/k/a ARRM Holdings Inc.); AWC, LLC; BXC Company, Inc. (f/k/a BXC Holding Company); CCPI Holdings Inc.; CP Holdings of Delaware LLC; Credit Central Holdings of Delaware, LLC; Echelon Aviation LLC; Energy Solutions Holdings Inc. (f/k/a Gas Solutions Holdings, Inc.); First Tower Holdings of Delaware LLC; Gulf Coast Machine & Supply Company; Harbortouch Holdings of Delaware Inc.; The Healing Staff, Inc.; Manx Energy, Inc.; MITY Holdings of Delaware Inc.; Nationwide Acceptance Holdings LLC; NMMB Holdings, Inc.; NPH Property Holdings, LLC; R-V Industries, Inc.; STI Holding, Inc.; UPH Property Holdings, LLC; Valley Electric Holdings I, Inc.; and Wolf Energy Holdings Inc. We also own an affiliated interest in BNN Holdings Corp. (f/k/a Biotronic NeuroNetwork). Prospect makes available significant managerial assistance to its portfolio companies. Prospect generally requests and may receive rights to observe the meetings of its portfolio companies' Boards of Directors.

Portfolio Company	Nature of its Principal Business (Location)	Title and Class of Securities Held	Collateral Held	% of Class Held	Fair Value (Equity) (in thousands)	Fair Value (Debt) (in thousands)
Companies more than 25% owned						
AMU Holdings Inc.	Property Management (Pennsylvania)	Senior Secured Term Loan A to Airmall Inc. (12.00% (LIBOR + 9.00% with 3.00% LIBOR floor), due 6/30/2015)	First priority lien			27,587
		Senior Secured Term Loan B to Airmall Inc. (12.00% plus 6.00% PIK, due 12/31/2015)	First priority lien			17,697
		Series A Preferred Stock of AMU Holdings Inc. (9,919.684 shares)		100.00%	—	
		Common Stock of AMU Holdings Inc. (100 shares)		100.00%	—	
APH Property Holdings, LLC	Real Estate (Florida)	Senior Term Loan to American Property REIT Corp. (6.00% (LIBOR + 4.00% with 2.00% LIBOR floor) plus 5.50% PIK, due 4/1/2019)	First priority lien			167,743
		Membership Interest in APH Property Holdings, LLC		100.00%	38,416	
Arctic Oilfield Equipment	Oil & Gas Production	Senior Secured Term Loan to Arctic Energy Services, LLC	First priority lien			31,640

Explanation of Responses:



Edgar Filing: FRESH DEL MONTE PRODUCE INC - Form 4

USA, Inc.	(Wyoming)	(12.00% (LIBOR + 9.00% with 3.00% LIBOR floor), due 5/5/2019)		
		Senior Subordinated Term Loan to Arctic Energy Services, LLC (14.00% (LIBOR + 11.00% with 3.00% LIBOR floor), due 5/5/2019)	Second priority lien	20,230
		Common Stock of Arctic Oilfield Equipment USA, Inc. (100 shares)	100.00%	9,244
		Senior Secured Note to Ajax Rolled Ring & Machine, LLC (10.50% (LIBOR + 7.50% with 3.00% LIBOR floor), due 3/30/2018)	First priority lien	19,337
ARRM Services, Inc. (f/k/a ARRM Holdings Inc.)	Manufacturing (South Carolina)	Series B Preferred Stock of ARRM Services, Inc. (25,000 shares)	100.00%	6,199
		Series A Convertible Preferred Stock of ARRM Services, Inc. (6,142.60 shares)	85.76%	—
		Common Stock of ARRM Services, Inc. (6.00 shares)	2.09%	—

Table of Contents

Portfolio Company	Nature of its Principal Business (Location)	Title and Class of Securities Held	Collateral Held	% of Class Held	Fair Value (Equity) (in thousands)	Fair Value (Debt) (in thousands)
AWC, LLC	Machinery (North Carolina)	Members Units – Class A (1,800,000 units)			—	
		Members Units – Class B-1 (1 unit)			—	
		Members Units – Class B-2 (7,999,999 units)			—	
		Senior Secured Term Loan A to Boxercraft Incorporated (10.00% plus 1.00% PIK, in non-accrual status effective 1/1/2014, due 9/15/2015)	First priority lien		1,629	
		Senior Secured Term Loan B to Boxercraft Incorporated (10.00% plus 1.00% PIK, in non-accrual status effective 1/1/2014, due 9/15/2015)	First priority lien		486	
BXC Company, Inc. (f/k/a BXC Holding Company)	Textiles, Apparel & Luxury Goods (Georgia)	Senior Secured Term Loan C to Boxercraft Incorporated (10.00% plus 1.00% PIK, in non-accrual status effective 1/1/2014, due 9/15/2015)	First priority lien		—	
		Senior Secured Term Loan D to Boxercraft Incorporated (10.00% plus 1.00% PIK, in non-accrual status effective 4/18/2014, due 9/15/2015)	First priority lien		—	
		Senior Secured Term Loan to Boxercraft Incorporated (10.00% plus 1.00% PIK, in non-accrual status effective 1/1/2014, due 9/15/2015)	First priority lien		—	
		Series A Preferred Stock of BXC Company, Inc. (12,520,000 shares)		86.68%	—	
		Series B Preferred Stock of BXC Company, Inc. (2,400,000 shares)		96.80%	—	
		Common Stock of BXC Company, Inc. (138,250 shares)		83.10%	—	
		Warrant (to purchase 15% of all classes of equity of BXC Company, Inc., expires 8/31/2022)			—	

Edgar Filing: FRESH DEL MONTE PRODUCE INC - Form 4

		Senior Secured Term Loan A to CCPI Inc. (10.00%, due 12/31/2017)	First priority lien	17,213
CCPI Holdings Inc.	Manufacturing (Ohio)	Senior Secured Term Loan B to CCPI Inc. (12.00% plus 7.00% PIK, due 12/31/2017)	First priority lien	8,245
		Common Stock of CCPI Holdings Inc. (100 shares)	100.00%	7,136
		Senior Secured Term Loan A to CP Well Testing, LLC (LIBOR + 5.00% with 2.00% LIBOR floor), due 4/1/2019)	First priority lien	11,035
CP Holdings of Delaware LLC	Oil & Gas Production (Oklahoma)	Senior Secured Term Loan B to CP Well Testing, LLC (LIBOR + 8.00% with 2.00% LIBOR floor) plus 7.50% PIK, due 4/1/2019)	First priority lien	72,238
		Second Lien Term Loan to CP Well Testing, LLC (LIBOR + 7.00% with 2.00% LIBOR floor) plus 9.00% PIK, due 4/1/2019)	Second priority lien	15,000
		Membership Interest in CP Holdings of Delaware LLC	100.00%	31,846
Credit Central Holdings of Delaware, LLC(1)	Consumer Finance (Ohio)	Subordinated Term Loan to Credit Central Loan Company, LLC (10.00% plus 10.00% PIK, due 6/26/2019)	Second priority lien	36,333
		Membership Interest in Credit Central Holdings of Delaware, LLC	100.00%	14,099
Echelon Aviation LLC	Aerospace & Defense (New York)	Senior Secured Revolving Credit Facility to Echelon Aviation LLC – \$150,000 Commitment (11.75% (LIBOR + 9.75% with 2.00% LIBOR floor) plus 2.25% PIK, due 3/31/2022)	First priority lien	78,521
		Membership Interest in Echelon Aviation LLC	100.00%	14,107

112

Table of Contents

Portfolio Company	Nature of its Principal Business (Location)	Title and Class of Securities Held	Collateral Held	% of Class Held	Fair Value (Equity) (in thousands)	Fair Value (Debt) (in thousands)
Energy Solutions Holdings Inc.	Energy (Texas)	Senior Secured Note to Vessel Company, LLC (18.00%, due 12/12/2016)	First priority lien			3,500
		Senior Secured Note to Vessel Company II, LLC (13.00%, due 11/25/2018)	First priority lien			12,504
		Senior Secured Note to Vessel Company III, LLC (13.00%, due 12/3/2018)	First priority lien			16,000
		Senior Secured Note to Yatesville Coal Company, LLC (in non-accrual status effective 1/1/2009, past due)	First priority lien			—
		Common Stock of Energy Solutions Holdings Inc. (100 shares)		100.00%	—	
First Tower Holdings of Delaware LLC(1)	Consumer Finance (Mississippi)	Subordinated Term Loan to First Tower, LLC (10.00% plus 7.00% PIK, due 6/24/2019)	Second priority lien			251,246
		Membership Interest in First Tower Holdings of Delaware LLC		100.00%	75,539	
Gulf Coast Machine & Supply Company	Manufacturing (Texas)	Senior Secured Term Loan to Gulf Coast Machine & Supply Company (10.50% (LIBOR + 8.50% with 2.00% LIBOR floor) plus 2.00% default interest on principal, due 10/12/2017)	First priority lien			14,459
		Series A Convertible Preferred Stock of Gulf Coast Machine & Supply Company (99,900 shares)		100.00%	—	
Harbortouch Holdings of Delaware Inc.	Business Services (Pennsylvania)	Senior Secured Term Loan A to Harbortouch Payments, LLC (9.00% (LIBOR + 7.00% with 2.00% LIBOR floor), due 9/30/2017)	First priority lien			130,796
		Senior Secured Term Loan B to Harbortouch Payments, LLC (5.50% (LIBOR + 4.00% with 1.50% LIBOR floor) plus 5.50% PIK, due 3/31/2018)	First priority lien			137,226

Edgar Filing: FRESH DEL MONTE PRODUCE INC - Form 4

		Common Stock of Harbortouch Holdings of Delaware Inc. (100 share)	100.00%	23,292
		Secured Promissory Notes to The Healing Staff, Inc. and Vets Securing America, Inc. (15.00%, in non-accrual status effective 12/22/2010, past due)		—
The Healing Staff, Inc.	Contracting (North Carolina)	Senior Demand Note to The Healing Staff, Inc. (15.00%, in non-accrual status effective 11/1/2010, past due)		—
		Common Stock of The Healing Staff, Inc. (1,000 shares)	100.00%	—
		Common Stock of Vets Securing America, Inc. (1 share)	100.00%	—
Manx Energy, Inc.	Oil & Gas Production (Kansas)	Senior Secured Note to Manx Energy, Inc. (13.00%, in non-accrual status effective 1/19/2010, past due)		—
		Series A-1 Preferred Stock of Manx Energy, Inc. (6,635 shares)	75.96%	—
		Common Stock of Manx Energy, Inc. (17,082 shares)	0.40%	—
		Revolving Line of Credit to MITY, Inc. – \$7,500 Commitment (9.50% (LIBOR + 7.00% with 2.50% LIBOR floor), due 12/23/2014)		—
MITY Holdings of Delaware Inc.	Durable Consumer Products (Utah)	Senior Secured Note A to MITY, Inc. (10.00% (LIBOR + 7.00% with 3.00% LIBOR floor), due 3/19/2019)		18,250
		Senior Secured Note B to MITY, Inc. (10.00% (LIBOR + 7.00% with 3.00% LIBOR floor) plus 10.00% PIK, due 3/19/2019)		15,769
		Common Stock of MITY Holdings of Delaware Inc. (100 shares)	100.00%	15,270

Table of Contents

Portfolio Company	Nature of its Principal Business (Location)	Title and Class of Securities Held	Collateral Held	% of Class Held	Fair Value (Equity) (in thousands)	Fair Value (Debt) (in thousands)
Nationwide Acceptance Holdings LLC(1)	Consumer Finance (Illinois)	Subordinated Term Loan to Nationwide Acceptance LLC (10.00% plus 10.00% PIK, due 6/18/2019)	Second priority lien			14,820
		Membership Interest in Nationwide Acceptance Holdings LLC		100.00%	15,103	
		Senior Secured Note to NMMB, Inc. (14.00%, due 5/6/2016)	First priority lien			2,183
NMMB Holdings, Inc.	Media (New York)	Senior Secured Note to Armed Forces Communications, Inc. (14.00%, due 5/6/2016)	First priority lien			4,114
		Series B Convertible Preferred Stock of NMMB Holdings, Inc. (8,086 shares)		100.00%	—	
		Series A Preferred Stock of NMMB Holdings, Inc. (4,400 shares)		100.00%	—	
NPH Property Holdings, LLC	Real Estate (Texas)	Senior Term Loan to National Property REIT Corp. (6.00% (LIBOR + 4.00% with 2.00% LIBOR floor) plus 5.50% PIK, due 4/1/2019)	First priority lien			105,309
		Membership Interest in NPH Property Holdings, LLC		100.00%	19,202	
		Senior Subordinated Note to R-V Industries, Inc. (10.00% (LIBOR + 9.00% with 1.00% LIBOR floor), due 6/12/2018)	Second priority lien			30,411
R-V Industries, Inc.	Manufacturing (Pennsylvania)	Common Stock of R-V Industries, Inc. (545,107 shares)		84.62%	19,989	
		Warrant (to purchase 200,000 shares of Common Stock of R-V Industries, expires 6/30/2017)			7,334	
		Revolving Line of Credit to Borga, Inc. – \$1,150 Commitment (5.00% (PRIME + 1.75%), in non-accrual status effective 3/2/2010, past due)	First priority lien			436
Exploration of Resources Inc.	Oil and Gas (California)					—

		Senior Secured Term Loan B to Borga, Inc. (8.50% (PRIME + 5.25%), in non-accrual status effective 3/2/2010, past due)	First priority lien	—
		Senior Secured Term Loan C to Borga, Inc. (12.00% plus 4.00% PIK, in non-accrual status effective 3/2/2010, past due)	First priority lien	—
		Common Stock of STI Holding, Inc. (100 shares)		100.00% —
		Warrant (to purchase 33,750 shares of Common Stock of Borga, Inc., expires 5/6/2015)		—
UPH Property Holdings, LLC	Real Estate (Georgia)	Senior Term Loan to United Property REIT Corp. (6.00% (LIBOR + 4.00% with 2.00% LIBOR floor) plus 5.50% PIK, due 4/1/2019)	First priority lien	19,027
		Membership Interest in UPH Property Holdings, LLC		100.00% 5,539
		Senior Secured Note to Valley Electric Co. of Mt. Vernon, Inc. (8.00% (LIBOR + 5.00% with 3.00% LIBOR floor) plus 2.50% PIK, due 12/31/2017)	First priority lien	10,081
Valley Electric Holdings I, Inc.	Construction & Engineering (Washington)	Senior Secured Note to Valley Electric Company, Inc. (10.00% plus 8.5% PIK, due 12/31/2018)	First priority lien	20,500
		Common Stock of Valley Electric Holdings I, Inc. (100 shares)		100.00% 2,975

Table of Contents

Portfolio Company	Nature of its Principal Business (Location)	Title and Class of Securities Held	Collateral Held	% of Class Held	Fair Value (Equity) (in thousands)	Fair Value (Debt) (in thousands)
		Senior Secured Promissory Note to Wolf Energy, LLC secured by assets formerly owned by H&M (18.00%, in non-accrual status effective 4/15/2013, due 4/15/2018)	First priority lien			3,386
		Senior Secured Note to Appalachian Energy LLC (8.00%, in non-accrual status effective 1/19/2010, past due)	First priority lien			—
Wolf Energy Holdings Inc.	Oil & Gas Production (Kansas)	Senior Secured Note to Appalachian Energy LLC (8.00%, in non-accrual status, past due)	First priority lien			—
		Senior Secured Note to Coalbed, LLC (8.00%, in non-accrual status effective 1/19/2010, past due)	First priority lien			—
		Common Stock of Wolf Energy Holdings Inc. (100 shares)		100.00%	—	
		Net Profits Interest in Wolf Energy, LLC (8% of Equity Distributions)			213	
Companies 5% to 25% owned						
		Senior Secured Note (10.00% (LIBOR + 8.00% with 2.00% LIBOR floor), due 12/17/2017)	First priority lien			28,950
BNN Holdings Corp. (f/k/a Biotronic NeuroNetwork)	Healthcare (Michigan)	Series A Preferred Stock (9,925.455 shares)		11.68%	3,171	
		Series B Preferred Stock (1,753.636 shares)		9.98%	—	
Companies less than 5% owned						
Aderant North America, Inc.	Software & Computer Services (Georgia)	Second Lien Term Loan (10.00% (LIBOR + 8.75% with 1.25% LIBOR floor), due 6/20/2019)	Second priority lien			7,000
Aircraft Fasteners International, LLC	Machinery (California)	Class A Units (32,500 units)		5.00%	505	
ALG USA Holdings, LLC	Hotels, Restaurants & Leisure	Second Lien Term Loan (10.25% (LIBOR + 9.00%	Second priority lien			12,000

Explanation of Responses:



Edgar Filing: FRESH DEL MONTE PRODUCE INC - Form 4

	(Pennsylvania)	with 1.25% LIBOR floor), due 2/28/2020)			
Allied Defense Group, Inc.	Aerospace & Defense (Virginia)	Common Stock (10,000 shares)	0.12%	—	
American Broadband Holding Company and Cameron Holdings of NC, Inc.	Telecommunication Services (North Carolina)	Senior Secured Term Loan B (11.00% (LIBOR + 9.75% with 1.25% LIBOR floor), due 9/30/2018)			74,654
American Gilsonite Company	Metal Services & Minerals (Utah)	Second Lien Term Loan (11.50%, due 9/1/2017) Membership Interest		Second priority lien 2.59%	3,477 38,500
Apidos CLO IX(1)	Diversified Financial Services (Cayman Islands)	Subordinated Notes (Residual Interest)	52.73%		19,903
Apidos CLO XI(1)	Diversified Financial Services (Cayman Islands)	Subordinated Notes (Residual Interest)	90.00%		37,087
Apidos CLO XII(1)	Diversified Financial Services (Cayman Islands)	Subordinated Notes (Residual Interest)	95.27%		42,499
Apidos CLO XV(1)	Diversified Financial Services (Cayman Islands)	Subordinated Notes (Residual Interest)	83.56%		36,715
Arctic Glacier U.S.A., Inc.	Food Products (Minnesota)	Second Lien Term Loan (10.50% (LIBOR + 9.25% with 1.25% LIBOR floor), due 11/10/2019)		Second priority lien	150,000

115

Table of Contents

Portfolio Company	Nature of its Principal Business (Location)	Title and Class of Securities Held	Collateral Held	% of Class Held	Fair Value (Equity) (in thousands)	Fair Value (Debt) (in thousands)
		Senior Secured Term Loan A (6.50% (LIBOR + 5.50% with 1.00% LIBOR floor), due 4/8/2019)	First priority lien			26,831
Ark-La-Tex Wireline Services, LLC	Oil and Gas Production (Louisiana)	Senior Secured Term Loan B (10.50% (LIBOR + 9.50% with 1.00% LIBOR floor), due 4/8/2019)	First priority lien			26,831
		Delayed Draw Term Loan – \$5,000 Commitment (, due 4/8/2019)	First priority lien			—
Armor Holding II LLC	Diversified Financial Services (New York)	Second Lien Term Loan (10.25% (LIBOR + 9.00% with 1.25% LIBOR floor), due 12/26/2020)	Second priority lien			6,874
Atlantis Health Care Group (Puerto Rico), Inc.	Healthcare (Puerto Rico)	Revolving Line of Credit – \$3,000 Commitment (13.00% (LIBOR + 11.00% with 2.00% LIBOR floor), due 8/21/2014)	First priority lien			2,350
		Senior Term Loan (10.00% (LIBOR + 8.00% with 2.00% LIBOR floor), due 2/21/2018)	First priority lien			34,102
Babson CLO Ltd. 2011-I(1)	Diversified Financial Services (Cayman Islands)	Subordinated Notes (Residual Interest)		66.16%	33,801	
Babson CLO Ltd. 2012-I(1)	Diversified Financial Services (Cayman Islands)	Subordinated Notes (Residual Interest)		74.41%	26,401	
Babson CLO Ltd. 2012-II(1)	Diversified Financial Services (Cayman Islands)	Subordinated Notes (Residual Interest)		73.58%	27,230	
Blue Coat Systems, Inc.	Software & Computer Services (Massachusetts)	Second Lien Term Loan (9.50% (LIBOR + 8.50% with 1.00% LIBOR floor), due 6/28/2020)	Second priority lien			11,000
Broder Bros., Co.	Textiles, Apparel & Luxury Goods (Pennsylvania)	Senior Secured Notes (10.25% (LIBOR + 9.00% with 1.25% LIBOR floor), due 4/8/2019)	First priority lien			257,575
Brookside Mill CLO Ltd.(1)	Diversified Financial	Subordinated Notes (Residual Interest)		50.86%	25,081	

Edgar Filing: FRESH DEL MONTE PRODUCE INC - Form 4

Services (Cayman Islands)					
Byrider Systems Acquisition Corp.(1)	Auto Finance (Indiana)	Senior Subordinated Notes (12.00% plus 2.00% PIK, due 11/3/2016)	First priority lien		11,139
	Personal & Nondurable Consumer Products (Colorado)	Membership Interest		2.80%	182
Caleel + Hayden, LLC		Escrow Receivable			118
		Senior Secured Term Loan A (6.50% (LIBOR + 5.00% with 1.50% LIBOR floor), due 9/16/2016)	First priority lien		92,085
Capstone Logistics, LLC	Commercial Services (Georgia)	Senior Secured Term Loan B (11.50% (LIBOR + 10.00% with 1.50% LIBOR floor), due 9/16/2016)	First priority lien		98,465
Cent CLO 17 Limited(1)	Diversified Financial Services (Cayman Islands)	Subordinated Notes (Residual Interest)		56.14%	23,896
Cent CLO 20 Limited(1)	Diversified Financial Services (Cayman Islands)	Subordinated Notes (Residual Interest)		90.00%	40,259
Cent CLO 21 Limited(1)	Diversified Financial Services (Cayman Islands)	Subordinated Notes (Residual Interest)		89.08%	46,154
		Class D Senior Secured Notes (5.23% (LIBOR + 5.00%, due 1/19/2023)	First priority lien	100.00%	18,037
CIFC Funding 2011-I, Ltd.(1)	Diversified Financial Services (Cayman Islands)	Class E Subordinated Notes (7.23% (LIBOR + 7.00%, due 1/19/2023)	Second priority lien	86.03%	15,162
CIFC Funding 2013-III, Ltd.(1)	Diversified Financial Services (Cayman Islands)	Subordinated Notes (Residual Interest)		90.00%	43,217

116

Table of Contents

Portfolio Company	Nature of its Principal Business (Location)	Title and Class of Securities Held	Collateral Held	% of Class Held	Fair Value (Equity) (in thousands)	Fair Value (Debt) (in thousands)
CIFC Funding 2013-IV, Ltd.(1)	Diversified Financial Services (Cayman Islands)	Subordinated Notes (Residual Interest)		85.05%	40,934	
Cinedigm DC Holdings, LLC	Software & Computer Services (New York)	Senior Secured Term Loan (11.00% (LIBOR + 9.00% with 2.00% LIBOR floor) plus 2.50% PIK, due 3/31/2021)	First priority lien			68,714
The Copernicus Group, Inc.	Healthcare (North Carolina)	Escrow Receivable			115	
Correctional Healthcare Holding Company, Inc.	Healthcare (Colorado)	Second Lien Term Loan (11.25%, due 1/11/2020)	Second priority lien			27,642
Coverall North America, Inc.	Commercial Services (Florida)	Senior Secured Term Loan (11.50% (LIBOR + 8.50% with 3.00% LIBOR floor), due 12/17/2017)	First priority lien			51,210
Crosman Corporation	Manufacturing (New York)	Second Lien Term Loan (12.00% (LIBOR + 10.50% with 1.50% LIBOR floor), due 12/30/2019)	Second priority lien			39,708
CRT MIDCO, LLC	Media (Wisconsin)	Senior Secured Term Loan (10.50% (LIBOR + 7.50% with 3.00% LIBOR floor), due 6/30/2017)	First priority lien			47,504
Deltek, Inc.	Software & Computer Services (Virginia)	Second Lien Term Loan (10.00% (LIBOR + 8.75% with 1.25% LIBOR floor), due 10/10/2019)	Second priority lien			12,000
Diamondback Operating, LP	Oil & Gas Production (Oklahoma)	Net Profits Interest (15% of Equity Distributions)			—	
Dover Saddlery, Inc.	Retail (Massachusetts)	Common Stock (30,974 shares)		0.58%	168	
Edmentum, Inc. (f/k/a Archipelago Learning, Inc.)	Consumer Services (Minnesota)	Second Lien Term Loan (11.25% (LIBOR + 9.75% with 1.50% LIBOR floor), due 5/17/2019)	Second priority lien			50,000
Empire Today, LLC	Durable Consumer Products (Illinois)	Senior Secured Note (11.375%, due 2/1/2017)	First priority lien			15,700

Explanation of Responses:

Edgar Filing: FRESH DEL MONTE PRODUCE INC - Form 4

Fischbein, LLC	Machinery (North Carolina)	Escrow Receivable		116	
		Senior Secured Term Loan A (6.50% (LIBOR + 5.50% with 1.00% LIBOR floor), due 4/30/2019)	First priority lien		25,000
Fleetwash, Inc.	Business Services (New Jersey)	Senior Secured Term Loan B (10.50% (LIBOR + 9.50% with 1.00% LIBOR floor), due 4/30/2019)	First priority lien		25,000
		Delayed Draw Term Loan – \$15,000 Commitment (9.50% (LIBOR + 8.50% with 1.00% LIBOR floor), due 4/30/2019)	First priority lien		—
Focus Brands, Inc.	Consumer Services (Georgia)	Second Lien Term Loan (10.25% (LIBOR + 9.00% with 1.25% LIBOR floor), due 8/21/2018)	Second priority lien		18,000
Focus Products Group International, LLC (f/k/a FPG, LLC)	Durable Consumer Products (Illinois)	Senior Secured Term Loan (12.00% (LIBOR + 11.00% with 1.00% LIBOR floor), due 1/20/2017)	First priority lien		19,886
		Common Stock (5,638 shares)		0.37%	—
Galaxy XII CLO, Ltd.(1)	Diversified Financial Services (Cayman Islands)	Subordinated Notes (Residual Interest)		51.16%	20,449
Galaxy XV CLO, Ltd.(1)	Diversified Financial Services (Cayman Islands)	Subordinated Notes (Residual Interest)		50.34%	31,824
Galaxy XVI CLO, Ltd.(1)	Diversified Financial Services (Cayman Islands)	Subordinated Notes (Residual Interest)		51.02%	20,573
Galaxy XVII CLO, Ltd.(1)	Diversified Financial Services (Cayman Islands)	Subordinated Notes (Residual Interest)		79.10%	36,589
Global Employment Solutions, Inc.	Business Services (Colorado)	Senior Secured Term Loan (10.00% (LIBOR + 9.00% with 1.00% LIBOR floor), due 3/25/2019)	First priority lien		28,464

117

Table of Contents

Portfolio Company	Nature of its Principal Business (Location)	Title and Class of Securities Held	Collateral Held	% of Class Held	Fair Value (Equity) (in thousands)	Fair Value (Debt) (in thousands)
Grocery Outlet, Inc.	Retail (California)	Second Lien Term Loan (10.50% (LIBOR + 9.25% with 1.25% LIBOR floor), due 6/17/2019)	Second priority lien			14,457
GTP Operations, LLC (f/k/a CI (Transplace) Holdings, LLC)	Software & Computer Services (Texas)	Senior Secured Term Loan (10.00% (LIBOR + 5.00% with 5.00% LIBOR floor), due 12/11/2018)	First priority lien			112,546
Halcyon Loan Advisors Funding 2012-1 Ltd.(1)	Diversified Financial Services (Cayman Islands)	Subordinated Notes (Residual Interest)		62.88%	22,570	
Halcyon Loan Advisors Funding 2013-1 Ltd.(1)	Diversified Financial Services (Cayman Islands)	Subordinated Notes (Residual Interest)		78.60%	41,509	
Halcyon Loan Advisors Funding 2014-1 Ltd.(1)	Diversified Financial Services (Cayman Islands)	Subordinated Notes (Residual Interest)		63.64%	23,110	
Halcyon Loan Advisors Funding 2014-2 Ltd.(1)	Diversified Financial Services (Cayman Islands)	Subordinated Notes (Residual Interest)		78.37%	38,066	
Harley Marine Services, Inc.	Transportation (Washington)	Second Lien Term Loan (10.50% (LIBOR + 9.25% with 1.25% LIBOR floor), due 12/20/2019)	Second priority lien			8,832
ICON Health & Fitness, Inc.	Durable Consumer Products (Utah)	Senior Secured Note (11.875%, due 10/15/2016)	First priority lien			20,889
ICV-CSI Holdings, LLC (f/k/a Cargo Airport Services USA, LLC)	Transportation (New York)	Membership Units (1.6 units)		4.71%	2,079	
IDQ Holdings, Inc.	Automobile (Texas)	Senior Secured Note (11.50%, due 4/1/2017)	First priority lien			12,500
Ikaria, Inc.	Healthcare (New Jersey)	Second Lien Term Loan (8.75% (LIBOR + 7.75% with 1.00% LIBOR floor), due 2/12/2022)	Second priority lien			25,000

Edgar Filing: FRESH DEL MONTE PRODUCE INC - Form 4

Injured WorkersHealthcare Pharmacy, LLC (Massachusetts)		Second Lien Term Loan (11.50% (LIBOR + 7.00% with Second priority 4.50% LIBOR floor) plus lien	22,904
		1.00% PIK, due 5/31/2019)	
		Senior Secured Term Loan A (5.50% (LIBOR + 4.50% with First priority 1.00% LIBOR floor), due lien	126,453
		3/28/2019)	
Instant Web, Media LLC (Minnesota)		Senior Secured Term Loan B (12.00% (LIBOR + 11.00% First priority with 1.00% LIBOR floor), due lien	128,000
		3/28/2019)	
		Senior Secured Term Loan C (12.75% (LIBOR + 11.75% First priority with 1.00% LIBOR floor), due lien	12,500
		3/28/2019)	
InterDent, Inc. Healthcare (California)		Senior Secured Term Loan A (7.25% (LIBOR + 5.75% with First priority 1.50% LIBOR floor), due lien	63,225
		8/3/2017)	
		Senior Secured Term Loan B (12.25% (LIBOR + 9.25% with First priority 3.00% LIBOR floor), due lien	67,625
		8/3/2017)	
JHH Holdings, Healthcare Inc. (Texas)		Second Lien Term Loan (11.25% (LIBOR + 10.00% Second priority with 1.25% LIBOR floor) plus lien	35,119
		0.50% PIK, due 3/30/2019)	
		Revolving Line of Credit – \$5,000 Commitment (10.25% First priority (LIBOR + 8.25% with 2.00% lien	—
		LIBOR floor), due 12/21/2014)	
LaserShip, Inc. Transportation (Virginia)		Senior Secured Term Loan A (10.25% (LIBOR + 8.25% with First priority 2.00% LIBOR floor), due lien	36,094
		3/18/2019)	
		Senior Secured Term Loan B (10.25% (LIBOR + 8.25% with First priority 2.00% LIBOR floor), due lien	22,111
		3/18/2019)	
		Delayed Draw Term Loan – \$6,000 Commitment (2.00%, First priority due 12/31/2015) lien	—

Table of Contents

Portfolio Company	Nature of its Principal Business (Location)	Title and Class of Securities Held	Collateral Held	% of Class Held	Fair Value (Equity) (in thousands)	Fair Value (Debt) (in thousands)
LCM XIV Ltd.(1)	Diversified Financial Services (Cayman Islands)	Income Notes (Residual Interest)		84.13%	25,124	
LHC Holdings Corp.	Healthcare (Florida)	Revolving Line of Credit – \$750 Commitment (8.50% (LIBOR + 6.00% with 2.50% LIBOR floor), due 5/31/2015)	First priority lien			—
		Senior Subordinated Debt (10.50%, due 5/31/2015)	Second priority lien			1,865
		Membership Interest (125 units)		2.46%	253	
Madison Park Funding IX, Ltd.(1)	Diversified Financial Services (Cayman Islands)	Subordinated Notes (Residual Interest)		51.00%	27,266	
Matrixx Initiatives, Inc.	Pharmaceuticals (New Jersey)	Senior Secured Term Loan A (7.50% (LIBOR + 6.00% with 1.50% LIBOR floor), due 8/9/2018)	First priority lien			36,839
		Senior Secured Term Loan B (12.50% (LIBOR + 11.00% with 1.50% LIBOR floor), due 8/9/2018)	First priority lien			36,851
Maverick Healthcare Equity, LLC	Healthcare (Arizona)	Preferred Units (1,250,000 units)		1.36%	821	
		Class A Common Units (1,250,000 units)		1.17%	—	
Mountain View CLO 2013-I Ltd.(1)	Diversified Financial Services (Cayman Islands)	Subordinated Notes (Residual Interest)		97.00%	43,555	
NCP Finance Limited Partnership(1)	Consumer Finance (Ohio)	Subordinated Secured Term Loan (11.00% (LIBOR + 9.75% with 1.25% LIBOR floor), due 9/30/2018)	Second priority lien			12,208
New Century Transportation, Inc.	Transportation (New Jersey)	Senior Subordinated Term Loan (12.00% (LIBOR + 10.00% with 2.00% LIBOR floor) plus 4.00% PIK, in non-accrual status effective 4/1/2014, due 2/3/2018)	Second priority lien			—
Nixon, Inc.						13,316

Explanation of Responses:



Edgar Filing: FRESH DEL MONTE PRODUCE INC - Form 4

	Durable Consumer Products (California)	Senior Secured Term Loan (8.75% plus 2.75% PIK, due 4/16/2018)	First priority lien	
NRG Manufacturing, Inc.	Manufacturing (Texas)	Escrow Receivable		1,110
Octagon Investment Partners XV, Ltd.(1)	Diversified Financial Services (Cayman Islands)	Income Notes (Residual Interest)	50.12%	26,732
Onyx Payments, Inc. (f/k/a Pegasus Business Intelligence, LP)	Diversified Financial Services (Texas)	Senior Secured Term Loan A (6.75% (LIBOR + 5.50% with 1.25% LIBOR floor), due 4/18/2018)	First priority lien	15,125
		Senior Secured Term Loan B (13.75% (LIBOR + 12.50% with 1.25% LIBOR floor), due 4/18/2018)	First priority lien	15,938
Pelican Products, Inc.	Durable Consumer Products (California)	Second Lien Term Loan (9.25% (LIBOR + 8.25% with 1.00% LIBOR floor), due 4/9/2021)	Second priority lien	17,500
Photonis Technologies SAS(1)	Aerospace & Defense (France)	First Lien Term Loan (8.50% (LIBOR + 7.50% with 1.00% LIBOR floor), due 9/18/2019)	First priority lien	10,339
Pinnacle (US) Acquisition Co. Limited	Software & Computer Services (Texas)	Second Lien Term Loan (10.50% (LIBOR + 9.25% with 1.25% LIBOR floor), due 8/3/2020)	Second priority lien	10,000
		Revolving Line of Credit – \$15,000 Commitment (10.00% (LIBOR + 9.50% with 0.50% LIBOR floor), due 12/23/2014)	First priority lien	—
PrimeSport, Inc.	Hotels, Restaurants & Leisure (Georgia)	Senior Secured Term Loan A (7.50% (LIBOR + 6.50% with 1.00% LIBOR floor), due 12/23/2019)	First priority lien	43,263
		Senior Secured Term Loan B (11.50% (LIBOR + 10.50% with 1.00% LIBOR floor) plus 1.00% PIK, due 12/23/2019)	First priority lien	43,700
Prince Mineral Holding Corp.	Metal Services & Minerals (New York)	Senior Secured Term Loan (11.50%, due 12/15/2019)	First priority lien	10,000

Table of Contents

Portfolio Company	Nature of its Principal Business (Location)	Title and Class of Securities Held	Collateral Held	% of Class Held	Fair Value (Equity) (in thousands)	Fair Value (Debt) (in thousands)
Progrexion Holdings, Inc.	Consumer Services (Utah)	Senior Secured Term Loan (10.50% (LIBOR + 8.50% with 2.00% LIBOR floor), due 9/14/2017)	First priority lien			436,647
Rocket Software, Inc.	Software & Computer Services (Massachusetts)	Second Lien Term Loan (10.25% (LIBOR + 8.75% with 1.50% LIBOR floor), due 2/8/2019)	Second priority lien			20,000
Royal Adhesives & Sealants, LLC	Chemicals (Indiana)	Second Lien Term Loan (9.75% (LIBOR + 8.50% with 1.25% LIBOR floor), due 1/31/2019)	Second priority lien			19,713
Ryan, LLC	Business Services (Texas)	Subordinated Unsecured Notes (12.00% (LIBOR + 9.00% with 3.00% LIBOR floor) plus 3.00% PIK, due 6/30/2018)	None			70,531
Sandow Media, LLC	Media (Florida)	Senior Secured Term Loan (12.00%, due 5/8/2018)	First priority lien			23,524
Small Business Whole Loan Portfolio	Diversified Financial Services (New York)	144 small business loans issued by OnDeck Capital, Inc.	None			4,252
Snacks Parent Corporation	Food Products (Minnesota)	Series A Preferred Stock (4,021.45 shares)		0.37%	—	
		Series B Preferred Stock (1,866.10 shares)		0.37%	—	
		Warrant (to purchase 31,196.52 shares of Common Stock, expires 11/12/2020)			1,819	
Spartan Energy Services, Inc.	Energy (Louisiana)	Senior Secured Term Loan (10.50% (LIBOR + 9.00% with 1.50% LIBOR floor), due 12/28/2017)	First priority lien			35,633
Speedy Group Holdings Corp.(1)	Consumer Finance (Canada)	Senior Unsecured Notes (12.00%, due 11/15/2017)	None			15,000
Sport Helmets Holdings, LLC	Personal & Nondurable Consumer Products (New York)	Escrow Receivable			130	
Stauber Performance	Food Products (California)	Senior Secured Term Loan (10.50% (LIBOR + 7.50% with	First priority lien			12,809

Explanation of Responses:

Edgar Filing: FRESH DEL MONTE PRODUCE INC - Form 4

Ingredients, Inc.		3.00% LIBOR floor), due 1/21/2016)			
		Senior Secured Term Loan	First priority		9,975
		(10.50% (LIBOR + 7.50% with lien 3.00% LIBOR floor), due 5/21/2017)			
		Subordinated Secured Revolving Credit Facility – \$50,300 Commitment (12.25% (LIBOR + 10.75% with 1.50% LIBOR floor) plus 3.75% PIK, in non-accrual status effective 12/1/2011, due 12/1/2015)	Second priority lien		—
Stryker Energy, LLC	Oil & Gas Production (Ohio)	Overriding Royalty Interests			—
	Diversified				
Sudbury Mill CLO Ltd.(1)	Financial Services (Cayman Islands)	Subordinated Notes (Residual Interest)		61.30%	26,140
	Diversified				
Symphony CLO IX Ltd.(1)	Financial Services (Cayman Islands)	Preference Shares (Residual Interest)		71.09%	44,294
	Diversified				
Symphony CLO XIV Ltd.(1)	Financial Services (Cayman Islands)	Subordinated Notes (Residual Interest)		67.47%	49,025
System One Holdings, LLC	Business Services (Pennsylvania)	Senior Secured Term Loan (11.00% (LIBOR + 9.50% with 1.50% LIBOR floor), due 12/31/2018)	First priority lien		44,646
Targus Group International, Inc.	Durable Consumer Products (California)	First Lien Term Loan (11.00% (LIBOR + 9.50% with 1.50% LIBOR floor) plus 1.0% PIK, due 5/24/2016)	First priority lien		19,949
TB Corp.	Hotels, Restaurants & Leisure (Texas)	Senior Subordinated Note (12.00% plus 1.50% PIK, due 12/19/2018)	Second priority lien		23,628
Tectum Holdings, Inc.	Automobile (Michigan)	Second Lien Term Loan (9.00% (LIBOR + 8.00%, due 3/12/2019)	Second priority lien		9,952
Therakos, Inc.	Healthcare (New Jersey)	Second Lien Term Loan (11.25% (LIBOR + 10.00% with 1.25% LIBOR floor), due 6/27/2018)	Second priority lien		13,000

Table of Contents

Portfolio Company	Nature of its Principal Business (Location)	Title and Class of Securities Held	Collateral Held	% of Class Held	Fair Value (Equity) (in thousands)	Fair Value (Debt) (in thousands)
		Senior Secured Term Loan A (7.00% (LIBOR + 6.00% with First priority 1.00% LIBOR floor), due 3/7/2019)	lien			48,705
Tolt Solutions, Inc.	Business Services (South Carolina)	Senior Secured Term Loan B (12.00% (LIBOR + 11.00% with 1.00% LIBOR floor), due 3/7/2019)	First priority lien			48,900
		Senior Secured Term Loan A (6.50% (LIBOR + 4.50% with First priority 2.00% LIBOR floor), due 6/18/2018)	lien			29,100
Traeger Pellet Grills LLC	Durable Consumer Products (Oregon)	Senior Secured Term Loan B (11.50% (LIBOR + 9.50% with 2.00% LIBOR floor), due 6/18/2018)	First priority lien			29,700
		Second Lien Term Loan (9.00% (LIBOR + 8.00% with 1.00% LIBOR floor), due 8/14/2020)	Second priority lien			5,000
Transaction Network Services, Inc.	Telecommunication Services (Virginia)	Second Lien Term Loan (10.00% (LIBOR + 9.00% with 1.00% LIBOR floor), due 8/11/2019)	Second priority lien			9,810
TriMark USA, LLC	Hotels, Restaurants & Leisure (Massachusetts)	Second Lien Term Loan (12.75% (LIBOR + 11.00% with 1.75% LIBOR floor), due 5/16/2018)	Second priority lien			160,000
United Sporting Companies, Inc.	Durable Consumer Products (South Carolina)	Senior Secured Term Loan A (6.50% (LIBOR + 5.50% with First priority 1.00% LIBOR floor), due 3/31/2019)	lien			23,850
United States Environmental Services, LLC	Commercial Services (Texas)	Senior Secured Term Loan B (11.50% (LIBOR + 10.50% with 1.00% LIBOR floor), due 3/31/2019)	First priority lien			36,000
Venio LLC (f/k/a LM Keane Acquisition Co.)	Business Services (Pennsylvania)	Second Lien Term Loan (12.00% (LIBOR + 9.50% with 2.50% LIBOR floor), due 2/19/2020)	Second priority lien			16,726
Voya CLO 2012-2, Ltd. (f/k/a ING IM	Diversified Financial Services (Cayman Islands)	Income Notes (Residual Interest)		95.00%	35,843	

Explanation of Responses:

CLO 2012-2, Ltd.)(1) Voya CLO 2012-3, Ltd. (f/k/a ING IM CLO 2012-3, Ltd.)(1) Voya CLO 2012-4, Ltd. (f/k/a ING IM CLO 2012-4, Ltd.)(1) Voya CLO 2014-1, Ltd. (f/k/a ING IM CLO 2014-1, Ltd.)(1)	Diversified Financial Services (Cayman Islands)	Income Notes (Residual Interest)	95.01%	43,960	
Washington Mill CLO Ltd.(1)	Diversified Financial Services (Cayman Islands)	Income Notes (Residual Interest)	95.00%	39,647	
Water Pik, Inc.	Diversified Financial Services (Cayman Islands)	Subordinated Notes (Residual Interest)	94.27%	32,949	
	Personal & Nondurable Consumer Products (Colorado)	Second Lien Term Loan (9.75% (LIBOR + 8.75% with 1.00% LIBOR floor), due 1/8/2021)	Second priority lien		10,604
		Senior Subordinated Secured Note (11.00% (LIBOR + 7.00% with 4.00% LIBOR floor), due 6/29/2020)	Second priority lien		12,000
Wheel Pros, LLC	Business Services (Colorado)	Delayed Draw Term Loan – \$3,000 Commitment (11.00% (LIBOR + 7.00% with 4.00% LIBOR floor), due 12/30/2015)	Second priority lien		—
Wind River Resources Corporation	Oil & Gas Production (Utah)	Senior Secured Note (13.00% (LIBOR + 7.50% with 5.50% LIBOR floor) plus 3.00% default interest on principal and 16.00% default interest on lien past due interest, in non-accrual status effective 12/1/2008, past due) Net Profits Interest (5% of Equity Distributions)	First priority		—

Table of Contents

Certain investments that the Company has determined are not "qualifying" assets" under Section 55(a) of the 1940 Act. Under the 1940 Act, we may not acquire any non-qualifying asset unless, at the time such acquisition is made, (1) qualifying assets represent at least 70% of our total assets. The Company monitors the status of these assets on an ongoing basis

122

---

Table of Contents

DETERMINATION OF NET ASSET VALUE

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

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

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

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

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

Determination of fair values involves subjective judgments and estimates not susceptible to substantiation by auditing procedures. Accordingly, under current accounting standards, the notes to our financial statements will refer to the uncertainty with respect to the possible effect of such valuations, and any change in such valuations, on our financial statements.

Table of Contents

## SALES OF COMMON STOCK BELOW NET ASSET VALUE

At our 2013 annual meeting of stockholders held on December 6, 2013, our stockholders approved our ability to sell, subject to the condition that the maximum number of shares salable below net asset value pursuant to this authority in any particular offering that could result in such dilution is limited to 25% of our then outstanding common stock immediately prior to each such offering, an unlimited number of shares of our common stock at any level of discount from NAV per share during the twelve-month period following such approval. This authority does not apply to any shares offered pursuant hereto, as none of the shares offered pursuant to this registration statement are offered by us. In order to sell shares pursuant to this authorization, a majority of our directors who have no financial interest in the sale and a majority of our independent directors must (a) find that the sale is in our best interests and in the best interests of our stockholders, and (b) in consultation with any underwriter or underwriters or sales manager or sales managers of the offering, make a good faith determination as of a time either immediately prior to the first solicitation by us or on our behalf of firm commitments to purchase such shares, or immediately prior to the issuance of such shares of common stock, that the price at which such shares are to be sold is not less than a price which closely approximates the market value of such shares, less any distributing commission or discount.

We may make sales of our common stock at prices below our most recently determined NAV per share. Pursuant to the approval of our Board of Directors, we have made such sales in the past and we may continue to do so under this prospectus.

In making a determination that an offering below NAV per share is in our and our stockholders' best interests, our Board of Directors considers a variety of factors including matters such as:

- The effect that an offering below NAV per share would have on our stockholders, including the potential dilution they would experience as a result of the offering;
- The amount per share by which the offering price per share and the net proceeds per share are less than the most recently determined NAV per share;
- The relationship of recent market prices of par common stock to NAV per share and the potential impact of the offering on the market price per share of our common stock;
- Whether the estimated offering price would closely approximate the market value of our shares;
- The potential market impact of being able to raise capital during the current financial market difficulties;
- The nature of any new investors anticipated to acquire shares of common stock in the offering;
- The anticipated rate of return on and quality, type and availability of investments; and
- The leverage available to us.

Our Board of Directors also considers the fact that sales of common stock at a discount will benefit our Investment Advisor as the Investment Advisor will earn additional investment management fees on the proceeds of such offerings, as it would from the offering of any other securities of the Company or from the offering of common stock at premium to NAV per share.

We will not sell shares of common stock under a prospectus supplement to a registration statement (the "current registration statement") if the cumulative dilution to our NAV per share from offerings under the current registration statement exceeds 15%. This limit would be measured separately for each offering pursuant to the current registration statement by calculating the percentage dilution or accretion to aggregate NAV from that offering and then summing the percentage from each offering. For example, if our most recently determined NAV per share at the time of the first offering is \$10.54 and we have 350.0 million shares of common stock outstanding, sale of 70.0 million shares of common stock at net proceeds to us of \$5.27 per share (an approximately 50% discount) would produce dilution of 8.33%. If we subsequently determined that our NAV per share increased back to \$9.85 on the then 420.0 million shares of common stock outstanding and then made an additional offering, we could, for example, sell approximately an additional 64.7 million shares of common stock at net proceeds to us of \$4.93 per share, which would produce dilution of 6.67%, before we would reach the aggregate 15% limit. If we file a new post-effective amendment, the threshold would reset.

Sales by us of our common stock at a discount from NAV per share pose potential risks for our existing stockholders whether or not they participate in the offering, as well as for new investors who participate in the offering.



The following three headings and accompanying tables will explain and provide hypothetical examples on the impact of an offering at a price less than NAV per share on three different set of investors:

- existing shareholders who do not purchase any shares of common stock in the offering;
- existing shareholders who purchase a relatively small amount of shares of common stock in the offering or a relatively large amount of shares of common stock in the offering; and
- new investors who become shareholders by purchasing shares of common stock in the offering.

124

---

Table of Contents

NAV per share used in the tables below is based on Prospect's most recently determined NAV per share as of June 30, 2014, as adjusted to give effect to issuances of Prospect common stock since June 30, 2014. The NAV per share used for purposes of providing information in the table below is thus an estimate and does not necessarily reflect actual NAV per share at the time sales are made. Actual NAV per share may be higher or lower based on potential changes in valuations of Prospect's portfolio securities, accruals of income, expenses and distributions declared and thus may be higher or lower at the assumed sales prices than shown below.

The tables below provide hypothetical examples of the impact that an offering at a price less than NAV per share may have on the NAV per share of shareholders and investors who do and do not participate in such an offering. However, the tables below do not show and are not intended to show any potential changes in market price that may occur from an offering at a price less than NAV per share and it is not possible to predict any potential market price change that may occur from such an offering.

**Impact On Existing Stockholders Who Do Not Participate in the Offering**

Our existing stockholders who do not participate in an offering below NAV per share or who do not buy additional shares of common stock in the secondary market at the same or lower price we obtain in the offering (after expenses and commissions) face the greatest potential risks. These stockholders will experience an immediate decrease (often called dilution) in the NAV of the shares of common stock they hold and their NAV per share. These stockholders will also experience a disproportionately greater decrease in their participation in our earnings and assets and their voting power than the increase we will experience in our assets, potential earning power and voting interests due to the offering. These stockholders may also experience a decline in the market price of their shares of common stock, which often reflects to some degree announced or potential increases and decreases in NAV per share. This decrease could be more pronounced as the size of the offering and level of discounts increases.

The following chart illustrates the level of NAV dilution that would be experienced by a nonparticipating stockholder in three different hypothetical offerings of different sizes and levels of discount from NAV per share. It is not possible to predict the level of market price decline that may occur. Actual sales prices and discounts may differ from the presentation below. There is no maximum level of discount from NAV at which we may sell shares pursuant to the stockholder authority.

The examples assume that the issuer has 350.0 million common shares outstanding, \$6,589,000,000 in total assets and \$2,900,000,000 in total liabilities. The current NAV and NAV per share are thus \$3,689,000,000 and \$10.54. The chart illustrates the dilutive effect on Stockholder A of (1) an offering of 17,500,000 shares of common stock (5% of the outstanding shares of common stock) at \$10.01 per share after offering expenses and commission (a 5% discount from NAV), (2) an offering of 35,000,000 shares of common stock (10% of the outstanding shares of common stock) at \$9.49 per share after offering expenses and commissions (a 10% discount from NAV), (3) an offering of 87,500,000 shares of common stock (25% of the outstanding shares of common stock) at \$7.91 per share after offering expenses and commissions (a 25% discount from NAV), and (4) an offering of 87,500,000 shares of common stock (25% of the outstanding shares of common stock) at \$0.00 per share after offering expenses and commissions (a 100% discount from NAV).

Table of Contents

	Prior to Sale Below NAV	Example 1 5% Offering at 5% Discount		Example 2 10% Offering at 10% Discount		Example 3 25% Offering at 25% Discount		Example 4 25% Offering at 100% Discount	
		Following Sale	% Change	Following Sale	% Change	Following Sale	% Change	Following Sale	% Change
Offering Price									
Price per Share to Public		\$10.45		\$9.89		\$8.24		\$—	
Net Proceeds per Share to Issuer		\$10.01		\$9.49		\$7.91		\$—	
Decrease to NAV									
Total Shares Outstanding	350,000,000	367,500,000	5.00 %	385,000,000	10.00 %	437,500,000	25.00 %	437,500,000	25.00 %
NAV per Share	\$10.54	\$10.51	(0.24)%	\$10.44	(0.91)%	\$10.01	(5.00)%	\$8.43	(20.00)%
Dilution to Nonparticipating Stockholder									
Shares Held by Stockholder A	350,000	350,000	— %	350,000	— %	350,000	— %	350,000	— %
Percentage Held by Stockholder A	0.10 %	0.10 %	(4.76)%	0.09 %	(9.09)%	0.08 %	(20.00)%	0.08 %	(20.00)%
Total NAV Held by Stockholder A	\$3,689,000	\$3,680,217	(0.24)%	\$3,655,464	(0.91)%	\$3,504,550	(5.00)%	\$2,951,200	(20.00)%
Total Investment by Stockholder A (Assumed to be \$10.54 per Share on Shares Held Prior to Sale)		\$3,689,000		\$3,689,000		\$3,689,000		\$3,689,000	
Total Dilution to Stockholder A (Total NAV Less Total Investment)		\$(8,783 )		\$(33,536 )		\$(184,450 )		\$(737,800 )	
NAV per Share Held by Stockholder A		\$10.51		\$10.44		\$10.01		\$8.43	
Investment per Share Held by Stockholder A (Assumed to be \$10.54 per Share on Shares Held Prior to Sale)	\$10.54	\$10.54		\$10.54		\$10.54		\$10.54	
Dilution per Share Held by Stockholder A (NAV per Share Less Investment)		\$(0.03 )		\$(0.10 )		\$(0.53 )		\$(2.11 )	

Explanation of Responses:

per Share)				
Percentage				
Dilution to				
Stockholder A				
(Dilution per	(0.24)%	(0.91 )%	(5.00 )%	(20.
Share Divided by				
Investment per				
Share)				

**Impact On Existing Stockholders Who Do Participate in the Offering**

Our existing stockholders who participate in an offering below NAV per share or who buy additional shares of common stock in the secondary market at the same or lower price as we obtain in the offering (after expenses and commissions) will experience the same types of NAV dilution as the nonparticipating stockholders, albeit at a lower level, to the extent they purchase less than the same percentage of the discounted offering as their interest in our shares of common stock immediately prior to the offering. The level of NAV dilution will decrease as the number of shares of common stock such stockholders purchase increases. Existing stockholders who buy more than such percentage will experience NAV dilution on their existing shares but will, in contrast to existing stockholders who purchase less than their proportionate share of the offering, experience an increase (often called accretion) in average NAV per share over their investment per share and will also experience a disproportionately greater increase in their participation in our earnings and assets and their voting power than our increase in assets, potential earning power and voting interests due to the offering. The level of accretion will increase as the excess number of shares of common stock such stockholder purchases increases. Even a stockholder who over-participates will, however, be subject to the risk that we may make additional discounted offerings in which such stockholder does not participate, in which case such a stockholder will experience NAV dilution as described above in such subsequent offerings. These shareholders may also experience a decline in the market price of their shares of common stock, which often reflects to some degree announced or potential decreases in NAV per share. This decrease could be more pronounced as the size of the offering and level of discounts increases. There is no maximum level of discount from NAV at which we may sell shares pursuant to this authority.

The following chart illustrates the level of dilution and accretion in the hypothetical 25% discount offering from the prior chart (Example 3) for a stockholder that acquires shares of common stock equal to (1) 50% of its proportionate share of the offering (i.e., 43,750 shares of common stock, which is 0.05% of an offering of 87,500,000 shares of common stock) rather than its 0.10% proportionate share and (2) 150% of such percentage (i.e., 131,250 shares of common stock, which is 0.15% of an offering of 87,500,000 shares of common stock rather than its 0.10% proportionate share). It is not possible to predict the level

Table of Contents

of market price decline that may occur. Actual sales prices and discounts may differ from the presentation below. There is no maximum level of discount from NAV at which we may sell shares pursuant to the stockholder authority.

	Prior to Sale Below NAV	50% Participation		150% Participation	
		Following Sale	% Change	Following Sale	% Change
Offering Price					
Price per Share to Public		\$8.24		\$8.24	
Net Proceeds per Share to Issuer		\$7.91		\$7.91	
Decrease to NAV					
Total Shares Outstanding	350,000,000	437,500,000	25.00 %	437,500,000	25.00 %
NAV per Share	\$10.54	\$10.01	(5.00)%	\$10.01	(5.00)%
Dilution to Nonparticipating Stockholder					
Shares Held by Stockholder A	350,000	393,750	12.50 %	481,250	37.50 %
Percentage Held by Stockholder A	0.10 %	0.09 %	(10.00)%	0.11 %	10.00 %
Total NAV Held by Stockholder A	\$10.54	\$3,942,619	6.87 %	\$4,818,756	30.63 %
Total Investment by Stockholder A (Assumed to be \$10.54 per Share on Shares Held Prior to Sale)		\$4,049,436		\$4,770,309	
Total Dilution to Stockholder A (Total NAV Less Total Investment)		\$(106,817 )		\$48,447	
NAV per Share Held by Stockholder A		\$10.01		\$10.01	
Investment per Share Held by Stockholder A (Assumed to be \$10.54 per Share on Shares Held Prior to Sale)		\$10.28		\$9.91	
Dilution per Share Held by Stockholder A (NAV per Share Less Investment per Share)		\$(0.27 )		\$0.10	
Percentage Dilution to Stockholder A (Dilution per Share Divided by Investment per Share)			(2.64)%		1.02 %

## Impact On New Investors

Investors who are not currently stockholders and who participate in an offering below NAV but whose investment per share is greater than the resulting NAV per share due to selling compensation and expenses paid by the issuer will experience an immediate decrease, albeit small, in the NAV of their shares of common stock and their NAV per share compared to the price they pay for their shares of common stock. Investors who are not currently stockholders and who participate in an offering below NAV per share and whose investment per share is also less than the resulting NAV per share due to selling compensation and expenses paid by the issuer being significantly less than the discount per share will experience an immediate increase in the NAV of their shares of common stock and their NAV per share compared to the price they pay for their shares of common stock. These investors will experience a disproportionately greater participation in our earnings and assets and their voting power than our increase in assets, potential earning power and voting interests. These investors will, however, be subject to the risk that we may make additional discounted offerings in which such new stockholder does not participate, in which case such new stockholder will experience dilution as described above in such subsequent offerings. These investors may also experience a decline in the market price of their shares of common stock, which often reflects to some degree announced or potential increases and decreases in NAV per share. This decrease could be more pronounced as the size of the offering and level of discounts increases. There is no maximum level of discount from NAV at which we may sell shares pursuant

to this authority.

The following chart illustrates the level of dilution or accretion for new investors that would be experienced by a new investor in the same hypothetical 5%, 10% and 25% discounted offerings as described in the first chart above. The illustration is for a new investor who purchases the same percentage (0.10%) of the shares of common stock in the offering as Stockholder A in the prior examples held immediately prior to the offering. It is not possible to predict the level of market price decline that may occur. Actual sales prices and discounts may differ from the presentation below. There is no maximum level of discount from NAV at which we may sell shares pursuant to the stockholder authority.

127

---

Table of Contents

		Example 1 5% Offering at 5% Discount			Example 2 10% Offering at 10% Discount			Example 3 25% Offering at 25% Discount	
	Prior to Sale Below NAV	Following Sale	% Change		Following Sale	% Change		Following Sale	% Change
Offering Price									
Price per Share to Public		\$ 10.45			\$ 9.89			\$ 8.24	
Net Proceeds per Share to Issuer		\$ 10.01			\$ 9.49			\$ 7.91	
Decrease to NAV									
Total Shares Outstanding	350,000,000	367,500,000	5.00 %		385,000,000	10.00 %		437,500,000	25.00 %
NAV per Share	\$ 10.54	\$ 10.51	(0.24 )%		\$ 10.44	(0.91 )%		\$ 10.01	(5.00 )%
Dilution to Nonparticipating Stockholder									
Shares Held by Stockholder A	—	17,500			35,000			87,500	
Percentage Held by Stockholder A	— %	— %			0.01 %			0.02 %	
Total NAV Held by Stockholder A	\$ —	\$ 184,011			\$ 365,546			\$ 876,138	
Total investment by Stockholder A		\$ 182,893			\$ 346,208			\$ 720,872	
Total Dilution to Stockholder A (Total NAV Less Total investment)		\$ 1,118			\$ 19,338			\$ 155,266	
NAV per Share Held by Stockholder A		\$ 10.51			\$ 10.44			\$ 10.01	
Investment per Share Held by Stockholder A		\$ 10.45			\$ 9.89			\$ 8.24	
Dilution per Share Held by Stockholder A (NAV per Share Less Investment per Share)		\$ 0.06			\$ 0.55			\$ 1.77	
Percentage Dilution to Stockholder A (Dilution per Share Divided by Investment per Share)			0.61 %			5.58 %		21.54 %	

**DIVIDEND REINVESTMENT PLAN**

We have adopted a dividend reinvestment plan that provides for reinvestment of our distributions on behalf of our stockholders, unless a stockholder elects to receive cash as provided below. As a result, when our Board of Directors authorizes, and we declare, a cash dividend, then our stockholders who have not "opted out" of our dividend reinvestment plan will have their cash dividends automatically reinvested in additional shares of our common stock, rather than receiving the cash dividends.

No action is required on the part of a registered stockholder to have their cash dividend reinvested in shares of our common stock. A registered stockholder may elect to receive an entire dividend 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 sets up an account for shares acquired through the plan for each stockholder who has not elected to receive dividends in cash and hold such shares in non-certificated form. Upon request by a stockholder participating in the plan, the plan administrator will, instead of crediting shares to the participant's account, issue a certificate registered in the participant's name for the number of whole shares of our common stock and a check for any fractional share. Such request by a stockholder must be received three days prior to the dividend payable date in order for that dividend to be paid in cash. If such request is received less than three days prior to the dividend payable date, then the dividends are reinvested and shares are repurchased for the stockholder's account; however, future dividends are paid out in cash on all balances. Those stockholders whose shares are held by a broker or other financial intermediary may receive dividends in cash by notifying their broker or other financial intermediary of their election.

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. The number of shares to be issued to a stockholder is determined by dividing the total dollar amount of the dividend 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. 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 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 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



## Table of Contents

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 payable to a stockholder.

There are no brokerage charges or other charges to stockholders who participate in 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 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 in cash. A stockholder's basis for determining gain or loss upon the sale of stock received in a dividend from us will be equal to the total dollar amount of the dividend payable to the stockholder. Any stock received in a dividend 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 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. 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. All correspondence concerning the plan should be directed to the plan administrator by mail at American Stock Transfer & Trust Company, 59 Maiden Lane, New York, NY 10007 or by telephone at (718) 921-8200.

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. 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 reinvested in shares of our common stock by the 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 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 does not discuss any aspects of U.S. estate or gift tax or foreign, state or local tax. This summary assumes that investors hold our common stock as capital assets (within the meaning of the Code). This discussion is based upon the Code, Treasury regulations, and administrative and judicial interpretations thereof, each as of the date of this prospectus and all of which are subject to differing interpretation or change, possibly retroactively, which could affect the continuing validity of this discussion. We have not sought and will not seek any ruling from the Internal Revenue Service, or the IRS, regarding this offering. No assurance can be given that the IRS would not assert, or that a court would not sustain, a position contrary to the any of the tax aspects set forth below. This summary does not discuss the consequences of an investment in shares of our 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. The tax consequences of such an investment will be discussed in a relevant prospectus supplement.

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.

129

---

## Table of Contents

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."

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 asset 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 intend to 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

130

---

Table of Contents

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 investment company taxable income and net capital gain not distributed (or deemed distributed) to our stockholders.

We will be subject to a 4% non-deductible U.S. federal excise tax on certain undistributed income unless we distribute during each calendar year an amount at least equal to the sum of (1) 98% of our ordinary income recognized during the calendar year and (2) 98.2% of our capital gain net income recognized for the one-year period ending October 31 in that calendar year and (3) any income realized reconized, but not distributed, in preceding years. In addition, the minimum amounts that must be distributed in any year to avoid the excise tax will be increased or decreased to reflect any under-distribution or over-distribution, as the case may be, from the previous year.

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.

We have received a private letter ruling from the Internal Revenue Service (the "IRS") permitting us to pay cash/stock dividends consisting of up to 80% stock for the tax years ending August 31, 2014 and August 31, 2015, provided that certain requirements are met. Any such dividends paid in stock will be taxable to the shareholder as if the dividend had been paid in cash and we will receive a dividends paid deduction for such distribution.

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. 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 stockholders our accumulated earnings and profits attributable to non-RIC years reduced by an interest charge on 50% of such earnings and profits payable by us as an additional tax. In addition, if we failed to qualify as a RIC for a period greater than two taxable years, then, in order to qualify as a RIC in a subsequent year, we would be required to elect to recognize and pay tax on any net built-in gain (the excess of aggregate gain, including items of income, over aggregate loss that would have been realized if we had been liquidated) or, alternatively, be subject to taxation on such built-in gain recognized for a period of ten years.

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.

131

---

Table of Contents

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.

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 and 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 designated 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 designated 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 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 its common stock. Since we expect to pay tax on any retained capital gains at our regular corporate tax rate, and since that rate is in excess of the maximum rate currently payable by individuals on long-term capital gains, the amount of tax that individual stockholders will be treated as having paid and for which they will receive a credit will 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 such U.S. Stockholder's liability for U.S. federal income tax. A U.S. 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 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

132

---



Table of Contents

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 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 and per distribution basis, the amounts includible in such U.S. Stockholder's taxable income for such year as ordinary income and as long-term capital gain. 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.

For our taxable years beginning before January 1, 2014 (and, if extended as has happened in the past, for taxable years covered by such extension), 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). There can be no assurance as to whether this provision will be extended. In addition, 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 U.S. 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 recognized by Non-U.S. Stockholders upon the sale of our common stock, that are effectively

133

---

Table of Contents

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% is required on dividends in respect of, and after December 31, 2016, 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 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 the applicable withholding agent will in turn provide to the Internal Revenue Service. 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 to 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.

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.

134

---

Table of Contents

## DESCRIPTION OF OUR CAPITAL STOCK

The following description is based on relevant portions of the Maryland General Corporation Law and on our charter and bylaws. This summary is not necessarily complete, and we refer you to the Maryland General Corporation Law and our charter and bylaws for a more detailed description of the provisions summarized below.

## Capital Stock

Our authorized capital stock consists of 1,000,000,000 shares of stock, par value \$0.001 per share, all of which is initially classified as common stock. Our common stock is traded on the NASDAQ Global Select Market under the symbol "PSEC." There are no outstanding options or warrants to purchase our stock. No stock has been authorized for issuance under any equity compensation plans. Under Maryland law, our stockholders generally are not personally liable for our debts or obligations.

Under our charter, our Board of Directors is authorized to classify and reclassify any unissued shares of stock into other classes or series of stock, and to authorize the issuance of such shares, without obtaining stockholder approval. Our Board of Directors will only take such actions in accordance with Section 18 as modified by Section 61 of the 1940 Act. The 1940 Act limits business development companies to only one class or series of common stock and only one class of preferred stock. As permitted by the Maryland General Corporation Law, our charter provides that the Board of Directors, without any action by our stockholders, may amend the charter from time to time to increase or decrease the aggregate number of shares of stock or the number of shares of stock of any class or series that we have authority to issue.

The below table sets forth each class of our outstanding securities as of October 31, 2014, including sales of shares under our at-the-market offering program which will settle through November 3, 2014:

(1) Title of Class	(2) Amount Authorized	(3) Amount Held by the Company or for its Account	(4) Amount Outstanding Exclusive of Amount Shown Under (3)
Common Stock	1,000,000,000	—	352,597,291
Common Stock			

All shares of our common stock have equal rights as to earnings, assets, dividends and voting and, when they are issued, will be duly authorized, validly issued, fully paid and nonassessable. Distributions may be paid to the holders of our common stock if, as and when authorized by our Board of Directors and declared by us out of funds legally available therefor. Shares of our common stock have no preemptive, conversion or redemption rights and are freely transferable, except where their transfer is restricted by U.S. federal and state securities laws or by contract. In the event of a liquidation, dissolution or winding up of us, each share of our common stock would be entitled to share ratably in all of our assets that are legally available for distribution after we pay all debts and other liabilities and subject to any preferential rights of holders of our preferred stock, if any preferred stock is outstanding at such time. Each share of our common stock is entitled to one vote on all matters submitted to a vote of stockholders, including the election of directors. Except as provided with respect to any other class or series of stock, the holders of our common stock will possess exclusive voting power. There is no cumulative voting in the election of directors, which means that prior to the issuance of preferred stock holders of a majority of the outstanding shares of common stock will elect all of our directors, and holders of less than a majority of such shares will be unable to elect any director.

## Preferred Stock

Our charter authorizes our Board of Directors to classify and reclassify any unissued shares of stock into other classes or series of stock, including preferred stock. Prior to issuance of shares of each class or series, the Board of Directors is required by Maryland law and by our charter to set the 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. Thus, the Board of Directors could authorize the issuance of shares of preferred stock with terms and conditions which could have the effect of delaying, deferring or preventing a transaction or a change in control that might involve a premium price for holders of our common stock or otherwise be in their best interest. You should note, however, that any issuance of preferred stock must comply with the requirements of the 1940 Act. The 1940 Act requires, among other things, that (1) immediately after issuance and before any dividend or other distribution (other

than in shares of stock) is made with respect to our common stock and before any purchase of common stock is made, such preferred stock together with all other senior securities must not exceed an amount equal to 50% of our total assets after deducting the amount of such dividend, distribution or purchase price, as the case may be, and (2) the holders of shares of preferred stock, if any are issued, must be entitled as a class to elect two directors at all times and to elect a majority of the directors if dividends on such preferred stock become in arrears by two years or more until all arrears are cured. Certain matters under the 1940 Act require the separate vote of the holders of any issued and outstanding preferred stock. For example, holders of preferred stock would vote separately from the holders of common stock on a proposal

135

---

Table of Contents

to operate other than as an investment company. We believe that the availability for issuance of preferred stock will provide us with increased flexibility in structuring future financings and acquisitions.

Limitation On Liability Of Directors And Officers; Indemnification And Advance Of Expenses

Maryland law permits a Maryland corporation to include in its charter a provision limiting the liability of its directors and officers to the corporation and its stockholders for money damages except for liability resulting from (a) actual receipt of an improper benefit or profit in money, property or services or (b) active and deliberate dishonesty established by a final judgment as being material to the cause of action. Our charter contains such a provision which eliminates directors' and officers' liability to the maximum extent permitted by Maryland law, subject to the requirements of the 1940 Act.

Our charter authorizes us, to the maximum extent permitted by Maryland law and subject to the requirements of the 1940 Act, to obligate ourselves to indemnify any present or former director or officer or any individual who, while serving as a director or officer and at our request, serves or has served another corporation, real estate investment trust, partnership, joint venture, trust, employee benefit plan or other enterprise as a director, officer, partner or trustee, from and against any claim or liability to which that person may become subject or which that person may incur by reason of his or her service in any such capacity and to pay or reimburse their reasonable expenses in advance of final disposition of a proceeding. Our bylaws obligate us, to the maximum extent permitted by Maryland law and subject to the requirements of the 1940 Act, to indemnify any present or former director or officer or any individual who, while serving as a director or officer and at our request, serves or has served another corporation, real estate investment trust, limited liability company, partnership, joint venture, trust, employee benefit plan or other enterprise as a director, officer, partner, manager, member or trustee and who is made, or threatened to be made, a party to the proceeding by reason of his or her service in any such capacity from and against any claim or liability to which that person may become subject or which that person may incur by reason of his or her service in any such capacity and to pay or reimburse their reasonable expenses in advance of final disposition of a proceeding. The charter and bylaws also permit us to indemnify and advance expenses to any person who served a predecessor of us in any of the capacities described above and any of our employees or agents or any employees or agents of our predecessor. In accordance with the 1940 Act, we will not indemnify any person for any liability to which such person would be subject by reason of such person's willful misfeasance, bad faith, gross negligence or reckless disregard of the duties involved in the conduct of his or her office.

Maryland law requires a corporation (unless its charter provides otherwise, which our charter does not) to indemnify a director or officer who has been successful, on the merits or otherwise, in the defense of any proceeding to which he or she is made, or threatened to be made, a party by reason of his or her service in that capacity. Maryland law permits a corporation to indemnify its present and former directors and officers, among others, against judgments, penalties, fines, settlements and reasonable expenses actually incurred by them in connection with any proceeding to which they may be made, or threatened to be made, a party by reason of their service in those or other capacities unless it is established that (a) the act or omission of the director or officer was material to the matter giving rise to the proceeding and (1) was committed in bad faith or (2) was the result of active and deliberate dishonesty, (b) the director or officer actually received an improper personal benefit in money, property or services or (c) in the case of any criminal proceeding, the director or officer had reasonable cause to believe that the act or omission was unlawful. However, under Maryland law, a Maryland corporation may not indemnify for an adverse judgment in a suit by or in the right of the corporation or for a judgment of liability on the basis that a personal benefit was improperly received, unless in either case a court orders indemnification, and then only for expenses. In addition, Maryland law permits a corporation to advance reasonable expenses to a director or officer upon the corporation's receipt of (a) a written affirmation by the director or officer of his or her good faith belief that he or she has met the standard of conduct necessary for indemnification by the corporation and (b) a written undertaking by him or her or on his or her behalf to repay the amount paid or reimbursed by the corporation if it is ultimately determined that the standard of conduct was not met.

Our insurance policy does not currently provide coverage for claims, liabilities and expenses that may arise out of activities that a present or former director or officer of us has performed for another entity at our request. There is no assurance that such entities will in fact carry such insurance. However, we note that we do not expect to request our

present or former directors or officers to serve another entity as a director, officer, partner or trustee unless we can obtain insurance providing coverage for such persons for any claims, liabilities or expenses that may arise out of their activities while serving in such capacities.

Provisions Of The Maryland General Corporation Law And Our Charter And Bylaws

Anti-takeover Effect

The Maryland General Corporation Law and our charter and bylaws contain provisions that could make it more difficult for a potential acquiror to acquire us by means of a tender offer, proxy contest or otherwise. These provisions are expected to discourage certain coercive takeover practices and inadequate takeover bids and to encourage persons seeking to acquire control of us to negotiate first with our Board of Directors. These provisions could have the effect of depriving stockholders of

136

---



## Table of Contents

an opportunity to sell their shares at a premium over prevailing market prices by discouraging a third party from seeking to obtain control of us. We believe that the benefits of these provisions outweigh the potential disadvantages of discouraging any such acquisition proposals because, among other things, the negotiation of such proposals may improve their terms.

### Control Share Acquisitions

The Maryland General Corporation Law under the Control Share Act provides that control shares of a Maryland corporation acquired in a control share acquisition have no voting rights except to the extent approved by the affirmative vote of holders of two-thirds of the votes entitled to be cast on the matter. Shares owned by the acquiror, by officers or by directors who are employees of the corporation are excluded from shares entitled to vote on the matter. Control shares are voting shares of stock which, if aggregated with all other shares of stock owned by the acquiror or in respect of which the acquiror is able to exercise or direct the exercise of voting power (except solely by virtue of a revocable proxy), would entitle the acquiror to exercise voting power in electing directors within one of the following ranges of voting power:

- one-tenth or more but less than one-third,
- one-third or more but less than a majority, or
- a majority or more of all voting power.

The requisite stockholder approval must be obtained each time an acquiror crosses one of the thresholds of voting power set forth above. Control shares do not include shares the acquiring person is then entitled to vote as a result of having previously obtained stockholder approval or shares acquired directly from the corporation. A control share acquisition means the acquisition of control shares, subject to certain exceptions.

A person who has made or proposes to make a control share acquisition may compel the Board of Directors of the corporation to call a special meeting of stockholders to be held within 50 days of demand to consider the voting rights of the shares. The right to compel the calling of a special meeting is subject to the satisfaction of certain conditions, including an undertaking to pay the expenses of the meeting. If no request for a meeting is made, the corporation may itself present the question at any stockholders meeting.

If voting rights are not approved at the meeting or if the acquiring person does not deliver an acquiring person statement as required by the statute, then the corporation may redeem for fair value any or all of the control shares, except those for which voting rights have previously been approved. The right of the corporation to redeem control shares is subject to certain conditions and limitations, including, as provided in our bylaws, compliance with the 1940 Act. Fair value is determined, without regard to the absence of voting rights for the control shares, as of the date of the last control share acquisition by the acquiror or of any meeting of stockholders at which the voting rights of the shares are considered and not approved. If voting rights for control shares are approved at a stockholders meeting and the acquiror becomes entitled to vote a majority of the shares entitled to vote, all other stockholders may exercise appraisal rights. The fair value of the shares as determined for purposes of appraisal rights may not be less than the highest price per share paid by the acquiror in the control share acquisition.

The Control Share Act does not apply (a) to shares acquired in a merger, consolidation or share exchange if the corporation is a party to the transaction or (b) to acquisitions approved or exempted by the charter or bylaws of the corporation.

Our bylaws contain a provision exempting from the Control Share Act any and all acquisitions by any person of our shares of stock. There can be no assurance that such provision will not be amended or eliminated at any time in the future. However, we will notify the Division of Investment Management at the SEC prior to amending our bylaws to be subject to the Control Share Act and will make such amendment only if the Board of Directors determines that it would be in our best interests.

### Business Combinations

Under Maryland law, "business combinations" between a Maryland corporation and an interested stockholder or an affiliate of an interested stockholder are prohibited for five years after the most recent date on which the interested stockholder becomes an interested stockholder. These business combinations include a merger, consolidation, share exchange or, in circumstances specified in the statute, an asset transfer or issuance or reclassification of equity securities. An interested stockholder is defined as:

any person who beneficially owns, directly or indirectly, 10% or more of the voting power of the corporation's shares;  
or  
an affiliate or associate of the corporation who, at any time within the two-year period prior to the date in question,  
was the beneficial owner, directly or indirectly, of 10% or more of the voting power of the then outstanding voting  
stock of the corporation.

137

---

## Table of Contents

A person is not an interested stockholder under this statute if the Board of Directors approved in advance the transaction by which the person otherwise would have become an interested stockholder. However, in approving a transaction, the Board of Directors may provide that its approval is subject to compliance, at or after the time of approval, with any terms and conditions determined by the Board of Directors.

After the five-year prohibition, any such business combination must be recommended by the Board of Directors of the corporation and approved by the affirmative vote of at least:

80% of the votes entitled to be cast by holders of outstanding shares of voting stock of the corporation; and two-thirds of the votes entitled to be cast by holders of voting stock of the corporation other than shares held by the interested stockholder with whom or with whose affiliate the business combination is to be effected or held by an affiliate or associate of the interested stockholder.

These super-majority vote requirements do not apply if the corporation's common stockholders receive a minimum price, as defined under Maryland law, for their shares in the form of cash or other consideration in the same form as previously paid by the interested stockholder for its shares.

The statute provides various exemptions from its provisions, including for business combinations that are exempted by the Board of Directors before the time that the interested stockholder becomes an interested stockholder. 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 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. This resolution, however, may be altered or repealed in whole or in part at any time. If this resolution is repealed, or the Board of Directors does not otherwise approve a business combination, the statute may discourage others from trying to acquire control of us and increase the difficulty of consummating any offer.

### Conflicts with 1940 Act

Our bylaws provide that, if and to the extent that any provision of the Maryland General Corporation Law, including the Control Share Act (if we amend our bylaws to be subject to such Act) and the Business Combination Act, or any provision of our charter or bylaws conflicts with any provision of the 1940 Act, the applicable provision of the 1940 Act will control.

### Classified Board of Directors

Our Board of Directors is divided into three classes of directors serving classified three-year terms. The current terms of the first, second and third classes will expire at the annual meeting of stockholders held in 2014, 2015 and 2016 respectively, and in each case, until their successors are duly elected and qualify. Each year one class of directors will be elected to the Board of Directors by the stockholders to hold office for a term expiring at the annual meeting of stockholders held in the third year following the year of their election and until his or her successor is duly elected and qualifies. A classified board may render a change in control of us or removal of our incumbent management more difficult. We believe, however, that the longer time required to elect a majority of a classified Board of Directors will help to ensure the continuity and stability of our management and policies.

### Election of Directors

Our charter and bylaws provide that the affirmative vote of the holders of a majority of the outstanding shares of stock entitled to vote in the election of directors will be required to elect a director. Under the charter, our Board of Directors may amend the bylaws to alter the vote required to elect directors.

### Number of Directors; Vacancies; Removal

Our charter provides that the number of directors will be set only by the Board of Directors in accordance with our bylaws. Our bylaws provide that a majority of our entire Board of Directors may at any time increase or decrease the number of directors. However, unless our bylaws are amended, the number of directors may never be less than three nor more than eight. Our charter provides that, at such time as we are eligible to make the election provided for under Section 3-802(b) of the Maryland General Corporation Law, we elect to be subject to the provision of Subtitle 8 of Title 3 of the Maryland General Corporation Law regarding the filling of vacancies on the Board of Directors.

Accordingly, except as may be provided by the Board of Directors in setting the terms of any class or series of preferred stock, any and all vacancies on the Board of Directors may be filled 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 of the directorship in which the vacancy occurred and until a successor is elected and qualifies, subject to any applicable requirements of the 1940 Act.

138

---

## Table of Contents

Our charter provides that a director may be removed only for cause, as defined in our charter, and then only by the affirmative vote of at least two-thirds of the votes entitled to be cast in the election of directors.

### Action by Stockholders

The Maryland General Corporation Law provides that stockholder action can be taken only at an annual or special meeting of stockholders or (unless the charter provides for stockholder action by less than unanimous written consent, which our charter does not) by unanimous written consent in lieu of a meeting. These provisions, combined with the requirements of our bylaws regarding the calling of a stockholder-requested special meeting of stockholders discussed below, may have the effect of delaying consideration of a stockholder proposal until the next annual meeting.

### Advance Notice Provisions for Stockholder Nominations and Stockholder Proposals

Our bylaws provide that with respect to an annual meeting of stockholders, nominations of persons for election to the Board of Directors and the proposal of business to be considered by stockholders may be made only (1) pursuant to our notice of the meeting, (2) by or at the direction of the Board of Directors or (3) by a stockholder who was a stockholder of record both at the time of provision of notice and at the annual meeting, who is entitled to vote at the meeting and who has complied with the advance notice procedures of the bylaws. With respect to special meetings of stockholders, only the business specified in our notice of the meeting may be brought before the meeting.

Nominations of persons for election to the Board of Directors at a special meeting may be made only (1) by or at the direction of the Board of Directors or (2) provided that the Board of Directors has determined that directors will be elected at the meeting, by a stockholder who was a stockholder of record both at the time of provision of notice and at the special meeting, who is entitled to vote at the meeting and who has complied with the advance notice provisions of the bylaws.

The purpose of requiring stockholders to give us advance notice of nominations and other business is to afford our Board of Directors a meaningful opportunity to consider the qualifications of the proposed nominees and the advisability of any other proposed business and, to the extent deemed necessary or desirable by our Board of Directors, to inform stockholders and make recommendations about such qualifications or business, as well as to provide a more orderly procedure for conducting meetings of stockholders. Although our bylaws do not give our Board of Directors any power to disapprove stockholder nominations for the election of directors or proposals recommending certain action, they may have the effect of precluding a contest for the election of directors or the consideration of stockholder proposals if proper procedures are not followed and of discouraging or deterring a third party from conducting a solicitation of proxies to elect its own slate of directors or to approve its own proposal without regard to whether consideration of such nominees or proposals might be harmful or beneficial to us and our stockholders.

### Calling of Special Meetings of Stockholders

Our bylaws provide that special meetings of stockholders may be called by the chairman of the Board, our Board of Directors and certain of our officers. Additionally, our bylaws provide that, subject to the satisfaction of certain procedural and informational requirements by the stockholders requesting the meeting, a special meeting of stockholders will be called by the secretary of the corporation upon the written request of stockholders entitled to cast not less than a majority of all the votes entitled to be cast at such meeting.

### Approval of Extraordinary Corporate Action; Amendment of Charter and Bylaws

Under Maryland law, a Maryland corporation generally cannot dissolve, amend its charter, merge, sell all or substantially all of its assets, engage in a share exchange or engage in similar transactions outside the ordinary course of business, unless advised by its board of directors and approved by the affirmative vote of stockholders entitled to cast at least two-thirds of the votes entitled to be cast on the matter. However, a Maryland corporation may provide in its charter for approval of these matters by a lesser percentage, but not less than a majority of all of the votes entitled to be cast on the matter. Our charter generally provides for approval of charter amendments and extraordinary transactions by the stockholders entitled to cast at least a majority of the votes entitled to be cast on the matter.

Our charter also provides that certain charter amendments and any proposal for our conversion, whether by merger or otherwise, from a closed-end company to an open-end company or any proposal for our liquidation or dissolution requires the approval of the stockholders entitled to cast at least 80 percent of the votes entitled to be cast on such matter. However, if such amendment or proposal is approved by at least two-thirds of our continuing directors (in

addition to approval by our Board of Directors), such amendment or proposal may be approved by a majority of the votes entitled to be cast on such a matter. The "continuing directors" are defined in our charter as our current directors as well as those directors whose nomination for election by the stockholders or whose election by the directors to fill vacancies is approved by a majority of the continuing directors then on the Board of Directors.

139

---

## Table of Contents

Our charter and bylaws provide that the Board of Directors will have the exclusive power to make, alter, amend or repeal any provision of our bylaws.

### No Appraisal Rights

Except with respect to appraisal rights arising in connection with the Control Share Act discussed above, as permitted by the Maryland General Corporation Law, our charter provides that stockholders will not be entitled to exercise appraisal rights.

### DESCRIPTION OF OUR PREFERRED STOCK

In addition to shares of common stock, our charter authorizes the issuance of preferred stock. If we offer preferred stock under this prospectus, we will issue an appropriate prospectus supplement. We may issue preferred stock from time to time in one or more series, without stockholder approval. Our Board of Directors is authorized to fix for any series of preferred stock the number of shares of such series and the designation, relative powers, preferences and rights, and the qualifications, limitations or restrictions of such series; except that, such an issuance must adhere to the requirements of the 1940 Act, Maryland law and any other limitations imposed by law.

The 1940 Act requires, among other things, that (1) immediately after issuance and before any distribution is made with respect to common stock, the liquidation preference of the preferred stock, together with all other senior securities, must not exceed an amount equal to 50% of our total assets (taking into account such distribution) and (2) the holders of shares of preferred stock, if any are issued, must be entitled as a class to elect two directors at all times and to elect a majority of the directors if dividends on the preferred stock are in arrears by two years or more. For any series of preferred stock that we may issue, our Board of Directors will determine and the prospectus supplement relating to such series will describe:

- the designation and number of shares of such series;
- the rate and time at which, and the preferences and conditions under which, any dividends will be paid on shares of such series, the cumulative nature of such dividends and whether such dividends have any participating feature;
- any provisions relating to convertibility or exchangeability of the shares of such series;
- the rights and preferences, if any, of holders of shares of such series upon our liquidation, dissolution or winding up of our affairs;
- the voting powers of the holders of shares of such series;
- any provisions relating to the redemption of the shares of such series;
- any limitations on our ability to pay dividends or make distributions on, or acquire or redeem, other securities while shares of such series are outstanding;
- any conditions or restrictions on our ability to issue additional shares of such series or other securities;
- if applicable, a discussion of certain U.S. Federal income tax considerations; and
- any other relative power, preferences and participating, optional or special rights of shares of such series, and the qualifications, limitations or restrictions thereof.

All shares of preferred stock that we may issue will be identical and of equal rank except as to the particular terms thereof that may be fixed by our Board of Directors, and all shares of each series of preferred stock will be identical and of equal rank except as to the dates from which cumulative dividends thereon will be cumulative.

### DESCRIPTION OF OUR DEBT SECURITIES

We currently have the Notes outstanding. However, we may issue additional debt securities in one or more series in the future which, if publicly offered, will be under an indenture to be entered into between us and a trustee. The specific terms of each series of debt securities we publicly offer will be described in the particular prospectus supplement relating to that series. The prospectus supplement may or may not modify the general terms found in this prospectus and will be filed with the SEC. For a complete description of the terms of a particular series of debt securities, you should read both this prospectus and the prospectus supplement relating to that particular series. The description below is a summary with respect to future debt securities we may issue and not a summary of the Notes. Please see "Business—General—Notes" for a description of the Notes.

As required by federal law for all bonds and notes of companies that are publicly offered, the debt securities are governed by a document called an "indenture." On March 9, 2012, we entered into an Agreement of Resignation,

Appointment and Acceptance (the "Agreement") with American Stock Transfer & Trust Company, LLC (the "Retiring Trustee") and U.S. Bank National Association (the "trustee"). Under the Agreement, we formally accepted the resignation of the Retiring Trustee and appointed the trustee under the Indenture, dated as of February 16, 2012 (the "indenture"), by and between us and the Retiring Trustee, as supplemented by the First Supplemental Indenture, dated as of March 1, 2012, by and between us and the Retiring

140

---



Table of Contents

Trustee, as further supplemented by the Second Supplemental Indenture, dated as of March 8, 2012, by and between us and the Retiring Trustee, and as further supplemented by the Joinder Supplemental Indenture, dated as of March 8, 2012, by and among us, the Retiring Trustee and the trustee. We accepted the resignation of the Retiring Trustee and appointed the trustee in order to take advantage of a more efficient money market based system of settling issuances of notes issued pursuant to the indenture not available through the Retiring Trustee. The indenture is subject to and governed by the Trust Indenture Act of 1939, as amended. The trustee has two main roles. First, the trustee can enforce your rights against us if we default. There are some limitations on the extent to which the trustee acts on your behalf, described in the second paragraph under "Events of Default—Remedies if an Event of Default Occurs." Second, the trustee performs certain administrative duties for us.

Because this section is a summary, it does not describe every aspect of the debt securities and the indenture. We urge you to read the indenture because it, and not this description, defines your rights as a holder of debt securities. For example, in this section, we use capitalized words to signify terms that are specifically defined in the indenture. Some of the definitions are repeated in this prospectus, but for the rest you will need to read the indenture. We have filed the form of the indenture with the SEC. See "Available Information" for information on how to obtain a copy of the indenture.

The prospectus supplement, which will accompany this prospectus, will describe the particular series of debt securities being offered by including:

- the designation or title of the series of debt securities;
- the total principal amount of the series of debt securities;
- the percentage of the principal amount at which the series of debt securities will be offered;
- the date or dates on which principal will be payable;
- the rate or rates (which may be either fixed or variable) and/or the method of determining such rate or rates of interest, if any;
- the date or dates from which any interest will accrue, or the method of determining such date or dates, and the date or dates on which any interest will be payable;
- the terms for redemption, extension or early repayment, if any;
- the currencies in which the series of debt securities are issued and payable;
- whether the amount of payments of principal, premium or interest, if any, on a series of debt securities will be determined with reference to an index, formula or other method (which could be based on one or more currencies, commodities, equity indices or other indices) and how these amounts will be determined;
- the place or places, if any, other than or in addition to The City of New York, of payment, transfer, conversion and/or exchange of the debt securities;
- the denominations in which the offered debt securities will be issued;
- the provision for any sinking fund;
- any restrictive covenants;
- any events of default;
- whether the series of debt securities are issuable in certificated form;
- any provisions for defeasance or covenant defeasance;
- any special federal income tax implications, including, if applicable, federal income tax considerations relating to original issue discount;
- whether and under what circumstances we will pay additional amounts in respect of any tax, assessment or governmental charge and, if so, whether we will have the option to redeem the debt securities rather than pay the additional amounts (and the terms of this option);
- any provisions for convertibility or exchangeability of the debt securities into or for any other securities;
- whether the debt securities are subject to subordination and the terms of such subordination;
- the listing, if any, on a securities exchange; and
- any other terms.

The debt securities may be secured or unsecured obligations. Under the provisions of the 1940 Act, we are permitted, as a BDC, to issue debt only in amounts such that our asset coverage, as defined in the 1940 Act, equals at least 200%

after each issuance of debt. Unless the prospectus supplement states otherwise, principal (and premium, if any) and interest, if any, will be paid by us in immediately available funds.

General

The indenture provides that any debt securities proposed to be sold under this prospectus and the attached prospectus supplement ("offered debt securities") and any debt securities issuable upon the exercise of warrants or upon conversion or exchange of other offered securities ("underlying debt securities"), may be issued under the indenture in one or more series.

For purposes of this prospectus, any reference to the payment of principal of or premium or interest, if any, on debt

## Table of Contents

securities will include additional amounts if required by the terms of the debt securities.

The indenture limits the amount of debt securities that may be issued thereunder from time to time. Debt securities issued under the indenture, when a single trustee is acting for all debt securities issued under the indenture, are called the "indenture securities." The indenture also provides that there may be more than one trustee thereunder, each with respect to one or more different series of indenture securities. See "Resignation of Trustee" below. At a time when two or more trustees are acting under the indenture, each with respect to only certain series, the term "indenture securities" means the one or more series of debt securities with respect to which each respective trustee is acting. In the event that there is more than one trustee under the indenture, the powers and trust obligations of each trustee described in this prospectus will extend only to the one or more series of indenture securities for which it is trustee. If two or more trustees are acting under the indenture, then the indenture securities for which each trustee is acting would be treated as if issued under separate indentures.

The indenture does not contain any provisions that give you protection in the event we issue a large amount of debt. We refer you to the prospectus supplement for information with respect to any deletions from, modifications of or additions to the Events of Default or our covenants that are described below, including any addition of a covenant or other provision providing event risk or similar protection.

We have the ability to issue indenture securities with terms different from those of indenture securities previously issued and, without the consent of the holders thereof, to reopen a previous issue of a series of indenture securities and issue additional indenture securities of that series unless the reopening was restricted when that series was created.

### Conversion and Exchange

If any debt securities are convertible into or exchangeable for other securities, the prospectus supplement will explain the terms and conditions of the conversion or exchange, including the conversion price or exchange ratio (or the calculation method), the conversion or exchange period (or how the period will be determined), if conversion or exchange will be mandatory or at the option of the holder or us, provisions for adjusting the conversion price or the exchange ratio and provisions affecting conversion or exchange in the event of the redemption of the underlying debt securities. These terms may also include provisions under which the number or amount of other securities to be received by the holders of the debt securities upon conversion or exchange would be calculated according to the market price of the other securities as of a time stated in the prospectus supplement.

### Issuance of Securities in Registered Form

We may issue the debt securities in registered form, in which case we may issue them either in book-entry form only or in "certificated" form. Debt securities issued in book-entry form will be represented by global securities. We expect that we will usually issue debt securities in book-entry only form represented by global securities.

We also will have the option of issuing debt securities in non-registered form as bearer securities if we issue the securities outside the United States to non-U.S. persons. In that case, the prospectus supplement will set forth the mechanics for holding the bearer securities, including the procedures for receiving payments, for exchanging the bearer securities, including the procedures for receiving payments, for exchanging the bearer securities for registered securities of the same series, and for receiving notices. The prospectus supplement will also describe the requirements with respect to our maintenance of offices or agencies outside the United States and the applicable U.S. federal tax law requirements.

### Book-Entry Holders

We will issue registered debt securities in book-entry form only, unless we specify otherwise in the applicable prospectus supplement. This means debt securities will be represented by one or more global securities registered in the name of a depository that will hold them on behalf of financial institutions that participate in the depository's book-entry system. These participating institutions, in turn, hold beneficial interests in the debt securities held by the depository or its nominee. These institutions may hold these interests on behalf of themselves or customers.

Under the indenture, only the person in whose name a debt security is registered is recognized as the holder of that debt security. Consequently, for debt securities issued in book-entry form, we will recognize only the depository as the holder of the debt securities and we will make all payments on the debt securities to the depository. The depository will then pass along the payments it receives to its participants, which in turn will pass the payments along to their customers who are the beneficial owners. The depository and its participants do so under agreements they have made

with one another or with their customers; they are not obligated to do so under the terms of the debt securities. As a result, investors will not own debt securities directly. Instead, they will own beneficial interests in a global security, through a bank, broker or other financial institution that participates in the depository's book-entry system or holds an interest

142

---

## Table of Contents

through a participant. As long as the debt securities are represented by one or more global securities, investors will be indirect holders, and not holders, of the debt securities.

### Street Name Holders

In the future, we may issue debt securities in certificated form or terminate a global security. In these cases, investors may choose to hold their debt securities in their own names or in "street name." Debt securities held in street name are registered in the name of a bank, broker or other financial institution chosen by the investor, and the investor would hold a beneficial interest in those debt securities through the account he or she maintains at that institution.

For debt securities held in street name, we will recognize only the intermediary banks, brokers and other financial institutions in whose names the debt securities are registered as the holders of those debt securities and we will make all payments on those debt securities to them. These institutions will pass along the payments they receive to their customers who are the beneficial owners, but only because they agree to do so in their customer agreements or because they are legally required to do so. Investors who hold debt securities in street name will be indirect holders, and not holders, of the debt securities.

### Legal Holders

Our obligations, as well as the obligations of the applicable trustee and those of any third parties employed by us or the applicable trustee, run only to the legal holders of the debt securities. We do not have obligations to investors who hold beneficial interests in global securities, in street name or by any other indirect means. This will be the case whether an investor chooses to be an indirect holder of a debt security or has no choice because we are issuing the debt securities only in book-entry form.

For example, once we make a payment or give a notice to the holder, we have no further responsibility for the payment or notice even if that holder is required, under agreements with depositary participants or customers or by law, to pass it along to the indirect holders but does not do so. Similarly, if we want to obtain the approval of the holders for any purpose (for example, to amend an indenture or to relieve us of the consequences of a default or of our obligation to comply with a particular provision of an indenture), we would seek the approval only from the holders, and not the indirect holders, of the debt securities. Whether and how the holders contact the indirect holders is up to the holders.

When we refer to you, we mean those who invest in the debt securities being offered by this prospectus, whether they are the holders or only indirect holders of those debt securities. When we refer to your debt securities, we mean the debt securities in which you hold a direct or indirect interest.

### Special Considerations for Indirect Holders

If you hold debt securities through a bank, broker or other financial institution, either in book-entry form or in street name, we urge you to check with that institution to find out:

- how it handles securities payments and notices,
- whether it imposes fees or charges,
- how it would handle a request for the holders' consent, if ever required,
- whether and how you can instruct it to send you debt securities registered in your own name so you can be a holder, if that is permitted in the future for a particular series of debt securities,
- how it would exercise rights under the debt securities if there were a default or other event triggering the need for holders to act to protect their interests, and
- if the debt securities are in book-entry form, how the depositary's rules and procedures will affect these matters.

### Global Securities

As noted above, we usually will issue debt securities as registered securities in book-entry form only. A global security represents one or any other number of individual debt securities. Generally, all debt securities represented by the same global securities will have the same terms.

Each debt security issued in book-entry form will be represented by a global security that we deposit with and register in the name of a financial institution or its nominee that we select. The financial institution that we select for this purpose is called the depositary. Unless we specify otherwise in the applicable prospectus supplement, The Depository Trust Company, New York, New York, known as DTC, will be the depositary for all debt securities issued in book-entry form.

A global security may not be transferred to or registered in the name of anyone other than the depositary or its nominee, unless special termination situations arise. We describe those situations below under "Special Situations when a Global Security

143

---

## Table of Contents

Will Be Terminated". As a result of these arrangements, the depositary, or its nominee, will be the sole registered owner and holder of all debt securities represented by a global security, and investors will be permitted to own only beneficial interests in a global security. Beneficial interests must be held by means of an account with a broker, bank or other financial institution that in turn has an account with the depositary or with another institution that has an account with the depositary. Thus, an investor whose security is represented by a global security will not be a holder of the debt security, but only an indirect holder of a beneficial interest in the global security.

### Special Considerations for Global Securities

As an indirect holder, an investor's rights relating to a global security will be governed by the account rules of the investor's financial institution and of the depositary, as well as general laws relating to securities transfers. The depositary that holds the global security will be considered the holder of the debt securities represented by the global security.

If debt securities are issued only in the form of a global security, an investor should be aware of the following:

An investor cannot cause the debt securities to be registered in his or her name, and cannot obtain certificates for his or her interest in the debt securities, except in the special situations we describe below.

An investor will be an indirect holder and must look to his or her own bank or broker for payments on the debt securities and protection of his or her legal rights relating to the debt securities, as we describe under "Issuance of Securities in Registered Form" above.

An investor may not be able to sell interests in the debt securities to some insurance companies and other institutions that are required by law to own their securities in non-book-entry form.

An investor may not be able to pledge his or her interest in a global security in circumstances where certificates representing the debt securities must be delivered to the lender or other beneficiary of the pledge in order for the pledge to be effective.

The depositary's policies, which may change from time to time, will govern payments, transfers, exchanges and other matters relating to an investor's interest in a global security. We and the trustee have no responsibility for any aspect of the depositary's actions or for its records of ownership interests in a global security. We and the trustee also do not supervise the depositary in any way.

If we redeem less than all the debt securities of a particular series being redeemed, DTC's practice is to determine by lot the amount to be redeemed from each of its participants holding that series.

- An investor is required to give notice of exercise of any option to elect repayment of its debt securities, through its participant, to the applicable trustee and to deliver the related debt securities by causing its participant to transfer its interest in those debt securities, on DTC's records, to the applicable trustee.
- DTC requires that those who purchase and sell interests in a global security deposited in its book-entry system use immediately available funds. Your broker or bank may also require you to use immediately available funds when purchasing or selling interests in a global security.

Financial institutions that participate in the depositary's book-entry system, and through which an investor holds its interest in a global security, may also have their own policies affecting payments, notices and other matters relating to the debt securities. There may be more than one financial intermediary in the chain of ownership for an investor. We do not monitor and are not responsible for the actions of any of those intermediaries.

### Special Situations when a Global Security will be Terminated

In a few special situations described below, a global security will be terminated and interests in it will be exchanged for certificates in non-book-entry form (certificated securities). After that exchange, the choice of whether to hold the certificated debt securities directly or in street name will be up to the investor. Investors must consult their own banks or brokers to find out how to have their interests in a global security transferred on termination to their own names, so that they will be holders. We have described the rights of legal holders and street name investors under "Issuance of Securities in Registered Form" above.

The special situations for termination of a global security are as follows:

- if the depositary notifies us that it is unwilling, unable or no longer qualified to continue as depositary for that global security, and we do not appoint another institution to act as depositary within 60 days,
- if we notify the trustee that we wish to terminate that global security, or

if an event of default has occurred with regard to the debt securities represented by that global security and has not been cured or waived; we discuss defaults later under "Events of Default."

The prospectus supplement may list situations for terminating a global security that would apply only to the particular series of debt securities covered by the prospectus supplement. If a global security is terminated, only the depositary, and not

144

---



## Table of Contents

we or the applicable trustee, is responsible for deciding the names of the institutions in whose names the debt securities represented by the global security will be registered and, therefore, who will be the holders of those debt securities.

### Payment and Paying Agents

We will pay interest to the person listed in the applicable trustee's records as the owner of the debt security at the close of business on a particular day in advance of each due date for interest, even if that person no longer owns the debt security on the interest due date. That day, usually about two weeks in advance of the interest due date, is called the "record date." Because we will pay all the interest for an interest period to the holders on the record date, holders buying and selling debt securities must work out between themselves the appropriate purchase price. The most common manner is to adjust the sales price of the debt securities to prorate interest fairly between buyer and seller based on their respective ownership periods within the particular interest period. This prorated interest amount is called "accrued interest."

### Payments on Global Securities

We will make payments on a global security in accordance with the applicable policies of the depositary as in effect from time to time. Under those policies, we will make payments directly to the depositary, or its nominee, and not to any indirect holders who own beneficial interests in the global security. An indirect holder's right to those payments will be governed by the rules and practices of the depositary and its participants, as described under "—Special Considerations for Global Securities."

### Payments on Certificated Securities

We will make payments on a certificated debt security as follows. We will pay interest that is due on an interest payment date by check mailed on the interest payment date to the holder at his or her address shown on the trustee's records as of the close of business on the regular record date. We will make all payments of principal and premium, if any, by check at the office of the applicable trustee in New York, NY and/or at other offices that may be specified in the prospectus supplement or in a notice to holders against surrender of the debt security.

Alternatively, if the holder asks us to do so, we will pay any amount that becomes due on the debt security by wire transfer of immediately available funds to an account at a bank in New York City, on the due date. To request payment by wire, the holder must give the applicable trustee or other paying agent appropriate transfer instructions at least 15 business days before the requested wire payment is due. In the case of any interest payment due on an interest payment date, the instructions must be given by the person who is the holder on the relevant regular record date. Any wire instructions, once properly given, will remain in effect unless and until new instructions are given in the manner described above.

### Payment When Offices Are Closed

If any payment is due on a debt security on a day that is not a business day, we will make the payment on the next day that is a business day. Payments made on the next business day in this situation will be treated under the indenture as if they were made on the original due date, except as otherwise indicated in the attached prospectus supplement. Such payment will not result in a default under any debt security or the indenture, and no interest will accrue on the payment amount from the original due date to the next day that is a business day.

Book-entry and other indirect holders should consult their banks or brokers for information on how they will receive payments on their debt securities.

### Events of Default

You will have rights if an Event of Default occurs in respect of the debt securities of your series and is not cured, as described later in this subsection.

The term "Event of Default" in respect of the debt securities of your series means any of the following:

- ✦ We do not pay the principal of, or any premium on, a debt security of the series on its due date.
- ✦ We do not pay interest on a debt security of the series within 30 days of its due date.
- ✦ We do not deposit any sinking fund payment in respect of debt securities of the series on its due date.

- We remain in breach of a covenant in respect of debt securities of the series for 90 days after we receive a written notice of default stating we are in breach. The notice must be sent by either the trustee or holders of at least 25% of the principal amount of debt securities of the series.

⚡We file for bankruptcy or certain other events of bankruptcy, insolvency or reorganization occur.

⚡Any other Event of Default in respect of debt securities of the series described in the prospectus supplement occurs.

145

---

Table of Contents

An Event of Default for a particular series of debt securities does not necessarily constitute an Event of Default for any other series of debt securities issued under the same or any other indenture. The trustee may withhold notice to the holders of debt securities of any default, except in the payment of principal, premium or interest, if it considers the withholding of notice to be in the best interests of the holders.

Remedies if an Event of Default Occurs

If an Event of Default has occurred and has not been cured, the trustee or the holders of at least 25% in principal amount of the debt securities of the affected series may declare the entire principal amount of all the debt securities of that series to be due and immediately payable. This is called a declaration of acceleration of maturity. A declaration of acceleration of maturity may be canceled by the holders of a majority in principal amount of the debt securities of the affected series under certain circumstances.

Except in cases of default, where the trustee has some special duties, the trustee is not required to take any action under the indenture at the request of any holders unless the holders offer the trustee reasonable protection from expenses and liability (called an "indemnity"). (Section 315 of the Trust Indenture Act of 1939) If reasonable indemnity is provided, the holders of a majority in principal amount of the outstanding debt securities of the relevant series may direct the time, method and place of conducting any lawsuit or other formal legal action seeking any remedy available to the trustee. The trustee may refuse to follow those directions in certain circumstances. No delay or omission in exercising any right or remedy will be treated as a waiver of that right, remedy or Event of Default.

Before you are allowed to bypass your trustee and bring your own lawsuit or other formal legal action or take other steps to enforce your rights or protect your interests relating to the debt securities, the following must occur:

• You must give your trustee written notice that an Event of Default has occurred and remains uncured.

The holders of at least 25% in principal amount of all outstanding debt securities of the relevant series must make a written request that the trustee take action because of the default and must offer reasonable indemnity to the trustee against the cost and other liabilities of taking that action.

• The trustee must not have taken action for 60 days after receipt of the above notice and offer of indemnity.

• The holders of a majority in principal amount of the debt securities must not have given the trustee a direction inconsistent with the above notice during that 60-day period.

However, you are entitled at any time to bring a lawsuit for the payment of money due on your debt securities on or after the due date.

Holders of a majority in principal amount of the debt securities of the affected series may waive any past defaults other than:

- the payment of principal, any premium or interest or

in respect of a covenant that cannot be modified or amended without the consent of each holder.

Book-entry and other indirect holders should consult their banks or brokers for information on how to give notice or direction to or make a request of the trustee and how to declare or cancel an acceleration of maturity.

Each year, we will furnish to each trustee a written statement of certain of our officers certifying that to their knowledge we are in compliance with the indenture and the debt securities or else specifying any default.

Merger or Consolidation

Under the terms of the indenture, we are generally permitted to consolidate or merge with another entity. We are also permitted to sell all or substantially all of our assets to another entity. However, we may not take any of these actions unless all the following conditions are met:

• Where we merge out of existence or sell our assets, the resulting entity must agree to be legally responsible for our obligations under the debt securities.

The merger or sale of assets must not cause a default on the debt securities and we must not already be in default (unless the merger or sale would cure the default). For purposes of this no-default test, a default would include an Event of Default that has occurred and has not been cured, as described under "Events of Default" above. A default for this purpose would also include any event that would be an Event of Default if the requirements for giving us a notice of default or our default having to exist for a specific period of time were disregarded.

•

Under the indenture, no merger or sale of assets may be made if as a result any of our property or assets or any property or assets of one of our subsidiaries, if any, would become subject to any mortgage, lien or other encumbrance unless either (i) the mortgage, lien or other encumbrance could be created pursuant to the limitation on liens covenant

146

---

## Table of Contents

in the indenture (see "Indenture Provisions—Limitation on Liens" below) without equally and ratably securing the indenture securities or (ii) the indenture securities are secured equally and ratably with or prior to the debt secured by the mortgage, lien or other encumbrance.

• We must deliver certain certificates and documents to the trustee.

• We must satisfy any other requirements specified in the prospectus supplement relating to a particular series of debt securities.

### Modification or Waiver

There are three types of changes we can make to the indenture and the debt securities issued thereunder.

#### Changes Requiring Your Approval

First, there are changes that we cannot make to your debt securities without your specific approval. The following is a list of those types of changes:

- change the stated maturity of the principal of, or interest on, a debt security;
- reduce any amounts due on a debt security;
- reduce the amount of principal payable upon acceleration of the maturity of a security following a default;
- adversely affect any right of repayment at the holder's option;
- change the place (except as otherwise described in the prospectus or prospectus supplement) or currency of payment on a debt security;
- impair your right to sue for payment;
- adversely affect any right to convert or exchange a debt security in accordance with its terms;
- modify the subordination provisions in the indenture in a manner that is adverse to holders of the debt securities;
- reduce the percentage of holders of debt securities whose consent is needed to modify or amend the indenture;
- reduce the percentage of holders of debt securities whose consent is needed to waive compliance with certain provisions of the indenture or to waive certain defaults;
- modify any other aspect of the provisions of the indenture dealing with supplemental indentures, modification and waiver of past defaults, changes to the quorum or voting requirements or the waiver of certain covenants; and
- change any obligation we have to pay additional amounts.

#### Changes Not Requiring Approval

The second type of change does not require any vote by the holders of the debt securities. This type is limited to clarifications and certain other changes that would not adversely affect holders of the outstanding debt securities in any material respect. We also do not need any approval to make any change that affects only debt securities to be issued under the indenture after the change takes effect.

#### Changes Requiring Majority Approval

Any other change to the indenture and the debt securities would require the following approval:

• If the change affects only one series of debt securities, it must be approved by the holders of a majority in principal amount of that series.

If the change affects more than one series of debt securities issued under the same indenture, it must be approved by the holders of a majority in principal amount of all of the series affected by the change, with all affected series voting together as one class for this purpose.

In each case, the required approval must be given by written consent.

The holders of a majority in principal amount of all of the series of debt securities issued under an indenture, voting together as one class for this purpose, may waive our compliance with some of our covenants in that indenture.

However, we cannot obtain a waiver of a payment default or of any of the matters covered by the bullet points included above under "—Changes Requiring Your Approval."

#### Further Details Concerning Voting

When taking a vote, we will use the following rules to decide how much principal to attribute to a debt security:

• For original issue discount securities, we will use the principal amount that would be due and payable on the voting date if the maturity of these debt securities were accelerated to that date because of a default.



## Table of Contents

• For debt securities whose principal amount is not known (for example, because it is based on an index), we will use a special rule for that debt security described in the prospectus supplement.

• For debt securities denominated in one or more foreign currencies, we will use the U.S. dollar equivalent.

Debt securities will not be considered outstanding, and therefore not eligible to vote, if we have deposited or set aside in trust money for their payment or redemption. Debt securities will also not be eligible to vote if they have been fully defeased as described later under "Defeasance—Full Defeasance."

We will generally be entitled to set any day as a record date for the purpose of determining the holders of outstanding indenture securities that are entitled to vote or take other action under the indenture. If we set a record date for a vote or other action to be taken by holders of one or more series, that vote or action may be taken only by persons who are holders of outstanding indenture securities of those series on the record date and must be taken within eleven months following the record date.

Book-entry and other indirect holders should consult their banks or brokers for information on how approval may be granted or denied if we seek to change the indenture or the debt securities or request a waiver.

### Defeasance

The following provisions will be applicable to each series of debt securities unless we state in the applicable prospectus supplement that the provisions of covenant defeasance and full defeasance will not be applicable to that series.

#### Covenant Defeasance

Under current United States federal tax law, we can make the deposit described below and be released from some of the restrictive covenants in the indenture under which the particular series was issued. This is called "covenant defeasance." In that event, you would lose the protection of those restrictive covenants but would gain the protection of having money and government securities set aside in trust to repay your debt securities. In order to achieve covenant defeasance, we must do the following:

If the debt securities of the particular series are denominated in U.S. dollars, we must deposit in trust for the benefit of all holders of such debt securities a combination of money and United States government or United States government agency notes or bonds that will generate enough cash to make interest, principal and any other payments on the debt securities on their various due dates.

We must deliver to the trustee a legal opinion of our counsel confirming that, under current United States federal income tax law, we may make the above deposit without causing you to be taxed on the debt securities any differently than if we did not make the deposit and just repaid the debt securities ourselves at maturity.

We must deliver to the trustee a legal opinion of our counsel stating that the above deposit does not require registration by us under the 1940 Act, as amended, and a legal opinion and officers' certificate stating that all conditions precedent to covenant defeasance have been complied with.

#### Full Defeasance

If there is a change in United States federal tax law, as described below, we can legally release ourselves from all payment and other obligations on the debt securities of a particular series (called "full defeasance") if we put in place the following other arrangements for you to be repaid:

If the debt securities of the particular series are denominated in U.S. dollars, we must deposit in trust for the benefit of all holders of such debt securities a combination of money and United States government or United States government agency notes or bonds that will generate enough cash to make interest, principal and any other payments on the debt securities on their various due dates.

We must deliver to the trustee a legal opinion confirming that there has been a change in current United States federal tax law or an IRS ruling that allows us to make the above deposit without causing you to be taxed on the debt securities any differently than if we did not make the deposit and just repaid the debt securities ourselves at maturity.

• Under current United States federal tax law, the deposit and our legal release from the debt securities would be treated as though we paid you your share of the cash and notes or bonds at the time the cash and notes or bonds were deposited in trust in exchange for your debt securities and you would recognize gain or loss on the debt securities at the time of the deposit.

We must deliver to the trustee a legal opinion of our counsel stating that the above deposit does not require registration by us under the 1940 Act, as amended, and a legal opinion and officers' certificate stating that all conditions precedent to defeasance have been complied with.

148

---



## Table of Contents

### Form, Exchange and Transfer of Certificated Registered Securities

If registered debt securities cease to be issued in book-entry form, they will be issued:

- only in fully registered certificated form,
- without interest coupons, and
- unless we indicate otherwise in the prospectus supplement, in denominations of \$1,000 and amounts that are multiples of \$1,000.

Holders may exchange their certificated securities for debt securities of smaller denominations or combined into fewer debt securities of larger denominations, as long as the total principal amount is not changed.

Holders may exchange or transfer their certificated securities at the office of their trustee. We have appointed the trustee to act as our agent for registering debt securities in the names of holders transferring debt securities. We may appoint another entity to perform these functions or perform them ourselves.

Holders will not be required to pay a service charge to transfer or exchange their certificated securities, but they may be required to pay any tax or other governmental charge associated with the transfer or exchange. The transfer or exchange will be made only if our transfer agent is satisfied with the holder's proof of legal ownership.

If we have designated additional transfer agents for your debt security, they will be named in your prospectus supplement. We may appoint additional transfer agents or cancel the appointment of any particular transfer agent. We may also approve a change in the office through which any transfer agent acts.

If any certificated securities of a particular series are redeemable and we redeem less than all the debt securities of that series, we may block the transfer or exchange of those debt securities during the period beginning 15 days before the day we mail the notice of redemption and ending on the day of that mailing, in order to freeze the list of holders to prepare the mailing. We may also refuse to register transfers or exchanges of any certificated securities selected for redemption, except that we will continue to permit transfers and exchanges of the unredeemed portion of any debt security that will be partially redeemed.

If a registered debt security is issued in book-entry form, only the depositary will be entitled to transfer and exchange the debt security as described in this subsection, since it will be the sole holder of the debt security.

### Resignation of Trustee

Each trustee may resign or be removed with respect to one or more series of indenture securities provided that a successor trustee is appointed to act with respect to these series. In the event that two or more persons are acting as trustee with respect to different series of indenture securities under the indenture, each of the trustees will be a trustee of a trust separate and apart from the trust administered by any other trustee.

### Indenture Provisions—Subordination

Upon any distribution of our assets upon our dissolution, winding up, liquidation or reorganization, the payment of the principal of (and premium, if any) and interest, if any, on any indenture securities denominated as subordinated debt securities is to be subordinated to the extent provided in the indenture in right of payment to the prior payment in full of all Senior Indebtedness (as defined below), but our obligation to you to make payment of the principal of (and premium, if any) and interest, if any, on such subordinated debt securities will not otherwise be affected. In addition, no payment on account of principal (or premium, if any), sinking fund or interest, if any, may be made on such subordinated debt securities at any time unless full payment of all amounts due in respect of the principal (and premium, if any), sinking fund and interest on Senior Indebtedness has been made or duly provided for in money or money's worth.

In the event that, notwithstanding the foregoing, any payment or distribution of our assets by us is received by the trustee in respect of subordinated debt securities or by the holders of any of such subordinated debt securities before all Senior Indebtedness is paid in full, the payment or distribution must be paid over, upon written notice to the Trustee, to the holders of the Senior Indebtedness or on their behalf for application to the payment of all the Senior Indebtedness remaining unpaid until all the Senior Indebtedness has been paid in full, after giving effect to any concurrent payment or distribution to the holders of the Senior Indebtedness. Subject to the payment in full of all Senior Indebtedness upon this distribution by us, the holders of such subordinated debt securities will be subrogated to the rights of the holders of the Senior Indebtedness to the extent of payments made to the holders of the Senior Indebtedness out of the distributive share of such subordinated debt securities.

By reason of this subordination, in the event of a distribution of our assets upon our insolvency, certain of our senior creditors may recover more, ratably, than holders of any subordinated debt securities. The indenture provides that these subordination provisions will not apply to money and securities held in trust under the defeasance provisions of the indenture.

149

---

Table of Contents

Senior Indebtedness is defined in the indenture as the principal of (and premium, if any) and unpaid interest on: our indebtedness (including indebtedness of others guaranteed by us), whenever created, incurred, assumed or guaranteed, for money borrowed (other than indenture securities issued under the indenture and denominated as subordinated debt securities), unless in the instrument creating or evidencing the same or under which the same is outstanding it is provided that this indebtedness is not senior or prior in right of payment to the subordinated debt securities, and

renewals, extensions, modifications and refinancings of any of this indebtedness.

If this prospectus is being delivered in connection with the offering of a series of indenture securities denominated as subordinated debt securities, the accompanying prospectus supplement will set forth the approximate amount of our Senior Indebtedness outstanding as of a recent date.

The Trustee under the Indenture

U.S. Bank National Association will serve as trustee under the indenture.

Certain Considerations Relating to Foreign Currencies

Debt securities denominated or payable in foreign currencies may entail significant risks. These risks include the possibility of significant fluctuations in the foreign currency markets, the imposition or modification of foreign exchange controls and potential illiquidity in the secondary market. These risks will vary depending upon the currency or currencies involved and will be more fully described in the applicable prospectus supplement.

DESCRIPTION OF OUR SUBSCRIPTION RIGHTS

General

We may issue subscription rights to the holders of the class of securities to whom the subscription rights are being distributed, or the Holders to purchase our Securities. Subscription rights may be issued independently or together with any other offered security and may or may not be transferable by the person purchasing or receiving the subscription rights. In connection with a subscription rights offering to the Holders, we would distribute certificates evidencing the subscription rights and a prospectus supplement to the Holders on the record date that we set for receiving subscription rights in such subscription rights offering.

The applicable prospectus supplement would describe the following terms of subscription rights in respect of which this prospectus is being delivered:

- the period of time the offering would remain open (which shall be open a minimum number of days such that all record holders would be eligible to participate in the offering and shall not be open longer than 120 days);
- the title of such subscription rights;
- the exercise price for such subscription rights (or method of calculation thereof);
- the ratio of the offering;
- the number of such subscription rights issued to each Holder;
- the extent to which such subscription rights are transferable and the market on which they may be traded if they are transferable;
- if applicable, a discussion of certain U.S. federal income tax considerations applicable to the issuance or exercise of such subscription rights;
- the date on which the right to exercise such subscription rights shall commence, and the date on which such right shall expire (subject to any extension);
- the extent to which such subscription rights include an over-subscription privilege with respect to unsubscribed securities and the terms of such over-subscription privilege;
- any termination right we may have in connection with such subscription rights offering; and
- any other terms of such subscription rights, including exercise, settlement and other procedures and limitations relating to the transfer and exercise of such subscription rights.

## Table of Contents

### Exercise of Subscription Rights

Each subscription right would entitle the holder of the subscription right to purchase for cash such amount of our Securities at such exercise price as shall in each case be set forth in, or be determinable as set forth in, the prospectus supplement relating to the subscription rights offered thereby. Subscription rights may be exercised at any time up to the close of business on the expiration date for such subscription rights set forth in the prospectus supplement. After the close of business on the expiration date, all unexercised subscription rights would become void.

Subscription rights may be exercised as set forth in the prospectus supplement relating to the subscription rights offered thereby. Upon receipt of payment and the subscription rights certificate properly completed and duly executed at the corporate trust office of the subscription rights agent or any other office indicated in the prospectus supplement we will forward, as soon as practicable, the Securities purchasable upon such exercise. To the extent permissible under applicable law, we may determine to offer any unsubscribed offered securities directly to persons other than stockholders, to or through agents, underwriters or dealers or through a combination of such methods, as set forth in the applicable prospectus supplement.

### DESCRIPTION OF OUR WARRANTS

The following is a general description of the terms of the warrants we may issue from time to time. Particular terms of any warrants we offer will be described in the prospectus supplement relating to such warrants.

We may issue warrants to purchase shares of our common stock, preferred stock or debt securities from time to time. Such warrants may be issued independently or together with one of our Securities and may be attached or separate from such securities. We will issue each series of warrants under a separate warrant agreement to be entered into between us and a warrant agent. The warrant agent will act solely as our agent and will not assume any obligation or relationship of agency for or with holders or beneficial owners of warrants.

A prospectus supplement will describe the particular terms of any series of warrants we may issue, including the following:

- the title of such warrants;
- the aggregate number of such warrants;
- the price or prices at which such warrants will be issued;
- the currency or currencies, including composite currencies, in which the price of such warrants may be payable;
- the number of shares of common stock, preferred stock or debt securities issuable upon exercise of such warrants;
- the price at which and the currency or currencies, including composite currencies, in which the shares of common stock, preferred stock or debt securities purchasable upon exercise of such warrants may be purchased;
- the date on which the right to exercise such warrants will commence and the date on which such right will expire;
- whether such warrants will be issued in registered form or bearer form;
- if applicable, the minimum or maximum amount of such warrants which may be exercised at any one time;
- if applicable, the number of such warrants issued with each share of common stock, preferred stock or debt securities;
- if applicable, the date on and after which such warrants and the related shares of common stock, preferred stock or debt securities will be separately transferable;
- information with respect to book-entry procedures, if any;
- if applicable, a discussion of certain U.S. federal income tax considerations; and
- any other terms of such warrants, including terms, procedures and limitations relating to the exchange and exercise of such warrants.

We and the warrant agent may amend or supplement the warrant agreement for a series of warrants without the consent of the holders of the warrants issued thereunder to effect changes that are not inconsistent with the provisions of the warrants and that do not materially and adversely affect the interests of the holders of the warrants.

Under the 1940 Act, we may generally only offer warrants provided that (1) the warrants expire by their terms within ten years; (2) the exercise or conversion price is not less than the current market value at the date of issuance; (3) our stockholders authorize the proposal to issue such warrants, and our Board of Directors approves such issuance on the basis that the issuance is in our best interests and the best interest of our stockholders; and (4) if the warrants are accompanied by other securities, the warrants are not separately transferable unless no class of such warrants and the securities accompanying them has been publicly distributed. The 1940 Act also provides that the amount of our voting

securities that would result from the exercise of all outstanding warrants at the time of issuance may not exceed 25% of our outstanding voting securities.

151

---

## Table of Contents

### DESCRIPTION OF OUR UNITS

A unit is a separate security consisting of two or more other securities that either may or must be traded or transferred together as a single security. The following is a general description of the terms of the units we may issue from time to time. Particular terms of any units we offer will be described in the prospectus supplement relating to such units. For a complete description of the terms of particular units, you should read both this prospectus and the prospectus supplement relating to those particular units.

We may issue units comprised of one or more of the other securities described in this prospectus in any combination. Each unit may also include contracts for purchase of any such security or debt obligations of third parties, such as U.S. Treasury securities, such that the holder holds each component. Thus, the holder of a unit will have the rights and obligations of a holder of each included security.

A prospectus supplement will describe the particular terms of any series of units we may issue, including the following:

- the designation and terms of the units and of the securities comprising the units, including whether and under what circumstances the securities comprising the units may be held or transferred separately;
- a description of the terms of any unit agreement governing the units;
- a description of the provisions for the payment, settlement, transfer or exchange of the units; and
- whether the units will be issued in fully registered or global form.

### REGULATION

We are a closed-end, non-diversified investment company that has filed an election to be treated as a business development company 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. 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 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;

152

---

Table of Contents

(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 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:

1. does not have any class of securities with respect to which a broker or dealer may extend margin credit;
2. 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;
3. 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;
4. does not have any class of securities listed on a national securities exchange; or
5. 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.





## Table of Contents

### 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. Our 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 classes 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. The 1940 Act allows BDCs to issue multiple series of the same class of preferred stock and to issue multiple classes in connection with certain refundings or reorganizations. 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."

### 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."

### Investment Concentration

Our investment objective is to generate both current income and long-term capital appreciation through debt and equity investments. While we are broadening the portfolio, many of our existing investments are in the energy and energy related industries.

### Compliance Policies and Procedures

We and our 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. Brian H. Oswald 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:

154

---

Table of Contents

(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.** Prospect Capital Management believes 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

155

---

Table of Contents

(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 also requires us to continually review our policies and procedures to ensure that we remain in compliance with all rules promulgated under the Act.

**CUSTODIAN, TRANSFER AND DIVIDEND PAYING AGENT AND REGISTRAR**

Our Securities are held under a custody agreement by U.S. Bank National Association, Israeli Discount Bank of New York Ltd., Fifth Third Bank, Peapack-Gladstone Bank and Customers Bank. The addresses of the custodians are: U.S. Bank National Association, Corporate Trust Services, One Federal Street, 3<sup>rd</sup> Floor, Boston, MA 02110, Attention: Prospect Capital Corporation Custody Account Administrator; Israeli Discount Bank of New York Ltd., 511 Fifth Avenue, New York, NY 10017, Attention: Prospect Capital Corporation, Account Administrator; Fifth Third Bank, 38 Fountain Square Plaza, MD1090CD, Cincinnati, OH, 45263, Attention: Prospect Capital Corporation Custody Account Administrator; Peapack-Gladstone Bank, 500 Hills Drive, Bedminster, New Jersey 07921, Attention: Prospect Capital Corporation, Account Administrator; Customers Bank, 99 Park Avenue, New York, New York 10016, Attention: Prospect Capital Corporation, Account Administrator; and Key Bank National Association, 127 Public Square, Cleveland Ohio 44114, Attention: Prospect Capital Corporation, Account Administrator. American

Stock Transfer & Trust Company acts as our transfer agent, dividend paying agent and registrar. The principal business address of American Stock Transfer & Trust Company is 6201 15th Avenue, Brooklyn, NY 11219, telephone number: (718) 921-8200.

156

---

Table of Contents

**BROKERAGE ALLOCATION AND OTHER PRACTICES**

Since we generally acquire and dispose of our investments in privately negotiated transactions, we infrequently use brokers in the normal course of our business. We have not paid any brokerage commissions during the three most recent fiscal years. Subject to policies established by our Board of Directors, Prospect Capital Management is primarily responsible for the execution of the publicly-traded securities portion of our portfolio transactions and the allocation of brokerage commissions.

Prospect Capital Management does not expect to execute transactions through any particular broker or dealer, but seeks to obtain the best net results for the Company, taking into account such factors as price (including the applicable brokerage commission or dealer spread), size of order, difficulty of execution, and operational facilities of the firm and the firm's risk and skill in positioning blocks of securities. While Prospect Capital Management generally seeks reasonably competitive trade execution costs, the Company will not necessarily pay the lowest spread or commission available. Subject to applicable legal requirements, Prospect Capital Management may select a broker based partly upon brokerage or research services provided to it and the Company and any other clients. In return for such services, we may pay a higher commission than other brokers would charge if Prospect Capital Management determines in good faith that such commission is reasonable in relation to the services provided.

**PLAN OF DISTRIBUTION**

We may sell the Securities pursuant to this prospectus and a prospectus supplement in any of four ways (or in any combination): (a) through underwriters or dealers; (b) directly to a limited number of purchasers or to a single purchaser, including existing stockholders in a rights offering; (c) through agents; or (d) directly to our stockholders and others through the issuance of transferable or non-transferable rights to our stockholders. In the case of a rights offering, the applicable prospectus supplement will set forth the number of shares of our common stock or units issuable upon the exercise of each right and the other terms of such rights offering. Any underwriter or agent involved in the offer and sale of the Securities will also be named in the applicable prospectus supplement. The Securities may be sold "at-the-market" to or through a market maker or into an existing trading market for the securities, on an exchange or otherwise. The prospectus supplement will set forth the terms of the offering of such securities, including: the name or names of any underwriters or agents and the amounts of Securities underwritten or placed by each of them;

the offering price of the Securities and the proceeds to us and any discounts, commissions or concessions allowed or reallocated or paid to underwriters or agents; and

any securities exchanges on which the Securities may be listed.

In addition, we may enter into registration rights agreements or other similar agreements in the future pursuant to which certain of our stockholders may resell our Securities under this prospectus and as described in any related prospectus supplement.

We may use Securities to acquire investments in companies, the terms of which will be further disclosed in a prospectus supplement if such stock is issued in an offering hereunder.

Any offering price and any discounts or concessions allowed or reallocated or paid to underwriters or agents may be changed from time to time.

We may sell our common stock, subscription rights, units, warrants, options or rights to acquire our common stock, at a price below the current net asset value of our common stock 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 the 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. If underwriters are used in the sale of any Securities, Securities acquired by the underwriters for their own account may be resold from time to time in one or more transactions, including negotiated transactions, at a fixed public offering price or at varying prices determined at the time of sale. The Securities may be either offered to the public through underwriting syndicates

157

---

## Table of Contents

represented by managing underwriters, or directly by underwriters. Generally, any obligations by the underwriters to purchase the Securities will be subject to certain conditions precedent.

In compliance with the guidelines of FINRA, the maximum compensation to the underwriters or dealers in connection with the sale of our Securities pursuant to this prospectus and the accompanying supplement to this prospectus may not exceed 8% of the aggregate offering price of the Securities as set forth on the cover page of the supplement to this prospectus. In connection with any rights offering to our stockholders, we may also enter into a standby underwriting arrangement with one or more underwriters pursuant to which the underwriter(s) will purchase our common stock remaining unsubscribed for after the rights offering.

We may sell the Securities through agents from time to time. The prospectus supplement will name any agent involved in the offer or sale of the Securities and any commissions we pay to them. Generally, any agent will be acting on a best efforts basis for the period of its appointment.

Agents, dealers and underwriters may be entitled to indemnification by us against certain civil liabilities, including liabilities under the Securities Act or to contribution with respect to payments which the agents or underwriters may be required to make in respect thereof. Agents, dealers and underwriters may be customers of, engage in transactions with, or perform services for us in the ordinary course of business.

We may enter into derivative transactions with third parties, or sell Securities outside of this prospectus to third parties in privately negotiated transactions. If the applicable prospectus supplement indicates, in connection with those derivatives, the third parties may sell Securities covered by this prospectus and the applicable prospectus supplement, including in short sale transactions. If so, the third party may use Securities pledged by us or borrowed from us or others to settle those sales or to close out any related open borrowings of stock, and may use securities received from us in settlement of those derivatives to close out any related open borrowings of stock. The third party in such sale transactions will be an underwriter and, if not identified in this prospectus, will be identified in the applicable prospectus supplement (or a post-effective amendment). We or one of our affiliates may loan or pledge Securities to a financial institution or other third party that in turn may sell the securities using this prospectus. Such financial institution or third party may transfer its short position to investors in our Securities or in connection with a simultaneous offering of other Securities offered by this prospectus or otherwise.

Any of our common stock sold pursuant to a prospectus supplement will be listed on the NASDAQ Global Select Market, or another exchange on which our common stock is traded.

In order to comply with the securities laws of certain states, if applicable, the Securities offered hereby will be sold in such jurisdictions only through registered or licensed brokers or dealers. In addition, in certain states, the Securities may not be sold unless they have been registered or qualified for sale in the applicable state or an exemption from the registration or qualification requirements is available and is complied with.

### LEGAL MATTERS

Certain legal matters regarding the securities offered by this prospectus will be passed upon for the Company by Skadden, Arps, Slate, Meagher & Flom LLP, New York, NY, and Venable LLP as special Maryland counsel.

### INDEPENDENT REGISTERED ACCOUNTING FIRM

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

### AVAILABLE INFORMATION

We have filed with the SEC a registration statement on Form N-2, together with all amendments and related exhibits, under the Securities Act, with respect to our Securities offered by this prospectus. The registration statement contains additional information about us and the Securities being registered by this prospectus. We file with or submit to the SEC annual, quarterly and current periodic reports, proxy statements and other information meeting the informational requirements of the Exchange Act. This information and the information specifically regarding how we voted proxies relating to portfolio securities for the period ended June 30, 2014, are available free of charge by contacting us at 10 East 40th Street, 42nd floor, New York, NY 10016 or by telephone at toll-free (888) 748-0702. You may inspect and copy these reports, proxy statements and other information, as well as the registration statement and related exhibits and schedules, at the Public Reference Room of the SEC at 100 F Street NE, Washington, D.C. 20549. You may obtain information on the operation of the Public Reference Room by calling the SEC at (202) 551-8090 or by calling 1-800-SEC-0330. The SEC maintains an Internet site that contains reports, proxy and information statements and

other information filed electronically by us with the SEC which are available on the SEC's Internet site at <http://www.sec.gov>. Copies of these reports, proxy and information statements and other information may

158

---

Table of Contents

be obtained, after paying a duplicating fee, by electronic request at the following E-mail address: [publicinfo@sec.gov](mailto:publicinfo@sec.gov), or by writing the SEC's Public Reference Section, Washington, D.C. 20549-0102.

159

---

Table of Contents

INDEX TO FINANCIAL STATEMENTS

Financial Statements

<u>Report of Independent Registered Public Accounting Firm</u>	<u>F-2</u>
<u>Consolidated Statements of Assets and Liabilities as of June 30, 2014 and June 30, 2013</u>	<u>F-3</u>
<u>Consolidated Statements of Operations—For the Years Ended June 30, 2014, June 30, 2013 and June 30, 2012</u>	<u>F-4</u>
<u>Consolidated Statements of Changes in Net Assets—For the Years Ended June 30, 2014, June 30, 2013 and June 30, 2012</u>	<u>F-5</u>
<u>Consolidated Statements of Cash Flows—For the Years Ended June 30, 2014, June 30, 2013 and June 30, 2012</u>	<u>F-6</u>
<u>Consolidated Schedules of Investments as June 30, 2014 and June 30, 2013</u>	<u>F-7</u>
<u>Notes to Consolidated Financial Statements</u>	<u>F-41</u>

F-1

---

Table of Contents

Report of Independent Registered Public Accounting Firm

Board of Directors and Stockholders

Prospect Capital Corporation

New York, New York

We have audited the accompanying consolidated statements of assets and liabilities of Prospect Capital Corporation (the "Company"), including the consolidated schedules of investments, as of June 30, 2014 and 2013, 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, 2014, and the financial highlights for each of the five years in the period ended June 30, 2014. These consolidated financial statements and financial highlights are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements and financial highlights based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements and financial highlights are free of material misstatement. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. Our procedures included confirmation of securities owned as of June 30, 2014 and 2013 by correspondence with the custodian, trustees and portfolio companies, or by other appropriate auditing procedures where replies were not received. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements and financial highlights referred to above present fairly, in all material respects, the financial position of Prospect Capital Corporation at June 30, 2014 and 2013, 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, 2014, and the financial highlights for each of the five years in the period ended June 30, 2014, 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), Prospect Capital Corporation's internal control over financial reporting as of June 30, 2014, based on criteria established in Internal Control—Integrated Framework (1992) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) and our report dated August 25, 2014 expressed an unqualified opinion thereon.

/s/ BDO USA, LLP

BDO USA, LLP

New York, New York

August 25, 2014

See notes to consolidated financial statements.

F-2

---

Table of Contents PROSPECT CAPITAL CORPORATION AND SUBSIDIARIES  
 CONSOLIDATED STATEMENTS OF ASSETS AND LIABILITIES  
 (in thousands, except share and per share data)

	June 30, 2014	June 30, 2013
Assets		
Investments at fair value:		
Control investments (amortized cost of \$1,719,242 and \$830,151, respectively)	\$1,640,454	\$811,634
Affiliate investments (amortized cost of \$31,829 and \$49,189, respectively)	32,121	42,443
Non-control/non-affiliate investments (amortized cost of \$4,620,451 and \$3,376,438, respectively)	4,581,164	3,318,775
Total investments at fair value (amortized cost of \$6,371,522 and \$4,255,778, respectively)	6,253,739	4,172,852
Cash and cash equivalents	134,225	203,236
Receivables for:		
Interest, net	21,997	22,863
Other	2,587	4,397
Prepaid expenses	2,828	540
Deferred financing costs	61,893	44,329
Total Assets	6,477,269	4,448,217
Liabilities		
Revolving Credit Facility (Notes 4 and 8)	92,000	124,000
Senior Convertible Notes (Notes 5 and 8)	1,247,500	847,500
Senior Unsecured Notes (Notes 6 and 8)	647,881	347,725
Prospect Capital InterNotes® (Notes 7 and 8)	785,670	363,777
Due to broker	—	43,588
Dividends payable	37,843	27,299
Due to Prospect Administration (Note 13)	2,208	1,366
Due to Prospect Capital Management (Note 13)	3	5,324
Accrued expenses	4,790	2,345
Interest payable	37,459	24,384
Other liabilities	3,733	4,415
Total Liabilities	2,859,087	1,791,723
Net Assets	\$3,618,182	\$2,656,494
Components of Net Assets		
Common stock, par value \$0.001 per share (1,000,000,000 common shares authorized; 342,626,637 and 247,836,965 issued and outstanding, respectively) (Note 9)	\$343	\$248
Paid-in capital in excess of par (Note 9)	3,814,634	2,772,191
Undistributed net investment income	42,086	82,112
Accumulated realized losses on investments	(121,098 )	(115,131 )
Unrealized depreciation on investments	(117,783 )	(82,926 )
Net Assets	\$3,618,182	\$2,656,494
Net Asset Value Per Share (Note 16)	\$10.56	\$10.72

See notes to consolidated financial statements.

Explanation of Responses:





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

	Year Ended June 30,			
	2014	2013	2012	
Investment Income				
Interest income:				
Control investments	\$ 153,307	\$ 106,425	\$ 53,408	
Affiliate investments	4,358	6,515	12,155	
Non-control/non-affiliate investments	334,039	234,013	144,592	
CLO fund securities	122,037	88,502	9,381	
Total interest income	613,741	435,455	219,536	
Dividend income:				
Control investments	26,687	78,282	63,144	
Affiliate investments	—	728	—	
Non-control/non-affiliate investments	98	3,656	1,733	
Money market funds	52	39	4	
Total dividend income	26,837	82,705	64,881	
Other income: (Note 10)				
Control investments	43,671	16,821	25,464	
Affiliate investments	17	623	108	
Non-control/non-affiliate investments	28,025	40,732	10,921	
Total other income	71,713	58,176	36,493	
Total Investment Income	712,291	576,336	320,910	
Operating Expenses				
Investment advisory fees:				
Base management fee (Note 13)	108,990	69,800	35,836	
Income incentive fee (Note 13)	89,306	81,231	46,671	
Total investment advisory fees	198,296	151,031	82,507	
Interest and credit facility expenses	130,103	76,341	38,534	
Legal fees	2,771	1,918	279	
Valuation services	1,836	1,579	1,212	
Audit, compliance and tax related fees	2,959	1,566	1,446	
Allocation of overhead from Prospect Administration (Note 13)	14,373	8,737	6,848	
Insurance expense	373	356	324	
Directors' fees	325	300	273	
Excise tax	(4,200	) 6,500	—	
Other general and administrative expenses	8,232	3,084	2,803	
Total Operating Expenses	355,068	251,412	134,226	
Net Investment Income	357,223	324,924	186,684	
Net realized (loss) gain on investments	(3,346	) (26,234	) 36,588	
Net change in unrealized depreciation on investments	(34,857	) (77,834	) (32,368	)
Net Increase in Net Assets Resulting from Operations	\$ 319,020	\$ 220,856	\$ 190,904	
Net increase in net assets resulting from operations per share	\$ 1.06	\$ 1.07	\$ 1.67	
Dividends declared per share	\$(1.32	) \$(1.28	) \$(1.22	)

See notes to consolidated financial statements.

F-4

---

PROSPECT CAPITAL CORPORATION AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS  
(in thousands, except share data)

	Year Ended June 30,		
	2014	2013	2012
<b>Operations</b>			
Net investment income	\$ 357,223	\$ 324,924	\$ 186,684
Net realized loss on investments	(3,346)	) (26,234	) 36,588
Net change in unrealized depreciation on investments	(34,857	) (77,834	) (32,368 )
Net Increase in Net Assets Resulting from Operations	319,020	220,856	190,904
<b>Dividends to Shareholders</b>			
Distribution of net investment income	(403,188	) (271,507	) (136,875 )
Distribution of return of capital	—	—	(4,504 )
Net Decrease in Net Assets Resulting from Dividends to Shareholders	(403,188	) (271,507	) (141,379 )
<b>Common Stock Transactions</b>			
Issuance of common stock, net of underwriting costs	973,832	1,121,648	177,699
Less: Offering costs from issuance of common stock	(1,380	) (1,815	) (708 )
Value of shares issued to acquire controlled investments	57,830	59,251	160,571
Value of shares issued through reinvestment of dividends	15,574	16,087	10,530
Net Increase in Net Assets Resulting from Common Stock Transactions	1,045,856	1,195,171	348,092
Total Increase in Net Assets	961,688	1,144,520	397,617
Net assets at beginning of period	2,656,494	1,511,974	1,114,357
Net Assets at End of Period	\$ 3,618,182	\$ 2,656,494	\$ 1,511,974
<b>Common Stock Activity</b>			
Shares sold	88,054,653	101,245,136	16,452,489
Shares issued to acquire controlled investments	5,326,949	5,507,381	14,518,207
Shares issued through reinvestment of dividends	1,408,070	1,450,578	1,056,484
Total shares issued due to common stock activity	94,789,672	108,203,095	32,027,180
Shares issued and outstanding at beginning of period	247,836,965	139,633,870	107,606,690
Shares Issued and Outstanding at End of Period	342,626,637	247,836,965	139,633,870

See notes to consolidated financial statements.

F-5

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

	Year Ended June 30,		
	2014	2013	2012
<b>Operating Activities</b>			
Net increase in net assets resulting from operations	\$319,020	\$220,856	\$190,904
Net realized loss (gain) on investments	3,346	26,234	(36,588 )
Net change in unrealized depreciation on investments	34,857	77,834	32,368
Amortization (accretion) of discounts and premiums, net	46,297	(11,016 )	(7,284 )
Amortization of deferred financing costs	11,491	8,232	8,511
Payment-in-kind interest	(15,145 )	(10,947 )	(5,647 )
Structuring fees	(45,087 )	(52,699 )	(8,075 )
Change in operating assets and liabilities:			
Payments for purchases of investments	(2,834,394 )	(2,980,320 )	(901,833 )
Proceeds from sale of investments and collection of investment principal	787,069	931,534	500,952
Decrease (increase) in interest receivable, net	866	(8,644 )	(4,950 )
Decrease (increase) in other receivables	1,810	(3,613 )	(517 )
Increase in prepaid expenses	(2,288 )	(119 )	(320 )
Decrease in due to broker	(43,588 )	(945 )	—
Increase in due to Prospect Administration	842	708	446
(Decrease) increase in due to Prospect Capital Management	(5,321 )	(2,589 )	207
Increase (decrease) in accrued expenses	2,445	(580 )	1,052
Increase in interest payable	13,075	17,661	2,720
(Decrease) increase in other liabilities	(682 )	2,205	(1,361 )
Net Cash Used in Operating Activities	(1,725,387 )	(1,786,208 )	(229,415 )
<b>Financing Activities</b>			
Borrowings under Revolving Credit Facility (Note 4)	1,078,500	223,000	726,800
Principal payments under Revolving Credit Facility (Note 4)	(1,110,500 )	(195,000 )	(715,000 )
Issuance of Senior Convertible Notes (Note 5)	400,000	400,000	130,000
Repurchases of Senior Convertible Notes (Note 5)	—	—	(5,000 )
Issuance of Senior Unsecured Notes, net of original issue discount (Note 6)	255,000	247,675	100,000
Accretion of discount on Senior Unsecured Notes (Note 6)	156	50	—
Issuance of Prospect Capital InterNotes® (Note 7)	473,762	343,139	20,638
Redemptions of Prospect Capital InterNotes® (Note 7)	(6,869 )	—	—
Financing costs paid and deferred	(29,055 )	(28,146 )	(17,651 )
Proceeds from issuance of common stock, net of underwriting costs	973,832	1,121,648	177,699
Offering costs from issuance of common stock	(1,380 )	(1,815 )	(708 )
Dividends paid	(377,070 )	(242,301 )	(127,564 )
Net Cash Provided by Financing Activities	1,656,376	1,868,250	289,214
Total Increase in Cash and Cash Equivalents	(69,011 )	82,042	59,799
Cash and cash equivalents at beginning of year	203,236	121,194	61,395
Cash and Cash Equivalents at End of Year	\$134,225	\$203,236	\$121,194
<b>Supplemental Disclosures</b>			
Cash paid for interest	\$105,410	\$45,363	\$24,515

Explanation of Responses:

Non-Cash Financing Activities

Value of shares issued through reinvestment of dividends	\$ 15,574	\$ 16,087	\$ 10,530
Value of shares issued to acquire controlled investments	\$ 57,830	\$ 59,251	\$ 160,571
Exchange of Prospect Capital InterNotes® for Senior Unsecured Notes	\$ 45,000	\$ —	\$ —

See notes to consolidated financial statements.

F-6

---

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

Portfolio Company	Locale / Industry	Investments(1)	June 30, 2014 Principal Cost		Fair Value(2)	% of Net Assets
<b>LEVEL 3 PORTFOLIO INVESTMENTS:</b>						
Control Investments (greater than 25.00% voting control)(46)						
		Senior Secured Term Loan A to Airmall Inc. (12.00% (LIBOR + 9.00% with 3.00% LIBOR floor), due 6/30/2015)(3)(4)	\$27,587	\$27,587	\$27,587	0.8%
AMU Holdings Inc.(27)	Pennsylvania / Property Management	Senior Secured Term Loan B to Airmall Inc. (12.00% plus 6.00% PIK, due 12/31/2015)	19,993	19,993	17,697	0.5%
		Series A Preferred Stock of AMU Holdings Inc. (9,919.684 shares)		9,920	—	—%
		Common Stock of AMU Holdings Inc. (100 shares)		—	—	—%
				57,500	45,284	1.3%
APH Property Holdings, LLC(32)	Florida / Real Estate	Senior Term Loan to American Property REIT Corp. (6.00% (LIBOR + 4.00% with 2.00% LIBOR floor) plus 5.50% PIK, due 4/1/2019)(4)	167,743	167,743	167,743	4.6%
		Membership Interest in APH Property Holdings, LLC		35,024	38,416	1.1%
				202,767	206,159	5.7%
Arctic Oilfield Equipment USA, Inc. (45)	Wyoming / Oil & Gas Production	Senior Secured Term Loan to Arctic Energy Services, LLC (12.00% (LIBOR + 9.00% with 3.00% LIBOR floor), due 5/5/2019)(4)	31,640	31,640	31,640	0.9%
		Senior Subordinated Term Loan to Arctic Energy Services, LLC (14.00% (LIBOR + 11.00% with 3.00% LIBOR floor), due 5/5/2019)(4)	20,230	20,230	20,230	0.6%
		Common Stock of Arctic Oilfield Equipment USA, Inc. (100 shares)		9,006	9,244	0.2%
				60,876	61,114	1.7%
ARRM Services, Inc. (f/k/a ARRM Holdings Inc.)(42)	South Carolina / Manufacturing	Senior Secured Note to Ajax Rolled Ring & Machine, LLC (10.50% (LIBOR + 7.50% with 3.00% LIBOR floor), due 3/30/2018)(4)	19,337	19,337	19,337	0.5%
		Series B Preferred Stock of ARRM Services, Inc. (25,000 shares)		21,156	6,199	0.2%
				6,057	—	—%

Explanation of Responses:

Edgar Filing: FRESH DEL MONTE PRODUCE INC - Form 4

		Series A Convertible Preferred Stock of ARRM Services, Inc. (6,142.60 shares)			
		Common Stock of ARRM Services, Inc. (6.00 shares)	—	—	—%
			46,550	25,536	0.7%
		Members Units – Class A (1,800,000 units)	—	—	—%
AWC, LLC(19)	North Carolina / Machinery	Members Units – Class B-1 (1 unit)	—	—	—%
		Members Units – Class B-2 (7,999,999 units)	—	—	—%
			—	—	—%

See notes to consolidated financial statements.

F-7

---

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

Portfolio Company	Locale / Industry	Investments(1)	June 30, 2014		Fair Value(2)	% of Net Assets
			Principal Value	Cost		
<b>LEVEL 3 PORTFOLIO INVESTMENTS:</b>						
Control Investments (greater than 25.00% voting control)(46)						
		Senior Secured Term Loan A to Boxercraft Incorporated (10.00% plus 1.00% PIK, in non-accrual status effective 1/1/2014, due 9/15/2015)	\$ 1,629	\$ 1,621	\$ 1,629	0.1%
		Senior Secured Term Loan B to Boxercraft Incorporated (10.00% plus 1.00% PIK, in non-accrual status effective 1/1/2014, due 9/15/2015)	4,942	4,917	486	—%
		Senior Secured Term Loan C to Boxercraft Incorporated (10.00% plus 1.00% PIK, in non-accrual status effective 1/1/2014, due 9/15/2015)	2,395	2,383	—	—%
BXC Company, Inc. (f/k/a BXC Holding Company)(20)	Georgia / Textiles, Apparel & Luxury Goods	Senior Secured Term Loan D to Boxercraft Incorporated (10.00% plus 1.00% PIK, in non-accrual status effective 4/18/2014, due 9/15/2015)	301	300	—	—%
		Senior Secured Term Loan to Boxercraft Incorporated (10.00% plus 1.00% PIK, in non-accrual status effective 1/1/2014, due 9/15/2015)	8,410	8,227	—	—%
		Series A Preferred Stock of BXC Company, Inc. (12,520,000 shares)	—	—	—	—%
		Series B Preferred Stock of BXC Company, Inc. (2,400,000 shares)	—	—	—	—%
		Common Stock of BXC Company, Inc. (138,250 shares)	—	—	—	—%
		Warrant (to purchase 15% of all classes of equity of BXC Company, Inc., expires 8/31/2022)	—	—	—	—%
				17,448	2,115	0.1%
		Senior Secured Term Loan A to CCPI Inc. (10.00%, due 12/31/2017)(3)	17,213	17,213	17,213	0.5%
CCPI Holdings Inc.(33)	Ohio / Manufacturing	Senior Secured Term Loan B to CCPI Inc. (12.00% plus 7.00% PIK, due 12/31/2017)	8,245	8,245	8,245	0.2%
		Common Stock of CCPI Holdings Inc. (100 shares)	—	8,579	7,136	0.2%
			—	34,037	32,594	0.9%



Edgar Filing: FRESH DEL MONTE PRODUCE INC - Form 4

		Senior Secured Term Loan A to CP Well Testing, LLC (7.00% (LIBOR + 5.00% with 2.00% LIBOR floor), due 4/1/2019)(4)	11,035	11,035	11,035	0.3%
CP Holdings of Delaware LLC(38)	Oklahoma / Oil & Gas Production	Senior Secured Term Loan B to CP Well Testing, LLC (10.00% (LIBOR + 8.00% with 2.00% LIBOR floor) plus 7.50% PIK, due 4/1/2019)(4)	72,238	72,238	72,238	2.0%
		Second Lien Term Loan to CP Well Testing, LLC (9.00% (LIBOR + 7.00% with 2.00% LIBOR floor) plus 9.00% PIK, due 4/1/2019)(4)	15,000	15,000	15,000	0.4%
		Membership Interest in CP Holdings of Delaware LLC		15,228	31,846	0.9%
				113,501	130,119	3.6%
Credit Central Holdings of Delaware, LLC(22)(34)	Ohio / Consumer Finance	Subordinated Term Loan to Credit Central Loan Company, LLC (10.00% plus 10.00% PIK, due 6/26/2019)	36,333	36,333	36,333	1.0%
		Membership Interest in Credit Central Holdings of Delaware, LLC		13,670	14,099	0.4%
				50,003	50,432	1.4%
Echelon Aviation LLC	New York / Aerospace & Defense	Senior Secured Revolving Credit Facility to Echelon Aviation LLC – \$150,000 Commitment (11.75% (LIBOR + 9.75% with 2.00% LIBOR floor) plus 2.25% PIK, due 3/31/2022)(4)(25)	78,521	78,521	78,521	2.2%
		Membership Interest in Echelon Aviation LLC		14,107	14,107	0.4%
				92,628	92,628	2.6%

See notes to consolidated financial statements.

F-8

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

Portfolio Company	Locale / Industry	Investments(1)	June 30, 2014		Fair Value(2)	% of Net Assets
			Principal Value	Cost		
LEVEL 3 PORTFOLIO INVESTMENTS:						
Control Investments (greater than 25.00% voting control)(46)						
		Senior Secured Note to Vessel Company, LLC (18.00%, due 12/12/2016)	\$3,500	\$3,500	\$3,500	0.1%
		Senior Secured Note to Vessel Company II, LLC (13.00%, due 11/25/2018)	13,000	12,504	12,504	0.4%
Energy Solutions Holdings Inc.(8)	Texas / Energy	Senior Secured Note to Vessel Company III, LLC (13.00%, due 12/3/2018)	16,000	16,000	16,000	0.4%
		Senior Secured Note to Yatesville Coal Company, LLC (in non-accrual status effective 1/1/2009, past due)	1,449	1,449	—	—%
		Common Stock of Energy Solutions Holdings Inc. (100 shares)		8,293	—	—%
				41,746	32,004	0.9%
First Tower Holdings of Delaware LLC(22)(29)	Mississippi / Consumer Finance	Subordinated Term Loan to First Tower, LLC (10.00% plus 7.00% PIK, due 6/24/2019)	251,246	251,246	251,246	6.9%
		Membership Interest in First Tower Holdings of Delaware LLC		68,405	75,539	2.1%
				319,651	326,785	9.0%
Gulf Coast Machine & Supply Company	Texas / Manufacturing	Senior Secured Term Loan to Gulf Coast Machine & Supply Company (10.50% (LIBOR + 8.50% with 2.00% LIBOR floor) plus 2.00% default interest on principal, due 10/12/2017)(4)	17,500	17,500	14,459	0.4%
		Series A Convertible Preferred Stock of Gulf Coast Machine & Supply Company (99,900 shares)		25,950	—	—%
				43,450	14,459	0.4%
Harbortouch Holdings of Delaware Inc.(44)	Pennsylvania / Business Services	Senior Secured Term Loan A to Harbortouch Payments, LLC (9.00% (LIBOR + 7.00% with 2.00% LIBOR floor), due 9/30/2017)(4)	130,796	130,796	130,796	3.6%
		Senior Secured Term Loan B to Harbortouch Payments, LLC (5.50% (LIBOR + 4.00% with 1.50% LIBOR floor) plus 5.50% PIK, due 3/31/2018)(4)	137,226	137,226	137,226	3.8%
				10,672	23,292	0.6%

Explanation of Responses:

Edgar Filing: FRESH DEL MONTE PRODUCE INC - Form 4

		Common Stock of Harbortouch Holdings of Delaware Inc. (100 shares)		278,694	291,314	8.0%
		Secured Promissory Notes to The Healing Staff, Inc. and Vets Securing America, Inc. (15.00%, in non-accrual status effective 12/22/2010, past due)	1,688	1,686	—	—%
The Healing Staff, Inc.(9)	North Carolina / Contracting	Senior Demand Note to The Healing Staff, Inc. (15.00%, in non-accrual status effective 11/1/2010, past due)	1,170	1,170	—	—%
		Common Stock of The Healing Staff, Inc. (1,000 shares)		—	—	—%
		Common Stock of Vets Securing America, Inc. (1 share)		975	—	—%
				3,831	—	—%
		Senior Secured Note to Manx Energy, Inc. (13.00%, in non-accrual status effective 1/19/2010, past due)	50	50	—	—%
Manx Energy, Inc.(12)	Kansas / Oil & Gas Production	Series A-1 Preferred Stock of Manx Energy, Inc. (6,635 shares)		—	—	—%
		Common Stock of Manx Energy, Inc. (17,082 shares)		—	—	—%
				50	—	—%

See notes to consolidated financial statements.

F-9

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

Portfolio Company	Locale / Industry	Investments(1)	June 30, 2014		Fair Value(2)	% of Net Assets
			Principal Value	Cost		
<b>LEVEL 3 PORTFOLIO INVESTMENTS:</b>						
<b>Control Investments (greater than 25.00% voting control)(46)</b>						
		Revolving Line of Credit to MITY, Inc. – \$7,500 Commitment (9.50% (LIBOR + 7.00% with 2.50% LIBOR floor), due 12/23/2014)(4)(25)	\$—	\$—	\$—	—%
MITY Holdings of Delaware Inc.(17)	Utah / Durable Consumer Products	Senior Secured Note A to MITY, Inc. (10.00% (LIBOR + 7.00% with 3.00% LIBOR floor), due 3/19/2019)(3)(4)	18,250	18,250	18,250	0.5%
		Senior Secured Note B to MITY, Inc. (10.00% (LIBOR + 7.00% with 3.00% LIBOR floor) plus 10.00% PIK, due 3/19/2019)(4)	15,769	15,769	15,769	0.4%
		Common Stock of MITY Holdings of Delaware Inc. (100 shares)		14,143	15,270	0.4%
				48,162	49,289	1.3%
Nationwide Acceptance Holdings LLC(22)(36)	Illinois / Consumer Finance	Subordinated Term Loan to Nationwide Acceptance LLC (10.00% plus 10.00% PIK, due 6/18/2019)	14,820	14,820	14,820	0.4%
		Membership Interest in Nationwide Acceptance Holdings LLC		14,331	15,103	0.4%
				29,151	29,923	0.8%
		Senior Secured Note to NMMB, Inc. (14.00%, due 5/6/2016)	3,714	3,714	2,183	0.1%
NMMB Holdings, Inc.(24)	New York / Media	Senior Secured Note to Armed Forces Communications, Inc. (14.00%, due 5/6/2016)	7,000	7,000	4,114	0.1%
		Series B Convertible Preferred Stock of NMMB Holdings, Inc. (8,086 shares)		8,086	—	—%
		Series A Preferred Stock of NMMB Holdings, Inc. (4,400 shares)		4,400	—	—%
				23,200	6,297	0.2%
NPH Property Holdings, LLC(40)	Texas / Real Estate	Senior Term Loan to National Property REIT Corp. (6.00% (LIBOR + 4.00% with 2.00% LIBOR floor) plus 5.50% PIK, due 4/1/2019)(4)	105,309	105,309	105,309	2.9%
		Membership Interest in NPH Property Holdings, LLC		21,290	19,202	0.5%
				126,599	124,511	3.4%
R-V Industries, Inc.			30,411	30,411	30,411	0.8%

Explanation of Responses:

Edgar Filing: FRESH DEL MONTE PRODUCE INC - Form 4

	Pennsylvania / Manufacturing	Senior Subordinated Note to R-V Industries, Inc. (10.00% (LIBOR + 9.00% with 1.00% LIBOR floor), due 6/12/2018)(3)(4)					
		Common Stock of R-V Industries, Inc. (545,107 shares)	5,087	19,989	0.6%		
		Warrant (to purchase 200,000 shares of Common Stock of R-V Industries, expires 6/30/2017)	1,682	7,334	0.2%		
			37,180	57,734	1.6%		
		Revolving Line of Credit to Borga, Inc. – \$1,150 Commitment (5.00% (PRIME + 1.75%), in non-accrual status effective 3/2/2010, past due)(4)(25)	1,150	1,095	436	—%	
		Senior Secured Term Loan B to Borga, Inc. (8.50% (PRIME + 5.25%), in non-accrual status effective 3/2/2010, past due)(4)	1,612	1,501	—	—%	
STI Holding, Inc.(21)	California / Manufacturing	Senior Secured Term Loan C to Borga, Inc. (12.00% plus 4.00% PIK, in non-accrual status effective 3/2/2010, past due)	10,141	581	—	—%	
		Common Stock of STI Holding, Inc. (100 shares)	—	—	—	—%	
		Warrant (to purchase 33,750 shares of Common Stock of Borga, Inc., expires 5/6/2015)	—	—	—	—%	
			3,177	436	—	—%	
UPH Property Holdings, LLC(41)	Georgia / Real Estate	Senior Term Loan to United Property REIT Corp. (6.00% (LIBOR + 4.00% with 2.00% LIBOR floor) plus 5.50% PIK, due 4/1/2019)(4)	19,027	19,027	19,027	0.5%	
		Membership Interest in UPH Property Holdings, LLC	5,113	5,539	0.2%		
			24,140	24,566	0.7%		

See notes to consolidated financial statements.

F-10

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

Portfolio Company	Locale / Industry	Investments(1)	June 30, 2014		Fair Value(2)	% of Net Assets
			Principal Value	Cost		
<b>LEVEL 3 PORTFOLIO INVESTMENTS:</b>						
<b>Control Investments (greater than 25.00% voting control)(46)</b>						
Valley Electric Holdings I, Inc.(35)	Washington / Construction & Engineering	Senior Secured Note to Valley Electric Co. of Mt. Vernon, Inc. (8.00% (LIBOR + 5.00% with 3.00% LIBOR floor) plus 2.50% PIK, due 12/31/2017)(3)(4)	\$ 10,081	\$ 10,081	\$ 10,081	0.3%
		Senior Secured Note to Valley Electric Company, Inc. (10.00% plus 8.5% PIK, due 12/31/2018)	20,500	20,500	20,500	0.6%
		Common Stock of Valley Electric Holdings I, Inc. (100 shares)		26,279	2,975	—%
				56,860	33,556	0.9%
Wolf Energy Holdings Inc.(12)	Kansas / Oil & Gas Production	Senior Secured Promissory Note to Wolf Energy, LLC secured by assets formerly owned by H&M (18.00%, in 22,000 non-accrual status effective 4/15/2013, due 4/15/2018)(37)		—	3,386	0.1%
		Senior Secured Note to Appalachian Energy LLC (8.00%, in non-accrual status effective 1/19/2010, past due)	2,865	2,000	—	—%
		Senior Secured Note to Appalachian Energy LLC (8.00%, in non-accrual status, past due)	56	50	—	—%
		Senior Secured Note to Coalbed, LLC (8.00%, in non-accrual status effective 1/19/2010, past due)(6)	8,595	5,991	—	—%
	Common Stock of Wolf Energy Holdings Inc. (100 shares)		—	—	—%	
	Net Profits Interest in Wolf Energy, LLC (8% of Equity Distributions)(7)		—	213	—%	
<b>Total Control Investments</b>			<b>8,041</b>	<b>\$ 1,719,242</b>	<b>\$ 1,640,454</b>	<b>45.3%</b>
<b>Affiliate Investments (5.00% to 24.99% voting control)(47)</b>						
BNN Holdings Corp.	Michigan / Healthcare	Senior Secured Note (10.00% (LIBOR + 8.00% with 2.00% LIBOR floor), due	28,950	28,950	28,950	0.8%

Explanation of Responses:

Edgar Filing: FRESH DEL MONTE PRODUCE INC - Form 4

(f/k/a Biotronic NeuroNetwork)	12/17/2017)(3)(4) Series A Preferred Stock (9,925.455 shares)(13)	2,879	3,171	0.1%
	Series B Preferred Stock (1,753.636 shares)(13)	—	—	—%
		31,829	32,121	0.9%
Total Affiliate Investments		\$31,829	\$32,121	0.9%

See notes to consolidated financial statements.

F-11

---

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

Portfolio Company	Locale / Industry	Investments(1)	June 30, 2014		Fair	% of Net
			Principal	Cost	Value(2)	Assets
			Value			
<b>LEVEL 3 PORTFOLIO INVESTMENTS:</b>						
Non-Control/Non-Affiliate Investments (less than 5.00% voting control)						
Aderant North America, Inc.(16)	Georgia / Software & Computer Services	Second Lien Term Loan (10.00% (LIBOR + 8.75% with 1.25% LIBOR floor), due 6/20/2019)(4)	\$7,000	\$6,914	\$7,000	0.2%
				6,914	7,000	0.2%
Aircraft Fasteners International, LLC	California / Machinery	Class A Units (32,500 units)		396	505	—%
				396	505	—%
ALG USA Holdings, LLC(16)	Pennsylvania / Hotels, Restaurants & Leisure	Second Lien Term Loan (10.25% (LIBOR + 9.00% with 1.25% LIBOR floor), due 2/28/2020)(4)	12,000	11,792	12,000	0.3%
				11,792	12,000	0.3%
Allied Defense Group, Inc.	Virginia / Aerospace & Defense	Common Stock (10,000 shares)		5	—	—%
				5	—	—%
American Broadband Holding Company and Cameron Holdings of NC, Inc.	North Carolina / Telecommunication Services	Senior Secured Term Loan B (11.00% (LIBOR + 9.75% with 1.25% LIBOR floor), due 9/30/2018)(3)(4)	74,654	74,654	74,654	2.1%
				74,654	74,654	2.1%
American Gilsonite Company	Utah / Metal Services & Minerals	Second Lien Term Loan (11.50%, due 9/1/2017) Membership Interest (99.9999%)(15)	38,500	38,500	38,500	1.1%
				—	3,477	0.1%
				38,500	41,977	1.2%
Apidos CLO IX(22)	Cayman Islands / Diversified Financial Services	Subordinated Notes (Residual Interest)	20,525	18,444	19,903	0.5%
				18,444	19,903	0.5%
Apidos CLO XI(22)	Cayman Islands / Diversified Financial Services	Subordinated Notes (Residual Interest)	38,340	33,937	37,087	1.0%
				33,937	37,087	1.0%
Apidos CLO XII(22)	Cayman Islands / Diversified Financial Services	Subordinated Notes (Residual Interest)	44,063	42,042	42,499	1.2%
				42,042	42,499	1.2%
				36,515	37,038	1.0%

Explanation of Responses:



Edgar Filing: FRESH DEL MONTE PRODUCE INC - Form 4

Apidos CLO XV(22)	Cayman Islands / Diversified Financial Services	Subordinated Notes (Residual Interest)	37,038	36,715	1.0%
Arctic Glacier U.S.A., Inc.	Minnesota / Food Products	Second Lien Term Loan (10.50% (LIBOR + 9.25% with 1.25% LIBOR floor), due 11/10/2019)(3)(4)	150,000	150,000	4.1%
			150,000	150,000	4.1%
		Senior Secured Term Loan A (6.50% (LIBOR + 5.50% with 1.00% LIBOR floor), due 4/8/2019)	26,831	26,831	0.7%
Ark-La-Tex Wireline Services, LLC(4)	Louisiana / Oil and Gas Production	Senior Secured Term Loan B (10.50% (LIBOR + 9.50% with 1.00% LIBOR floor), due 4/8/2019)	26,831	26,831	0.7%
		Delayed Draw Term Loan – \$5,000 Commitment (due 4/8/2019)(25)	—	—	—%
			53,662	53,662	1.4%
Armor Holding II LLC(16)	New York / Diversified Financial Services	Second Lien Term Loan (10.25% (LIBOR + 9.00% with 1.25% LIBOR floor), due 12/26/2020)(3)(4)	6,874	6,874	0.2%
			6,874	6,874	0.2%

See notes to consolidated financial statements.

F-12

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

Portfolio Company	Locale / Industry	Investments(1)	June 30, 2014 Principal Value	Cost	Fair Value(2)	% of Net Assets
<b>LEVEL 3 PORTFOLIO INVESTMENTS:</b>						
Non-Control/Non-Affiliate Investments (less than 5.00% voting control)						
Atlantis Health Care Group (Puerto Rico), Inc.	Puerto Rico / Healthcare	Revolving Line of Credit – \$3,000 Commitment (13.00% (LIBOR + 11.00% with 2.00% LIBOR floor), due 8/21/2014)(4)(25)(26)	\$2,350	\$2,350	\$2,350	0.1%
		Senior Term Loan (10.00% (LIBOR + 8.00% with 2.00% LIBOR floor), due 2/21/2018)(3)(4)	38,957	38,957	34,102	0.9%
				41,307	36,452	1.0%
Babson CLO Ltd. 2011-I(22)	Cayman Islands / Diversified Financial Services	Subordinated Notes (Residual Interest)	35,000	33,591	33,801	0.9%
				33,591	33,801	0.9%
Babson CLO Ltd. 2012-I(22)	Cayman Islands / Diversified Financial Services	Subordinated Notes (Residual Interest)	29,075	23,471	26,401	0.7%
				23,471	26,401	0.7%
Babson CLO Ltd. 2012-II(22)	Cayman Islands / Diversified Financial Services	Subordinated Notes (Residual Interest)	27,850	26,764	27,230	0.8%
				26,764	27,230	0.8%
Blue Coat Systems, Inc.(16)	Massachusetts / Software & Computer Services	Second Lien Term Loan (9.50% (LIBOR + 8.50% with 1.00% LIBOR floor), due 6/28/2020)(3)(4)	11,000	10,902	11,000	0.3%
				10,902	11,000	0.3%
Broder Bros., Co.	Pennsylvania / Textiles, Apparel & Luxury Goods	Senior Secured Notes (10.25% (LIBOR + 9.00% with 1.25% LIBOR floor), due 4/8/2019)(3)(4)	257,575	257,575	257,575	7.1%
				257,575	257,575	7.1%
Brookside Mill CLO Ltd.(22)	Cayman Islands / Diversified Financial Services	Subordinated Notes (Residual Interest)	26,000	22,613	25,081	0.7%
				22,613	25,081	0.7%

Explanation of Responses:

Edgar Filing: FRESH DEL MONTE PRODUCE INC - Form 4

Byrider Systems Acquisition Corp.(22)	Indiana / Auto Finance	Senior Subordinated Notes (12.00% plus 2.00% PIK, due 11/3/2016)(3)	11,139	11,139	11,139	0.3%	
				11,139	11,139	0.3%	
Caleel + Hayden, LLC(14)(31)	Colorado / Personal & Nondurable Consumer Products	Membership Interest		—	182	—%	
			Escrow Receivable		—	118	—%
					—	300	—%
Capstone Logistics, LLC	Georgia / Commercial Services	Senior Secured Term Loan A (6.50% (LIBOR + 5.00% with 1.50% LIBOR floor), due 9/16/2016)(4)	92,085	92,085	92,085	2.6%	
			Senior Secured Term Loan B (11.50% (LIBOR + 10.00% with 1.50% LIBOR floor), due 9/16/2016)(3)(4)	98,465	98,465	98,465	2.7%
					190,550	190,550	5.3%
Cent CLO 17 Limited(22)	Cayman Islands / Diversified Financial Services	Subordinated Notes (Residual Interest)	24,870	21,999	23,896	0.7%	
				21,999	23,896	0.7%	
Cent CLO 20 Limited(22)	Cayman Islands / Diversified Financial Services	Subordinated Notes (Residual Interest)	40,275	40,483	40,259	1.1%	
				40,483	40,259	1.1%	
Cent CLO 21 Limited(22)	Cayman Islands / Diversified Financial Services	Subordinated Notes (Residual Interest)	48,528	46,597	46,154	1.3%	
				46,597	46,154	1.3%	

See notes to consolidated financial statements.  
F-13

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

Portfolio Company	Locale / Industry	Investments(1)	June 30, 2014		Fair Value(2)	% of Net Assets
			Principal Value	Cost		
LEVEL 3 PORTFOLIO INVESTMENTS:						
Non-Control/Non-Affiliate Investments (less than 5.00% voting control)						
CIFC Funding 2011-I, Ltd.(4)(22)	Cayman Islands / Diversified Financial Services	Class D Senior Secured Notes (5.23% (LIBOR + 5.00%, due 1/19/2023)) Class E Subordinated Notes (7.23% (LIBOR + 7.00%, due 1/19/2023))	\$ 19,000	\$ 15,304	\$ 18,037	0.5%
			15,400	12,814	15,162	0.4%
				28,118	33,199	0.9%
CIFC Funding 2013-III, Ltd.(22)	Cayman Islands / Diversified Financial Services	Subordinated Notes (Residual Interest)	44,100	39,534	43,217	1.2%
				39,534	43,217	1.2%
CIFC Funding 2013-IV, Ltd.(22)	Cayman Islands / Diversified Financial Services	Subordinated Notes (Residual Interest)	45,500	40,255	40,934	1.1%
				40,255	40,934	1.1%
Cinedigm DC Holdings, LLC	New York / Software & Computer Services	Senior Secured Term Loan (11.00% (LIBOR + 9.00% with 2.00% LIBOR floor) plus 2.50% PIK, due 3/31/2021)(4)	68,714	68,664	68,714	1.9%
				68,664	68,714	1.9%
The Copernicus Group, Inc.	North Carolina / Healthcare	Escrow Receivable	—	—	115	—%
				—	115	—%
Correctional Healthcare Holding Company, Inc.	Colorado / Healthcare	Second Lien Term Loan (11.25%, due 1/11/2020)(3)	27,100	27,100	27,642	0.8%
				27,100	27,642	0.8%
Coverall North America, Inc.	Florida / Commercial Services	Senior Secured Term Loan (11.50% (LIBOR + 8.50% with 3.00% LIBOR floor), due 12/17/2017)(3)(4)	51,210	51,210	51,210	1.4%
				51,210	51,210	1.4%
Crosman Corporation	New York / Manufacturing	Second Lien Term Loan (12.00% (LIBOR + 10.50% with 1.50% LIBOR floor), due 12/30/2019)(3)(4)	40,000	40,000	39,708	1.1%
				40,000	39,708	1.1%
CRT MIDCO, LLC	Wisconsin / Media	Senior Secured Term Loan (10.50% (LIBOR + 7.50% with 3.00% LIBOR floor), due 6/30/2017)(3)(4)	47,504	47,504	47,504	1.3%

Explanation of Responses:

Edgar Filing: FRESH DEL MONTE PRODUCE INC - Form 4

				47,504	47,504	1.3%
Deltek, Inc.(16)	Virginia / Software & Computer Services	Second Lien Term Loan (10.00% (LIBOR + 8.75% with 1.25% LIBOR floor), due 10/10/2019)(3)(4)	12,000	11,852	12,000	0.3%
				11,852	12,000	0.3%
Diamondback Operating, LP	Oklahoma / Oil & Gas Production	Net Profits Interest (15% of Equity Distributions)		—	—	—%
				—	—	—%
Edmentum, Inc. (f/k/a Archipelago Learning, Inc.)(16)	Minnesota / Consumer Services	Second Lien Term Loan (11.25% (LIBOR + 9.75% with 1.50% LIBOR floor), due 5/17/2019)(3)(4)	50,000	48,439	50,000	1.4%
				48,439	50,000	1.4%
Empire Today, LLC	Illinois / Durable Consumer Products	Senior Secured Note (11.375%, due 2/1/2017)	15,700	15,419	15,700	0.4%
				15,419	15,700	0.4%
Fischbein, LLC	North Carolina / Machinery	Escrow Receivable		—	116	—%
				—	116	—%

See notes to consolidated financial statements.

F-14

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

Portfolio Company	Locale / Industry	Investments(1)	June 30, 2014 Principal Value	Cost	Fair Value(2)	% of Net Assets
<b>LEVEL 3 PORTFOLIO INVESTMENTS:</b>						
Non-Control/Non-Affiliate Investments (less than 5.00% voting control)						
Fleetwash, Inc.(4)	New Jersey / Business Services	Senior Secured Term Loan A (6.50% (LIBOR + 5.50% with 1.00% LIBOR floor), due 4/30/2019)	\$25,000	\$25,000	\$25,000	0.7%
		Senior Secured Term Loan B (10.50% (LIBOR + 9.50% with 1.00% LIBOR floor), due 4/30/2019)	25,000	25,000	25,000	0.7%
		Delayed Draw Term Loan – \$15,000 Commitment (9.50% (LIBOR + 8.50% with 1.00% LIBOR floor), due 4/30/2019)(25)	—	—	—	—%
Focus Brands, Inc.(16)	Georgia / Consumer Services	Second Lien Term Loan (10.25% (LIBOR + 9.00% with 1.25% LIBOR floor), due 8/21/2018)(4)	18,000	17,776	18,000	0.5%
				17,776	18,000	0.5%
Focus Products Group International, LLC (f/k/a FPG, LLC)	Illinois / Durable Consumer Products	Senior Secured Term Loan (12.00% (LIBOR + 11.00% with 1.00% LIBOR floor), due 1/20/2017)(3)(4)	20,297	20,297	19,886	0.5%
		Common Stock (5,638 shares)		27	—	—%
Galaxy XII CLO, Ltd.(22)	Cayman Islands / Diversified Financial Services	Subordinated Notes (Residual Interest)	22,000	19,498	20,449	0.6%
				19,498	20,449	0.6%
Galaxy XV CLO, Ltd.(22)	Cayman Islands / Diversified Financial Services	Subordinated Notes (Residual Interest)	35,025	29,777	31,824	0.9%
				29,777	31,824	0.9%
Galaxy XVI CLO, Ltd.(22)	Cayman Islands / Diversified Financial Services	Subordinated Notes (Residual Interest)	22,575	20,790	20,573	0.6%
				20,790	20,573	0.6%
Galaxy XVII CLO, Ltd.(22)	Cayman Islands / Diversified Financial	Subordinated Notes (Residual Interest)	39,905	36,811	36,589	1.0%

Explanation of Responses:

Edgar Filing: FRESH DEL MONTE PRODUCE INC - Form 4

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

See notes to consolidated financial statements.

F-15

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

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



Edgar Filing: FRESH DEL MONTE PRODUCE INC - Form 4

		floor), due 3/28/2019)			266,953	266,953	7.4%	
InterDent, Inc.	California / Healthcare	Senior Secured Term Loan A (7.25% (LIBOR + 5.75% with 1.50% LIBOR floor), due 8/3/2017)(4)	63,225	63,225	63,225	63,225	1.7%	
		Senior Secured Term Loan B (12.25% (LIBOR + 9.25% with 3.00% LIBOR floor), due 8/3/2017)(3)(4)	67,625	67,625	67,625	67,625	1.9%	
					130,850	130,850	3.6%	
JHH Holdings, Inc.	Texas / Healthcare	Second Lien Term Loan (11.25% (LIBOR + 10.00% with 1.25% LIBOR floor) plus 0.50% PIK, due 3/30/2019)(3)(4)	35,119	35,119	35,119	35,119	1.0%	
					35,119	35,119	1.0%	
LaserShip, Inc.	Virginia / Transportation	Revolving Line of Credit – \$5,000 Commitment (10.25% (LIBOR + 8.25% with 2.00% LIBOR floor), due 12/21/2014)(4)(25)	—	—	—	—	—%	
		Senior Secured Term Loan A (10.25% (LIBOR + 8.25% with 2.00% LIBOR floor), due 3/18/2019)(3)(4)	36,094	36,094	36,094	36,094	1.0%	
		Senior Secured Term Loan B (10.25% (LIBOR + 8.25% with 2.00% LIBOR floor), due 3/18/2019)(3)(4)	22,111	22,111	22,111	22,111	0.6%	
		Delayed Draw Term Loan – \$6,000 Commitment (2.00%, due 12/31/2015)(4)(25)	—	—	—	—	—	—%
					58,205	58,205	58,205	1.6%
LCM XIV Ltd.(22)	Cayman Islands / Diversified Financial Services	Income Notes (Residual Interest)	26,500	24,914	25,124	25,124	0.7%	
					24,914	25,124	25,124	0.7%

See notes to consolidated financial statements.

F-16

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

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

Explanation of Responses:

Edgar Filing: FRESH DEL MONTE PRODUCE INC - Form 4

			44,000	—	—%	
Nixon, Inc.	California / Durable Consumer Products	Senior Secured Term Loan (8.75% plus 2.75% PIK, due 4/16/2018)(16)	13,532	13,316	13,316	0.4%
				13,316	13,316	0.4%
NRG Manufacturing, Inc.	Texas / Manufacturing	Escrow Receivable	—	—	1,110	—%
				—	1,110	—%
Octagon Investment Partners XV, Ltd.(22)	Cayman Islands / Diversified Financial Services	Income Notes (Residual Interest)	26,901	24,338	26,732	0.7%
				24,338	26,732	0.7%
Onyx Payments, Inc. (f/k/a Pegasus Business Intelligence, LP)	Texas / Diversified Financial Services	Senior Secured Term Loan A (6.75% (LIBOR + 5.50% with 1.25% LIBOR floor), due 4/18/2018)(4)	15,125	15,125	15,125	0.4%
		Senior Secured Term Loan B (13.75% (LIBOR + 12.50% with 1.25% LIBOR floor), due 4/18/2018)(4)	15,938	15,938	15,938	0.4%
				31,063	31,063	0.8%
Pelican Products, Inc.(16)	California / Durable Consumer Products	Second Lien Term Loan (9.25% (LIBOR + 8.25% with 1.00% LIBOR floor), due 4/9/2021)(4)	17,500	17,482	17,500	0.5%
				17,482	17,500	0.5%
Photonis Technologies SAS(16)(22)	France / Aerospace & Defense	First Lien Term Loan (8.50% (LIBOR + 7.50% with 1.00% LIBOR floor), due 9/18/2019)(4)	10,448	10,170	10,339	0.3%
				10,170	10,339	0.3%
Pinnacle (US) Acquisition Co. Limited(16)	Texas / Software & Computer Services	Second Lien Term Loan (10.50% (LIBOR + 9.25% with 1.25% LIBOR floor), due 8/3/2020)(4)	10,000	9,833	10,000	0.3%
				9,833	10,000	0.3%

See notes to consolidated financial statements.

F-17

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

Portfolio Company	Locale / Industry	Investments(1)	June 30, 2014 Principal Cost		Fair Value(2)	% of Net Assets
<b>LEVEL 3 PORTFOLIO INVESTMENTS:</b>						
Non-Control/Non-Affiliate Investments (less than 5.00% voting control)						
		Revolving Line of Credit – \$15,000 Commitment (10.00% (LIBOR + 9.50% with 0.50% LIBOR floor), due 12/23/2014)(4)(25)	\$—	\$—	\$—	—%
PrimeSport, Inc.	Georgia / Hotels, Restaurants & Leisure	Senior Secured Term Loan A (7.50% (LIBOR + 6.50% with 1.00% LIBOR floor), due 12/23/2019)(3)(4)	43,263	43,263	43,263	1.2%
		Senior Secured Term Loan B (11.50% (LIBOR + 10.50% with 1.00% LIBOR floor) plus 1.00% PIK, due 12/23/2019)(3)(4)	43,700	43,700	43,700	1.2%
				86,963	86,963	2.4%
Prince Mineral Holding Corp.	New York / Metal Services & Minerals	Senior Secured Term Loan (11.50%, due 12/15/2019)	10,000	9,902	10,000	0.3%
				9,902	10,000	0.3%
Progrexion Holdings, Inc.(28)	Utah / Consumer Services	Senior Secured Term Loan (10.50% (LIBOR + 8.50% with 2.00% LIBOR floor), due 9/14/2017)(3)(4)	436,647	436,647	436,647	12.1%
				436,647	436,647	12.1%
Rocket Software, Inc.(16)	Massachusetts / Software & Computer Services	Second Lien Term Loan (10.25% (LIBOR + 8.75% with 1.50% LIBOR floor), due 2/8/2019)(3)(4)	20,000	19,758	20,000	0.6%
				19,758	20,000	0.6%
Royal Adhesives & Sealants, LLC	Indiana / Chemicals	Second Lien Term Loan (9.75% (LIBOR + 8.50% with 1.25% LIBOR floor), due 1/31/2019)(4)	20,000	19,648	19,713	0.5%
				19,648	19,713	0.5%
Ryan, LLC	Texas / Business Services	Subordinated Unsecured Notes (12.00% (LIBOR + 9.00% with 3.00% LIBOR floor) plus 3.00% PIK, due 6/30/2018)(4)	70,531	70,531	70,531	1.9%
				70,531	70,531	1.9%
Sandow Media, LLC	Florida / Media	Senior Secured Term Loan (12.00%, due 5/8/2018)(3)	25,081	25,081	23,524	0.7%
				25,081	23,524	0.7%
			4,637	4,637	4,252	0.1%

Explanation of Responses:

Edgar Filing: FRESH DEL MONTE PRODUCE INC - Form 4

Small Business Whole Loan Portfolio(43)	New York / Diversified Financial Services	144 small business loans issued by OnDeck Capital, Inc.				
			4,637	4,252	0.1%	
Snacks Parent Corporation	Minnesota / Food Products	Series A Preferred Stock (4,021.45 shares)	—	—	—%	
		Series B Preferred Stock (1,866.10 shares)	—	—	—%	
		Warrant (to purchase 31,196.52 shares of Common Stock, expires 11/12/2020)	591	1,819	0.1%	
			591	1,819	0.1%	
Spartan Energy Services, Inc.	Louisiana / Energy	Senior Secured Term Loan (10.50% (LIBOR + 9.00% with 1.50% LIBOR floor), due 12/28/2017)(3)(4)	35,633	35,633	35,633	1.0%
				35,633	35,633	1.0%
Speedy Group Holdings Corp.(22)	Canada / Consumer Finance	Senior Unsecured Notes (12.00%, due 11/15/2017)	15,000	15,000	15,000	0.4%
				15,000	15,000	0.4%
Sport Helmets Holdings, LLC(14)	New York / Personal & Nondurable Consumer Products	Escrow Receivable	—	130	—%	
				—	130	—%
Stauber Performance Ingredients, Inc.	California / Food Products	Senior Secured Term Loan (10.50% (LIBOR + 7.50% with 3.00% LIBOR floor), due 1/21/2016)(3)(4)	12,809	12,809	12,809	0.4%
		Senior Secured Term Loan (10.50% (LIBOR + 7.50% with 3.00% LIBOR floor), due 5/21/2017)(3)(4)	9,975	9,975	9,975	0.3%
				22,784	22,784	0.7%

See notes to consolidated financial statements.

F-18

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

Portfolio Company	Locale / Industry	Investments(1)	June 30, 2014		Fair Value(2)	% of Net Assets
			Principal Value	Cost		
<b>LEVEL 3 PORTFOLIO INVESTMENTS:</b>						
Non-Control/Non-Affiliate Investments (less than 5.00% voting control)						
Stryker Energy, LLC	Ohio / Oil & Gas Production	Subordinated Secured Revolving Credit Facility – \$50,300 Commitment (12.25% (LIBOR + 10.75% with 1.50% LIBOR floor) plus 3.75% PIK, in non-accrual status effective 12/1/2011, due 12/1/2015)(4)(25) Overriding Royalty Interests(18)	\$36,080	\$32,710	\$—	—%
				—	—	—%
				32,710	—	—%
Sudbury Mill CLO Ltd.(22)	Cayman Islands / Diversified Financial Services	Subordinated Notes (Residual Interest)	28,200	26,914	26,140	0.7%
				26,914	26,140	0.7%
Symphony CLO IX Ltd.(22)	Cayman Islands / Diversified Financial Services	Preference Shares (Residual Interest)	45,500	37,734	44,294	1.2%
				37,734	44,294	1.2%
Symphony CLO XIV Ltd.(22)	Cayman Islands / Diversified Financial Services	Subordinated Notes (Residual Interest)	49,250	49,858	49,025	1.4%
				49,858	49,025	1.4%
System One Holdings, LLC	Pennsylvania / Business Services	Senior Secured Term Loan (11.00% (LIBOR + 9.50% with 1.50% LIBOR floor), due 12/31/2018)(3)(4)	44,646	44,646	44,646	1.2%
				44,646	44,646	1.2%
Targus Group International, Inc.(16)	California / Durable Consumer Products	First Lien Term Loan (11.00% (LIBOR + 9.50% with 1.50% LIBOR floor) plus 1.0% PIK, due 5/24/2016)(3)(4)	21,911	21,697	19,949	0.6%
				21,697	19,949	0.6%
TB Corp.	Texas / Hotels, Restaurants & Leisure	Senior Subordinated Note (12.00% plus 1.50% PIK, due 12/19/2018)(3)	23,628	23,628	23,628	0.7%
				23,628	23,628	0.7%
Tectum Holdings, Inc.(16)	Michigan / Automobile	Second Lien Term Loan (9.00% (LIBOR + 8.00% with 1.00% LIBOR floor), due 3/12/2019)(4)	10,000	9,952	9,952	0.3%
				9,952	9,952	0.3%
Therakos, Inc.			13,000	12,762	13,000	0.4%

Explanation of Responses:

Edgar Filing: FRESH DEL MONTE PRODUCE INC - Form 4

	New Jersey / Healthcare	Second Lien Term Loan (11.25% (LIBOR + 10.00% with 1.25% LIBOR floor), due 6/27/2018)(4)	12,762	13,000	0.4%
		Senior Secured Term Loan A (7.00% (LIBOR + 6.00% with 1.00% LIBOR floor), due 3/7/2019)(3)(4)	48,705	48,705	1.3%
Tolt Solutions, Inc.	South Carolina / Business Services	Senior Secured Term Loan B (12.00% (LIBOR + 11.00% with 1.00% LIBOR floor), due 3/7/2019)(3)(4)	48,900	48,900	1.4%
			97,605	97,605	2.7%
		Senior Secured Term Loan A (6.50% (LIBOR + 4.50% with 2.00% LIBOR floor), due 6/18/2018)(3)(4)	29,100	29,100	0.8%
Traeger Pellet Grills LLC	Oregon / Durable Consumer Products	Senior Secured Term Loan B (11.50% (LIBOR + 9.50% with 2.00% LIBOR floor), due 6/18/2018)(3)(4)	29,700	29,700	0.8%
			58,800	58,800	1.6%
Transaction Network Services, Inc.(16)	Virginia / Telecommunication Services	Second Lien Term Loan (9.00% (LIBOR + 8.00% with 1.00% LIBOR floor), due 8/14/2020)(4)	5,000	4,976	0.1%
			4,976	5,000	0.1%
TriMark USA, LLC(16)	Massachusetts / Hotels, Restaurants & Leisure	Second Lien Term Loan (10.00% (LIBOR + 9.00% with 1.00% LIBOR floor), due 8/11/2019)(4)	10,000	9,810	0.3%
			9,810	9,810	0.3%

See notes to consolidated financial statements.

F-19

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

Portfolio Company	Locale / Industry	Investments(1)	June 30, 2014 Principal Value	Cost	Fair Value(2)	% of Net Assets
<b>LEVEL 3 PORTFOLIO INVESTMENTS:</b>						
Non-Control/Non-Affiliate Investments (less than 5.00% voting control)						
United Sporting Companies, Inc.(5)	South Carolina / Durable Consumer Products	Second Lien Term Loan (12.75% (LIBOR + 11.00% with 1.75% LIBOR floor), due 5/16/2018)(3)(4)	\$ 160,000	\$ 160,000	\$ 160,000	4.4%
				160,000	160,000	4.4%
United States Environmental Services, LLC	Texas / Commercial Services	Senior Secured Term Loan A (6.50% (LIBOR + 5.50% with 1.00% LIBOR floor), due 3/31/2019)(3)(4)	23,850	23,850	23,850	0.7%
		Senior Secured Term Loan B (11.50% (LIBOR + 10.50% with 1.00% LIBOR floor), due 3/31/2019)(3)(4)	36,000	36,000	36,000	1.0%
				59,850	59,850	1.7%
Venio LLC (f/k/a LM Keane Acquisition Co.)	Pennsylvania / Business Services	Second Lien Term Loan (12.00% (LIBOR + 9.50% with 2.50% LIBOR floor), due 2/19/2020)(3)(4)	17,000	17,000	16,726	0.5%
				17,000	16,726	0.5%
Voya CLO 2012-2, Ltd. (f/k/a ING IM CLO 2012-2, Ltd.)(22)	Cayman Islands / Diversified Financial Services	Income Notes (Residual Interest)	38,070	31,058	35,843	1.0%
				31,058	35,843	1.0%
Voya CLO 2012-3, Ltd. (f/k/a ING IM CLO 2012-3, Ltd.)(22)	Cayman Islands / Diversified Financial Services	Income Notes (Residual Interest)	46,632	39,368	43,960	1.2%
				39,368	43,960	1.2%
Voya CLO 2012-4, Ltd. (f/k/a ING IM CLO 2012-4, Ltd.)(22)	Cayman Islands / Diversified Financial Services	Income Notes (Residual Interest)	40,613	34,941	39,647	1.1%
				34,941	39,647	1.1%
Voya CLO 2014-1, Ltd. (f/k/a ING IM CLO 2014-1, Ltd.)(22)	Cayman Islands / Diversified	Subordinated Notes (Residual Interest)	32,383	33,825	32,949	0.9%

Explanation of Responses:



Edgar Filing: FRESH DEL MONTE PRODUCE INC - Form 4

Ltd.)(22)	Financial Services			33,825	32,949	0.9%
Washington Mill CLO Ltd.(22)	Cayman Islands / Diversified Financial Services	Subordinated Notes (Residual Interest)	22,600	21,601	21,583	0.6%
				21,601	21,583	0.6%
Water Pik, Inc.(16)	Colorado / Personal & Nondurable Consumer Products	Second Lien Term Loan (9.75% (LIBOR + 8.75% with 1.00% LIBOR floor), due 1/8/2021)(4)	11,000	10,604	10,604	0.3%
				10,604	10,604	0.3%
Wheel Pros, LLC(4)	Colorado / Business Services	Senior Subordinated Secured Note (11.00% (LIBOR + 7.00% with 4.00% LIBOR floor), due 6/29/2020)	12,000	12,000	12,000	0.3%
		Delayed Draw Term Loan – \$3,000 Commitment (11.00% (LIBOR + 7.00% with 4.00% LIBOR floor), due 12/30/2015)(25)	—	—	—	—%
				12,000	12,000	0.3%
Wind River Resources Corporation(39)	Utah / Oil & Gas Production	Senior Secured Note (13.00% (LIBOR + 7.50% with 5.50% LIBOR floor) plus 3.00% default interest on principal and 16.00% default interest on past due interest, in non-accrual status effective 12/1/2008, past due)(4)	15,000	14,650	—	—%
		Net Profits Interest (5% of Equity Distributions)(7)		—	—	—%
				14,650	—	—%
Total Non-Control/Non-Affiliate Investments (Level 3)				\$4,620,388	\$4,580,996	126.6%
Total Level 3 Portfolio Investments				\$6,371,459	\$6,253,571	172.8%

See notes to consolidated financial statements.

F-20

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

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

See notes to consolidated financial statements.

F-21

---

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

Portfolio Company	Locale / Industry	Investments(1)	June 30, 2013		Fair Value(2)	% of Net Assets
			Principal Value	Cost		
LEVEL 3 PORTFOLIO INVESTMENTS:						
Control Investments (greater than 25.00% voting control)(48)						
AMU Holdings Inc.(27)	Pennsylvania / Property Management	Senior Secured Term Loan (12.00% (LIBOR + 9.00% with 3.00% LIBOR floor), due 6/30/2015)(3)(4)	\$28,750	\$28,750	\$28,750	1.1%
		Senior Subordinated Term Loan (12.00% plus 6.00% PIK, due 12/31/2015)	12,500	12,500	12,500	0.5%
		Series A Preferred Stock (9,919.684 shares)		9,920	9,920	0.4%
		Common Stock (100 shares)		—	3,478	0.1%
			51,170		54,648	2.1%
APH Property Holdings, LLC(32)	Georgia / Real Estate	Senior Term Loan (6.00% (LIBOR + 4.00% with 2.00% LIBOR floor) plus 5.50% PIK, due 10/24/2020)(4)	125,892	125,892	125,892	4.8%
		Membership Interest		26,648	26,648	1.0%
				152,540	152,540	5.8%
ARRM Holdings Inc.	South Carolina / Manufacturing	Senior Secured Note — Tranche A (10.50% (LIBOR + 7.50% with 3.00% LIBOR floor), due 3/30/2018)(3)(4)	19,737	19,737	19,737	0.7%
		Subordinated Unsecured Term Loan (11.50% (LIBOR + 8.50% with 3.00% LIBOR floor) plus 6.00% PIK, due 3/30/2018)(4)	19,700	19,700	19,700	0.7%
		Series A Convertible Preferred Stock (6,142.60 shares)		6,057	—	—%
		Common Stock (6.00 shares)		—	—	—%
			45,494		39,437	1.4%
AWC, LLC(19)	North Carolina / Machinery	Members Units — Class A (1,800,000 units)		—	—	—%
		Members Units — Class B-1 (1 unit)		—	—	—%
		Members Units — Class B-2 (7,999,999 units)		—	—	—%
				—	—	—%
		Revolving Line of Credit — \$1,150 Commitment (5.00% (PRIME + 1.75%) plus 3.00% default interest, in non-accrual status effective 03/02/2010, past due)(4)(25)	1,150	1,095	586	—%

Explanation of Responses:

Borga, Inc.(21) California / Manufacturing

Edgar Filing: FRESH DEL MONTE PRODUCE INC - Form 4

		Senior Secured Term Loan B (8.50% (PRIME + 5.25%) plus 3.00% default interest, in non-accrual status effective 03/02/2010, past due)(4)	1,611	1,501	—	—%
		Senior Secured Term Loan C (12.00% plus 4.00% PIK plus 3.00% default interest, in non-accrual status effective 03/02/2010, past due)	9,738	706	—	—%
		Common Stock (100 shares)		—	—	—%
		Warrant (to purchase 33,750 shares of Common Stock, expires 5/6/2015)		—	—	—%
				3,302	586	—%
		Senior Secured Note (10.00%, due 12/31/2017)(3)	17,663	17,663	17,663	0.7%
CCPI Holdings Inc.(33)	Ohio / Manufacturing	Senior Secured Note (12.00% plus 7.00% PIK, due 6/30/2018)	7,659	7,659	7,659	0.3%
		Common Stock (100 shares)		8,581	7,977	0.3%
		Net Revenue Interest (4% of Net Revenue)		—	604	—%
				33,903	33,903	1.3%
Credit Central Holdings of Delaware, LLC(22)(34)	Ohio / Consumer Finance	Senior Secured Revolving Credit Facility — \$60,000 Commitment (20.00% (LIBOR + 18.50% with 1.50% LIBOR floor), due 12/31/2022)(4)(25)	38,082	38,082	38,082	1.4%
		Membership Interest		9,581	8,361	0.3%
		Net Revenue Interest (5% of Net Revenue)		—	4,019	0.2%
				47,663	50,462	1.9%

See notes to consolidated financial statements.

F-22

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

Portfolio Company	Locale / Industry	Investments(1)	June 30, 2013 Principal Value	Cost	Fair Value(2)	% of Net Assets
<b>LEVEL 3 PORTFOLIO INVESTMENTS:</b>						
<b>Control Investments (greater than 25.00% voting control)(48)</b>						
Energy Solutions Holdings Inc.(8)	Texas / Energy	Junior Secured Note (18.00%, due 12/12/2016)	\$8,500	\$8,500	\$8,500	0.3%
		Senior Secured Note to Vessel Holdings, LLC (18.00%, due 12/12/2016)	3,500	3,500	3,500	0.1%
		Subordinated Secured Note to Jettco Marine Services, LLC (12.00% (LIBOR + 6.11% with 5.89% LIBOR floor) plus 4.00% PIK, in non-accrual status effective 10/1/2010, past due)(4)	13,906	12,503	8,449	0.3%
		Senior Secured Note to Yatesville Coal Holdings, LLC (in non-accrual status effective 1/1/2009, past due)	1,449	1,449	—	—%
		Escrow Receivable	—	—	—	—%
		Common Stock (100 shares)	—	8,318	6,247	0.2%
First Tower Holdings of Delaware LLC(22)(29)	Mississippi / Consumer Finance	Senior Secured Revolving Credit Facility — \$400,000 Commitment (20.00% (LIBOR + 18.50% with 1.50% LIBOR floor), due 6/30/2022)(4)(25)	264,760	264,760	264,760	10.0%
		Membership Interest	—	43,193	20,447	0.8%
		Net Revenue Interest (5% of Net Revenue)	—	—	12,877	0.5%
		Secured Promissory Notes (15.00%, in non-accrual status effective 12/22/2010, past due)	1,688	1,686	—	—%
		Senior Demand Note (15.00%, in non-accrual status effective 11/1/2010, past due)	1,170	1,170	—	—%
The Healing Staff, Inc.(9)	North Carolina / Contracting	Common Stock (1,000 shares)	—	975	—	—%
		Common Stock (1,000 shares)	—	3,831	—	—%
		Senior Secured Note (13.00%, in non-accrual status effective 1/19/2010, past due)	500	500	346	—%
Manx Energy, Inc.(12)	Kansas / Oil & Gas Production	Series A-1 Preferred Stock (6,635 shares)	—	—	—	—%
		Common Stock (17,082 shares)	—	—	—	—%
		Common Stock (17,082 shares)	500	500	346	—%

Explanation of Responses:

Edgar Filing: FRESH DEL MONTE PRODUCE INC - Form 4

Nationwide Acceptance Holdings LLC(22)(36)	Illinois / Consumer Finance	Senior Secured Revolving Credit Facility — \$30,000 Commitment (20.00% (LIBOR + 18.50% with 1.50% LIBOR floor), due 1/31/2023)(4)(25)	21,308	21,308	21,308	0.8%
		Membership Interest		3,843	2,142	0.1%
		Net Revenue Interest (5% of Net Revenue)		—	1,701	0.1%
				25,151	25,151	1.0%
NMMB Holdings, Inc.(24)	New York / Media	Senior Term Loan (14.00%, due 5/6/2016)	16,000	16,000	13,149	0.5%
		Senior Subordinated Term Loan (15.00%, due 5/6/2016)	2,800	2,800	—	—%
		Series A Preferred Stock (4,400 shares)		4,400	—	—%
			23,200	13,149	0.5%	
R-V Industries, Inc.	Pennsylvania / Manufacturing	Senior Subordinated Note (10.00% (LIBOR + 9.00% with 1.00% LIBOR floor), due 6/12/2018)(4)	32,750	32,750	32,750	1.2%
		Common Stock (545,107 shares)		5,087	18,522	0.7%
		Warrant (to purchase 200,000 shares of Common Stock, expires 6/30/2017)		1,682	6,796	0.3%
				39,519	58,068	2.2%

See notes to consolidated financial statements.

F-23

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

Portfolio Company	Locale / Industry	Investments(1)	June 30, 2013		Fair Value(2)	% of Net Assets
			Principal Value	Cost		
<b>LEVEL 3 PORTFOLIO INVESTMENTS:</b>						
<b>Control Investments (greater than 25.00% voting control)(48)</b>						
		Senior Secured Note (9.00% (LIBOR + 6.00%, with 3.00% LIBOR floor) plus 9.00% PIK, due 12/31/2018)(4)	\$34,063	\$34,063	\$34,063	1.3%
Valley Electric Holdings I, Inc.(35)	Washington / Construction & Engineering	Senior Secured Note (8.00% (LIBOR + 5.00% with 3.00% LIBOR floor) plus 2.50% PIK, due 12/31/2017)(3)(4)	10,026	10,026	10,026	0.4%
		Common Stock (100 shares)		9,526	8,288	0.3%
		Net Revenue Interest (5% of Net Revenue)		—	1,238	0.1%
				53,615	53,615	2.1%
		Senior Secured Promissory Note secured by assets formerly owned by H&M (18.00%, in non-accrual status effective 4/15/2013, due 4/15/2018)(37)	22,000	—	3,832	0.1%
		Senior Secured Note to Appalachian Energy Holdings, LLC (8.00%, in non-accrual status effective 1/19/2010, past due)	2,642	2,000	546	—%
Wolf Energy Holdings Inc.(12)	Kansas / Oil & Gas Production	Senior Secured Note to Appalachian Energy Holdings, LLC (8.00%, in non-accrual status, past due)	51	50	51	—%
		Senior Secured Note to Coalbed, LLC (8.00%, in non-accrual status effective 1/19/2010, past due)(6)	7,930	5,990	—	—%
		Common Stock (100 shares)		—	—	—%
		Net Profits Interest (8% of Equity Distributions)(7)		—	520	—%
				8,040	4,949	0.1%
<b>Total Control Investments</b>				<b>\$830,151</b>	<b>\$811,634</b>	<b>30.6%</b>
<b>Affiliate Investments (5.00% to 24.99% voting control)(49)</b>						
BNN Holdings Corp. (f/k/a Biotronic NeuroNetwork)	Michigan / Healthcare	Senior Secured Note (10.00% (LIBOR + 8.00% with 2.00% LIBOR floor), due 12/17/2017)(3)(4)	29,550	29,550	29,550	1.1%
		Series A Preferred Stock (9,925.455 shares)(13)		2,300	2,832	0.1%

Explanation of Responses:

Edgar Filing: FRESH DEL MONTE PRODUCE INC - Form 4

		Series B Preferred Stock (1,753.636 shares)(13)	579	533	—%	
			32,429	32,915	1.2%	
		Senior Secured Term Loan A (10.00% plus 1.00% PIK, due 9/15/2015)	1,712	1,702	0.1%	
		Senior Secured Term Loan B (10.00% plus 1.00% PIK, due 9/15/2015)	4,892	4,809	0.2%	
		Senior Secured Term Loan C (10.00% plus 1.00% PIK, due 9/15/2015)	2,371	2,371	0.1%	
BXC Holding Company(20)	Georgia / Textiles, Apparel & Luxury Goods	Senior Secured Term Loan (10.00% plus 1.00% PIK, due 9/15/2015)	8,325	7,878	410	—%
		Series A Preferred Stock (1,000,000 shares)	—	—	—%	
		Common Stock (10,000 shares)	—	—	—%	
		Warrant (to purchase 15% of all classes of equity, expires 8/31/2022)	—	—	—%	
			16,760	9,385	0.4%	
Smart, LLC(14)	New York / Diversified / Conglomerate Service	Membership Interest	—	143	—%	
			—	143	—%	
Total Affiliate Investments			\$49,189	\$42,443	1.6%	

See notes to consolidated financial statements.

F-24



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

Portfolio Company	Locale / Industry	Investments(1)	June 30, 2013 Principal Value	Cost	Fair Value(2)	% of Net Assets
<b>LEVEL 3 PORTFOLIO INVESTMENTS:</b>						
Non-Control/Non-Affiliate Investments (less than 5.00% voting control)						
ADAPCO, Inc.	Florida / Ecological	Common Stock (5,000 shares)		\$ 141	\$ 335	—%
				141	335	—%
Aderant North America, Inc.	Georgia / Software & Computer Services	Second Lien Term Loan (10.00% (LIBOR + 8.75% with 1.25% LIBOR floor), due 6/20/2019)(4)	\$ 7,000	6,900	7,000	0.3%
				6,900	7,000	0.3%
Aircraft Fasteners International, LLC	California / Machinery	Class A Units (32,500 units)		396	565	—%
				396	565	—%
ALG USA Holdings, LLC	Pennsylvania / Hotels, Restaurants & Leisure	Second Lien Term Loan (10.25% (LIBOR + 9.00% with 1.25% LIBOR floor), due 2/28/2020)(4)	12,000	11,764	12,000	0.4%
				11,764	12,000	0.4%
Allied Defense Group, Inc.	Virginia / Aerospace & Defense	Common Stock (10,000 shares)		56	—	—%
				56	—	—%
American Gilsonite Company	Utah / Metal Services & Minerals	Second Lien Term Loan (11.50%, due 9/1/2017) Membership Interest(15)	38,500	38,500	38,500	1.4%
				—	4,058	0.2%
				38,500	42,558	1.6%
Apidos CLO VIII(22)	Cayman Islands / Diversified Financial Services	Subordinated Notes (Residual Interest)	19,730	19,931	19,718	0.7%
				19,931	19,718	0.7%
Apidos CLO IX(22)	Cayman Islands / Diversified Financial Services	Subordinated Notes (Residual Interest)	20,525	19,609	19,294	0.7%
				19,609	19,294	0.7%
Apidos CLO XI(22)	Cayman Islands / Diversified	Subordinated Notes (Residual Interest)	38,340	39,239	37,972	1.4%

Explanation of Responses:

Edgar Filing: FRESH DEL MONTE PRODUCE INC - Form 4

	Financial Services			39,239	37,972	1.4%
Apidos CLO XII(22)	Cayman Islands / Diversified Financial Services	Subordinated Notes (Residual Interest)	44,063	43,480	40,294	1.5%
				43,480	40,294	1.5%
Arctic Glacier U.S.A., Inc.	Canada / Food Products	Second Lien Term Loan (11.25% (LIBOR + 10.00% with 1.25% LIBOR floor), due 11/10/2019)(4)	150,000	150,000	150,000	5.6%
				150,000	150,000	5.6%
Armor Holding II LLC(16)	New York / Diversified Financial Services	Second Lien Term Loan (9.25% (LIBOR + 8.00% with 1.25% LIBOR floor), due 12/26/2020)(4)	7,000	6,860	7,000	0.3%
				6,860	7,000	0.3%
Atlantis Health Care Group (Puerto Rico), Inc.	Puerto Rico / Healthcare	Revolving Line of Credit — \$7,000 Commitment (10.00% (LIBOR + 8.00% with 2.00% LIBOR floor), due 2/21/2014)(4)(25)(26)	2,000	2,000	2,000	0.1%
		Senior Term Loan (10.00% (LIBOR + 8.00% with 2.00% LIBOR floor), due 2/21/2018)(3)(4)	39,352	39,352	39,352	1.5%
				41,352	41,352	1.6%
Babson CLO Ltd. 2011-I(22)	Cayman Islands / Diversified Financial Services	Subordinated Notes (Residual Interest)	35,000	34,499	34,450	1.3%

See notes to consolidated financial statements.

F-25

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

Portfolio Company	Locale / Industry	Investments(1)	June 30, 2013 Principal Value Cost		Fair Value(2)	% of Net Assets
LEVEL 3 PORTFOLIO INVESTMENTS:						
Non-Control/Non-Affiliate Investments (less than 5.00% voting control)						
				34,499	34,450	1.3%
Babson CLO Ltd. 2012-I(22)	Cayman Islands / Diversified Financial Services	Subordinated Notes (Residual Interest)	\$29,075	\$25,917	\$27,269	1.0%
				25,917	27,269	1.0%
Babson CLO Ltd. 2012-II(22)	Cayman Islands / Diversified Financial Services	Subordinated Notes (Residual Interest)	27,850	28,863	27,510	1.0%
				28,863	27,510	1.0%
Blue Coat Systems, Inc.(16)	Massachusetts / Software & Computer Services	Second Lien Term Loan (9.50% (LIBOR + 8.50% with 1.00% LIBOR floor), due 6/28/2020)(4)	11,000	10,890	11,000	0.4%
				10,890	11,000	0.4%
Broder Bros., Co.	Pennsylvania / Textiles, Apparel & Luxury Goods	Senior Secured Notes (10.75% (LIBOR + 9.00% with 1.75% LIBOR floor), due 6/27/2018)(3)(4)	99,500	99,500	99,323	3.7%
				99,500	99,323	3.7%
Brookside Mill CLO Ltd.(22)	Cayman Islands / Diversified Financial Services	Subordinated Notes (Residual Interest)	26,000	23,896	23,743	0.9%
				23,896	23,743	0.9%
Byrider Systems Acquisition Corp.(22)	Indiana / Auto Finance	Senior Subordinated Notes (12.00% plus 2.00% PIK, due 11/3/2016)(3)	10,914	10,914	10,417	0.4%
				10,914	10,417	0.4%
Caleel + Hayden, LLC(14)(31)	Colorado / Personal & Nondurable Consumer Products	Membership Interest		—	104	—%
		Escrow Receivable		—	137	—%
Capstone Logistics, LLC	Georgia / Commercial	Senior Secured Term Loan A (6.50% (LIBOR + 5.00% with 1.50% LIBOR	97,291	97,291	97,291	3.7%

Explanation of Responses:

Edgar Filing: FRESH DEL MONTE PRODUCE INC - Form 4

	Services	floor), due 9/16/2016)(4)					
		Senior Secured Term Loan B (11.50% (LIBOR + 10.00% with 1.50% LIBOR floor), due 9/16/2016)(3)(4)	100,000	100,000	100,000	3.8%	
				197,291	197,291	7.5%	
Cargo Airport Services USA, LLC	New York / Transportation	Senior Secured Term Loan (10.50% (LIBOR + 7.50% with 3.00% LIBOR floor), due 3/31/2016)(3)(4)	43,977	43,977	44,417	1.7%	
		Common Equity (1.6 units)		1,639	1,860	0.1%	
				45,616	46,277	1.8%	
Cent CLO 17 Limited(22)	Cayman Islands / Diversified Financial Services	Subordinated Notes (Residual Interest)	24,870	24,615	25,454	1.0%	
				24,615	25,454	1.0%	
CI Holdings(4)	Texas / Software & Computer Services	Senior Secured Term Loan (10.00% (LIBOR + 5.00% with 5.00% LIBOR floor), due 6/11/2019)	114,713	114,713	114,713	4.3%	
				114,713	114,713	4.3%	
CIFC Funding 2011-I, Ltd.(4)(22)	Cayman Islands / Diversified Financial Services	Class D Senior Secured Notes (5.32% (LIBOR + 5.00%), due 1/19/2023)	19,000	15,029	15,844	0.6%	
		Class E Subordinated Notes (7.32% (LIBOR + 7.00%), due 1/19/2023)	15,400	12,638	12,745	0.5%	
				27,667	28,589	1.1%	
Cinedigm DC Holdings, LLC(4)	New York / Software & Computer Services	Senior Secured Term Loan (11.00% (LIBOR + 9.00% with 2.00% LIBOR floor) plus 2.50% PIK, due 3/31/2021)	70,595	70,595	70,595	2.7%	
				70,595	70,595	2.7%	

See notes to consolidated financial statements.

F-26

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

Portfolio Company	Locale / Industry	Investments(1)	June 30, 2013		Fair Value(2)	% of Net Assets
			Principal Value	Cost		
<b>LEVEL 3 PORTFOLIO INVESTMENTS:</b>						
Non-Control/Non-Affiliate Investments (less than 5.00% voting control)						
The Copernicus Group, Inc.	North Carolina / Healthcare	Escrow Receivable	\$—		\$ 130	—%
			—		130	—%
Correctional Healthcare Holding Company, Inc.	Colorado / Healthcare	Second Lien Term Loan (11.25%, due 1/11/2020)(3)	\$27,100	27,100	27,100	1.0%
				27,100	27,100	1.0%
Coverall North America, Inc.	Florida / Commercial Services	Senior Secured Term Loan (11.50% (LIBOR + 8.50% with 3.00% LIBOR floor), due 12/17/2017)(3)(4)	39,303	39,303	39,303	1.5%
				39,303	39,303	1.5%
CP Well Testing, LLC	Oklahoma / Oil & Gas Production	Senior Secured Term Loan (13.50% (LIBOR + 11.00% with 2.50% LIBOR floor), due 10/03/2017)(4)	19,125	19,125	19,125	0.7%
				19,125	19,125	0.7%
CRT MIDCO, LLC	Wisconsin / Media	Senior Secured Term Loan (10.50% (LIBOR + 7.50% with 3.00% LIBOR floor), due 6/30/2017)(3)(4)	71,106	71,106	71,106	2.7%
				71,106	71,106	2.7%
Deltek, Inc.	Virginia / Software & Computer Services	Second Lien Term Loan (10.00% (LIBOR + 8.75% with 1.25% LIBOR floor), due 10/10/2019)(4)	12,000	11,833	12,000	0.5%
				11,833	12,000	0.5%
Diamondback Operating, LP	Oklahoma / Oil & Gas Production	Net Profits Interest (15% of Equity Distributions)(7)	—		—	—%
					—	—%
Edmentum, Inc. (f/k/a Archipelago Learning, Inc.)(4)	Minnesota / Consumer Services	Second Lien Term Loan (11.25% (LIBOR + 9.75% with 1.50% LIBOR floor), due 5/17/2019)	50,000	48,218	50,000	1.9%
				48,218	50,000	1.9%
EIG Investors Corp.	Massachusetts / Software & Computer Services	Second Lien Term Loan (10.25% (LIBOR + 9.00% with 1.25% LIBOR floor), due 5/09/2020)(4)(16)	22,000	21,792	22,000	0.8%
				21,792	22,000	0.8%
Empire Today, LLC			15,700	15,332	14,650	0.6%

Explanation of Responses:

Edgar Filing: FRESH DEL MONTE PRODUCE INC - Form 4

	Illinois / Durable Consumer Products	Senior Secured Note (11.375%, due 2/1/2017)		15,332	14,650	0.6%
EXL Acquisition Corp.	South Carolina / Biotechnology	Escrow Receivable		—	14	—%
				—	14	—%
Evanta Ventures, Inc.(11)	Oregon / Commercial Services	Subordinated Unsecured (12.00% plus 1.00% PIK, due 9/28/2018)	10,479	10,479	10,479	0.4%
				10,479	10,479	0.4%
Fairchild Industrial Products, Co.	North Carolina / Electronics	Escrow Receivable		—	149	—%
				—	149	—%
Fischbein, LLC	North Carolina / Machinery	Escrow Receivable		—	225	—%
				—	225	—%
Focus Brands, Inc.(4)	Georgia / Consumer Services	Second Lien Term Loan (10.25% (LIBOR + 9.00% with 1.25% LIBOR floor), due 8/21/2018)	18,000	17,731	18,000	0.7%
				17,731	18,000	0.7%
FPG, LLC	Illinois / Durable Consumer Products	Senior Secured Term Loan (12.00% (LIBOR + 11.00% with 1.00% LIBOR floor), due 1/20/2017)(4) Common Stock (5,638 shares)	\$21,401	\$21,401	\$21,401	0.8%
				27	19	—%

See notes to consolidated financial statements.

F-27

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

Portfolio Company	Locale / Industry	Investments(1)	June 30, 2013		Fair Value(2)	% of Net Assets
			Principal Value	Cost		
LEVEL 3 PORTFOLIO INVESTMENTS:						
Non-Control/Non-Affiliate Investments (less than 5.00% voting control)						
				21,428	21,420	0.8%
Galaxy XII CLO, Ltd.(22)	Cayman Islands / Diversified Financial Services	Subordinated Notes (Residual Interest)	22,000	20,792	21,657	0.8%
				20,792	21,657	0.8%
Galaxy XV CLO, Ltd.(22)	Cayman Islands / Diversified Financial Services	Subordinated Notes (Residual Interest)	35,025	32,119	30,227	1.1%
				32,119	30,227	1.1%
Grocery Outlet, Inc.	California / Retail	Second Lien Term Loan (10.50% (LIBOR + 9.25% with 1.25% LIBOR floor), due 6/17/2019)(4)	14,457	14,127	14,457	0.5%
				14,127	14,457	0.5%
Gulf Coast Machine & Supply Company	Texas / Manufacturing	Senior Secured Term Loan (10.50% (LIBOR + 8.50% with 2.00% LIBOR floor), due 10/12/2017)(3)(4)	41,213	41,213	31,972	1.2%
				41,213	31,972	1.2%
Halcyon Loan Advisors Funding 2012-1 Ltd.(22)	Cayman Islands / Diversified Financial Services	Subordinated Notes (Residual Interest)	23,188	22,279	22,724	0.9%
				22,279	22,724	0.9%
Halcyon Loan Advisors Funding 2013-1 Ltd.(22)	Cayman Islands / Diversified Financial Services	Subordinated Notes (Residual Interest)	40,400	41,085	38,291	1.4%
				41,085	38,291	1.4%
Hoffmaster Group, Inc.(4)	Wisconsin / Personal & Nondurable Consumer Products	Second Lien Term Loan (11.00% (LIBOR + 9.50% with 1.50% LIBOR floor), due 1/3/2019)	20,000	19,831	19,598	0.7%
		Second Lien Term Loan (10.25% (LIBOR + 9.00% with 1.25% LIBOR floor), due 1/3/2019)	1,000	991	955	—%
				20,822	20,553	0.7%
ICON Health & Fitness, Inc.	Utah / Durable Consumer	Senior Secured Note (11.875%, due 10/15/2016)(3)	43,100	43,310	33,929	1.3%

Explanation of Responses:

Edgar Filing: FRESH DEL MONTE PRODUCE INC - Form 4

Products						
			43,310	33,929		1.3%
IDQ Holdings, Inc.	Texas / Automobile	Senior Secured Note (11.50%, due 4/1/2017)	12,500	12,300	12,500	0.5%
				12,300	12,500	0.5%
	Cayman Islands					
ING IM CLO 2012-2, Ltd.(22)	/ Diversified Financial Services	Income Notes (Residual Interest)	38,070	34,904	36,848	1.4%
				34,904	36,848	1.4%
	Cayman Islands					
ING IM CLO 2012-3, Ltd.(22)	/ Diversified Financial Services	Income Notes (Residual Interest)	46,632	44,454	46,361	1.7%
				44,454	46,361	1.7%
	Cayman Islands					
ING IM CLO 2012-4, Ltd.(22)	/ Diversified Financial Services	Income Notes (Residual Interest)	40,613	39,255	41,153	1.5%
				39,255	41,153	1.5%
		Second Lien Term Loan (11.50%				
Injured Workers Pharmacy, LLC	Massachusetts / Healthcare	(LIBOR + 7.00% with 4.50% LIBOR floor) plus 1.00% PIK, due 5/31/2019)(3)(4)	22,430	22,430	22,430	0.8%
				22,430	22,430	0.8%
		Senior Secured Term Loan A (8.00%				
InterDent, Inc.(4)	California / Healthcare	(LIBOR + 6.50% with 1.50% LIBOR floor), due 8/3/2017)	\$53,475	\$53,475	\$53,475	2.0%
		Senior Secured Term Loan B (13.00%	55,000	55,000	55,000	2.1%
		(LIBOR + 10.00% with 3.00% LIBOR floor), due 8/3/2017)(3)				
				108,475	108,475	4.1%

See notes to consolidated financial statements.

F-28



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

Portfolio Company	Locale / Industry	Investments(1)	June 30, 2013 Principal Cost		Fair Value(2)	% of Net Assets
<b>LEVEL 3 PORTFOLIO INVESTMENTS:</b>						
Non-Control/Non-Affiliate Investments (less than 5.00% voting control)						
JHH Holdings, Inc.	Texas / Healthcare	Second Lien Term Loan (12.00% (LIBOR + 10.00% with 2.00% LIBOR floor) plus 1.50% PIK, due 6/23/2018)(3)(4)	16,119	16,119	16,119	0.6%
				16,119	16,119	0.6%
LaserShip, Inc.(4)	Virginia / Transportation	Revolving Line of Credit — \$5,000 Commitment (10.25% (LIBOR + 8.25% with 2.00% LIBOR floor), due 12/21/2014)(25)	—	—	—	—%
		Senior Secured Term Loan (10.25% (LIBOR + 8.25% with 2.00% LIBOR floor), due 12/21/2017)(3)	37,031	37,031	37,031	1.4%
				37,031	37,031	1.4%
LCM XIV Ltd.(22)	Cayman Islands / Diversified Financial Services	Income Notes (Residual Interest)	26,500	25,838	25,838	1.0%
				25,838	25,838	1.0%
LHC Holdings Corp.	Florida / Healthcare	Revolving Line of Credit — \$750 Commitment (8.50% (LIBOR + 6.00% with 2.50% LIBOR floor), due 5/31/2015)(4)(25)(26)	—	—	—	—%
		Senior Subordinated Debt (10.50%, due 5/31/2015)(3)	2,865	2,865	2,865	0.1%
		Common Stock (125 shares)		216	245	—%
				3,081	3,110	0.1%
Madison Park Funding IX, Ltd.(22)	Cayman Islands / Diversified Financial Services	Subordinated Notes (Residual Interest)	31,110	26,401	26,596	1.0%
				26,401	26,596	1.0%
Material Handling Services, LLC(4)	Ohio / Business Services	Senior Secured Term Loan (10.50% (LIBOR + 8.50% with 2.00% LIBOR floor), due 7/5/2017)(3)	27,580	27,580	27,199	1.0%
		Senior Secured Term Loan (10.00% (LIBOR + 8.00% with 2.00% LIBOR floor), due 12/21/2017)	37,959	37,959	37,035	1.4%
				65,539	64,234	2.4%

Explanation of Responses:

Edgar Filing: FRESH DEL MONTE PRODUCE INC - Form 4

Maverick Healthcare Equity, LLC	Arizona / Healthcare	Preferred Units (1,250,000 units)	1,252	780	—%	
		Class A Common Units (1,250,000 units)	—	—	—%	
			1,252	780	—%	
Medical Security Card Company, LLC(4)	Arizona / Healthcare	Revolving Line of Credit — \$1,500 Commitment (9.50% (LIBOR + 7.00% with 2.50% LIBOR floor), due 2/1/2016)(25)	—	—	—%	
		First Lien Term Loan (11.25% (LIBOR + 8.75% with 2.50% LIBOR floor), due 2/1/2016)(3)	13,427	13,427	13,427	0.5%
				13,427	13,427	0.5%
Mountain View CLO 2013-I Ltd.(22)	Cayman Islands / Diversified Financial Services	Subordinated Notes (Residual Interest)	43,650	44,235	43,192	1.6%
				44,235	43,192	1.6%
National Bankruptcy Services, LLC(3)(4)	Texas / Diversified Financial Services	Senior Subordinated Term Loan (12.00% (LIBOR + 9.00% with 3.00% LIBOR floor) plus 1.50% PIK, due 7/17/2017)	18,683	18,683	16,883	0.6%
				18,683	16,883	0.6%
Naylor, LLC(4)	Florida / Media	Revolving Line of Credit — \$2,500 Commitment (11.00% (LIBOR + 8.00% with 3.00% LIBOR floor), due 6/7/2017)(25)	\$—	\$—	\$—	—%
		Senior Secured Term Loan (11.00% (LIBOR + 8.00% with 3.00% LIBOR floor), due 6/7/2017)(3)	46,170	46,170	46,170	1.7%
				46,170	46,170	1.7%
New Century Transportation, Inc.	New Jersey / Transportation	Senior Subordinated Term Loan (12.00% (LIBOR + 10.00% with 2.00% LIBOR floor) plus 3.00% PIK, due 2/3/2018)(3)(4)	45,120	45,120	44,166	1.7%

See notes to consolidated financial statements.

F-29

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

Portfolio Company	Locale / Industry	Investments(1)	June 30, 2013 Principal Value	Cost	Fair Value(2)	% of Net Assets
LEVEL 3 PORTFOLIO INVESTMENTS:						
Non-Control/Non-Affiliate Investments (less than 5.00% voting control)						
				45,120	44,166	1.7%
New Star Metals, Inc.	Indiana / Metal Services & Minerals	Senior Subordinated Term Loan (11.50% (LIBOR + 8.50% with 3.00% LIBOR floor) plus 1.00% PIK, due 2/2/2018)(4)	50,274	50,274	50,274	1.9%
				50,274	50,274	1.9%
Nixon, Inc.	California / Durable Consumer Products	Senior Secured Term Loan (8.75% plus 2.75% PIK, due 4/16/2018)(16)	15,509	15,252	14,992	0.6%
				15,252	14,992	0.6%
NRG Manufacturing, Inc.	Texas / Manufacturing	Escrow Receivable	—	—	3,618	0.1%
				—	3,618	0.1%
Octagon Investment Partners XV, Ltd.(22)	Cayman Islands / Diversified Financial Services	Income Notes (Residual Interest)	26,901	26,919	25,515	1.0%
				26,919	25,515	1.0%
		Revolving Line of Credit — \$2,500 Commitment (9.00% (LIBOR + 7.75% with 1.25% LIBOR floor), due 4/18/2014)(25)	—	—	—	—%
Pegasus Business Intelligence, LP(4)	Texas / Diversified Financial Services	Senior Secured Term Loan A (6.75% (LIBOR + 5.50% with 1.25% LIBOR floor), due 4/18/2018)	15,938	15,938	15,938	0.6%
		Senior Secured Term Loan B (13.75% (LIBOR + 12.50% with 1.25% LIBOR floor), due 4/18/2018)	15,938	15,938	15,938	0.6%
				31,876	31,876	1.2%
Pelican Products, Inc.(16)	California / Durable Consumer Products	Second Lien Term Loan (11.50% (LIBOR + 10.00% with 1.50% LIBOR floor), due 6/14/2019)(3)(4)	15,000	14,729	15,000	0.6%
				14,729	15,000	0.6%
The Petroleum Place, Inc.	Colorado / Software & Computer	Second Lien Term Loan (10.00% (LIBOR + 8.75% with 1.25% LIBOR floor), due 5/20/2019)(4)	22,000	21,690	22,000	0.8%

Explanation of Responses:

Edgar Filing: FRESH DEL MONTE PRODUCE INC - Form 4

Services			21,690	22,000	0.8%	
Pinnacle (US) Acquisition Co. Limited(16)	Texas / Software & Computer Services	Second Lien Term Loan (10.50% (LIBOR + 9.25% with 1.25% LIBOR floor), due 8/3/2020)(4)	10,000	9,815	10,000	0.4%
				9,815	10,000	0.4%
Pre-Paid Legal Services, Inc.(16)	Oklahoma / Consumer Services	Senior Subordinated Term Loan (11.50% (PRIME + 8.25%), due 12/31/2016)(3)(4)	5,000	5,000	5,000	0.2%
				5,000	5,000	0.2%
Prince Mineral Holding Corp.	New York / Metal Services & Minerals	Senior Secured Term Loan (11.50%, due 12/15/2019)	10,000	9,888	10,000	0.4%
				9,888	10,000	0.4%
Progrexion Holdings, Inc.(4)(28)	Utah / Consumer Services	Senior Secured Term Loan (10.50% (LIBOR + 8.50% with 2.00% LIBOR floor), due 9/14/2017)(3)	241,033	241,033	241,033	9.1%
				241,033	241,033	9.1%
Rocket Software, Inc.(3)(4)	Massachusetts / Software & Computer Services	Second Lien Term Loan (10.25% (LIBOR + 8.75% with 1.50% LIBOR floor), due 2/8/2019)	\$20,000	\$19,719	\$20,000	0.8%
				19,719	20,000	0.8%
Royal Adhesives & Sealants, LLC	Indiana / Chemicals	Senior Subordinated Unsecured Term Loan (12.00% plus 2.00% PIK, due 11/29/2016)	28,364	28,364	28,648	1.1%
				28,364	28,648	1.1%
Ryan, LLC(4)	Texas / Business Services	Subordinated Secured Notes (12.00% (LIBOR + 9.00% with 3.00% LIBOR floor) plus 3.00% PIK, due 6/30/2018)	70,000	70,000	70,000	2.6%
				70,000	70,000	2.6%

See notes to consolidated financial statements.

F-30

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

Portfolio Company	Locale / Industry	Investments(1)	June 30, 2013 Principal Value	Cost	Fair Value(2)	% of Net Assets
<b>LEVEL 3 PORTFOLIO INVESTMENTS:</b>						
Non-Control/Non-Affiliate Investments (less than 5.00% voting control)						
Sadow Media, LLC	Florida / Media	Senior Secured Term Loan (10.50% (LIBOR + 8.50% with 2.00% LIBOR floor) plus 1.50% PIK, due 5/8/2018)(4)	24,900	24,900	24,900	0.9%
				24,900	24,900	0.9%
Seaton Corp.(3)(4)	Illinois / Business Services	Subordinated Secured (12.50% (LIBOR + 9.00% with 3.50% LIBOR floor) plus 2.00% PIK, due 3/14/2014)	3,305	3,249	3,305	0.1%
		Subordinated Secured (12.50% (LIBOR + 9.00% with 3.50% LIBOR floor) plus 2.00% PIK, due 3/14/2015)	10,005	10,005	10,005	0.4%
				13,254	13,310	0.5%
SESAC Holdco II LLC(16)	Tennessee / Media	Second Lien Term Loan (10.00% (LIBOR + 8.75% with 1.25% LIBOR floor), due 7/12/2019)(4)	6,000	5,914	6,000	0.2%
				5,914	6,000	0.2%
Skillssoft Public Limited Company(22)	Ireland / Software & Computer Services	Senior Unsecured Notes (11.125%, due 6/1/2018)	15,000	14,927	15,000	0.6%
				14,927	15,000	0.6%
Snacks Parent Corporation	Minnesota / Food Products	Series A Preferred Stock (4,021.45 shares)		56	56	—%
		Series B Preferred Stock (1,866.10 shares)		56	56	—%
		Warrant (to purchase 31,196.52 shares of Common Stock, expires 11/12/2020)		479	484	—%
				591	596	—%
Southern Management Corporation(22)(30)	South Carolina / Consumer Finance	Second Lien Term Loan (12.00% plus 5.00% PIK, due 5/31/2017)	17,565	17,565	18,267	0.7%
				17,565	18,267	0.7%
Spartan Energy Services, Inc.(3)(4)	Louisiana / Energy	Senior Secured Term Loan (10.50% (LIBOR + 9.00% with 1.50% LIBOR floor), due 12/28/2017)	29,625	29,625	29,625	1.1%
				29,625	29,625	1.1%
Speedy Group Holdings Corp.	Canada / Consumer	Senior Unsecured Notes (12.00%, due 11/15/2017)(22)	15,000	15,000	15,000	0.6%

Explanation of Responses:

Edgar Filing: FRESH DEL MONTE PRODUCE INC - Form 4

	Finance			15,000	15,000	0.6%
Sport Helmets Holdings, LLC(14)	New York / Personal & Nondurable Consumer Products	Escrow Receivable		—	389	—%
				—	389	—%
Stauber Performance Ingredients, Inc.(3)(4)	California / Food Products	Senior Secured Term Loan (10.50% (LIBOR + 7.50% with 3.00% LIBOR floor), due 1/21/2016)	16,594	16,594	16,594	0.6%
		Senior Secured Term Loan (10.50% (LIBOR + 7.50% with 3.00% LIBOR floor), due 5/21/2017)	10,238	10,238	10,238	0.4%
				26,832	26,832	1.0%
Stryker Energy, LLC	Ohio / Oil & Gas Production	Subordinated Secured Revolving Credit Facility — \$50,300 Commitment (8.50% (LIBOR + 7.00% with 1.50% LIBOR floor) plus 3.75% PIK, in non-accrual status effective 12/1/2011, due 12/1/2015)(4)(25)	\$34,738	\$32,711	\$—	—%
		Overriding Royalty Interest(18)		—	—	—%
				32,711	—	—%
Symphony CLO IX Ltd.(22)	Cayman Islands / Diversified Financial Services	Preference Shares (Residual Interest)	45,500	42,289	43,980	1.7%
				42,289	43,980	1.7%
System One Holdings, LLC(3)(4)	Pennsylvania / Business Services	Senior Secured Term Loan (11.00% (LIBOR + 9.50% with 1.50% LIBOR floor), due 12/31/2018)	32,000	32,000	32,000	1.2%
				32,000	32,000	1.2%

See notes to consolidated financial statements.

F-31

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

Portfolio Company	Locale / Industry	Investments(1)	June 30, 2013 Principal Cost		Fair Value(2)	% of Net Assets
<b>LEVEL 3 PORTFOLIO INVESTMENTS:</b>						
Non-Control/Non-Affiliate Investments (less than 5.00% voting control)						
Targus Group International, Inc.(16)	California / Durable Consumer Products	First Lien Term Loan (11.00% (LIBOR + 9.50% with 1.50% LIBOR floor), due 5/25/2016)(3)(4)	23,520	23,209	23,520	0.9%
				23,209	23,520	0.9%
TB Corp.(3)	Texas / Hotels, Restaurants & Leisure	Senior Subordinated Note (12.00% plus 1.50% PIK, due 12/18/2018)	23,361	23,361	23,361	0.9%
				23,361	23,361	0.9%
Therakos, Inc.	New Jersey / Healthcare	Second Lien Term Loan (11.25% (LIBOR + 10.00% with 1.25% LIBOR floor), due 6/27/2018)(4)(16)	8,000	7,773	8,000	0.3%
				7,773	8,000	0.3%
Totes Isotoner Corporation	Ohio / Personal & Nondurable Consumer Products	Second Lien Term Loan (10.75%, (LIBOR + 9.25% with 1.50% LIBOR floor), due 1/8/2018)(3)(4)	39,000	39,000	39,000	1.5%
				39,000	39,000	1.5%
		Revolving Line of Credit — \$10,000 Commitment (9.00% (LIBOR + 7.00% with 2.00% LIBOR floor), due 6/18/2014)(25)	6,143	6,143	6,143	0.3%
Traeger Pellet Grills LLC(4)	Oregon / Durable Consumer Products	Senior Secured Term Loan A (6.50% (LIBOR + 4.50% with 2.00% LIBOR floor), due 6/18/2018)	30,000	30,000	30,000	1.1%
		Senior Secured Term Loan B (11.50% (LIBOR + 9.50% with 2.00% LIBOR floor), due 6/18/2018)	30,000	30,000	30,000	1.1%
				66,143	66,143	2.5%
TransFirst Holdings, Inc.(4)	New York / Software & Computer Services	Second Lien Term Loan (11.00%, (LIBOR + 9.75% with 1.25% LIBOR floor), due 6/27/2018)	5,000	4,860	5,000	0.2%
				4,860	5,000	0.2%
United Sporting Companies, Inc.(5)	South Carolina / Durable Consumer Products	Second Lien Term Loan (12.75% (LIBOR + 11.00% with 1.75% LIBOR floor), due 5/16/2018)(4)	160,000	160,000	160,000	6.0%

Explanation of Responses:

Edgar Filing: FRESH DEL MONTE PRODUCE INC - Form 4

			160,000	160,000	6.0%
		Senior Secured Note (13.00% (LIBOR + 7.50% with 5.50% LIBOR floor) plus 3.00% default interest on principal, 16.00% default interest on past due interest, in non-accrual status effective 12/1/2008, past due)(4)	15,000	14,750	—%
Wind River Resources Corporation	Utah / Oil & Gas Production	Net Profits Interest (5% of Equity Distributions)(7)	—	—	—%
			14,750	—	—%
Total Non-Control/Non-Affiliate Investments (Level 3)			\$3,376,375	\$3,318,663	124.9%
Total Level 3 Portfolio Investments			\$4,255,715	\$4,172,740	157.1%

See notes to consolidated financial statements.

F-32

---



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

Portfolio Company	Locale / Industry	Investments(1)	June 30, 2013 Principal Value	Cost	Fair Value(2)	% of Net Assets
LEVEL 1 PORTFOLIO INVESTMENTS:						
Non-Control/Non-Affiliate Investments (less than 5.00% voting control)						
Dover Saddlery, Inc.	Massachusetts / Retail	Common Stock (30,974 shares)	\$63		\$112	—%
			63		112	—%
Total Non-Control/Non-Affiliate Investments (Level 1)			\$63		\$112	—%
Total Non-Control/Non-Affiliate Investments			\$3,376,438		\$3,318,775	124.9%
Total Portfolio Investments			\$4,255,778		\$4,172,852	157.1%

See notes to consolidated financial statements.

F-33

---

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

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

- References herein to "we", "us" or "our" refer to Prospect Capital Corporation ("Prospect") and its subsidiaries unless the context specifically requires otherwise. The securities in which Prospect has invested were acquired in transactions that were exempt from registration under the Securities Act of 1933, as amended (the "Securities Act"). These securities may be resold only in transactions that are exempt from registration under the Securities Act. Fair value is determined by or under the direction of our Board of Directors. As of June 30, 2014 and June 30, 2013, one of our portfolio investments, Dover Saddlery, Inc. was publicly traded and classified as Level 1 within the valuation hierarchy established by ASC 820, Fair Value Measurement ("ASC 820"). As of June 30, 2014 and June 30, 2013, the fair value of our remaining portfolio investments was determined using significant unobservable inputs. ASC 820 classifies such inputs used to measure fair value as Level 3 within the valuation hierarchy. See Notes 2 and 3 within the accompanying notes to consolidated financial statements for further discussion. Security, or a portion thereof, is held by Prospect Capital Funding LLC ("PCF"), our wholly-owned subsidiary and a bankruptcy remote special purpose entity, and is pledged as collateral for the Revolving Credit Facility and such security is not available as collateral to our general creditors (see Note 4). The fair values of these investments held by PCF at June 30, 2014 and June 30, 2013 were \$1,500,897 and \$833,310, respectively; they represent 24.0% and 20.0% of our total investments, respectively.
- Security, or portion thereof, has a floating interest rate which may be subject to a LIBOR or PRIME floor. Stated interest rate was in effect at June 30, 2014 and June 30, 2013.
- 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 our second lien loan. United Sporting Companies, Inc. is a parent guarantor of this debt investment.
- During the quarter ended December 31, 2009, we created two new entities, Coalbed, Inc. and Coalbed, LLC, to foreclose on the outstanding senior secured loan and assigned rights and interests of Conquest Cherokee, LLC ("Conquest") as a result of the deterioration of Conquest's financial performance and inability to service debt payments. We owned 1,000 shares of common stock in Coalbed, Inc., representing 100% of the issued and outstanding common stock. Coalbed, Inc., in turn, owned 100% of the membership interest in Coalbed, LLC. On October 21, 2009, Coalbed, LLC foreclosed on the loan formerly made to Conquest. On January 19, 2010, as part of the Manx Energy, Inc. ("Manx") rollup, the Coalbed, LLC assets and loan were assigned to Manx, the holding company. On June 30, 2012, Manx contributed our investment in Coalbed, LLC to Wolf Energy Holdings Inc. ("Wolf Energy Holdings"), a newly-formed, separately owned holding company. Our Board of Directors set the fair value at zero for the loan position in Coalbed, LLC investment as of June 30, 2014 and June 30, 2013. As of June 30, 2014, Prospect owns 41% of the equity of Manx.
- 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.
- During the quarter ended December 31, 2011, our ownership of Change Clean Energy Holdings, LLC, Change Clean Energy, LLC, Freedom Marine Services Holdings, LLC ("Freedom Marine"), and Yatesville Coal Holdings, LLC was transferred to Energy Solutions Holdings Inc. (f/k/a Gas Solutions Holdings, Inc.) ("Energy Solutions") to consolidate all of our energy holdings under one management team. We own 100% of Energy Solutions. On December 28, 2011, we made a \$3,500 debt investment in Vessel Holdings, LLC, a subsidiary of Freedom Marine. On November 25, 2013, we provided \$13,000 in senior secured debt financing for the recapitalization of our investment in Jettco Marine Services, LLC ("Jettco"), a subsidiary of Freedom Marine. The subordinated secured loan to Jettco was replaced with a senior secured note to Vessel Holdings II, LLC, a new subsidiary of Freedom Marine. On December 3, 2013, we made a \$16,000 senior secured investment in Vessel Holdings III, LLC, another new subsidiary of Freedom Marine. In June 2014, Freedom Marine Services Holdings, LLC was renamed Freedom Marine Solutions, LLC; Vessel Holdings, LLC was renamed Vessel Company, LLC;

Vessel Holdings II, LLC was renamed Vessel Company II, LLC; Vessel Holdings III, LLC was renamed Vessel Company III, LLC; Yatesville Coal Holdings, LLC was renamed Yatesville Coal Company, LLC; and Change Clean Energy Holdings, LLC was renamed change Clean Energy Company, LLC. Energy Solutions continues to own 100% of all entities as of June 30, 2014.

(9) We own 100% of the equity of The Healing Staff, Inc. ("THS") and 100% of the equity of Vets Securing America, Inc., which is operated by THS management.

(10) GTP Operations, LLC (f/k/a CI (Transplace) Holdings, LLC), Transplace, LLC, CI (Transplace) International, LLC, Transplace Freight Services, LLC, Transplace Texas, LP, Transplace Stuttgart, LP, Transplace International, Inc., Celtic International, LLC, and Treetop Merger Sub, LLC are joint borrowers on our senior secured investment.

(11) Evanta Ventures, Inc. and Sports Leadership Institute, Inc. are joint borrowers on our investment.

See notes to consolidated financial statements.

F-34

---

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

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

- (12) On January 19, 2010, we modified the terms of our senior secured debt in Appalachian Energy Holdings, LLC ("AEH") and Coalbed, LLC ("Coalbed") in conjunction with the formation of Manx, a new entity consisting of the assets of AEH, Coalbed and Kinley Exploration. The assets of the three companies were brought under new common management. We funded \$2,800 at closing to Manx to provide for working capital. A portion of our loans to AEH and Coalbed was exchanged for Manx preferred equity, while our AEH equity interest was converted into Manx common stock. There was no change to fair value at the time of restructuring. On June 30, 2012, Manx returned the investments in Coalbed and AEH to us and we contributed these investments to Wolf Energy Holdings, a newly-formed, separately owned holding company. Effective June 6, 2014, Appalachian Energy Holdings LLC was renamed Appalachian Energy LLC. We continue to fully reserve any income accrued for Manx. During the quarter ended June 30, 2013, we determined that the impairment of Manx was other-than-temporary and recorded a realized loss of \$9,397 for the amount that the amortized cost exceeded the fair value. The Board of Directors set the fair value of our investment in Manx at zero and \$346 as of June 30, 2014 and June 30, 2013, respectively.
- (13) On a fully diluted basis represents 10.00% of voting common shares.
- (14) A portion of the positions listed was issued by an affiliate of the portfolio company.  
 We own 99.9999% of AGC/PEP, LLC. AGC/PEP, LLC owns 2,037.65 out of a total of 83,818.69 shares
- (15) (including 5,111 vested and unvested management options) of American Gilsonite Holding Company which owns 100% of American Gilsonite Company.
- (16) Syndicated investment which had been originated by another financial institution and broadly distributed.  
 MITY Holdings of Delaware Inc. ("Mity Delaware"), an entity in which we own 100% of the common stock, owns 94.99% of the equity of MITY Enterprises, Inc. ("Mity"). Mity owns 100% of each of MITY-Lite, Inc., Broda Enterprises USA, Inc. and Broda Canada ULC. On June 23, 2014, Prospect made a new \$15,769 debt investment in Mity and Mity distributed proceeds to Mity Delaware as a return of capital. Mity Delaware used this distribution to pay down the senior secured debt of Mity Delaware to Prospect by the same amount. The
- (17) remaining amount of the senior secured debt due from Mity Delaware to Prospect, \$7,200, was then contributed to the capital of Mity Delaware. As a result of this transaction, Prospect held the \$15,769 Mity note. Effective June 23, 2014, Mity Enterprises, Inc. was renamed MITY, Inc. and Broda Enterprises USA, Inc. was renamed Broda USA, Inc. On June 23, 2014, Prospect also extended a new \$7,500 senior secured revolving facility to Mity, of which none was funded at closing.
- (18) The overriding royalty interests held receive payments at the stated rates based upon operations of the borrower.  
 On December 31, 2009, we sold our investment in Aylward Enterprises, LLC. AWC, LLC is the remaining
- (19) holding company with zero assets. Our remaining outstanding debt after the sale was written off on December 31, 2009 and no value has been assigned to the equity position as of June 30, 2014 and June 30, 2013.  
 Boxercraft Incorporated ("Boxercraft") and BXC Company, Inc. (f/k/a BXC Holding Company) ("BXC") are joint borrowers on our senior secured investments. Effective as of March 28, 2014, we acquired voting control of BXC pursuant to a voting agreement and irrevocable proxy. Effective May 8, 2014, we acquired control of BXC by transferring shares held by the other equity holders of BXC to Prospect pursuant to an assignment agreement
- (20) entered into with such other equity holders. We own 86.7% of Series A preferred stock, 96.8% of Series B preferred stock, and 83.1% of the fully-diluted common stock of BXC. BXC owns 100% of the common stock of Boxercraft. We own a warrant to purchase 15% of all classes of equity of BXC, which currently consists of 3,755,000 shares of Series A preferred stock, 625,000 shares of Series B preferred stock, and 43,800 shares of voting common stock.
- (21)

We owned warrants to purchase 33,750 shares of common stock in Metal Buildings Holding Corporation (“Metal Buildings”), the former holding company of Borga, Inc. Metal Buildings owned 100% of Borga, Inc. On March 8, 2010, we foreclosed on the stock in Borga, Inc. that was held by Metal Buildings, obtaining 100% ownership of Borga, Inc. On January 24, 2014, we contributed our holdings in Borga, Inc. to STI Holding, Inc., a wholly-owned holding company.

(22) Investment has been designated as an investment not “qualifying” under Section 55(a) of the Investment Company Act of 1940 (the “1940 Act”). Under the 1940 Act, we may not acquire any non-qualifying asset unless, at the time such acquisition is made, qualifying assets represent at least 70% of our total assets. We monitor the status of these assets on an ongoing basis.

(23) NCP Finance Limited Partnership, NCP Finance Ohio, LLC and certain affiliates thereof, are joint borrowers on our subordinated secured investment.

See notes to consolidated financial statements.

F-35

---

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

(in thousands, except share data)

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

(24) On May 6, 2011, we made a secured first lien \$24,250 debt investment to NMMB, Inc. (f/k/a NMMB Acquisition, Inc.) ("NMMB" ), a \$2,800 secured debt and \$4,400 equity investment to NMMB Holdings, Inc. ("NMMB Holdings"). We owned 100% of the Series A Preferred Stock in NMMB Holdings. NMMB Holdings owned 100% of the Convertible Preferred Stock in NMMB. On December 13, 2013, we provided \$8,086 in preferred equity for the recapitalization of NMMB Holdings. After the restructuring, we received repayment of \$2,800 secured debt outstanding. We own 100% of the equity of NMMB Holdings as of June 30, 2014 and June 30, 2013. NMMB Holdings owns 92.93% and 83.48% of the fully diluted equity of NMMB as of June 30, 2014 and June 30, 2013, respectively. NMMB owns 100% of Refuel Agency, Inc. ("Refuel Agency"), which owns 100% of Armed Forces Communications, Inc. ("Armed Forces"). On June 12, 2014, Prospect made a new \$7,000 senior secured term loan to Armed Forces. Armed Forces distributed this amount to Refuel Agency as a return of capital. Refuel Agency distributed this amount to NMMB as a return of capital, which was used to pay down \$7,000 of NMMB's \$10,714 senior secured term loan to Prospect.

(25) Undrawn committed revolvers and delayed draw term loans to our portfolio companies incur commitment and unused fees ranging from 0.00% to 2.00%. As of June 30, 2014 and June 30, 2013, we had \$143,597 and \$202,518, respectively, of undrawn revolver and delayed draw term loan commitments to our portfolio companies.

(26) Stated interest rates are based on June 30, 2014 and June 30, 2013 one month or three month Libor rates plus applicable spreads based on the respective credit agreements. Interest rates are subject to change based on actual elections by the borrower for a Libor rate contract or Base Rate contract when drawing on the revolver.

(27) On July 30, 2010, we made a \$30,000 senior secured debt investment in Airmall Inc. (f/k/a AIRMALL USA Holdings, Inc.) ("Airmall" ), a \$12,500 secured second lien in AMU Holdings Inc. ("AMU"), and acquired 100% of the Series A preferred stock and common stock of AMU. Our preferred stock in AMU has a 12.0% dividend rate which is paid from the dividends received from its operating subsidiary, Airmall. AMU owns 100% of the common stock in Airmall. On December 4, 2013, we sold a \$972 participation in both debt investments, equal to 2% of the outstanding principal amount of loans on that date. On June 13, 2014, Prospect made a new \$19,993 investment as a senior secured loan to Airmall. Airmall then distributed this amount to AMU as a return of capital, which AMU used to pay down the senior subordinated loan in the same amount. The minority interest held by a third party in AMU was exchanged for common stock of Airmall. As of June 30, 2014, we own 100% of the equity of AMU, which owns 98% of Airmall.

(28) Progrexion Marketing, Inc., Progrexion Teleservices, Inc., Progrexion ASG, Inc. Progrexion IP, Inc. and Efolks, LLC, are joint borrowers on our senior secured investment. Progrexion Holdings, Inc. and eFolks Holdings, Inc. are the guarantors of this debt investment.

(29) First Tower Holdings of Delaware, LLC ("First Tower Delaware"), an entity that we own 100% of the membership interests, owns 80.1% of First Tower Finance Company LLC ("First Tower Finance"), which owns 100% of First Tower, LLC ("First Tower"), the operating company. On June 24, 2014, Prospect made a new \$251,246 second lien term loan to First Tower. First Tower distributed this amount to First Tower Finance, which distributed this amount to First Tower Delaware as a return of capital. First Tower Delaware used the distribution to partially pay down the Senior Secured Revolving Credit Facility. The remaining \$23,712 of the Senior Secured Revolving Credit Facility was then converted to additional membership interests held by Prospect in First Tower Delaware. Southern Management Corporation, Thaxton Investment Corporation, Southern Finance of Tennessee, Inc., Covington Credit of Texas, Inc., Covington Credit, Inc., Covington Credit of Alabama, Inc., Covington Credit of Georgia, Inc., Southern Finance of South Carolina, Inc. and Quick Credit Corporation, are joint borrowers on our senior secured investment. SouthernCo, Inc. is the guarantor of this debt investment.

(31)

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

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

See notes to consolidated financial statements.

F-36

---

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

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

(33) CCPI Holdings Inc. ("CCPI Holdings"), an entity that we own 100% of the common stock, owns 94.98% and 95.13% of CCPI Inc. ("CCPI"), the operating company, at June 30, 2014 and June 30, 2013, respectively. On June 13, 2014, Prospect made a new \$8,218 senior secured note to CCPI. CCPI then distributed this amount to CCPI Holdings as a return of capital which was used to pay down the \$8,216 senior secured note from CCPI Holdings to Prospect. The remaining \$2 was distributed to Prospect as a return of capital of Prospect's equity investment in CCPI Holdings.

(34) Credit Central Holdings of Delaware, LLC ("Credit Central Delaware"), an entity that we own 100% of the membership interests, owns 74.75% of Credit Central Loan Company, LLC (f/k/a Credit Central Holdings, LLC) ("Credit Central"), which owns 100% of each of Credit Central, LLC, Credit Central South, LLC, Credit Central of Texas, LLC, and Credit Central of Tennessee, LLC, the operating companies. On June 26, 2014, Prospect made a new \$36,333 second lien term loan to Credit Central. Credit Central then distributed this amount to Credit Central Delaware as a return of capital which was used to pay down the Senior Secured Revolving Credit Facility from Credit Central Delaware by the same amount. The remaining amount of the Senior Secured Revolving Credit Facility, \$3,874, was then converted into additional membership interests in Credit Central Delaware.

(35) Valley Electric Holdings I, Inc. ("Valley Holdings I"), an entity that we own 100% of the common stock, owns 100% of Valley Electric Holdings II, Inc. ("Valley Holdings II"). Valley Holdings II owns 94.99% and 96.3% of Valley Electric Company, Inc. ("Valley Electric"), as of June 30, 2014 and June 30, 2013, respectively. Valley Electric owns 100% of the equity of VE Company, Inc., which owns 100% of the equity of Valley Electric Co. of Mt. Vernon, Inc. ("Valley"). On June 24, 2014, Valley Holdings II and management of Valley formed Valley Electric and contributed their shares of Valley stock to Valley Electric. Prospect made a new \$20,471 senior secured loan to Valley Electric. Valley Electric then distributed this amount to Valley Holdings I, via Valley Holdings II, as a return of capital which was used to pay down the senior secured note of Valley Holdings I by the same amount. The remaining principal amount of the senior secured note, \$16,754, was then contributed to the capital of Valley Holdings I.

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

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

(38) CP Holdings of Delaware LLC, an entity that we own 100% of the membership interests, owns 82.9% of CP Energy Services Inc. ("CP Energy"), which owns 100% of several other subsidiaries. CP Energy owns directly or indirectly 100% of each of CP Well Testing Services, LLC ("CP Well Testing"), CP Well Testing, LLC, Fluid Management Services, Inc., Fluid Management Services LLC, Wright Transport, Inc., Wright Foster Disposals,



LLC, Foster Testing Co, Inc., ProHaul Transports, LLC, Artexoma Logistics, LLC, Wright Trucking, Inc. On April 1, 2014, Prospect made new loans to CP Well, ProHaul Transports, LLC and Wright Trucking, Inc. and Foster Testing Co, Inc. as co-borrowers, comprised of two first lien loans in the amount of \$11,035 and \$72,238 and a second lien loan in the amount of \$15,000. The proceeds of these loans were used to repay CP Well Testing's senior secured term loan and CP Energy's senior secured term loan from Prospect. CP Holdings continues to own 82.9% of the equity of CP Energy at June 30, 2014.

- (39) Wind River Resources Corporation and Wind River II Corporation are joint borrowers on our senior secured loan. NPH Property Holdings, LLC ("NPH"), an entity that we own 100% of the membership interests, owns 100% of the common equity of National Property REIT Corp. (f/k/a National Property Holdings Corp.) ("NPRC"), a property REIT which holds investments in several real estate properties, and 100% of the membership interests of NPH Property Holdings II, LLC, a Delaware single member limited liability company structured to enable subsidiaries
- (40) of NPRC to invest in peer-to-peer consumer loans. Effective as of April 1, 2014, Prospect made a new \$104,460 senior term loan to NPRC. NPRC then distributed this amount to NPH as a return of capital which was used to pay down the Senior Term Loan from NPH by the same amount. See Note 3 for further discussion of the properties held by NPRC.

See notes to consolidated financial statements.

F-37

---

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

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

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

(42) On April 4, 2008, we acquired a controlling equity interest in ARRM Services, Inc (f/k/a ARRM Holdings Inc.) (“ARRM”), which owns 100% of Ajax Rolled Ring & Machine, LLC (“Ajax”), the operating company. As of June 30, 2014, we control 79.53% of the fully-diluted common, 85.76% of the Series A and 100% of the Series B Preferred equity of ARRM and the fair value of our senior secured debt issued to Ajax was \$19,337.

(43) Our wholly-owned subsidiary, Prospect Small Business Lending LLC, purchases a series of small business whole loans on recurring basis, originated by OnDeck Capital, Inc., an online small business lender.

(44) Harbortouch Holdings of Delaware Inc. (“Harbortouch Delaware”), an entity that we own 100% of the common stock, owns 100% of the Class C voting units of Harbortouch Payments, LLC (“Harbortouch”), which provide for a 53.5% residual profits allocation. Harbortouch management owns 100% of the Class B and Class D voting units of Harbortouch, which provide for a 46.5% residual profits allocation. Harbortouch owns 100% of Credit Card Processing USA, LLC. On April 1, 2014, Prospect made a new \$137,226 senior secured term loan to Harbortouch. Harbortouch then distributed this amount to Harbortouch Delaware as a return of capital which was used to pay down the \$123,000 senior secured note from Harbortouch Delaware to Prospect. The remaining \$14,226 was distributed to Prospect as a return of capital of Prospect’s equity investment in Harbortouch Delaware.

(45) Arctic Oilfield Equipment USA, Inc. (“Arctic Equipment”), an entity that we own 100% of the common equity, owns 70% of the equity of Arctic Energy Services, LLC (“Arctic Energy”), the operating company.

See notes to consolidated financial statements.

F-38

---

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

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

As defined in the 1940 Act, we are deemed to "Control" these portfolio companies because we own more than (46)25% of the portfolio company's outstanding voting securities. Transactions during the year ended June 30, 2014 with these controlled investments are as follows:

Portfolio Company	Purchases*	Redemptions*	Sales	Interest income	Dividend income	Other income	Net realized gains (losses)	Net unrealized gains (losses)
AMU Holdings Inc.	\$7,600	\$(593)	\$(972)	\$6,579	\$12,000	\$—	\$—	\$(15,694)
APH Property Holdings, LLC	163,747	(118,186)	** —	18,788	—	5,946	—	3,393
Arctic Oilfield Equipment USA, Inc.	60,876	—	—	1,050	—	1,713	—	238
ARRM Services, Inc. (f/k/a ARRM Holdings Inc.)	25,000	(24,251)	—	(733)	—	148	—	(14,957)
AWC, LLC	—	—	—	—	—	—	—	—
BXC Company, Inc. (f/k/a BXC Holding Company)**	300	—	—	—	—	—	—	(3,796)
CCPI Holdings Inc.	—	(450)	—	3,312	500	71	—	(1,443)
CP Holdings of Delaware LLC	113,601	(100)	—	13,858	—	1,864	—	16,618
Credit Central Holdings of Delaware, LLC	2,500	(159)	—	7,845	4,841	521	—	(2,371)
Echelon Aviation LLC	92,628	—	—	2,809	—	2,771	—	—
Energy Solutions Holdings Inc.	16,000	(8,525)	—	8,245	—	2,480	—	(2,168)
First Tower Holdings of Delaware LLC	10,000	—	—	54,320	—	10,560	—	17,003
Gulf Coast Machine & Supply Company	28,450	(26,213)	—	1,449	—	—	—	(777)
Harbortouch Holdings of Delaware Inc.	278,694	—	—	6,879	—	7,536	—	12,620
The Healing Staff, Inc.	—	—	—	—	—	5,825	—	—
Manx Energy, Inc.	—	(450)	—	—	—	—	—	104
MITY Holdings of Delaware Inc.	47,985	—	—	4,693	—	1,049	—	1,127
Nationwide Acceptance Holdings LLC	4,000	—	—	4,429	5,000	1,854	—	772
NMMB Holdings, Inc.	8,086	(8,086)	—	2,051	—	—	—	(6,852)
NPH Property Holdings, LLC	40,425	85,724	** —	5,973	—	1,029	—	(2,088)
R-V Industries, Inc.	—	(2,339)	—	3,188	1,100	—	—	2,005
STI Holding, Inc.	—	(125)	—	—	3,246	—	—	(25)
UPH Property Holdings, LLC	1,405	22,562	** —	1,101	—	156	—	426

Explanation of Responses:

Edgar Filing: FRESH DEL MONTE PRODUCE INC - Form 4

Valley Electric Holdings I, Inc.	—	(200 )	—	7,471	—	148	—	(23,304 )
Wolf Energy Holdings Inc.	—	—	—	—	—	—	—	(1,350 )
Total	\$901,297	\$(81,391 )	\$(972)	\$153,307	\$26,687	\$43,671	\$—	\$(20,519 )

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

\*\*These amounts represent the investments transferred from APH to NPH and UPH, respectively.

\*\*\*During the year ended June 30, 2014, we acquired control of BXC Company, Inc. (f/k/a BXC Holding Company). As such, this investment was a controlled investment for a part of the year and an affiliated investment for part of the year. See Note 14.

As defined in the 1940 Act, we are deemed to be an “Affiliated company” of these portfolio companies because we (47) own more than 5% of the portfolio company’s outstanding voting securities. Transactions during the year ended June 30, 2014 with these affiliated investments are as follows:

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

See notes to consolidated financial statements.

F-39

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

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

As defined in the 1940 Act, we are deemed to "Control" these portfolio companies because we own more than (48)25% of the portfolio company's outstanding voting securities. Transactions during the year ended June 30, 2013 with these controlled investments are as follows:

Portfolio Company	Purchases*	Redemptions*	Sales	Interest income	Dividend income	Other income	Net realized gains (losses)	Net unrealized gains (losses)
AMU Holdings Inc.	\$—	\$ (600)	) \$—	\$ 5,822	\$—	\$—	\$—	\$ 7,266
APH Property Holdings, LLC	151,648	—	—	2,898	—	4,651	—	—
ARRM Holdings LLC	23,300	(19,065)	)—	5,176	—	155	—	(17,208)
AWC, LLC	—	—	—	—	—	—	—	—
Borga, Inc.	150	—	—	—	—	—	—	(232)
CCPI Holdings Inc.	34,081	(338)	)—	1,792	—	606	—	—
Credit Central Holdings of Delaware, LLC	47,663	—	—	3,893	—	1,680	—	2,799
Energy Solutions Holdings Inc.	—	(28,975)	)—	24,809	53,820	—	—	(71,197)
First Tower Holdings of Delaware LLC	20,000	—	—	52,476	—	2,426	—	(9,869)
The Healing Staff, Inc.	975	(13,092)	)—	2	—	—	(12,117)	)12,117
Manx Energy, Inc.	—	(10,528)	)—	—	—	—	(9,397)	)18,865
Nationwide Acceptance Holdings LLC	25,151	—	—	1,787	—	884	—	—
NMMB Holdings, Inc.	—	(5,700)	)—	3,026	—	—	—	(5,903)
R-V Industries, Inc.	32,750	—	—	781	24,462	143	—	1,463
Valley Electric Holdings I, Inc.	52,098	(100)	)—	3,511	—	1,325	—	—
Wolf Energy Holdings Inc.	50	—	—	452	—	4,951	11,826	(3,092)
Total	\$ 387,866	\$ (78,398)	) \$—	\$ 106,425	\$ 78,282	\$ 16,821	\$ (9,688)	) \$(64,991)

As defined in the 1940 Act, we are deemed to be an "Affiliated company" of these portfolio companies because we (49)own more than 5% of the portfolio company's outstanding voting securities. Transactions during the year ended June 30, 2013 with these affiliated investments are as follows:

Portfolio Company	Purchases*	Redemptions*	Sales	Interest income	Dividend income	Other income	Net realized gains (losses)	Net unrealized gains (losses)
BNN Holdings Corp. (f/k/a Biotronic NeuroNetwork)	\$ 30,000	\$ (26,676)	) \$—	\$ 3,159	\$—	\$ 600	\$—	\$ 672
BXC Holding Company Smart, LLC	—	—	—	3,356	—	23	—	(9,414)
	—	—	—	—	728	—	—	108
Total	\$ 30,000	\$ (26,676)	) \$—	\$ 6,515	\$ 728	\$ 623	\$—	) \$(8,634)

See notes to consolidated financial statements.

F-40

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

Note 1. Organization

References herein to “we”, “us” or “our” refer to Prospect Capital Corporation (“Prospect”) and its subsidiaries unless the context specifically requires otherwise.

We were organized on April 13, 2004 and were funded in an initial public offering completed on July 27, 2004. We are a closed-end investment company incorporated in Maryland. We have elected to be regulated as a business development company (“BDC”) under the Investment Company Act of 1940 (the “1940 Act”). As a BDC, we have elected to be treated as a regulated investment company (“RIC”), under Subchapter M of the Internal Revenue Code of 1986 (the “Internal Revenue Code”). We invest primarily in senior and subordinated debt and equity of companies in need of capital for acquisitions, divestitures, growth, development, recapitalizations and other purposes.

On May 15, 2007, we formed a wholly-owned subsidiary, Prospect Capital Funding LLC (“PCF”), a Delaware limited liability company and a bankruptcy remote special purpose entity, which holds certain of our portfolio loan investments that are used as collateral for the Revolving Credit Facility at PCF. Our wholly-owned subsidiary, Prospect Small Business Lending LLC (“PSBL”), was formed on January 27, 2014 and purchases a series of small business whole loans on recurring basis, which are originated by OnDeck Capital, Inc. (“OnDeck”), an online small business lender.

Note 2. Significant Accounting Policies

Basis of Presentation

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 6 and 12 of Regulation S-X. The financial results of our portfolio investments are not consolidated in the financial statements.

Reclassifications

Certain reclassifications have been made in the presentation of prior consolidated financial statements and accompanying notes to conform to the presentation as of and for the year ended June 30, 2014.

Use of Estimates

The preparation of the consolidated financial statements in accordance with GAAP requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the consolidated financial statements and the reported amounts of income, expenses, and gains and losses during the reported period. Changes in the economic environment, financial markets, creditworthiness of our portfolio companies and any other parameters used in determining these estimates could cause actual results to differ, and these differences could be material.

Basis of Consolidation

Under the 1940 Act, the regulations pursuant to Article 6 of Regulation S-X and ASC 946, we are precluded from consolidating any entity other than another investment company or an operating company which provides substantially all of its services to benefit us. Our consolidated financial statements include our accounts and the accounts of PCF and PSBL, our wholly-owned, closely-managed subsidiaries that are also investment companies. All intercompany balances and transactions have been eliminated in consolidation.

On May 6, 2014, we announced in our filing on Form 10-Q for the quarter ended March 31, 2014 that the SEC Staff had asserted certain of our wholly-owned holding companies were investment companies, such companies were required to be consolidated in our historical financial results and financial position, and restatement of such financial statements was needed. At that time, we disclosed that we disagreed with the views of the SEC Staff and wished to appeal the conclusion through the Office of the Chief Accountant. On June 10, 2014, based on those discussions with the Office of the Chief Accountant, we concluded the following:



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

Our historical non-consolidation of wholly-owned and substantially wholly-owned holding companies did not require restatement of our prior period financial statements.

Upon our adoption of ASU 2013-08 for the fiscal year ended June 30, 2015, we will begin consolidating on a prospective basis certain of our wholly-owned and substantially wholly-owned holding companies formed by us in order to facilitate our investment strategy.

The following companies will be consolidated: AMU Holdings Inc.; APH Property Holdings, LLC; Arctic Oilfield Equipment USA, Inc.; CCPI Holdings Inc.; CP Holdings of Delaware LLC; Credit Central Holdings of Delaware, LLC; Energy Solutions Holdings Inc.; First Tower Holdings of Delaware LLC; Harbortouch Holdings of Delaware Inc.; MITY Holdings of Delaware Inc.; Nationwide Acceptance Holdings LLC; NMMB Holdings, Inc.; NPH Property Holdings, LLC; STI Holding, Inc.; UPH Property Holdings, LLC; Valley Electric Holdings I, Inc.; Valley Electric Holdings II, Inc.; and Wolf Energy Holdings Inc.

Any operating companies owned by the holding companies will not be consolidated. We do not expect this consolidation to have any material effect on our financial position or results of operations.

#### Cash and Cash Equivalents

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

#### Investment Classification

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

Investments are recognized when we assume an obligation to acquire a financial instrument and assume the risks for gains or losses related to that instrument. Investments are derecognized when we assume an obligation to sell a financial instrument and forego the risks for gains or losses related to that instrument. Specifically, we record all security transactions on a trade date basis. Amounts for investments recognized or derecognized but not yet settled are reported as receivables for investments sold and payables for investments purchased, respectively, in the Consolidated Statements of Assets and Liabilities.

#### Investment Risks

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

##### Market Risk

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

##### Credit Risk

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

##### Liquidity Risk

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

##### Interest Rate Risk



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

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

Prepayment Risk

Many of our debt investments allow for prepayment of principal without penalty. Downward changes in interest rates may cause prepayments to occur at a faster than expected rate, thereby effectively shortening the maturity of the security and making the security less likely to be an income producing instrument.

Investment Valuation

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

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

- Level 1: Quoted prices in active markets for identical assets or liabilities, accessible by us at the measurement date.
- Level 2: Quoted prices for similar assets or liabilities in active markets, or quoted prices for identical or similar assets or liabilities in markets that are not active, or other observable inputs other than quoted prices.
- Level 3: Unobservable inputs for the asset or liability.

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

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

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

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

1. Each portfolio company or investment is reviewed by our investment professionals with independent valuation firms engaged by our Board of Directors;
2. The independent valuation firms conduct independent valuations and make their own independent assessments;
3. The Audit Committee of our Board of Directors reviews and discusses the preliminary valuation of Prospect Capital Management LLC (the "Investment Adviser") and that of the independent valuation firms; and
4. The Board of Directors discusses valuations and determines the fair value of each investment in our portfolio in good faith based on the input of the Investment Adviser, the respective independent valuation firm and the Audit Committee.

Investments are valued utilizing a yield analysis, enterprise value ("EV") analysis, net asset value analysis, liquidation analysis, discounted cash flow analysis, or a combination of methods, as appropriate. The yield analysis uses loan spreads and other relevant information implied by market data involving identical or comparable assets or liabilities. Under the EV analysis, the EV of a portfolio company is first determined and allocated over the portfolio company's securities in order of their preference relative to one another (i.e., "waterfall" allocation). To determine the EV, we typically use a market multiples approach that considers relevant and applicable market trading data of guideline public companies, transaction metrics from precedent M&A transactions and/or a discounted cash flow analysis. The net asset value analysis is used to derive a value of an underlying investment (such as real estate property) by dividing a relevant earnings stream by an appropriate capitalization rate. For this purpose, we consider capitalization rates for similar properties as may be obtained from guideline public companies and/or relevant transactions. The



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

liquidation analysis is intended to approximate the net recovery value of an investment based on, among other things, assumptions regarding liquidation proceeds based on a hypothetical liquidation of a portfolio company's assets. The discounted cash flow analysis uses valuation techniques to convert future cash flows or earnings to a range of fair values from which a single estimate may be derived utilizing an appropriate discount rate. The measurement is based on the net present value indicated by current market expectations about those future amounts.

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

Our investments in CLOs are classified as ASC 820 Level 3 securities and are valued using a discounted cash flow model. The valuations have been accomplished through the analysis of the CLO deal structures to identify the risk exposures from the modeling point of view. For each CLO security, the most appropriate valuation approach has been chosen from alternative approaches to ensure the most accurate valuation for such security. To value a CLO, both the assets and the liabilities of the CLO capital structure are modeled. We use a waterfall engine to store the collateral data, generate collateral cash flows from the assets based on various assumptions for the risk factors, distribute the cash flows to the liability structure based on the payment priorities, and discount them back using current market discount rates. The main risk factors are: default risk, interest rate risk, downgrade risk, and credit spread risk.

#### Valuation of Other Financial Assets and Financial Liabilities

The Fair Value Option within ASC 825, Financial Instruments, specifically ASC 825-10-25, permits an entity to elect fair value as the initial and subsequent measurement attribute for eligible assets and liabilities for which the assets and liabilities are measured using another measurement attribute. For our non-investment assets and liabilities, we have elected not to value them at fair value as would be permitted by ASC 825-10-25.

#### Senior Convertible Notes

We have recorded the Senior Convertible Notes (see Note 5) at their contractual amounts. The Senior Convertible Notes were analyzed for any features that would require their accounting to be bifurcated and such features were determined to be immaterial.

#### Revenue Recognition

Realized gains or losses on the sale of investments are calculated using the specific identification method.

Interest income, adjusted for amortization of premium and accretion of discount, is recorded on an accrual basis.

Origination, closing and/or commitment fees associated with investments in portfolio companies are accreted into interest income over the respective terms of the applicable loans. Accretion of such purchase discounts or amortization of premiums is calculated by the effective interest method as of the purchase date and adjusted only for material amendments or prepayments. Upon the prepayment of a loan or debt security, any prepayment penalties and unamortized loan origination, closing and commitment fees are recorded as interest income. The purchase discount for portfolio investments acquired from Patriot Capital Funding, Inc. ("Patriot") was determined based on the difference between par value and fair value as of December 2, 2009, and continues to accrete until maturity or repayment of the respective loans (see Note 3). As of June 30, 2014, the purchase discount from the assets acquired from Patriot has been fully accreted.

Loans are placed on non-accrual status when there is reasonable doubt that principal or interest will be collected.

Unpaid accrued interest is generally reversed when a loan is placed on non-accrual status. Interest payments received on non-accrual loans may be recognized as income or applied to principal depending upon management's judgment.

Non-accrual loans are restored to accrual status when past due principal and interest is paid and in management's judgment, are likely to remain current. As of June 30, 2014, approximately 0.1% of our total assets are in non-accrual status.

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

Dividend income is recorded on the ex-dividend date.

F-44

---

PROSPECT CAPITAL CORPORATION AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(in thousands, except share and per share data)

(unaudited)

Structuring fees and similar fees are recognized as income as earned, usually when paid. Structuring fees, excess deal deposits, net profits interests and overriding royalty interests are included in other income.

Federal and State Income Taxes

We have elected to be treated as a regulated investment company and intend to continue to comply with the requirements of the Internal Revenue Code applicable to regulated investment companies. We are required to distribute at least 90% of our investment company taxable income and intend to distribute (or retain through a deemed distribution) all of our investment company taxable income and net capital gain to stockholders; therefore, we have made no provision for income taxes. The character of income and gains that we will distribute is determined in accordance with income tax regulations that may differ from GAAP. Book and tax basis differences relating to stockholder dividends and distributions and other permanent book and tax differences are reclassified to paid-in capital.

If we do not distribute (or are not deemed to have distributed) at least 98% of our annual ordinary income and 98.2% of our capital gains in the calendar year earned, we will generally be required to pay an excise tax equal to 4% of the amount by which 98% of our annual ordinary income and 98.2% of our capital gains exceed the distributions from such taxable income for the year. To the extent that we determine that our estimated current year annual taxable income will be in excess of estimated current year dividend distributions from such taxable income, we accrue excise taxes, if any, on estimated excess taxable income. Based on our tax returns, we had an excise tax liability of \$1,918 for the calendar year ended December 31, 2012 and none for the calendar year ended December 31, 2013. As of June 30, 2014, we had a prepaid excise tax balance of \$2,200 because we have made estimated excise tax payments in excess of our expected excise tax liability for the calendar year ending December 31, 2014.

If we fail to satisfy the annual distribution requirement or otherwise fail to qualify as a RIC in any taxable year, we would be subject to tax on all of our taxable income at regular corporate rates. We would not be able to deduct distributions to stockholders, nor would we be required to make distributions. Distributions would generally be taxable to our individual and other non-corporate taxable stockholders as ordinary dividend income eligible for the reduced maximum rate applicable to qualified dividend income to the extent of our current and accumulated earnings and profits, provided certain holding period and other requirements are met. Subject to certain limitations under the Internal Revenue Code, corporate distributions would be eligible for the dividends-received deduction. To qualify again to be taxed as a RIC in a subsequent year, we would be required to distribute to our shareholders our accumulated earnings and profits attributable to non-RIC years reduced by an interest charge of 50% of such earnings and profits payable by us as an additional tax. In addition, if we failed to qualify as a RIC for a period greater than two taxable years, then, in order to qualify as a RIC in a subsequent year, we would be required to elect to recognize and pay tax on any net built-in gain (the excess of aggregate gain, including items of income, over aggregate loss that would have been realized if we had been liquidated) or, alternatively, be subject to taxation on such built-in gain recognized for a period of ten years.

We follow ASC 740, Income Taxes ("ASC 740"). ASC 740 provides guidance for how uncertain tax positions should be recognized, measured, presented, and disclosed in the consolidated financial statements. ASC 740 requires the evaluation of tax positions taken or expected to be taken in the course of preparing our tax returns to determine whether the tax positions are "more-likely-than-not" of being sustained by the applicable tax authority. Tax positions not deemed to meet the more-likely-than-not threshold are recorded as a tax benefit or expense in the current year. As of June 30, 2013 and 2014 and for the years then ended, 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 on-going analysis of tax laws, regulations and interpretations thereof. Although we file both federal and state income tax returns, our major tax jurisdiction is federal. Our tax returns for each of our federal tax years since 2010 remain subject to examination by the Internal Revenue Service.

Dividends and Distributions

Dividends and distributions to common stockholders are recorded on the ex-dividend date. The amount, if any, to be paid as a monthly dividend or distribution is approved by our Board of Directors quarterly and is generally based upon our management's estimate of our future earnings. Net realized capital gains, if any, are distributed at least annually.

#### Financing Costs

We record origination expenses related to our Revolving Credit Facility and Senior Convertible Notes, Senior Unsecured Notes and Prospect Capital InterNotes® (collectively, our "Senior Notes"), as deferred financing costs. These expenses are deferred and amortized as part of interest expense using the straight-line method for our Revolving Credit Facility and the effective interest method for our Senior Notes over the respective expected life or maturity.

F-45

---

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

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

Guarantees and Indemnification Agreements

We follow ASC 460, Guarantees (“ASC 460”). ASC 460 elaborates on the disclosure requirements of a guarantor in its interim and annual consolidated financial statements about its obligations under certain guarantees that it has issued. It also requires a guarantor to recognize, at the inception of a guarantee, for those guarantees that are covered by ASC 460, the fair value of the obligation undertaken in issuing certain guarantees.

Per Share Information

Net increase or decrease in net assets resulting from operations per share is calculated using the weighted average number of common shares outstanding for the period presented. In accordance with ASC 946, convertible securities are not considered in the calculation of net asset value per share.

Recent Accounting Pronouncements

In June 2013, the FASB issued Accounting Standards Update 2013-08, Financial Services — Investment Companies (Topic 946), Amendments to the Scope, Measurement, and Disclosure Requirements (“ASU 2013-08”). The update clarifies the approach to be used for determining whether an entity is an investment company and provides new measurement and disclosure requirements. ASU 2013-08 is effective for interim and annual reporting periods in fiscal years that begin after December 15, 2013. Earlier application is prohibited. The adoption of the amended guidance in ASU 2013-08 is not expected to have a significant effect on our consolidated financial statements and disclosures. In May 2014, the FASB issued Accounting Standards Update 2014-09, Revenue from Contracts with Customers (Topic 606) (“ASU 2014-09”). The update supersedes the revenue recognition requirements in ASC 605, Revenue Recognition. Under the new guidance, an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. ASU 2014-09 is effective for annual reporting periods beginning after December 15, 2016, including interim periods within that reporting period. Early adoption is not permitted. The adoption of the amended guidance in ASU 2014-09 is not expected to have a significant effect on our consolidated financial statements and disclosures.

Note 3. Portfolio Investments

At June 30, 2014, we had investments in 143 long-term portfolio investments, which had an amortized cost of \$6,371,522 and a fair value of \$6,253,739. At June 30, 2013, we had investments in 124 long-term portfolio investments, which had an amortized cost of \$4,255,778 and a fair value of \$4,172,852.

The original cost basis of debt placements and equity securities acquired, including follow-on investments for existing portfolio companies, totaled \$2,952,456 and \$3,103,217 during the years ended June 30, 2014 and June 30, 2013, respectively. Debt repayments and proceeds from sales of equity securities of approximately \$787,069 and \$931,534 were received during the years ended June 30, 2014 and June 30, 2013, respectively.

F-46

---

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

The following table shows the composition of our investment portfolio as of June 30, 2014 and June 30, 2013:

	June 30, 2014		June 30, 2013	
	Cost	Fair Value	Cost	Fair Value
Revolving Line of Credit	\$3,445	\$2,786	\$9,238	\$8,729
Senior Secured Debt	3,578,339	3,514,198	2,262,327	2,207,091
Subordinated Secured Debt	1,272,275	1,200,221	1,062,386	1,024,901
Subordinated Unsecured Debt	85,531	85,531	88,470	88,827
Small Business Whole Loans(1)	4,637	4,252	—	—
CLO Debt	28,118	33,199	27,667	28,589
CLO Residual Interest	1,044,656	1,093,985	660,619	658,086
Equity(2)	354,521	319,567	145,071	156,629
Total Investments	\$6,371,522	\$6,253,739	\$4,255,778	\$4,172,852

(1) Our wholly-owned subsidiary, PSBL, purchases a series of small business whole loans on recurring basis, which are originated by OnDeck.

(2) Includes our investments in preferred stock, common stock, membership interests, net profits interests, net revenue interests, overriding royalty interests, escrows receivable, and warrants, unless specifically stated otherwise.

The following table shows the fair value of our investments disaggregated into the three levels of the ASC 820 valuation hierarchy as of June 30, 2014:

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

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, 2013:

	Level 1	Level 2	Level 3	Total
Revolving Line of Credit	\$—	\$—	\$8,729	\$8,729
Senior Secured Debt	—	—	2,207,091	2,207,091
Subordinated Secured Debt	—	—	1,024,901	1,024,901
Subordinated Unsecured Debt	—	—	88,827	88,827
CLO Debt	—	—	28,589	28,589
CLO Residual Interest	—	—	658,086	658,086
Equity	112	—	156,517	156,629
Total Investments	\$112	\$—	\$4,172,740	\$4,172,852

F-47



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

The following tables show the aggregate changes in the fair value of our Level 3 investments during the year ended June 30, 2014:

	Fair Value Measurements Using Unobservable Inputs (Level 3)								
	Control Investments	Affiliate Investments	Non-Control/Non-Affiliate Investments	Total					
Fair value as of June 30, 2013	\$ 811,634	\$ 42,443	\$ 3,318,663	\$ 4,172,740					
Total realized loss, net	—	—	(3,346)	(3,346)					
Change in unrealized depreciation	(20,519)	(4,500)	(9,894)	(34,913)					
Net realized and unrealized loss	(20,519)	(4,500)	(13,240)	(38,259)					
Purchases of portfolio investments	901,297	—	2,036,014	2,937,311					
Payment-in-kind interest	11,796	90	3,259	15,145					
Accretion (amortization) of discounts and premiums	—	399	(46,696)	(46,297)					
Repayments and sales of portfolio investments	(82,363)	(700)	(704,006)	(787,069)					
Transfers within Level 3(1)	18,609	(5,611)	(12,998)	—					
Transfers in (out) of Level 3(1)	—	—	—	—					
Fair value as of June 30, 2014	\$ 1,640,454	\$ 32,121	\$ 4,580,996	\$ 6,253,571					
	Revolving Line of Credit	Senior Secured Debt	Subordinated Secured Debt	Subordinated Unsecured Debt	Small Business Loans	CLO Debt	CLO Residual Interest	Equity	Total
Fair value as of June 30, 2013	\$8,729	\$2,207,091	\$1,024,901	\$88,827	\$—	\$28,589	\$658,086	\$156,517	\$4,172,740
Total realized (loss) gain, net	—	(1,593)	(7,558)	—	—	—	1,183	4,622	(3,346)
Change in unrealized (depreciation) appreciation	(150)	(8,907)	(34,566)	(357)	(386)	4,159	51,864	(46,570)	(34,913)
Net realized and unrealized (loss) gain	(150)	(10,500)	(42,124)	(357)	(386)	4,159	53,047	(41,948)	(38,259)
Purchases of portfolio investments	14,850	1,692,384	554,973	—	6,540	—	453,492	215,072	2,937,311
Payment-in-kind interest	—	13,850	428	867	—	—	—	—	15,145
Accretion (amortization) of discounts and premiums	—	683	2,065	73	—	451	(49,569)	—	(46,297)
Repayments and sales of portfolio investments	(20,643)	(389,310)	(270,022)	(73,879)	(1,902)	—	(21,071)	(10,242)	(787,069)
Transfers within Level 3(1)	—	—	(70,000)	70,000	—	—	—	—	—

Explanation of Responses:

Transfers in (out) of Level 3(1)	—	—	—	—	—	—	—	—	—
Fair value as of June 30, 2014	\$2,786	\$3,514,198	\$1,200,221	\$85,531	\$4,252	\$33,199	\$1,093,985	\$319,399	\$6,253,571

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

F-48

---

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

The following tables show the aggregate changes in the fair value of our Level 3 investments during the year ended June 30, 2013:

	Fair Value Measurements Using Unobservable Inputs (Level 3)								
	Control Investments	Affiliate Investments	Non-Control/Non-Affiliate Investments	Total					
Fair value as of June 30, 2012	\$ 564,489	\$ 46,116	\$ 1,483,487	\$ 2,094,092					
Total realized loss, net	(9,688 )	—	(16,672 )	(26,360 )					
Change in unrealized depreciation	(64,991 )	(8,634 )	(4,192 )	(77,817 )					
Net realized and unrealized loss	(74,679 )	(8,634 )	(20,864 )	(104,177 )					
Purchases of portfolio investments	387,866	30,000	2,674,404	3,092,270					
Payment-in-kind interest	2,668	715	7,564	10,947					
Accretion of discounts and premiums	—	922	10,095	11,017					
Repayments and sales of portfolio investments	(68,710 )	(26,676 )	(836,023 )	(931,409 )					
Transfers within Level 3(1)	—	—	—	—					
Transfers in (out) of Level 3(1)	—	—	—	—					
Fair value as of June 30, 2013	\$ 811,634	\$ 42,443	\$ 3,318,663	\$ 4,172,740					
	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, 2012	\$ 868	\$ 1,080,053	\$ 488,113	\$ 73,195	\$ —	\$ 27,717	\$ 218,009	\$ 206,137	\$ 2,094,092
Total realized (loss) gain, net	—	(21,545 )	(22,001 )	—	—	—	—	17,186	(26,360 )
Change in unrealized (depreciation) appreciation	(232 )	3,197	19,265	(222 )	—	464	(5,981 )	(94,308 )	(77,817 )
Net realized and unrealized (loss) gain	(232 )	(18,348 )	(2,736 )	(222 )	—	464	(5,981 )	(77,122 )	(104,177 )
Purchases of portfolio investments	21,143	1,626,172	812,025	133,700	—	—	440,050	59,180	3,092,270
Payment-in-kind interest	—	4,401	3,687	2,859	—	—	—	—	10,947
Accretion of discounts and premiums	—	1,747	2,346	508	—	408	6,008	—	11,017
Repayments and sales of portfolio investments	(13,050)	(499,900 )	(265,568 )	(121,213)	—	—	—	(31,678 )	(931,409 )
Transfers within Level 3(1)	—	12,966	(12,966 )	—	—	—	—	—	—
Transfers in (out) of Level 3(1)	—	—	—	—	—	—	—	—	—

Explanation of Responses:

Fair value as of	\$8,729	\$2,207,091	\$1,024,901	\$88,827	\$—	\$28,589	\$658,086	\$156,517	\$4,172,740
June 30, 2013									

(1) Transfers are assumed to have occurred at the beginning of the quarter during which the asset was transferred. For the year ended June 30, 2014 and 2013, the net increase in unrealized depreciation on the investments that use Level 3 inputs was \$55,956 and \$77,488 for investments still held as of June 30, 2014 and 2013, respectively.

F-49

---

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

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

Asset Category	Fair Value	Primary Valuation Technique	Unobservable Input		Weighted Average
			Input	Range	
Senior Secured Debt	\$2,550,073	Yield Analysis	Market Yield	5.5%-20.3%	11.1%
Senior Secured Debt	560,485	EV Analysis	EBITDA Multiple	3.5x-9.0x	7.1x
Senior Secured Debt	110,525	EV Analysis	N/A	N/A	N/A
Senior Secured Debt	3,822	Liquidation Analysis	N/A	N/A	N/A
Senior Secured Debt	292,079	Net Asset Value Analysis	Capitalization Rate	4.5%-10.0%	7.4%
Subordinated Secured Debt	832,181	Yield Analysis	Market Yield	8.7%-14.7%	10.9%
Subordinated Secured Debt	353,220	EV Analysis	EBITDA Multiple	4.5x-8.2x	6.2x
Subordinated Secured Debt	14,820	EV Analysis	Book Value Multiple	8.4x-8.9x	8.6x
Subordinated Unsecured Debt	85,531	Yield Analysis	Market Yield	7.4%-14.4%	12.1%
Small Business Whole Loans	4,252	Yield Analysis	Market Yield	75.5%-79.5%	77.5%
CLO Debt	33,199	Discounted Cash Flow	Discount Rate	4.2%-5.8%	4.9%
CLO Residual Interest	1,093,985	Discounted Cash Flow	Discount Rate	10.4%-23.7%	16.8%
Equity	237,162	EV Analysis	EBITDA Multiple	0.0x-15.3x	5.3x
Equity	3,171	Yield Analysis	Market Yield	13.7%-16.5%	15.1%
Equity	63,157	Net Asset Value Analysis	Capitalization Rate	4.5%-10.0%	7.4%
Equity	14,107	Discounted Cash Flow	Discount Rate	8.0%-10.0%	9.0%
Net Profits Interest	213	Liquidation Analysis	N/A	N/A	N/A
Escrow Receivable	1,589	Discounted Cash Flow	Discount Rate	6.6%-7.8%	7.2%
Total Level 3 Investments	\$6,253,571				

The ranges of unobservable inputs used in the fair value measurement of our Level 3 investments as of June 30, 2013 were as follows:

Asset Category	Fair Value	Primary Valuation Technique	Unobservable Input		Weighted Average
			Input	Range	
Senior Secured Debt	\$1,616,485	Yield Analysis	Market Yield	5.7%-20.8%	10.8%
Senior Secured Debt	468,082	EV Analysis	EBITDA Multiple	3.3x-8.8x	6.7x
Senior Secured Debt	5,361	Liquidation Analysis	N/A	N/A	N/A
Senior Secured Debt	125,892	Net Asset Value Analysis	Capitalization Rate	5.0%-10.0%	7.5%
Subordinated Secured Debt	962,702	Yield Analysis	Market Yield	7.7%-19.8%	11.6%
Subordinated Secured Debt	62,199	EV Analysis	EBITDA Multiple	3.3x-7.0x	4.4x
Subordinated Unsecured Debt	69,127	Yield Analysis	Market Yield	6.1%-14.6%	10.7%

Edgar Filing: FRESH DEL MONTE PRODUCE INC - Form 4

Subordinated Unsecured Debt	19,700	EV Analysis	EBITDA Multiple	5.5x-6.5x	6.0x
CLO Debt	28,589	Discounted Cash Flow	Discount Rate	12.1%-20.1%	15.7%
CLO Residual Interest	658,086	Discounted Cash Flow	Discount Rate	11.3%-19.8%	15.3%
Equity	151,855	EV Analysis	EBITDA Multiple	0.1x-8.8x	3.9x
Escrow Receivable	4,662	Discounted Cash Flow	Discount Rate	6.5%-7.0%	6.8%
Total Level 3 Investments	\$4,172,740				

In determining the range of value for debt instruments except CLOs, management and the independent valuation firm generally estimate corporate and security credit ratings and identify corresponding yields to maturity for each loan from relevant market data. A discounted cash flow analysis was then prepared using the appropriate yield to maturity as the discount rate, to determine range of value. For non-traded equity investments, the enterprise value was determined by applying earnings before income tax, depreciation and amortization (“EBITDA”) multiples for similar guideline public companies and/or similar recent investment transactions. For stressed equity investments, a liquidation analysis was prepared.

F-50

---

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

In determining the range of value for our investments in CLOs, management and the independent valuation firm used discounted cash flow model. The valuations were accomplished through the analysis of the CLO deal structures to identify the risk exposures from the modeling point of view. For each CLO security, the most appropriate valuation approach was chosen from alternative approaches to ensure the most accurate valuation for such security. A waterfall engine is used to store the collateral data, generate collateral cash flows from the assets based on various assumptions for the risk factors, and distribute the cash flows to the liability structure based on the payment priorities, and discount them back using proper discount rates.

The significant unobservable input used to value our investments based on the yield analysis and discounted cash flow analysis, is the market yield (or applicable discount rate) used to discount the estimated future cash flows expected to be received from the underlying investment, which includes both future principal and interest payments. Significant increases or decreases in the discount rate would result in a decrease or increase, respectively, in the fair value measurement. Included in the consideration and selection of market yields or discount rates are the following factors: 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 of identified guideline public companies, implied valuation multiples from precedent M&A transactions, and/or discount rates applied in a discounted cash flow analysis. The independent valuation firm identifies a population of publicly traded companies with similar operations and key attributes to that of the portfolio company. Using valuation and operating metrics of these guideline public companies and/or as implied by relevant precedent transactions, a range of multiples of the latest twelve months EBITDA, or other measure, is typically calculated. The independent valuation firm utilizes the determined multiples to estimate the portfolio company's EV based on, generally, the latest twelve months EBITDA of the portfolio company (or other meaningful measure). Significant increases or decreases in the multiple may result in an increase or decrease, respectively, in EV, which may increase or decrease the fair value estimate of the debt and/or equity investment, as applicable. In certain instances, a discounted cash flow analysis may be considered in estimating EV, in which case, discount rates based on a weighted average cost of capital and application of the Capital Asset Pricing Model may be utilized.

The significant unobservable input used to value our investments based on the net asset value analysis is the capitalization rate applied to earnings measure of the underlying property. Significant increases or decreases in the discount 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 of certain of our investments. Generally, an increase in market yields, discount rates or capitalization rate, or decrease in EBITDA multiples, may result in a decrease in the fair value 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 valuations currently assigned.

During the year ended June 30, 2014, the valuation methodology for ARRM (as defined in Note 14) changed to incorporate a weighted sale value evidenced by a pending transaction into the EV analysis which was solely used in previous periods. As a result of this change, and in recognition of recent company performance and current market conditions, we decreased the fair value of our investment in ARRM to \$25,536 as of June 30, 2014, a discount of

\$21,014 from its amortized cost, compared to the \$6,057 unrealized depreciation recorded at June 30, 2013. During the year ended June 30, 2014, the valuation methodology for Gulf Coast (as defined in Note 14) changed to incorporate an EV analysis in place of the yield analysis used in previous periods. Management adopted the EV analysis due to a deterioration in operating results and resulting foreclosure culminating in our obtaining majority voting control of the company. As a result of this change, and in recognition of recent company performance and current market conditions, we decreased the fair value of our investment in Gulf Coast to \$14,459 as of June 30, 2014, a discount of \$28,991 from its amortized cost, compared to the \$9,241 unrealized depreciation recorded at June 30, 2013.

F-51

---



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

During the year ended June 30, 2014, the valuation methodology for ICON Health & Fitness, Inc. ("ICON") changed to incorporate limited secondary trade data in lieu of weighted broker quotes used previously, in addition to the yield analysis and EV analysis used in previous periods. As a result of this change, and in recognition of recent company performance and current market conditions, we decreased the fair value of our investment in ICON to \$20,889 as of June 30, 2014, a discount of \$1,116 from its amortized cost, compared to the \$9,381 unrealized depreciation recorded at June 30, 2013.

During the year ended June 30, 2014, the valuation methodology for New Century Transportation, Inc. ("NCT") changed to a liquidation analysis in place of the yield analysis used in previous periods. Management adopted the liquidation analysis due to a deterioration in operating results and resulting credit impairment. In June 2014, NCT filed for bankruptcy. As we hold a second lien position and do not expect liquidation proceeds to exceed the first lien liability, we decreased the fair value of our investment in NCT to zero as of June 30, 2014, a discount of \$44,000 from its amortized cost, compared to the \$954 unrealized depreciation recorded at June 30, 2013.

During the year ended June 30, 2014, the valuation methodology for Sandow Media, LLC ("Sandow") changed to incorporate an EV analysis in addition to the yield analysis used in previous periods. Management adopted the EV analysis due to a deterioration in operating results and resulting credit impairment. As a result of this change, and in recognition of recent company performance and current market conditions, we decreased the fair value of our investment in Sandow to \$23,524 as of June 30, 2014, a discount of \$1,557 from its amortized cost, compared to being valued at an amount which was the same as cost as of June 30, 2013.

During the year ended June 30, 2014, the valuation methodology for Snacks Parent Corporation ("Snacks") changed to incorporate a weighted sale value evidenced by a pending transaction into the EV analysis used in previous periods. As a result of this change, and in recognition of recent company performance and current market conditions, we increased the fair value of our investment in Snacks to \$1,819 as of June 30, 2014, a premium of \$1,228 from its amortized cost, compared to the \$5 unrealized appreciation recorded at June 30, 2013.

During the year ended June 30, 2014, the valuation methodology for Targus Group International, Inc. ("Targus") changed to incorporate weighted broker quotes in addition to the yield analysis used in previous periods. As a result of this change, and in recognition of recent company performance and current market conditions, we decreased the fair value of our investment in Targus to \$19,949 as of June 30, 2014, a discount of \$1,748 from its amortized cost, compared to the \$311 unrealized appreciation recorded at June 30, 2013.

During the year ended June 30, 2013, we provided \$125,892 and \$26,648 of debt and equity financing, respectively, to APH Property Holdings, LLC ("APH") for the acquisition of various real estate properties. During the year ended June 30, 2014, we provided \$135,350 and \$28,397 of debt and equity financing, respectively, to APH for the acquisition of certain properties. In December 2013, American Property REIT Corp. ("APRC"), a wholly-owned subsidiary of APH, distributed its investments in fourteen properties: eight to National Property REIT Corp. ("NPRC"), a wholly-owned subsidiary of NPH Property Holdings, LLC ("NPH"); and six to United Property REIT Corp. ("UPRC"), a wholly-owned subsidiary of UPH Property Holdings, LLC ("UPH"), two newly formed REIT holding companies which are discussed below. The investments transferred consisted of \$98,164 and \$20,022 of debt and equity financing, respectively. The eight investments transferred to NPRC from APRC consisted of \$79,309 and \$16,315 of debt and equity financing, respectively. The six investments transferred to UPRC from APRC consisted of \$18,855 and \$3,707 of debt and equity financing, respectively. There was no gain or loss realized on these transactions.

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

As of June 30, 2014, APRC's real estate portfolio was comprised of fourteen multi-family properties and one commercial property. The following table shows the location, acquisition date, purchase price, and mortgage outstanding due to other parties for each of the properties:

No.	Property Name	City	Acquisition Date	Purchase Price	Mortgage Outstanding
1	Abbingtion Pointe	Marietta, GA	12/28/2012	\$ 23,500	\$ 15,275
2	Amberly Place	Tampa, FL	1/17/2013	63,400	39,600
3	Lofton Place	Tampa, FL	4/30/2013	26,000	16,965
4	Vista at Palma Sola	Bradenton, FL	4/30/2013	27,000	17,550
5	Arlington Park	Marietta, GA	5/8/2013	14,850	9,650
6	The Resort	Pembroke Pines, FL	6/24/2013	225,000	157,500
7	Cordova Regency	Pensacola, FL	11/15/2013	13,750	9,026
8	Crestview at Oakleigh	Pensacola, FL	11/15/2013	17,500	11,488
9	Inverness Lakes	Mobile, AL	11/15/2013	29,600	19,400
10	Kings Mill Apartments	Pensacola, FL	11/15/2013	20,750	13,622
11	Plantations at Pine Lake	Tallahassee, FL	11/15/2013	18,000	11,817
12	Verandas at Rocky Ridge	Birmingham, AL	11/15/2013	15,600	10,205
13	Crestview at Cordova	Pensacola, FL	1/17/2014	8,500	5,072
14	Plantations at Hillcrest	Mobile, AL	1/17/2014	6,930	5,094
15	Taco Bell, OK	Yukon, OK	6/4/2014	1,719	—
				\$ 512,099	\$ 342,264

The eight investments transferred to NPRC from APRC consisted of \$79,309 and \$16,315 of debt and equity financing, respectively. There was no gain or loss realized on these transactions. During the year ended June 30, 2014, we provided \$34,050 and \$6,375 of debt and equity financing, respectively, to NPH for the acquisition of certain properties and to invest in peer-to-peer consumer loans.

As of June 30, 2014, NPRC's real estate portfolio was comprised of nine multi-family properties and one commercial property. The following table shows the location, acquisition date, purchase price, and mortgage outstanding due to other parties for each of the properties:

No.	Property Name	City	Acquisition Date	Purchase Price	Mortgage Outstanding
1	146 Forest Parkway	Forest Park, GA	10/24/2012	\$ 7,400	\$—
2	Bexley	Marietta, GA	11/1/2013	30,600	22,497
3	St. Marin	Coppell, TX	11/19/2013	73,078	53,863
4	Mission Gate	Plano, TX	11/19/2013	47,621	36,148
5	Vinings Corner	Smyrna, GA	11/19/2013	35,691	26,640
6	Central Park	Altamonte Springs, FL	11/19/2013	36,590	27,471
7	City West	Orlando, FL	11/19/2013	23,562	18,533
8	Matthews Reserve	Matthews, NC	11/19/2013	22,063	17,571
9	Indigo	Jacksonville, FL	12/31/2013	38,000	28,500
10	Island Club	Atlantic Beach, FL	1/31/2014	13,025	9,118
				\$ 327,630	\$ 240,341

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

The six investments transferred to UPRC from APRC consisted of \$18,855 and \$3,707 of debt and equity financing, respectively. There was no gain or loss realized on these transactions. During the year ended June 30, 2014, we provided \$1,405 of equity financing to UPH for the acquisition of certain properties.

As of June 30, 2014, UPRC's real estate portfolio was comprised of six multi-families properties and one commercial property. The following table shows the location, acquisition date, purchase price, and mortgage outstanding due to other parties for each of the properties:

No.	Property Name	City	Acquisition Date	Purchase Price	Mortgage Outstanding
1	Eastwood Village	Stockbridge, GA	12/12/2013	\$ 25,957	\$ 19,785
2	Monterey Village	Jonesboro, GA	12/12/2013	11,501	9,193
3	Hidden Creek	Morrow, GA	12/12/2013	5,098	3,619
4	Meadow Springs	College Park, GA	12/12/2013	13,116	10,180
5	Meadow View	College Park, GA	12/12/2013	14,354	11,141
6	Peachtree Landing	Fairburn, GA	12/12/2013	17,224	13,575
7	Taco Bell, MO	Marshall, MO	6/4/2014	1,405	—
				\$ 88,655	\$ 67,493

On January 4, 2012, Energy Solutions (as defined in Note 14) sold its gas gathering and processing assets ("Gas Solutions") for a sale price of \$199,805, adjusted for the final working capital settlement, including a potential earnout of \$28,000 that may be paid based on the future performance of Gas Solutions. Through June 30, 2014, we have not accrued income for any portion of the \$28,000 potential payment. After expenses, including structuring fees of \$9,966 paid to us, Energy Solutions received \$158,687 in cash. The sale of Gas Solutions by Energy Solutions resulted in significant earnings and profits, as defined by the Internal Revenue Code, at Energy Solutions for calendar year 2012. As a result, distributions from Energy Solutions to us were required to be recognized as dividend income, in accordance with ASC 946, as cash distributions were received from Energy Solutions, to the extent there are current year earnings and profits sufficient to support such recognition. During the year ended June 30, 2013, we received distributions of \$53,820 from Energy Solutions which were recorded as dividend income. No such dividends were received during the year ended June 30, 2014.

During the year ended June 30, 2014, Energy Solutions repaid the remaining \$8,500 of our subordinated secured debt to us. In addition to the repayment of principal, we received \$4,812 of make-whole fees for early repayment of the outstanding loan receivables, which was recorded as additional interest income during the year ended June 30, 2014. On November 25, 2013, we provided \$13,000 in senior secured debt financing for the recapitalization of our investment in Freedom Marine Services Holdings, LLC ("Freedom Marine"), a subsidiary of Energy Solutions. The subordinated secured loan to Jettco Marine Services, LLC ("Jettco"), a subsidiary of Freedom Marine, was replaced with a senior secured note to Vessel Holdings II, LLC ("Vessel II"), a new subsidiary of Freedom Marine. On December 3, 2013, we made a \$16,000 senior secured investment in Vessel Holdings III, LLC, another new subsidiary of Freedom Marine. Overall the restructuring of our investment in Freedom Marine provided approximately \$16,000 net senior secured debt financing to support the acquisition of two new vessels. We received \$2,480 of structuring fees from Energy Solutions related to the Freedom Marine restructuring which was recognized as other income during the year ended June 30, 2014.

During the three months ended December 31, 2012, we determined that the impairment of Integrated Contract Solutions, Inc. ("ICS") was other-than-temporary and recorded a realized loss of \$12,198 for the amount that the amortized cost exceeded the fair market value. Our remaining investment in The Healing Staff, Inc. ("THS"), an affiliate of ICS, was valued at zero as of June 30, 2014 and continues to provide staffing solutions for health care facilities and security staffing.

On November 30, 2012, we made a secured second lien investment of \$9,500 to support the recapitalization of R-V (as defined in Note 14). As part of the recapitalization, we received a dividend of \$11,073 for our investment in R-V's

common stock.

On March 28, 2013, we sold our investment in New Meatco Provisions, LLC for net proceeds of approximately \$1,965 and realized a loss of \$10,814 on the sale.

On April 30, 2013, we sold our investment in Fischbein, LLC for net proceeds of \$3,168, recognizing a realized gain of \$2,293 on the sale. In addition, there is \$155 being held in escrow which will be recognized as additional gain if and when received.

F-54

---

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

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

In June 2013, we determined that the impairment of Manx Energy, Inc. ("Manx") was other-than-temporary and recorded a realized loss of \$9,397 for the amount that the amortized cost exceeded the fair market value

On August 6, 2013, we received a distribution of \$3,252 related to our investment in NRG Manufacturing, Inc. for which we realized a gain of the same amount. This was a partial release of the amount held in escrow.

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

During the year ended June 30, 2013, we recognized \$1,481 of interest income due to purchase discount accretion from the assets acquired from Patriot. Included in the \$1,481 recorded during the year ended June 30, 2013 is \$1,111 of normal accretion and \$370 of accelerated accretion resulting from the repayment of Hudson Products Holdings, Inc. During the year ended June 30, 2014, we recognized \$400 of interest income due to purchase discount accretion from the assets acquired from Patriot. No accelerated accretion was recorded during the year ended June 30, 2014. As of June 30, 2014, there is no more purchase discount from the assets acquired from Patriot that remains to be accreted. As of June 30, 2014, \$4,499,955 of our loans, at fair value, bear interest at floating rates and \$4,466,756 of those loans have Libor floors ranging from 1.25% to 6.00%.

At June 30, 2014, nine loan investments were on non-accrual status: BXC Company, Inc., STI Holding, Inc., THS, Manx, NCT, Stryker, Wind River, Wolf Energy and Yatesville. At June 30, 2013, eight loan investments were on non-accrual status: Borga, Inc., Jettco, THS, Manx, Stryker, Wind River, Wolf Energy and Yatesville. Principal balances of these loans amounted to \$163,533 and \$106,395 as of June 30, 2014 and June 30, 2013, respectively. The fair value of these loans amounted to \$6,150 and \$13,810 as of June 30, 2014 and June 30, 2013, respectively. The fair values of these investments represent approximately 0.1% and 0.3% of our total assets as of June 30, 2014 and June 30, 2013, respectively. For the years ended June 30, 2014, 2013 and 2012, the income foregone as a result of not accruing interest on non-accrual debt investments amounted to \$24,040, \$25,965 and \$25,460, respectively.

Undrawn committed revolvers to our portfolio companies incur commitment fees ranging from 0.00% to 2.00%. As of June 30, 2014 and June 30, 2013, we have \$143,597 and \$202,518 of undrawn revolver commitments to our portfolio companies, respectively.

#### Unconsolidated Significant Subsidiaries

Our investments are generally in small and mid-sized companies in a variety of industries. In accordance with SEC Regulation S-X Rules 3-09 and 4-08(g), we must determine which of our unconsolidated majority-owned portfolio companies, if any, are considered "significant subsidiaries." In evaluating these investments, there are three tests utilized to determine if any of our investments are considered "significant subsidiaries": the investment test, the asset test and the income test. SEC Regulation S-X 3-09, as interpreted by the SEC, requires separate audited financial statements of an unconsolidated majority-owned subsidiary if any of the three tests exceed 20% and SEC Regulation S-X 4-08(g) requires summarized financial information if any of the three tests exceed 10%.

At June 30, 2014 and June 30, 2013, we had no single investment that represented greater than 10% of our total investment portfolio at fair value. At June 30, 2014 and June 30, 2013, we had no single investment whose assets represented greater than 10% of our total assets. Income, consisting of interest, dividends, fees, other investment income and realization of gains or losses, can fluctuate upon repayment or sale of an investment or the marking to fair

value of an investment in any given year can be highly concentrated among several investments. After performing the analysis, we determined that First Tower Holdings of Delaware LLC and its subsidiaries ("FT DE") generated more than 10% of our income, but less than 20% of our income, primarily due to the unrealized

F-55

---

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

gain that was recognized on the investment for the year ended June 30, 2014. As such, we provide summarized financial information as follows:

	June 30, 2014	June 30, 2013	
<b>Balance Sheet Data</b>			
Cash and short-term investments	\$ 60,368	\$ 56,682	
Finance receivables, net	385,875	378,327	
Intangibles, including goodwill	137,696	161,008	
Other assets	14,066	14,303	
Total liabilities	611,237	545,778	
Member's equity/(deficit)	(13,233	) 64,542	
	Twelve Months Ended June 30,	2013	Period June 15, 2012 to
	2014		June 30, 2012
<b>Summary of Operations</b>			
Total revenue	\$ 201,725	\$ 188,672	\$ 6,947
Total expenses	237,884	211,573	11,674
Net loss	\$(36,159	) \$(22,901	) \$(4,727

As the SEC has not released details on the mechanics of how the calculations related to Rules 3-09 and 4-08(g) of Regulation S-X are to be completed, there is diversity in practice for the calculation. Based on our interpretation of Rule 3-09 of Regulation S-X and related calculations, we do not believe that audited financial statements are required for FT DE. We have included the audited financial statements of FT DE in Exhibit 99.1 in order to cover the possibility that the SEC will adopt an interpretation that would require such filing. We expect that the SEC will clarify the calculation method in the future.

#### Note 4. Revolving Credit Facility

On March 27, 2012, we closed on an expanded five-year \$650,000 revolving credit facility with a syndicate of lenders through PCF (the "2012 Facility"). The lenders have extended commitments of \$857,500 under the 2012 Facility as of June 30, 2014. The 2012 Facility includes an accordion feature which allows commitments to be increased up to \$1,000,000 in the aggregate. The revolving period of the 2012 Facility extends through March 2015, with an additional two year amortization period (with distributions allowed) after the completion of the revolving period. During such two year amortization period, all principal payments on the pledged assets will be applied to reduce the balance. At the end of the two year amortization period, the remaining balance will become due, if required by the lenders.

The 2012 Facility contains restrictions pertaining to the geographic and industry concentrations of funded loans, maximum size of funded loans, interest rate payment frequency of funded loans, maturity dates of funded loans and minimum equity requirements. The 2012 Facility also contains certain requirements relating to portfolio performance, including required minimum portfolio yield and limitations on delinquencies and charge-offs, violation of which could result in the early termination of the 2012 Facility. The 2012 Facility also requires the maintenance of a minimum liquidity requirement. As of June 30, 2014, we were in compliance with the applicable covenants.

F-56

PROSPECT CAPITAL CORPORATION AND SUBSIDIARIES  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(in thousands, except share and per share data)

(unaudited)

Interest on borrowings under the 2012 Facility is one-month Libor plus 275 basis points with no minimum Libor floor. Additionally, the lenders charge a fee on the unused portion of the 2012 Facility equal to either 50 basis points, if at least half of the credit facility is drawn, or 100 basis points otherwise. The 2012 Facility requires us to pledge assets as collateral in order to borrow under the credit facility. As of June 30, 2014 and 2013, we had \$780,620 and \$473,508, respectively, available to us for borrowing under the 2012 Facility, of which the amount outstanding was \$92,000 and \$124,000, respectively. As additional eligible investments are transferred to PCF and pledged under the 2012 Facility, PCF will generate additional availability up to the current commitment amount of \$857,500. As of June 30, 2014, the investments used as collateral for the 2012 Facility had an aggregate fair value of \$1,535,476, which represents 24.1% of our total investments, including cash and cash equivalents. These assets are held and owned by PCF, a bankruptcy remote special purpose entity, and as such, these investments are not available to our general creditors. The release of any assets from PCF requires the approval of the facility agent.

In connection with the origination and amendments of the 2012 Facility, we incurred \$14,154 of fees, including \$1,319 of fees carried over from the previous facility, which are being amortized over the term of the facility in accordance with ASC 470-50, Debt Modifications and Extinguishments, of which \$4,883 remains to be amortized and is included within deferred financing costs on the Consolidated Statements of Assets and Liabilities as of June 30, 2014.

During the years ended June 30, 2014, 2013 and 2012, we recorded \$12,216, \$9,082 and \$14,883, respectively, of interest costs, unused fees and amortization of financing costs on the 2012 Facility as interest expense.

Note 5. Senior Convertible Notes

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

On February 18, 2011, we issued \$172,500 aggregate principal amount of senior convertible notes that mature on August 15, 2016 (the "2016 Notes"), unless previously converted or repurchased in accordance with their terms. The 2016 Notes bear interest at a rate of 5.50% per year, payable semi-annually on February 15 and August 15 of each year, beginning August 15, 2011. Total proceeds from the issuance of the 2016 Notes, net of underwriting discounts and offering costs, were \$167,325. Between January 30, 2012 and February 2, 2012, we repurchased \$5,000 of the 2016 Notes at a price of 97.5, including commissions. The transactions resulted in our recognizing \$10 of loss in the year ended June 30, 2012.

On April 16, 2012, we issued \$130,000 aggregate principal amount of senior convertible notes that mature on October 15, 2017 (the "2017 Notes"), unless previously converted or repurchased in accordance with their terms. The 2017 Notes bear interest at a rate of 5.375% per year, payable semi-annually on April 15 and October 15 of each year, beginning October 15, 2012. Total proceeds from the issuance of the 2017 Notes, net of underwriting discounts and offering costs, were \$126,035.

On August 14, 2012, we issued \$200,000 aggregate principal amount of senior convertible notes that mature on March 15, 2018 (the "2018 Notes"), unless previously converted or repurchased in accordance with their terms. The 2018 Notes bear interest at a rate of 5.75% per year, payable semi-annually on March 15 and September 15 of each year, beginning March 15, 2013. Total proceeds from the issuance of the 2018 Notes, net of underwriting discounts and offering costs, were \$193,600.

On December 21, 2012, we issued \$200,000 aggregate principal amount of senior convertible notes that mature on January 15, 2019 (the "2019 Notes"), unless previously converted or repurchased in accordance with their terms. The 2019 Notes bear interest at a rate of 5.875% per year, payable semi-annually on January 15 and July 15 of each year, beginning July 15, 2013. Total proceeds from the issuance of the 2019 Notes, net of underwriting discounts and



offering costs, were \$193,600.

On April 11, 2014, we issued \$400,000 aggregate principal amount of senior 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.

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

F-57

---

PROSPECT CAPITAL CORPORATION AND SUBSIDIARIES  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(in thousands, except share and per share data)

(unaudited)

	2015 Notes	2016 Notes	2017 Notes	2018 Notes	2019 Notes	2020 Notes
Initial conversion rate(1)	88.0902	78.3699	85.8442	82.3451	79.7766	80.6647
Initial conversion price	\$ 11.35	\$ 12.76	\$ 11.65	\$ 12.14	\$ 12.54	\$ 12.40
Conversion rate at June 30, 2014(1)(2)	89.0157	79.3176	86.9426	82.8631	79.7865	80.6647
Conversion price at June 30, 2014(2)(3)	\$ 11.23	\$ 12.61	\$ 11.50	\$ 12.07	\$ 12.53	\$ 12.40
Last conversion price calculation date	12/21/2013	2/18/2014	4/16/2014	8/14/2013	12/21/2013	4/11/2014
Dividend threshold amount (per share)(4)	\$ 0.101125	\$ 0.101150	\$ 0.101500	\$ 0.101600	\$ 0.110025	\$ 0.110525

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

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

The conversion price in effect at June 30, 2014 was calculated on the last anniversary of the issuance and will be (3) adjusted again on the next anniversary, unless the exercise price shall have changed by more than 1% before the anniversary.

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

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

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

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

No holder of Senior 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 Senior 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 Senior Convertible Notes upon a fundamental change at a price equal to 100% of the principal amount of the Senior 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 Senior Convertible Notes through and including the maturity date.

In connection with the issuance of the Senior Convertible Notes, we incurred \$39,558 of fees which are being amortized over the terms of the notes, of which \$27,824 remains to be amortized and is included within deferred financing costs on the Consolidated Statements of Assets and Liabilities as of June 30, 2014.

F-58

---

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

During the years ended June 30, 2014, 2013 and 2012, we recorded \$58,042, \$45,880 and \$22,197, respectively, of interest costs and amortization of financing costs on the Senior Convertible Notes as interest expense.

Note 6. Senior Unsecured Notes

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

On March 15, 2013, we issued \$250,000 aggregate principal amount of senior unsecured notes that mature on March 15, 2023 (the "2023 Notes"). The 2023 Notes bear interest at a rate of 5.875% per year, payable semi-annually on March 15 and September 15 of each year, beginning September 15, 2013. Total proceeds from the issuance of the 2023 Notes, net of underwriting discounts and offering costs, were \$245,885.

On April 7, 2014, we issued \$300,000 aggregate principal amount of senior 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 was converted into the 5.00% 2019 Notes. The 5.00% 2019 Notes bear interest at a rate of 5.00% per year, payable semi-annually on January 15 and July 15 of each year, beginning July 15, 2014. Total proceeds from the issuance of the 5.00% 2019 Notes, net of underwriting discounts and offering costs, were \$250,775.

The 2022 Notes, the 2023 Notes and the 5.00% 2019 Notes (collectively, the "Senior Unsecured Notes") are direct unsecured obligations and rank equally with all of our unsecured senior indebtedness from time to time outstanding. In connection with the issuance of the Senior Unsecured Notes, we incurred \$11,358 of fees which are being amortized over the term of the notes, of which \$10,297 remains to be amortized and is included within deferred financing costs on the Consolidated Statements of Assets and Liabilities as of June 30, 2014.

During the years ended June 30, 2014, 2013 and 2012, we recorded \$25,988, \$11,672 and \$1,178, respectively, of interest costs and amortization of financing costs on the Senior Unsecured 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 senior obligations and rank equally with all of our unsecured senior indebtedness outstanding. Each series of notes will be issued by a separate trust. These notes bear interest at fixed interest rates and offer a variety of maturities no less than twelve months from the original date of issuance.

During the year ended June 30, 2014, we issued \$473,762 aggregate principal amount of our Prospect Capital InterNotes® for net proceeds of \$465,314. These notes were issued with stated interest rates ranging from 3.75% to 6.75% with a weighted average interest rate of 5.12%. These notes mature between October 15, 2016 and October 15, 2043. Below is a summary of the Prospect Capital InterNotes® issued during the year ended June 30, 2014:

F-59

---

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

Tenor at Origination (in years)	Principal Amount	Interest Rate Range	Weighted Average Interest Rate	Maturity Date Range
3	\$5,710	4.00%	4.00	% October 15, 2016
3.5	3,149	4.00%	4.00	% April 15, 2017
4	45,751	3.75%–4.00%	3.92	% November 15, 2017 – May 15, 2018
5	217,915	4.25%–5.00%	4.91	% July 15, 2018 – August 15, 2019
5.5	43,820	4.75%–5.00%	4.77	% February 15, 2019 – August 15, 2019
6.5	1,800	5.50%	5.50	% February 15, 2020
7	62,409	5.25%–5.75%	5.44	% July 15, 2020 – May 15, 2021
7.5	1,996	5.75%	5.75	% February 15, 2021
10	23,850	5.75%–6.50%	5.91	% January 15, 2024 – May 15, 2024
12	2,978	6.00%	6.00	% November 15, 2025 – December 15, 2025
15	2,495	6.00%	6.00	% August 15, 2028 – November 15, 2028
18	4,062	6.00%–6.25%	6.21	% July 15, 2031 – August 15, 2031
20	2,791	6.00%	6.00	% September 15, 2033 – October 15, 2033
25	34,886	6.25%–6.50%	6.39	% August 15, 2038 – May 15, 2039
30	20,150	6.50%–6.75%	6.60	% July 15, 2043 – October 15, 2043
	\$473,762			

During the year ended June 30, 2013, we issued \$343,139 aggregate principal amount of our Prospect Capital InterNotes® for net proceeds of \$334,244. These notes were issued with stated interest rates ranging from 3.28% to 6.625% with a weighted average interest rate of 5.59%. These notes mature between July 15, 2019 and June 15, 2043. Below is a summary of the Prospect Capital InterNotes® issued during the year ended June 30, 2013:

Tenor at Origination (in years)	Principal Amount	Interest Rate Range	Weighted Average Interest Rate	Maturity Date Range
7	\$190,937	4.00%–6.45%	5.35	% July 15, 2019 – June 15, 2020
10	1,489	3.28%–3.78%	3.37	% March 15, 2023 – April 15, 2023
15	15,000	5.00%	5.00	% May 15, 2028 – June 15, 2028
18	22,157	4.125%–6.00%	5.34	% December 15, 2030 – June 15, 2031
20	3,106	5.625%–5.75%	5.70	% November 15, 2032 – December 15, 2032
30	110,450	5.50%–6.625%	6.15	% November 15, 2042 – June 15, 2043
	\$343,139			

F-60

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

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

Tenor at Origination (in years)	Principal Amount	Interest Rate Range	Weighted Average Interest Rate	Maturity Date Range
3	\$5,710	4.00%	4.00	% October 15, 2016
3.5	3,149	4.00%	4.00	% April 15, 2017
4	45,751	3.75%–4.00%	3.92	% November 15, 2017 – May 15, 2018
5	212,915	4.25%–5.00%	4.92	% July 15, 2018 – August 15, 2019
5.5	3,820	5.00%	5.00	% February 15, 2019
6.5	1,800	5.50%	5.50	% February 15, 2020
7	256,903	4.00%–6.55%	5.39	% June 15, 2019 – May 15, 2021
7.5	1,996	5.75%	5.75	% February 15, 2021
10	41,952	3.23%–7.00%	6.18	% March 15, 2022 – May 15, 2024
12	2,978	6.00%	6.00	% November 15, 2025 – December 15, 2025
15	17,465	5.00%–6.00%	5.14	% May 15, 2028 – November 15, 2028
18	25,435	4.125%–6.25%	5.49	% December 15, 2030 – August 15, 2031
20	5,847	5.625%–6.00%	5.85	% November 15, 2032 – October 15, 2033
25	34,886	6.25%–6.50%	6.39	% August 15, 2038 – May 15, 2039
30	125,063	5.50%–6.75%	6.22	% November 15, 2042 – October 15, 2043
	\$785,670			

Below are the Prospect Capital InterNotes® outstanding as of June 30, 2013:

Tenor at Origination (in years)	Principal Amount	Interest Rate Range	Weighted Average Interest Rate	Maturity Date Range
7	\$194,937	4.00%–6.55%	5.37	% June 15, 2019 – June 15, 2020
10	18,127	3.28%–7.00%	6.56	% March 15, 2022 – April 15, 2023
15	15,000	5.00%	5.00	% May 15, 2028 – June 15, 2028
18	22,157	4.125%–6.00%	5.34	% December 15, 2030 – June 15, 2031
20	3,106	5.625%–5.75%	5.70	% November 15, 2032 – December 15, 2032
30	110,450	5.50%–6.625%	6.15	% November 15, 2042 – June 15, 2043
	\$363,777			

In connection with the issuance of the Prospect Capital InterNotes®, we incurred \$20,235 of fees which are being amortized over the term of the notes, of which \$18,889 remains to be amortized and is included within deferred financing costs on the Consolidated Statements of Assets and Liabilities as of June 30, 2014.

During the years ended June 30, 2014, 2013 and 2012, we recorded \$33,857, \$9,707 and \$276, respectively, of interest costs and amortization of financing costs on the Prospect Capital InterNotes® as interest expense.

Note 8. Fair Value and Maturity of Debt Outstanding

The following table shows the Revolving Credit Facility, Senior Convertible Notes, Senior Unsecured Notes and Prospect Capital InterNotes® maximum draw amounts and outstanding borrowings as of June 30, 2014 and June 30, 2013:

F-61

Explanation of Responses:

286



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

	June 30, 2014		June 30, 2013	
	Maximum Draw Amount	Amount Outstanding	Maximum Draw Amount	Amount Outstanding
Revolving Credit Facility	\$857,500	\$92,000	\$552,500	\$124,000
Senior Convertible Notes	1,247,500	1,247,500	847,500	847,500
Senior Unsecured Notes	647,881	647,881	347,725	347,725
Prospect Capital InterNotes®	785,670	785,670	363,777	363,777
Total	\$3,538,551	\$2,773,051	\$2,111,502	\$1,683,002

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

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

The following table shows the contractual maturities of our Revolving Credit Facility, Senior Convertible Notes, Senior Unsecured Notes and Prospect Capital InterNotes® as of June 30, 2013:

	Payments Due by Period				
	Total	Less than 1 Year	1 – 3 Years	3 – 5 Years	After 5 Years
Revolving Credit Facility	\$124,000	\$—	\$—	\$124,000	\$—
Senior Convertible Notes	847,500	—	150,000	297,500	400,000
Senior Unsecured Notes	347,725	—	—	—	347,725
Prospect Capital InterNotes®	363,777	—	—	—	363,777
Total Contractual Obligations	\$1,683,002	\$—	\$150,000	\$421,500	\$1,111,502

The fair values of our financial liabilities disclosed, but not carried, at fair value as of June 30, 2014 disaggregated into the three levels of the ASC 820 valuation hierarchy are as follows:

	Fair Value Hierarchy			
	Level 1	Level 2	Level 3	Total
Revolving Credit Facility(1)	\$—	\$92,000	\$—	\$92,000
Senior Convertible Notes(2)	—	1,293,495	—	1,293,495
Senior Unsecured Notes(2)	—	679,816	—	679,816
Prospect Capital InterNotes®(3)	—	766,660	—	766,660
Total	\$—	\$2,831,971	\$—	\$2,831,971

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

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

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



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

The fair values of our financial liabilities disclosed, but not carried, at fair value as of June 30, 2013 disaggregated into the three levels of the ASC 820 valuation hierarchy are as follows:

	Fair Value Hierarchy			Total
	Level 1	Level 2	Level 3	
Revolving Credit Facility(1)	\$—	\$124,000	\$—	\$124,000
Senior Convertible Notes(2)	—	886,210	—	886,210
Senior Unsecured Notes(2)	—	343,813	—	343,813
Prospect Capital InterNotes®(3)	—	336,055	—	336,055
Total	\$—	\$1,690,078	\$—	\$1,690,078

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

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

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

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

Excluding dividend reinvestments, we issued 93,381,602 and 106,752,517 shares of our common stock during the years ended June 30, 2014 and 2013, respectively. The proceeds raised, the related underwriting fees, the offering expenses and the prices at which these shares were issued are as follows:

Issuances of Common Stock	Number of Shares Issued	Gross Proceeds	Underwriting Fees	Offering Expenses	Average Offering Price
During the year ended June 30, 2014:					
July 5, 2013 – August 21, 2013(1)	9,818,907	\$107,725	\$902	\$169	\$10.97
August 2, 2013(2)	1,918,342	21,006	—	—	\$10.95
August 29, 2013 – November 4, 2013(1)	24,127,242	272,114	2,703	414	\$11.28
November 12, 2013 – February 5, 2014(1)	27,301,889	307,045	3,069	436	\$11.25
February 10, 2014 – April 9, 2014(1)	21,592,715	239,305	2,233	168	\$11.08
March 31, 2014(2)	2,306,294	24,908	—	—	\$10.80
April 15, 2014 – May 2, 2014(1)	5,213,900	56,995	445	193	\$10.93
May 5, 2014(2)	1,102,313	11,916	—	—	\$10.81
During the year ended June 30, 2013:					
July 2, 2012 – July 12, 2012(1)	2,247,275	26,040	260	—	\$11.59
July 16, 2012	21,000,000	234,150	2,100	62	\$11.15
July 27, 2012	3,150,000	35,123	315	—	\$11.15
September 13, 2012 – October 9, 2012(1)	8,010,357	94,610	946	638	\$11.81
November 7, 2012	35,000,000	388,500	4,550	814	\$11.10
December 13, 2012(2)	467,928	5,021	—	—	\$10.73
December 28, 2012(2)	897,906	9,581	—	—	\$10.67
December 31, 2012(2)	4,141,547	44,649	—	—	\$10.78
January 7, 2013 – February 5, 2013(1)	10,248,051	115,315	1,153	—	\$11.25
February 14, 2013 – May 3, 2013(1)	17,230,253	191,893	1,788	56	\$11.14
May 14, 2013 – May 31, 2013(1)	4,359,200	47,528	399	245	\$10.90

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

(2) On December 13, 2012, December 28, 2012, December 31, 2012, August 2, 2013, March 31, 2014 and May 5, 2014, we issued 467,928, 897,906, 4,141,547, 1,918,342, 2,306,294 and 1,102,313 shares of our common stock,

respectively, in conjunction with investments in CCPI, Credit Central, Valley Electric, CP Holdings, Harbortouch and Arctic Energy, which are controlled portfolio companies.

F-63

---

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

Our shareholders' equity accounts as of June 30, 2014 and 2013 reflect cumulative shares issued as of those respective dates. Our common stock has been issued through public offerings, a registered direct offering, the exercise of over-allotment options on the part of the underwriters and our dividend reinvestment plan. When our common stock is issued, the related offering expenses have been charged against paid-in capital in excess of par. All underwriting fees and offering expenses were borne by us.

On August 24, 2011, our Board of Directors approved a share repurchase plan under which we may repurchase up to \$100,000 of our common stock at prices below our net asset value. We have not made any purchases of our common stock during the period from August 24, 2011 to June 30, 2014 pursuant to this plan. Prior to any repurchase, we are required to notify shareholders of our intention to purchase our common stock. This notice lasts for six months after notice is given. Our last notice was delivered with our annual proxy mailing on September 10, 2013.

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

On October 15, 2013, our Registration Statement on Form N-2 was declared effective by the SEC. Under this Shelf Registration Statement, we can issue up to \$3,691,792 of additional debt and equity securities in the public market as of June 30, 2014.

During the years ended June 30, 2014 and 2013, we distributed approximately \$403,188 and \$271,507, respectively, to our stockholders. The following table summarizes our distributions declared and payable for 2013 and 2014:

Declaration Date	Record Date	Payment Date	Amount Per Share	Amount Distributed (in thousands)
5/7/2012	7/31/2012	8/24/2012	\$ 0.101575	\$ 16,886
5/7/2012	8/31/2012	9/21/2012	0.101600	16,897
8/21/2012	9/28/2012	10/24/2012	0.101625	17,597
8/21/2012	10/31/2012	11/22/2012	0.101650	17,736
11/7/2012	11/30/2012	12/20/2012	0.101675	21,308
12/7/2012	12/31/2012	1/23/2013	0.110000	23,669
12/7/2012	1/31/2013	2/20/2013	0.110025	24,641
2/7/2013	2/28/2013	3/21/2013	0.110050	25,307
2/7/2013	3/29/2013	4/18/2013	0.110075	26,267
2/7/2013	4/30/2013	5/23/2013	0.110100	26,620
5/6/2013	5/31/2013	6/20/2013	0.110125	27,280
5/6/2013	6/28/2013	7/18/2013	0.110150	27,299
Total declared and payable for 2013				\$ 271,507
5/6/2013	7/31/2013	8/22/2013	\$ 0.110175	\$ 28,001
5/6/2013	8/30/2013	9/19/2013	0.110200	28,759
6/17/2013	9/30/2013	10/24/2013	0.110225	29,915
6/17/2013	10/31/2013	11/21/2013	0.110250	31,224
6/17/2013	11/29/2013	12/19/2013	0.110275	32,189
6/17/2013	12/31/2013	1/23/2014	0.110300	33,229
8/21/2013	1/31/2014	2/20/2014	0.110325	34,239
8/21/2013	2/28/2014	3/20/2014	0.110350	35,508
8/21/2013	3/31/2014	4/17/2014	0.110375	36,810
11/4/2013	4/30/2014	5/22/2014	0.110400	37,649
11/4/2013	5/30/2014	6/19/2014	0.110425	37,822
11/4/2013	6/30/2014	7/24/2014	0.110450	37,843

Total declared and payable for 2014

\$403,188

F-64

---

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

Dividends and distributions to common stockholders are recorded on the ex-dividend date. As such, the table above includes distributions with record dates during the years ended June 30, 2014 and 2013. It does not include distributions previously declared to stockholders of record on any future dates, as those amounts are not yet determinable. The following dividends were previously declared and will be payable subsequent to June 30, 2014: \$0.110475 per share for July 2014 to holders of record on July 31, 2014 with a payment date of August 21, 2014; \$0.110500 per share for August 2014 to holders of record on August 29, 2014 with a payment date of September 18, 2014; and \$0.110525 per share for September 2014 to holders of record on September 30, 2014 with a payment date of October 22, 2014. \$0.110550 per share for October 2014 to holders of record on October 31, 2014 with a payment date of November 20, 2014; \$0.110575 per share for November 2014 to holders of record on November 28, 2014 with a payment date of December 18, 2014; and \$0.110600 per share for December 2014 to holders of record on December 31, 2014 with a payment date of January 22, 2015.

During the years ended June 30, 2014 and 2013, we issued 1,408,070 and 1,450,578 shares of our common stock, respectively, in connection with the dividend reinvestment plan.

As of June 30, 2014, we have reserved 103,055,710 shares of our common stock for issuance upon conversion of the Senior 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/net revenue interests, deal deposits, administrative agent fees, and other miscellaneous and sundry cash receipts. Income from such sources for the years ended June 30, 2014, 2013 and 2012 were as follows:

Income Source	Year Ended June 30,		
	2014	2013	2012
Structuring, advisory and amendment fees (refer to Note 3)	\$ 59,527	\$ 53,708	\$ 35,976
Recovery of legal costs from prior periods from legal settlement	5,825	—	—
Royalty interests	5,893	4,122	224
Administrative agent fees	468	346	293
Total Other Income	\$ 71,713	\$ 58,176	\$ 36,493

#### Note 11. Net Increase in Net Assets per Share

The following information sets forth the computation of net increase in net assets resulting from operations per share for the years ended June 30, 2014, 2013 and 2012.

	Year Ended June 30,		
	2014	2013	2012
Net increase in net assets resulting from operations	\$ 319,020	\$ 220,856	\$ 190,904
Weighted average common shares outstanding	300,283,941	207,069,971	114,394,554
Net increase in net assets resulting from operations per share	\$ 1.06	\$ 1.07	\$ 1.67

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

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, 2013, 2012 and 2011 were as follows:

	Tax Year Ended August 31,		
	2013	2012	2011
Ordinary income	\$ 282,621	\$ 147,204	\$ 76,680
Capital gain	—	—	—
Return of capital	—	—	33,218
Total dividends paid to shareholders	\$ 282,621	\$ 147,204	\$ 109,898

For the tax year ending August 31, 2014, the tax character of dividends paid to shareholders through June 30, 2014 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, 2014.

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, 2013, 2012 and 2011:

	Tax Year Ended August 31,		
	2013	2012	2011
Net increase in net assets resulting from operations	\$ 238,721	\$ 208,331	\$ 119,281
Net realized loss (gain) on investments	24,632	(38,363 )	(16,465 )
Net unrealized depreciation (appreciation) on investments	77,835	32,367	(7,552 )
Other temporary book-to-tax differences	(4,357 )	(1,078 )	1,417
Permanent differences	5,939	(6,103 )	(20,000 )
Taxable income before deductions for distributions	\$ 342,770	\$ 195,154	\$ 76,681

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, 2013, we had capital loss carryforwards of approximately \$84,470 available for use in later tax years. Of the amount available as of August 31, 2013, \$582, \$33,096 and \$34,471 will expire on August 31, 2016, 2017 and 2018, respectively, and \$16,321 is not subject to expiration. The unused balance each year will be carried forward and utilized as gains are realized, subject to limitations. While our ability to utilize losses in the future depends upon a variety of factors that cannot be known in advance, substantially all of the Company's capital loss carryforwards may become permanently unavailable due to limitations by the Code.

Under current tax law, capital losses and specific ordinary losses realized after October 31st and December 31st, respectively, may be deferred and treated as occurring on the first business day of the following tax year. As of August 31, 2013, we had deferred \$10,793 long-term capital losses, which will be treated as arising on the first day of the tax

year ending August 31, 2014.

For the tax year ended August 31, 2013, we had taxable income in excess of the distributions made from such taxable income during the year, and therefore, we elected to carry forward the excess for distribution to shareholders in the tax year ending August 31, 2014. The amount carried forward to 2014 was approximately \$108,099. For the tax year ended August 31, 2012, we had taxable income in excess of the distributions made from such taxable income during the year, and therefore, we elected to carry forward the excess for distribution to shareholders in the tax year ended August 31, 2013. The amount carried forward to 2013

F-66

---

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

was approximately \$47,950. For the tax year ended August 31, 2011, we did not have taxable income in excess of distributions made from such taxable income during the year, and therefore, there was no excess available for us to carry forward for distribution to shareholders in the tax year ended August 31, 2012.

As of June 30, 2014, the cost basis of investments for tax purposes was \$6,354,811 resulting in estimated gross unrealized appreciation and depreciation of \$146,820 and \$247,891, respectively. As of June 30, 2013, the cost basis of investments for tax purposes was \$4,247,038 resulting in estimated gross unrealized appreciation and depreciation of \$76,112 and \$150,298, 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, 2014 and 2013 was calculated based on the book cost of investments as of June 30, 2014 and 2013, respectively, with cumulative book-to-tax adjustments for investments through August 31, 2013 and 2012, 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 taxes, among other items. During the tax year ended August 31, 2013, we increased accumulated undistributed net investment income by \$5,939, increased accumulated net realized loss on investments by \$2,621 and decreased capital in excess of par value by \$3,318. During the tax year ended August 31, 2012, we increased accumulated undistributed net investment income by \$5,028, increased accumulated net realized loss on investments by \$37,355 and increased capital in excess of par value by \$32,327. Due to the difference between our fiscal and tax year end, the reclassifications for the taxable years ended August 31, 2013 and 2012 were recorded in the fiscal years ended June 30, 2014 and 2013, respectively.

#### Note 13. Related Party Agreements and Transactions

##### Investment Advisory Agreement

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

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

The total base management fee incurred to the favor of the Investment Adviser was \$108,990, \$69,800 and \$35,836 for the years ended June 30, 2014, 2013 and 2012, respectively.

The incentive fee has two parts. The first part, the income incentive fee, is calculated and payable quarterly in arrears based on our pre-incentive fee net investment income for the immediately preceding calendar quarter. For this purpose, pre-incentive fee net investment income means interest income, dividend income and any other income (including any other fees (other than fees for providing managerial assistance), such as commitment, origination, structuring, diligence and consulting fees and other fees that we receive from portfolio companies) accrued during the calendar quarter, minus our operating expenses for the quarter (including the base management fee, expenses payable under the Administration Agreement described below, and any interest expense and dividends paid on any issued and



outstanding preferred stock, but excluding the incentive fee). Pre-incentive fee net investment income includes, in the case of investments with a deferred interest feature (such as original issue discount, debt instruments with payment-in-kind interest and zero coupon securities), accrued income that we have not yet received in cash. Pre-incentive fee net investment income does not include any realized capital gains, realized capital losses or unrealized capital appreciation or depreciation. Pre-incentive fee net investment income, expressed as a rate of return on the value of our net assets at the end of the immediately preceding calendar quarter, is compared to a “hurdle rate” of 1.75% per quarter (7.00% annualized).

F-67

---

PROSPECT CAPITAL CORPORATION AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(in thousands, except share and per share data)

(unaudited)

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

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

• 100.00% of our pre-incentive fee net investment income with respect to that portion of such pre-incentive fee net investment income, if any, that exceeds the hurdle rate but is less than 125.00% of the quarterly hurdle rate in any calendar quarter (8.75% annualized assuming a 7.00% annualized hurdle rate); and

• 20.00% of the amount of our pre-incentive fee net investment income, if any, that exceeds 125.00% of the quarterly hurdle rate in any calendar quarter (8.75% annualized assuming a 7.00% annualized hurdle rate).

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

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

The total income incentive fee incurred was \$89,306, \$81,231 and \$46,671 for the years ended June 30, 2014, 2013 and 2012, respectively. No capital gains incentive fee was incurred for the years ended June 30, 2014, 2013 and 2012.

#### Administration Agreement

We have also entered into an Administration Agreement with Prospect Administration LLC (“Prospect Administration”) under which Prospect Administration, among other things, provides (or arranges for the provision of) administrative services and facilities for us. For providing these services, we reimburse Prospect Administration for our allocable portion of overhead incurred by Prospect Administration in performing its obligations under the Administration Agreement, including rent and our allocable portion of the costs of our Chief Financial Officer and Chief Compliance Officer and his staff. For the years ended June 30, 2014, 2013 and 2012, the reimbursement was approximately \$14,373, \$8,737 and \$6,848, respectively. Under this agreement, Prospect Administration furnishes us with office facilities, equipment and clerical, bookkeeping and record keeping services at such facilities. Prospect Administration also performs, or oversees the performance of, our required administrative services, which include, among other things, being responsible for the financial records that we are required to maintain and preparing reports to our stockholders and reports filed with the SEC. In addition, Prospect Administration assists us in determining and publishing our net asset value, overseeing the preparation and filing of our tax returns and the printing and

dissemination of reports to our stockholders, and generally oversees the payment of our expenses and the performance of administrative and professional services rendered to us by others. Under the Administration Agreement, Prospect Administration also provides on our behalf managerial assistance to those portfolio companies to which we are required to provide such assistance (see "Managerial Assistance" below). The Administration Agreement may be terminated by either party without penalty upon 60 days' written notice to the other party. Prospect Administration is a subsidiary of the Investment Adviser.

F-68

---

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

During the years ended June 30, 2014, 2013 and 2012, Prospect Administration received payments of \$7,582, \$1,394 and \$1,092 directly from our controlled portfolio companies for legal, tax and portfolio level accounting services. We were given a credit for these payments as a reduction of the administrative services cost payable by us to Prospect Administration. Had Prospect Administration not received these payments, Prospect Administration's charges for its administrative services would have increased by these amounts.

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

#### Managerial Assistance

As a BDC, we are obligated under the 1940 Act to make available to certain of our portfolio companies significant managerial assistance. "Making available significant managerial assistance" refers to any arrangement whereby we provide significant guidance and counsel concerning the management, operations, or business objectives and policies of a portfolio company. We are also deemed to be providing managerial assistance to all portfolio companies that we control, either by ourselves or in conjunction with others. The nature and extent of significant managerial assistance provided by us will vary according to the particular needs of each portfolio company. Examples of such activities include advice on marketing, operations, fulfillment and overall strategy, capital budgeting, managing relationships with financing sources, recruiting management personnel, evaluating acquisition and divestiture opportunities, participating in board and management meetings, consulting with and advising officers of portfolio companies, and providing other organizational and financial guidance.

Prospect Administration, through a managerial assistance agreement executed with each portfolio company to which we provide managerial assistance, provides such managerial assistance on our behalf. In doing so, Prospect Administration utilizes personnel of our Investment Adviser, Prospect Capital Management. We, on behalf of Prospect Administration, invoice portfolio companies receiving and paying for managerial assistance, and we remit to Prospect Administration its allocated cost of providing such services, including payments to Prospect Capital Management for personnel it utilizes for that purpose. Our payments to Prospect Administration are periodically reviewed by our Board of Directors.

During the years ended June 30, 2014, 2013 and 2012, we received payments of \$7,472, \$5,414 and \$1,849, respectively, from our portfolio companies for managerial assistance and subsequently remitted these amounts to Prospect Administration.

#### 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 Senior Secured Income Fund, Inc. and Pathway Energy Infrastructure Fund, Inc., subject to the conditions included therein. 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.

As of June 30, 2014, we had co-investments in the following: Cent CLO 21 Limited, Galaxy XVII CLO, Ltd., Halcyon Loan Advisors Funding 2014-2 Ltd., Symphony CLO XIV Ltd., Voya CLO 2014-1, Ltd. (f/k/a ING IM CLO 2014-1, Ltd.), and Washington Mill CLO Ltd.

Note 14. Transactions with Controlled Companies

The descriptions below detail the transactions which Prospect Capital Corporation (“Prospect”) has entered into with each of our controlled companies.

F-69

---

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

AMU Holdings Inc.

Prospect owns 100% of the equity of AMU Holdings Inc. (“AMU”). AMU owns 98% of Airmall Inc. (“Airmall”). Airmall is a developer and manager of airport retail operations.

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

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

On June 13, 2014, Prospect made a new \$19,993 investment as a senior secured loan to Airmall. Airmall then distributed this amount to AMU as a return of capital, which AMU used to pay down the senior subordinated loan in the same amount. The minority interest held by a third party in AMU was exchanged for common stock of Airmall. The following dividends were declared and paid from Airmall to AMU and recorded as dividend income by AMU:

July 1, 2011 to June 30, 2012	\$—
July 1, 2012 to June 30, 2013	—
July 1, 2013 to June 30, 2014	7,000

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

July 1, 2011 to June 30, 2012	\$—
July 1, 2012 to June 30, 2013	—
July 1, 2013 to June 30, 2014	12,000

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

The following cash payments from Airmall to Prospect were recorded as a repayment of loan receivable from Airmall:

July 1, 2011 to June 30, 2012	\$650
July 1, 2012 to June 30, 2013	550
July 1, 2013 to June 30, 2014	644

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

July 1, 2011 to June 30, 2012	\$3,617
July 1, 2012 to June 30, 2013	3,536
July 1, 2013 to June 30, 2014	3,420

At June 30, 2013, \$2 of interest recognized above had not yet been paid by Airmall to Prospect and was included by Prospect within interest receivable.

PROSPECT CAPITAL CORPORATION AND SUBSIDIARIES  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(in thousands, except share and per share data)

(unaudited)

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

July 1, 2011 to June 30, 2012	\$2,282
July 1, 2012 to June 30, 2013	2,286
July 1, 2013 to June 30, 2014	3,159

The following payment-in-kind interest was capitalized in the senior secured note to AMU and recognized as interest income by Prospect:

July 1, 2011 to June 30, 2012	\$—
July 1, 2012 to June 30, 2013	—
July 1, 2013 to June 30, 2014	295

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

July 1, 2011 to June 30, 2012	\$375
July 1, 2012 to June 30, 2013	225
July 1, 2013 to June 30, 2014	300

At June 30, 2013 and 2014, \$45 and \$45 of managerial assistance recognized above had not yet been paid by Airmall to Prospect and was included by Prospect within other receivables due from Airmall and other liabilities due to Prospect Administration, respectively.

The following payments were paid from AMU to Prospect Administration as reimbursement for legal, tax and portfolio level accounting services provided directly to AMU (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):

July 1, 2011 to June 30, 2012	\$—
July 1, 2011 to June 30, 2012	8
July 1, 2013 to June 30, 2014	—

At June 30, 2013 and 2014, Prospect had a \$5 and \$11 payable to AMU for reimbursement in excess of expenses which was subsequently utilized to pay other expenses by Prospect on behalf of AMU, respectively.

#### APH Property Holdings, LLC

Prospect owns 100% of the equity of APH Property Holdings, LLC (“APH”). APH owns 100% of the common equity of American Property Holdings Corp. (“APRC”). APRC is a Maryland corporation and a qualified REIT for federal income tax purposes. In order to qualify as a REIT, APRC issued 125 shares of Series A Cumulative Non-Voting Preferred Stock to 125 accredited investors. The preferred stockholders are entitled to receive cumulative dividends semi-annually at an annual rate of 12.5% and do not have the ability to participate in the management or operation of APRC.

APRC was formed to acquire, operate, finance, lease, manage, and sell a portfolio of real estate assets and engage in any and all other activities as may be necessary, incidental or convenient to carry out the foregoing. APRC acquires real estate assets, including, but not limited to, industrial, commercial, and multi-family properties.

On October 24, 2012, Prospect initially made a \$7,808 investment in APH, of which \$6,000 was a Senior Term Loan and \$1,808 was used to purchase the membership interests of APH. The proceeds were utilized by APH to purchase APRC common equity for \$7,806, with \$2 retained by APH for working capital. The proceeds were utilized by APRC to purchase a 100% ownership interest in 146 Forest Parkway, LLC for \$7,326, with \$480 retained by APRC for working capital. 146 Forest Parkway, LLC was purchased by APRC for \$7,400. The remaining proceeds were used to pay \$222 of structuring fees to Prospect (which was recognized by Prospect as structuring fee income), \$178 of third party expenses and \$5 of legal services provided by attorneys at Prospect Administration. The investment was subsequently contributed to NPRC.





PROSPECT CAPITAL CORPORATION AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(in thousands, except share and per share data)

(unaudited)

On December 28, 2012, Prospect made a \$9,593 investment in APH, of which \$6,400 was a Senior Term Loan and \$3,193 was used to purchase additional membership interests of APH. The proceeds were utilized by APH to purchase additional APRC common equity for \$9,594, with \$1 retained by APH for working capital. The proceeds were utilized by APRC to purchase a 92.7% ownership interest in 1557 Terrell Mill Road, LLC for \$9,548, with \$46 retained by APRC for other expenses. 1557 Terrell Mill Road, LLC was purchased by APRC for \$23,500 which included debt financing and minority interest of \$15,275 and \$757, respectively. The remaining proceeds were used to pay \$286 of structuring fees to Prospect (which was recognized by Prospect as structuring fee income) and \$1,652 of third party expenses, with \$142 retained by APRC for working capital.

On January 17, 2013, Prospect made a \$30,348 investment in APH, of which \$27,600 was a Senior Term Loan and \$2,748 was used to purchase additional membership interests of APH. The proceeds were utilized by APH to purchase additional APRC common equity for \$29,348, with \$1,000 retained by APH for working capital. The proceeds were utilized by APRC to purchase a 97.7% ownership interest in 5100 Live Oaks Blvd, LLC for \$29,348. 5100 Live Oaks Blvd, LLC was purchased by APRC for \$63,400 which included debt financing and minority interest of \$39,600 and \$686, respectively. The remaining proceeds were used to pay \$880 of structuring fees to Prospect (which was recognized by Prospect as structuring fee income), \$4,265 of third party expenses, \$14 of legal services provided by attorneys at Prospect Administration, and \$1,030 of pre-paid assets, with \$45 retained by APRC for working capital.

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

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

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

On June 24, 2013, Prospect made a \$76,533 investment in APH, of which \$63,000 was a Senior Term Loan and \$13,533 was used to purchase additional membership interests of APH. The proceeds were utilized by APH to purchase additional APRC common equity for \$75,233, with \$1,300 retained by APH for working capital. The proceeds were utilized by APRC to purchase a 95.0% ownership interest in APH Carroll Resort, LLC for \$74,398 and \$835 was used to pay structuring fees (which was recognized by Prospect as structuring fee income). APH Carroll Resort, LLC was purchased by APRC for \$225,000 which included debt financing and minority interest of \$157,500

and \$3,916, respectively. The remaining proceeds were used to pay \$1,436 of structuring fees to Prospect (which was recognized by Prospect as structuring fee income), \$7,687 of third party expenses, \$8 of legal services provided by attorneys at Prospect Administration and \$1,683 of pre-paid assets.

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

On November 1, 2013, Prospect made a \$9,869 investment in APH, of which \$8,200 was a Senior Term Loan and \$1,669 was used to purchase additional membership interests of APH. The proceeds were utilized by APH to purchase additional APRC common equity for \$9,869. The proceeds were utilized by APRC to purchase a 94.0% ownership interest in APH Carroll 41, LLC

F-72

---

PROSPECT CAPITAL CORPORATION AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(in thousands, except share and per share data)

(unaudited)

for \$9,548 and to pay \$102 of structuring fees to Prospect (which was recognized by Prospect as structuring fee income), with \$219 retained by APRC for working capital. APH Carroll 41, LLC was purchased by APRC for \$30,600 which included debt financing and minority interest of \$22,497 and \$609, respectively. The remaining proceeds were used to pay structuring fees of \$190 to Prospect (which was recognized by Prospect as structuring fee income), \$1,589 of third party expenses, \$5 of legal services provided by attorneys at Prospect Administration, and \$270 of pre-paid assets. The investment was subsequently contributed to NPRC.

On November 15, 2013, Prospect made a \$45,900 investment in APH, of which \$38,500 was a Senior Term Loan and \$7,400 was used to purchase additional membership interests of APH. The proceeds were utilized by APH to purchase additional APRC common equity for \$45,900. The proceeds were utilized by APRC to purchase a 99.3% ownership interest in APH Gulf Coast Holdings, LLC for \$45,024 and to pay \$364 of structuring fees to Prospect (which was recognized by Prospect as structuring fee income), with \$511 retained by APRC for working capital. APH Gulf Coast Holdings, LLC was purchased by APRC for \$115,200 which included debt financing and minority interest of \$75,558 and \$337, respectively. The remaining proceeds were used to pay \$1,013 of structuring fees to Prospect (which was recognized by Prospect as structuring fee income), \$2,590 of third party expenses, \$23 of legal services provided by attorneys at Prospect Administration, and \$2,023 of pre-paid assets, with \$70 retained by APRC for working capital.

On November 19, 2013, Prospect made a \$66,188 investment in APH, of which \$55,000 was a Senior Term Loan and \$11,188 was used to purchase additional membership interests of APH. The proceeds were utilized by APH to purchase additional APRC common equity for \$66,188. The proceeds were utilized by APRC to purchase a 90.0% ownership interest in NPH McDowell, LLC for \$64,392 and to pay \$695 of structuring fees to Prospect (which was recognized by Prospect as structuring fee income), with \$1,101 retained by APRC for working capital. NPH McDowell, LLC was purchased by APRC for \$238,605 which included debt financing and minority interest of \$180,226 and \$7,155, respectively. The remaining proceeds were used to pay \$1,290 of structuring fees to Prospect (which was recognized by Prospect as structuring fee income), \$9,205 of third party expenses, \$23 of legal services provided by attorneys at Prospect Administration, and \$1,160 of pre-paid assets, with \$1,490 retained by APRC for working capital. The investment was subsequently contributed to NPRC.

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

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

On January 17, 2014, Prospect made a \$6,565 investment in APH, of which \$5,500 was a Senior Term Loan and \$1,064 was used to purchase additional membership interests of APH. The proceeds were utilized by APH to purchase additional APRC common equity for \$6,565. The proceeds were utilized by APRC to purchase a 99.3% ownership interest in APH Gulf Coast Holdings, LLC for \$6,336 and to pay \$216 of structuring fees to Prospect (which was

recognized by Prospect as structuring fee income), with \$13 retained by APRC for working capital and other expenses. APH Gulf Coast Holdings, LLC was purchased by APRC for \$15,430 which included debt financing and minority interest of \$10,167 and \$48, respectively. The remaining proceeds were used to pay \$143 of structuring fees to Prospect (which was recognized by Prospect as structuring fee income), \$627 of third party expenses, \$4 of legal services provided by attorneys at Prospect Administration, and \$312 of pre-paid assets, with \$35 retained by APRC for working capital.

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

F-73

---

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

2014, American Property Holdings Corp. was renamed American Property REIT Corp. (continues as "APRC"). APH continues to own 100% of the common equity of APRC at June 30, 2014.

On June 4, 2014, Prospect made a \$1,719 investment in APH to purchase additional membership interests of APH. The proceeds were utilized by APH to purchase additional APRC common equity for \$1,719. The proceeds were utilized by APRC to acquire the real property located at 975 South Cornwell, Yukon, OK ("Taco Bell, OK") for \$1,719. The following cash distributions were declared and paid from APRC to APH and recorded as a return of capital by APH:

October 24, 2012 to June 30, 2013	\$ 1,676
July 1, 2013 to June 30, 2014	175,972

The following interest income was accrued and subsequently paid from APH to Prospect and recognized by Prospect as interest income:

October 24, 2012 to June 30, 2013	\$ 2,006
July 1, 2013 to June 30, 2014	9,844

At June 30, 2013 and June 30, 2014, \$121 and \$53 of interest recognized above had not yet been paid by APH to Prospect and was included by Prospect within interest receivable, respectively.

At June 30, 2013 and June 30, 2014, \$892 and \$4,084 of interest from APH was capitalized payment-in-kind interest and was included by Prospect in the investment cost basis, respectively.

The following interest income was accrued and subsequently paid from APRC to Prospect and recognized by Prospect as interest income:

October 24, 2012 to June 30, 2013	\$ —
July 1, 2013 to June 30, 2014	4,279

At June 30, 2014, \$53 of interest recognized above had not yet been paid by APRC to Prospect and was included by Prospect within interest receivable.

At June 30, 2014, \$581 of interest from APRC was capitalized payment-in-kind interest and was included by Prospect in the investment cost basis.

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

October 24, 2012 to June 30, 2013	\$ 78
July 1, 2013 to June 30, 2014	999

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

October 24, 2012 to June 30, 2013	\$ —
July 1, 2013 to June 30, 2014	419

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

October 24, 2012 to June 30, 2013	\$ 148
July 1, 2013 to June 30, 2014	784

The following amounts were due from Prospect to Prospect Administration for managerial assistance payments (no direct income was recognized by Prospect):

June 30, 2013	\$ 76
June 30, 2014	148

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

The following amounts were due from APH to Prospect for reimbursement of expenses paid by Prospect on behalf of APH and included by Prospect within other receivables on the respective Consolidated Statement of Assets and Liabilities:

June 30, 2013	\$ 13
June 30, 2014	202

The following amounts were due to APH from Prospect for reimbursement of expenses paid by APH on behalf of Prospect and included by Prospect within other liabilities on the respective Consolidated Statement of Assets and Liabilities:

June 30, 2013	\$ —
June 30, 2014	148

Arctic Oilfield Equipment USA, Inc.

Prospect owns 100% of the equity of Arctic Oilfield Equipment USA, Inc. (“Arctic Equipment”). Arctic Equipment owns 70% of the equity of Arctic Energy Services, LLC (“Arctic Energy”), with Ailport Holdings, LLC (“Ailport”) (100% owned and controlled by Arctic Energy management) owning the remaining 30% of the equity of Arctic Energy. Arctic Energy provides oilfield service personnel, well testing flowback equipment, frac support systems and other services to exploration and development companies in the Rocky Mountains.

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

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

The following interest income was accrued and subsequently paid from Arctic Energy to Prospect for interest due and recognized by Prospect as interest income:

May 5, 2014 to June 30, 2014	\$ 1,050
------------------------------	----------

At June 30, 2014, \$18 of interest recognized above had not yet been paid by Arctic Energy to Prospect and was included by Prospect within interest receivable.

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

May 5, 2014 to June 30, 2014	\$ 15
------------------------------	-------

The following amounts were due from Arctic Energy to Prospect for reimbursement of expenses paid by Prospect on behalf of Arctic Energy and included by Prospect within other receivables on the respective Consolidated Statement of Assets and Liabilities (no income was recognized by Prospect).

June 30, 2014	\$ 6
---------------	------

ARRM Services, Inc.

Prospect owns 79.53% of the fully-diluted common, 85.76% of the Series A Preferred and 100.00% of the Series B Preferred equity of ARRM Holdings, Inc. (“ARRM”). ARRM owns 100% of the equity of Ajax Rolled Ring & Machine, LLC (“Ajax LLC”). Ajax forges large seamless steel rings on two forging mills in the company’s York, South Carolina facility. The rings are used in a range of industrial applications, including in construction equipment and power turbines. Ajax also provides machining and other ancillary services.

As of July 1, 2011, the cost basis of Prospect’s total debt and equity investment in Ajax, Inc., including capitalized payment-in-kind interest of \$3,535, was \$41,699, consisting of \$20,607 for senior secured term loans, \$15,035 for subordinated secured term



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

debt and \$6,057 for common equity. The equity of Ajax Inc. was exchanged for equity in ARRM on October 4, 2011, and Ajax Inc. was converted to a limited liability company and became Ajax LLC. On December 28, 2012, Prospect funded \$3,600 of unsecured debt to ARRM.

On April 1, 2013, Prospect refinanced the existing \$19,837 and \$18,635 senior loans to Ajax LLC and ARRM, respectively, increasing the total size of the debt investment to \$38,537. Concurrent with the refinancing, Prospect received repayment of the \$18,635 loans that Prospect previously outstanding. On October 11, 2013, Prospect provided \$25,000 in preferred equity for the recapitalization of ARRM. After the financing, Prospect received repayment of the \$20,009 subordinated unsecured loan previously outstanding.

On June 12, 2014, ARRM was renamed to ARRM Services, Inc.

The following cash payments from Ajax Inc. to Prospect were recorded as a repayment of loan receivable by Prospect:

July 1, 2011 to June 30, 2012	\$440
July 1, 2012 to June 30, 2013	357
July 1, 2013 to June 30, 2014	400

The following interest income was accrued and subsequently paid from ARRM to Prospect for interest due and recognized by Prospect as interest income:

July 1, 2011 to June 30, 2012	\$2,003
July 1, 2012 to June 30, 2013	3,052
July 1, 2013 to June 30, 2014	929

At June 30, 2013, \$29 of interest recognized above had not yet been paid by ARRM to Prospect and was included by Prospect within interest receivable.

The following interest income was accrued and subsequently paid from Ajax LLC to Prospect for interest due and recognized by Prospect as interest income:

July 1, 2011 to June 30, 2012	\$2,847
July 1, 2012 to June 30, 2013	2,124
July 1, 2013 to June 30, 2014	1,873

At June 30, 2013 and June 30, 2014, \$20 and \$6 of interest recognized above had not yet been paid by Ajax LLC to Prospect and was included by Prospect within interest receivable, respectively.

The following payment-in-kind interest was capitalized in the senior secured note to Ajax LLC and recorded as interest income by Prospect:

December 13, 2012 to June 30, 2013	\$—
July 1, 2013 to June 30, 2014	309

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

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

July 1, 2011 to June 30, 2012	\$315
July 1, 2012 to June 30, 2013	90
July 1, 2013 to June 30, 2014	80

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



PROSPECT CAPITAL CORPORATION AND SUBSIDIARIES  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(in thousands, except share and per share data)

(unaudited)

July 1, 2011 to June 30, 2012	\$—
July 1, 2012 to June 30, 2013	49
July 1, 2013 to June 30, 2014	14

**BXC Company, Inc.**

Prospect owns 86.7% of Series A Preferred Stock, 96.8% of Series B Preferred Stock, and 83.1% of fully diluted common stock of BXC Company, Inc. (“BXC”). BXC owns 100% of the common stock of Boxercraft Incorporated (“Boxercraft”).

As of July 1, 2011, the cost basis of Prospect’s total debt and equity investment in Boxercraft, including capitalized payment-in-kind interest of \$763, was \$12,931. On September 28, 2012 and April 18, 2014, Prospect issued additional debt to BXC in the amount of \$2,293 and \$300, respectively. From inception to date, Prospect received a total of \$4,684 in repayments of the combined debt and capitalized a total of \$1,674 of paid-in-kind interest.

Effective as of March 28, 2014, Prospect acquired voting control of BXC pursuant to a voting agreement and irrevocable proxy. Effective May 8, 2014, Prospect acquired control of BXC by transferring shares held by the other equity holders of BXC to Prospect pursuant to an assignment agreement entered into with such other equity holders. There was no income recognized by Prospect from the time BXC became a controlled company through June 30, 2014 due to the non-accrual status.

**CCPI Holdings Inc.**

Prospect owns 100% of the equity of CCPI Holdings Inc. (“CCPI Holdings”). CCPI Holdings owns 94.98% of the equity of CCPI Inc. (“CCPI”), with CCPI management owning the remaining 5.02% of the equity. CCPI owns 100% of each of CCPI Europe Ltd., and MEFEC B.V., and 45% of Gulf Temperature Sensors W.L.L.

On December 13, 2012, Prospect initially made a \$15,921 investment (including 467,928 common shares of Prospect at fair value of \$5,021) in CCPI Holdings, \$7,500 senior secured note and \$8,443 equity interest. The proceeds received by CCPI Holdings were partially utilized to purchase 95.13% of CCPI common stock for \$14,878. The remaining proceeds were used to pay \$395 of structuring fees from CCPI Holdings to Prospect (which were recognized by Prospect as structuring fee income), \$215 for legal services provided by attorneys at Prospect Administration, \$137 for third party expenses and \$318 was retained by CCPI Holdings for working capital. On December 13, 2012, Prospect made an additional investment of \$18,000 in CCPI senior secured debt. The proceeds of the Prospect loan along with \$14,878 of equity financing from CCPI Holdings, Inc. (mentioned above) were used to purchase 95.13% of CCPI equity from the sellers for \$31,829, provide \$120 of debt financing to CCPI management (to partially fund a purchase by management of CCPI stock), fund \$180 of structuring fees from CCPI to Prospect (which were recognized by Prospect as structuring fee income), pay \$548 of third-party expenses, reimburse \$12 for reimbursement of expenses paid by Prospect on behalf of CCPI (no income was recognized by Prospect) and \$189 was retained by CCPI as working capital.

On June 13, 2014, Prospect made a new \$8,218 senior secured note to CCPI. CCPI then distributed this amount to CCPI Holdings as a return of capital which was used to pay down the \$8,216 senior secured note from CCPI Holdings to Prospect. The remaining \$2 was distributed to Prospect as a return of capital of Prospect's equity investment in CCPI Holdings. CCPI continues to own 94.98% of the common stock of CCPI Holdings at June 30, 2014.

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

December 13, 2012 to June 30, 2013	\$—
July 1, 2013 to June 30, 2014	500

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

December 13, 2012 to June 30, 2013	\$ 795
July 1, 2013 to June 30, 2014	1,265



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

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

December 13, 2012 to June 30, 2013	\$—
July 1, 2013 to June 30, 2014	500

All amounts recorded as dividends were paid from earnings and profits of the company paying the dividend.

The following interest income was accrued and subsequently paid from CCPI Holdings to Prospect for interest due and recognized by Prospect as interest income:

December 13, 2012 to June 30, 2013	\$ 642
July 1, 2013 to June 30, 2014	906

At June 30, 2013 and June 30, 2014, \$135 and \$4 of interest recognized above had not yet been paid by CCPI Holdings to Prospect and was included by Prospect within interest receivable, respectively.

The following payment-in-kind interest was capitalized in the senior secured note to CCPI Holdings and recorded as interest income by Prospect:

December 13, 2012 to June 30, 2013	\$ 159
July 1, 2013 to June 30, 2014	557

The following interest income was accrued and subsequently paid from CCPI to Prospect for interest due and recognized by Prospect as interest income:

December 13, 2012 to June 30, 2013	\$ 991
July 1, 2013 to June 30, 2014	1,822

The following payment-in-kind interest was capitalized in the senior secured note to CCPI and recorded as interest income by Prospect:

July 1, 2013 to June 30, 2014	\$ 27
-------------------------------	-------

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

December 13, 2012 to June 30, 2013	\$ 32
July 1, 2013 to June 30, 2014	71

The following cash payments from CCPI to Prospect were recorded as repayments of loans receivable by Prospect:

December 13, 2012 to June 30, 2013	\$ 225
July 1, 2013 to June 30, 2014	562

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

December 13, 2012 to June 30, 2013	\$ 132
July 1, 2013 to June 30, 2014	240

At June 30, 2013 and June 30, 2014, \$60 and \$60 of managerial assistance had been received by Prospect from CCPI Holdings and had not yet been paid to Prospect Administration, respectively. These amounts were included by Prospect in Due to Prospect Administration on the respective Consolidated Statement of Assets and Liabilities (no income was recognized by Prospect).

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

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

December 13, 2012 to June 30, 2013	\$215
July 1, 2013 to June 30, 2014	249

The following amounts were due from CCPI Holdings to Prospect for reimbursement of expenses and included by Prospect within other receivables on the respective Consolidated Statement of Assets and Liabilities (no income was recognized by Prospect):

June 30, 2013	\$—
June 30, 2014	10

At June 30, 2013, Prospect had a \$119 payable to CCPI Holdings for reimbursement in excess of expenses which was subsequently utilized to pay other expenses by Prospect on behalf of CCPI Holdings.

CP Holdings of Delaware LLC

Prospect owns 100% of the equity of CP Holdings of Delaware LLC. (“CP Holdings”). CP Holdings owns 82.9% of the equity of CP Energy Services Inc. (“CP Energy”), and the remaining 17.1% of the equity is owned by CP Energy management. CP Energy owns directly or indirectly 100% of each of CP Well Testing Services, LLC (“CP Well Testing”), CP Well Testing, LLC (“CP Well”), Fluid Management Services, Inc., Fluid Management Services LLC, Wright Transport, Inc., Wright Foster Disposals, LLC, Foster Testing Co, Inc., ProHaul Transports, LLC, Artexoma Logistics, LLC, Wright Trucking, Inc. CP Energy provides oilfield flowback services and fluid hauling and disposal services through its subsidiaries.

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

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

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

On August 2, 2013, Prospect made a senior secured debt investment of \$22,500 in CP Well Testing. Proceeds were used by CP Well Testing to partially fund the recapitalization of CP Energy and pay \$450 of structuring fees from CP Well Testing to Prospect (which was recognized by Prospect as structuring fee income).

On August 2, 2013, Prospect made an additional senior secured debt investment of \$58,773 in CP Energy. CP Energy also received \$2,505 management co-investment in exchange for 17.1% of CP Energy common stock. Total proceeds received at CP Well Testing and CP Energy of \$95,913 (including the \$12,135 of equity financing from CP Holdings mentioned above) were used to purchase 100% of the equity interests in CP Well Testing Holding Company, LLC and Fluid Management Holdings, Inc. (subsequently renamed CP Well Testing and Fluid Management Services, LLC) for a combined \$70,423, to repay the principal, interest and fees of \$19,803 on the loan previously outstanding from Prospect to CP Well, pay \$1,414 of structuring fees from CP Energy to Prospect (which was recognized by Prospect as structuring fee income), \$823 of third-party expenses and \$3,000 was retained by CP Energy as working capital.

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

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

On April 1, 2014, Prospect made new loans to CP Well, ProHaul Transports, LLC Wright Trucking, Inc. and Foster Testing Co, Inc. as co-borrowers, two first lien loans in the amount of \$11,035 and \$72,238 and a second lien loan in the amount of \$15,000. The

F-79

---

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

proceeds of these loans were used to repay CP Well Testing's senior secured term loan and CP Energy's senior secured term loan from Prospect. CP Holdings continues to own 82.9% of the equity of CP Energy at June 30, 2014.

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

August 2, 2013 to June 30, 2014	\$ 8,083
---------------------------------	----------

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

August 2, 2013 to June 30, 2014	\$ 1,657
---------------------------------	----------

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

April 1, 2014 to June 30, 2014	\$ 4,118
--------------------------------	----------

At June 30, 2014, \$45 of interest recognized above had not yet been paid by CP Well to Prospect and was included by Prospect within interest receivable.

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

July 1, 2013 to June 30, 2014	\$ 275
-------------------------------	--------

The following amounts were due from Prospect to Prospect Administration for managerial assistance for CP Well for which Prospect received payment on behalf of Prospect Administration (no direct income was recognized by Prospect):

June 30, 2014	\$ 75
---------------	-------

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

July 1, 2013 to June 30, 2014	\$ 609
-------------------------------	--------

#### Credit Central Loan Company, LLC

Prospect owns 100% of the equity of Credit Central Holdings of Delaware, LLC ("Credit Central Delaware"). Credit Central Delaware owns 74.75% of the equity of Credit Central Holdings, LLC ("Credit Central"), with entities owned by Credit Central management owning the remaining 25.25% of the equity. Credit Central owns 100% of each of Credit Central, LLC, Credit Central South, LLC, Credit Central of Texas, LLC, and Credit Central of Tennessee, LLC. Credit Central is a branch-based provider of installment loans.

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

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

On June 26, 2014, Prospect made a new \$36,333 second lien term loan to Credit Central. Credit Central then distributed this amount to Credit Central Delaware as a return of capital which was used to pay down the Senior Secured Revolving Credit Facility from Credit Central Delaware by the same amount. The remaining amount of the Senior Secured Revolving Credit Facility, \$3,874, was then converted to additional membership interests in Credit Central Delaware. Effective June 26, 2014, Credit Central Holdings, LLC was renamed Credit Central Loan Company, LLC (continues as "Credit Central"). Credit Central Delaware continues to own 74.75% of the equity of Credit Central at June 30, 2014.

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

December 28, 2012 to June 30, 2013	\$4,796
July 1, 2013 to June 30, 2014	10,431

The following cash distributions were declared and paid from Credit Central to Credit Central Delaware and recorded as a return of capital by Credit Central Delaware:

July 1, 2013 to June 30, 2014	\$36,333
-------------------------------	----------

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

December 28, 2012 to June 30, 2013	\$3,893
July 1, 2013 to June 30, 2014	7,845

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

December 28, 2012 to June 30, 2013	\$240
July 1, 2013 to June 30, 2014	521

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

July 1, 2013 to June 30, 2014	\$4,841
-------------------------------	---------

All dividends were paid from earnings and profits of the company paying the dividend.

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

December 28, 2012 to June 30, 2013	\$350
July 1, 2013 to June 30, 2014	700

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

December 28, 2012 to June 30, 2013	\$292
July 1, 2013 to June 30, 2014	131

The following amounts were due from Credit Central Delaware to Prospect for interest and included by Prospect within other receivables on the respective Consolidated Statement of Assets and Liabilities:

June 30, 2013	\$—
June 30, 2014	20

The following amounts were due from Credit Central Delaware to Prospect for reimbursement of expenses and included by Prospect within other receivables on the respective Consolidated Statement of Assets and Liabilities:

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

June 30, 2013	\$ 17
June 30, 2014	—

The following amounts were due to Credit Central Delaware from Prospect for reimbursement of expenses and included by Prospect within other liabilities on the respective Consolidated Statement of Assets and Liabilities:

June 30, 2013	\$ —
June 30, 2014	38

The following amounts were due from Prospect to Prospect Administration for reimbursement for legal, tax and portfolio level accounting services provided directly to Credit Central Delaware for which Prospect received payment on behalf of Prospect Administration (no direct income was recognized by Prospect, but Prospect was given credit for these payments as a reduction of the expenses of Prospect Administration resulting in a reduction of the overhead allocation from Prospect Administration):

June 30, 2013	\$ 175
June 30, 2014	175

Echelon Aviation LLC

Prospect owns 100% of the membership interests of Echelon Aviation, LLC (“Echelon”). Echelon owns 60.7% of the equity of AerLift Leasing Limited (“AerLift”).

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

The following interest income was accrued and subsequently paid from Echelon to Prospect for interest due from Echelon and recognized by Prospect as interest income and included by Prospect within interest receivable:

March 31, 2014 to June 30, 2014	\$ 2,809
---------------------------------	----------

The following amounts were due from Echelon to Prospect for reimbursement of expenses paid by Prospect on behalf of Echelon and included by Prospect within other receivables on the respective Consolidated Statement of Assets and Liabilities (no income was recognized by Prospect):

June 30, 2014	\$ 78
---------------	-------

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 expenses of Prospect Administration resulting in a reduction of the overhead allocation from Prospect Administration):

March 31, 2014 to June 30, 2014	\$ 664
---------------------------------	--------

Energy Solutions Holdings Inc.

As of June 30, 2014, Prospect owns 100% of the equity of Energy Solutions Holdings Inc. (f/k/a Gas Solutions Holdings Inc.) (“Energy Solutions”). Energy Solutions owns 100% of each of Change Clean Energy Holdings, LLC (“Change Clean”), Freedom Marine Solutions Holdings, LLC (“Freedom Marine”) and Yatesville Coal, LLC (“Yatesville”). Freedom Marine owns 100% of each of Vessel Holdings, LLC (“Vessel”), Vessel Holdings II, LLC (“Vessel II”) and Vessel Holdings III, LLC (“Vessel III”). Yatesville owns 100% of North Fork Collieries, LLC. Change Clean owns 100% of Change Clean Energy, LLC, Down East Power Company, LLC and 50.1% of BioChips LLC. Energy Solutions owns interests in companies operating in the energy sector. These include companies operating offshore supply vessels, ownership of a non-operating biomass electrical generation plant and several coal mines. Energy Solutions subsidiaries formerly owned interests in gathering and processing business in east Texas. As of July 1, 2011, the cost basis of our investment in Energy Solutions, including debt and equity, was \$42,003.





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

In December 2011, Prospect completed a reorganization of Gas Solutions Holdings Inc. renaming the company Energy Solutions and transferring ownership of other operating companies owned by Prospect and operating within the energy industry. As part of the reorganization, Prospect transferred our debt and equity interests with cost basis of \$2,540 in Change Clean Energy Holdings, Inc., Change Clean Energy, Inc., \$12,504 in Freedom Marine Holdings, Inc. and \$1,449 of Yatesville Coal Holdings, Inc. to Change Clean, Freedom Marine, and Yatesville, respectively. Each of these entities is wholly owned (directly or indirectly) by Energy Solutions.

On December 28, 2011, Prospect made a follow-on \$1,250 equity investment in Energy Solutions and a \$3,500 debt investment in Vessel, a subsidiary of Freedom Marine. On November 25, 2013, Prospect restructured our investment in Freedom Marine. The \$12,504 subordinated secured loan to Jettco Marine Services, LLC, a subsidiary of Freedom Marine, was replaced with a senior secured note to Vessel II, a new subsidiary of Freedom Marine. On December 3, 2013, Prospect made a \$16,000 senior secured investment in Vessel III, a new subsidiary of Freedom Marine. Overall, the restructuring of our investment in Freedom Marine provided approximately \$16,000 net new senior secured debt financing to support the acquisition of two new vessels. Prospect received \$2,480 of structuring fees from Energy Solutions related to the Freedom Marine restructuring which was recognized as other income.

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

On January 4, 2012, Energy Solutions sold its gas gathering and processing assets held in Gas Solutions Ltd. (“Gas Solutions”) for a sale price of \$199,805, adjusted for the final working capital settlement, including a potential earnout of \$28,000 that may be paid based on the future performance of Gas Solutions. Through June 30, 2014, Prospect has not accrued income for any portion of the \$28,000 potential payment. After expenses, including structuring fees of \$9,966 paid to us, and \$3,152 of third-party expenses, Gas Solutions LP LLC and Gas Solutions GP LLC, subsidiaries of Gas Solutions, received \$157,100 and \$1,587 in cash, respectively, subsequently distributed these amounts, \$158,687 in total, to Energy Solutions. The sale of Gas Solutions by Energy Solutions resulted in significant earnings and profits, as defined by the Internal Revenue Code, at Energy Solutions for calendar year 2012. As a result, 2012 distributions from Energy Solutions to us were required to be recognized as dividend income, in accordance with ASC 946, as there were current year earnings and profits sufficient to support such recognition.

In June, 2014, Freedom Marine Services Holdings, LLC was renamed Freedom Marine Solutions, LLC (continues as “Freedom Marine”), Vessel Holdings, LLC was renamed Vessel Company, LLC (continues as “Vessel”), Vessel Holdings II, LLC was renamed Vessel Company II, LLC (continues as “Vessel II”), Vessel Holdings III, LLC was renamed Vessel Company III, LLC (continues as “Vessel III”), Yatesville Coal Holdings, LLC was renamed Yatesville Coal Company, LLC (continues as “Yatesville”) and Change Clean Energy Holdings, LLC was renamed change Clean Energy Company, LLC (continues as “Change Clean”). Energy Solutions continues to own 100% of all entities as of June 30, 2014.

The following dividends were declared and paid from Energy Solutions to Prospect and recorded as dividend income by Prospect:

July 1, 2011 to June 30, 2012	\$47,850
July 1, 2012 to June 30, 2013	53,820
July 1, 2013 to June 30, 2014	—

All dividends were paid from earnings and profits of Energy Solutions.

The following cash payments from Energy Solutions to Prospect were recorded as a repayment of loan receivable by Prospect:

July 1, 2011 to June 30, 2012	\$—
July 1, 2012 to June 30, 2013	28,500
July 1, 2013 to June 30, 2014	8,500

The following interest income, including prepayment penalty fees, was accrued and subsequently paid from Energy Solutions to Prospect for interest due and recognized by Prospect as interest income:

Edgar Filing: FRESH DEL MONTE PRODUCE INC - Form 4

July 1, 2011 to June 30, 2012	\$6,771
July 1, 2012 to June 30, 2013	24,172
July 1, 2013 to June 30, 2014	5,368

F-83

---

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

At June 30, 2013, \$23 of interest recognized above had not yet been paid by Energy Solutions to Prospect and was included by Prospect within interest receivable.

The following interest income was accrued and subsequently paid from Vessel to Prospect for interest due and recognized by Prospect as interest income:

July 1, 2011 to June 30, 2012	\$326
July 1, 2012 to June 30, 2013	637
July 1, 2013 to June 30, 2014	641

At June 30, 2014, \$2 of interest recognized above had not yet been paid by Vessel to Prospect and was included by Prospect within interest receivable.

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

July 1, 2011 to June 30, 2012	\$—
July 1, 2012 to June 30, 2013	—
July 1, 2013 to June 30, 2014	1,023

At June 30, 2014, \$5 of interest recognized above had not yet been paid by Vessel II to Prospect and was included by Prospect within interest receivable.

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

July 1, 2011 to June 30, 2012	\$—
July 1, 2012 to June 30, 2013	—
July 1, 2013 to June 30, 2014	1,213

At June 30, 2014, \$6 of interest recognized above had not yet been paid by Vessel III to Prospect and was included by Prospect within interest receivable.

The following amounts were due from Energy Solutions to Prospect for reimbursement of expenses and included by Prospect within other receivables on the respective Consolidated Statement of Assets and Liabilities (no income was recognized by Prospect):

June 30, 2012	\$45
June 30, 2013	—
June 30, 2014	—

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

July 1, 2011 to June 30, 2012	\$180
July 1, 2012 to June 30, 2013	180
July 1, 2013 to June 30, 2014	180

The following amounts were due from Prospect to Prospect Administration for reimbursement of managerial assistance payments for which Prospect received payment on behalf of Prospect Administration (no direct income was recognized by Prospect):

June 30, 2012	\$—
June 30, 2013	45
June 30, 2014	45

The following payments were paid from Energy Solutions to Prospect Administration as reimbursement for legal, tax and portfolio level accounting services provided directly to Energy Solutions (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):

PROSPECT CAPITAL CORPORATION AND SUBSIDIARIES  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(in thousands, except share and per share data)

(unaudited)

July 1, 2011 to June 30, 2012	\$—
July 1, 2012 to June 30, 2013	119
July 1, 2013 to June 30, 2014	38

First Tower Finance Company LLC

Prospect owns 100% of the equity of First Tower Holdings of Delaware, LLC (“First Tower Delaware”). First Tower Delaware owns 80.1% of First Tower Finance Company LLC (“First Tower Finance”). First Tower Finance owns 100% of First Tower, LLC (“First Tower”), a multiline specialty finance company.

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

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

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

June 15, 2012 to June 30, 2012	\$—
July 1, 2012 to June 30, 2013	48,520
July 1, 2013 to June 30, 2014	50,976

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

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

June 15, 2012 to June 30, 2012	\$—
July 1, 2012 to June 30, 2013	7,614
July 1, 2013 to June 30, 2014	—

The following interest income was accrued and paid from First Tower Delaware to Prospect for interest due and recognized by Prospect as interest income:

F-85

---

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

June 15, 2012 to June 30, 2012	\$2,312
July 1, 2012 to June 30, 2013	52,476
July 1, 2013 to June 30, 2014	51,791

At June 30, 2013, \$147 of interest recognized above had not yet been paid by First Tower Delaware to Prospect and was included by Prospect within interest receivable.

The following interest income was accrued and paid from First Tower to Prospect for interest due and recognized by Prospect as interest income:

June 15, 2012 to June 30, 2012	\$—
July 1, 2012 to June 30, 2013	—
July 1, 2013 to June 30, 2014	831

At June 30, 2014, \$119 of interest recognized above had not yet been paid by First Tower to Prospect and was included by Prospect within interest receivable.

The following payment-in-kind interest was capitalized in the Senior Secured Revolving Credit Facility to First Tower Delaware and recognized as interest income by Prospect:

December 13, 2012 to June 30, 2013	\$—
July 1, 2013 to June 30, 2014	1,698

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

June 15, 2012 to June 30, 2012	\$—
July 1, 2012 to June 30, 2013	2,416
July 1, 2013 to June 30, 2014	2,560

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

June 15, 2012 to June 30, 2012	\$—
July 1, 2012 to June 30, 2013	1,920
July 1, 2013 to June 30, 2014	3,000

At June 30, 2013 and 2014, \$600 and \$600 of managerial assistance recognized above had not yet been paid by First Tower Finance to Prospect and was included by Prospect within Due to Prospect Administration, respectively.

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

June 15, 2012 to June 30, 2012	\$940
July 1, 2012 to June 30, 2013	—
July 1, 2013 to June 30, 2014	243

The following amounts were due from First Tower Delaware to Prospect for reimbursement of expenses paid by Prospect on behalf of First Tower Delaware and included by Prospect within other receivables on the respective Consolidated Statement of Assets and Liabilities:

June 30, 2013	\$42
June 30, 2014	37

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

Gulf Coast Machine & Supply Company

Prospect owns 100% of the preferred equity of Gulf Coast Machine & Supply Company (“Gulf Coast”). Gulf Coast is a provider of value-added forging solutions to energy and industrial end markets.

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

On November 8, 2013, Gulf Coast issued \$25,950 of convertible preferred stock to Prospect (representing 99.9% of the voting securities of Gulf Coast) in exchange for crediting the same amount to the first lien term loan previously outstanding, leaving a first lien loan balance of \$15,000. On November 29, 2013 and December 16, 2013, Prospect provided an additional \$1,000 and \$1,500, respectively, to fund working capital needs, increasing the first lien loan balance to \$17,500.

The following interest income was accrued and subsequently paid from Gulf Coast to Prospect for interest due and recognized by Prospect as interest income:

November 8, 2013 to June 30, 2014	\$ 1,449
-----------------------------------	----------

At June 30, 2014, \$6 of interest recognized above had not yet been paid by Gulf Coast to Prospect and was included by Prospect within interest receivable.

The following amounts were due from Gulf Coast to Prospect for reimbursement of expenses paid by Prospect on behalf of Gulf Coast and included by Prospect within other receivables on the respective Consolidated Statement of Assets and Liabilities (no income recognized by Prospect):

November 8, 2013 to June 30, 2014	\$ 342
-----------------------------------	--------

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):

November 8, 2013 to June 30, 2014	\$ 4
-----------------------------------	------

Harbortouch Holdings of Delaware Inc.

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

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

On April 1, 2014, Prospect made a new \$137,226 senior secured term loan to Harbortouch. Harbortouch then distributed this amount to Harbortouch Delaware as a return of capital which was used to pay down the \$123,000 senior secured note from Harbortouch Delaware to Prospect. The remaining \$14,226 was distributed to Prospect as a return of capital of Prospect’s equity investment in Harbortouch Delaware. Harbortouch Delaware continues to own 100% of Harbortouch’s Class C voting units, which provide for a 53.5% residual profits allocation from Harbortouch at June 30, 2014.



The following interest income was accrued and subsequently paid from Harbortouch Delaware to Prospect for interest due and recognized by Prospect as interest income:

F-87

---

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

March 31, 2014 to June 30, 2014 \$55

The following interest income was accrued and subsequently paid from Harbortouch to Prospect for interest due and recognized by Prospect as interest income:

March 31, 2014 to June 30, 2014 \$6,825

At June 30, 2014, \$1,962 of interest recognized above had not yet been paid by Harbortouch Delaware to Prospect and was included by Prospect within interest receivable.

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

March 31, 2014 to June 30, 2014 \$125

At June 30, 2014, this amount was included by Prospect in Due to Prospect Administration on the respective Consolidated Statement of Assets and Liabilities.

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

March 31, 2014 to June 30, 2014 \$1,761

The Healing Staff, Inc.

Prospect owns 100% of the equity of The Healing Staff, Inc. (“THS”). Prospect owns 100% of the equity of Vets Securing America, Inc. (“VSA”), which is operated by THS management. VSA provides out-sourced security guards staffing.

As of July 1, 2011, the cost basis of Prospect’s investment in THS and VSA, including debt and equity, was \$18,220. During the year ended June 30, 2012, Prospect made follow-on secured debt investments of \$773 in THS to support the ongoing operations of THS and VSA. In October 2011, Prospect sold a previously acquired building from ESA for \$894. In early May 2012, Prospect made short-term secured debt investments of \$118 and \$42 to support the operations of THS and VSA, respectively, which was repaid in early June 2012. In January 2012, Prospect received \$2,250 towards a litigation settlement. The proceeds from both of these transactions were used to reduce the outstanding loan by \$3,144.

In May 2012, in connection with the implementation of accounts receivable based funding programs for THS and VSA with a third party provider, Prospect agreed to subordinate Prospect’s first priority security interest in all of the accounts receivable and other assets of THS and VSA to the third party provider of that accounts receivable based funding.

During the three months ended December 31, 2012, Prospect determined that the impairment of THS and VSA was other-than-temporary and decreased Prospect’s cost basis by \$12,834 and recorded a realized loss of \$12,117 for the amount that the amortized cost exceeded the fair market value.

Manx Energy, Inc.

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

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

F-88

---

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

On June 30, 2012, AEH and Coalbed loans held by Manx with a cost basis of \$7,991 were removed from Manx and contributed by Prospect to Wolf Energy Holdings Inc., a separate holding company wholly owned by Prospect. On June 30, 2013, Prospect determined the remaining debt and equity investment in Manx was other-than-temporarily impaired and wrote-off \$10,528 of the investment cost basis, leaving a cost basis in the remaining debt balance of \$500.

The following principal payments were paid from Manx to Prospect and recorded by Prospect as return of capital (no income was recognized by Prospect):

July 1, 2011 to June 30, 2012	\$—
July 1, 2012 to June 30, 2013	—
July 1, 2013 to June 30, 2014	450

MITY Holdings of Delaware Inc.

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

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

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

On June 23, 2014, Prospect made a new \$15,769 debt investment in Mity and Mity distributed proceeds to Mity Delaware as a return of capital. Mity Delaware used this distribution to pay down the senior secured debt of Mity Delaware to Prospect by the same amount. The remaining amount of the senior secured debt due from Mity Delaware to Prospect, \$7,200, was then contributed to the capital of Mity Delaware. As a result of this transaction, Prospect held the \$15,769 Mity note. Effective June 23, 2014, Mity Enterprises, Inc. was renamed Mity, Inc. (continues as “Mity”) and Broda Enterprises USA, Inc. was renamed Broda USA, Inc. (continues as “Broda”). Management shareholders of Mity made additional purchases of Mity stock such that Mity Delaware owns 94.99% of the equity of Mity at June 30, 2014.

On June 23, 2014, Prospect also extended a new \$7,500 senior secured revolving facility to Mity, of which none was funded at closing.

The following dividends were declared and paid from Mity to Mity Delaware and recorded as dividend income by Mity Delaware:

September 19, 2013 to June 30, 2014	\$ 1,628
-------------------------------------	----------

All dividends were paid from earnings and profits of Mity.

The following interest payments were paid from Broda to Mity Delaware and recognized by Mity Delaware as interest income:

September 19, 2013 to June 30, 2014	\$455
-------------------------------------	-------

The following interest income was accrued by Prospect for interest due from Mity Delaware and recognized by Prospect as interest income:

September 19, 2013 to June 30, 2014	\$3,001
-------------------------------------	---------

F-89

---

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

At June 30, 2014, \$10 of interest recognized above had not yet been paid by Mity Delaware to Prospect and was included by Prospect within interest receivable.

The following payment-in-kind interest was capitalized in the senior secured note to Mity Delaware and recorded as interest income by Prospect:

September 19, 2013 to June 30, 2014	\$ 177
-------------------------------------	--------

The following interest income was accrued by Prospect for interest due from Mity and recognized by Prospect as interest income:

September 19, 2013 to June 30, 2014	\$ 1,515
-------------------------------------	----------

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

September 19, 2013 to June 30, 2014	\$ 150
-------------------------------------	--------

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

September 19, 2013 to June 30, 2014	\$ 495
-------------------------------------	--------

The following amounts were due from Prospect to Prospect Administration for reimbursement for legal, tax and portfolio level accounting services provided directly to Mity Delaware for which Prospect received payment on behalf of Prospect Administration (no direct income was recognized by Prospect, but Prospect was given credit for these payments as a reduction of the administrative services costs payable by Prospect to Prospect Administration):

June 30, 2014	\$ 75
---------------	-------

The following amounts were due from Mity Delaware to Prospect for reimbursement of expenses and included by Prospect within other receivables on the respective Consolidated Statement of Assets and Liabilities (no income was recognized by Prospect):

June 30, 2014	\$ 3
---------------	------

At June 30, 2014, Prospect had a \$8 payable to Mity Delaware for reimbursement in excess of expenses which was subsequently utilized to pay other expenses by Prospect on behalf of Mity Delaware.

#### Nationwide Acceptance Holdings LLC

Prospect owns 100% of the membership interests of Nationwide Acceptance Holdings, LLC (“Nationwide Holdings”). Nationwide Holdings owns 93.79% of the equity of Nationwide Acceptance, LLC (“Nationwide”), with members of Nationwide management owning the remaining 6.21% of the equity.

On January 31, 2013, Prospect initially made a \$25,151 investment in Nationwide Holdings, of which \$21,308 was a Senior Secured Revolving Credit Facility and \$3,843 was in the form of membership interests in Nationwide Holdings. \$21,885 of the proceeds were utilized to purchase 93.79% of the membership interests in Nationwide. Proceeds were also used to pay \$753 of structuring fees from Nationwide Holdings to Prospect (which was recognized by Prospect as structuring fee income), \$350 of third party expenses and \$163 of legal services provided by attorneys at Prospect Administration. The remaining \$2,000 was retained by Nationwide Holdings as working capital. On March 28, 2014, Prospect funded an additional \$4,000 to Nationwide Holdings (\$3,400 through the Senior Secured Revolving Credit Facility and \$600 to purchase additional membership interests in Nationwide Holdings). The additional funding along with cash on hand was utilized by Nationwide Holdings to fund a \$5,000 dividend to Prospect.

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



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

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

January 31, 2013 to June 30, 2013	\$2,615
July 1, 2013 to June 30, 2014	7,074

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

January 31, 2013 to June 30, 2013	\$—
July 1, 2013 to June 30, 2014	5,000

All dividends were paid from earnings and profits of the company paying the dividend.

The following interest income was accrued and subsequently paid from Nationwide Holdings to Prospect for interest due and recognized by Prospect as interest income:

January 31, 2013 to June 30, 2013	\$1,788
July 1, 2013 to June 30, 2014	4,322

At June 30, 2013, \$12 of interest recognized above had not yet been paid by Nationwide Holdings to Prospect and was included by Prospect within interest receivable.

The following interest income was accrued and subsequently paid from Nationwide to Prospect for interest due and recognized by Prospect as interest income:

January 31, 2013 to June 30, 2013	\$—
July 1, 2013 to June 30, 2014	107

At June 30, 2014, \$8 of interest recognized above had not yet been paid by Nationwide to Prospect and was included by Prospect within interest receivable.

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

January 31, 2013 to June 30, 2013	\$131
July 1, 2013 to June 30, 2014	354

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

January 31, 2013 to June 30, 2013	\$167
July 1, 2013 to June 30, 2014	400

At June 30, 2013 and June 30, 2014, \$100 and \$100 of managerial assistance had been received by Prospect from Nationwide and had not yet been paid to Prospect Administration, respectively. These amounts were included by Prospect in Due to Prospect Administration on the respective Consolidated Statement of Assets and Liabilities.

The following payments were paid from Prospect to Prospect Administration as reimbursement for legal, tax and portfolio level accounting services provided directly to Nationwide Holdings (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):

January 31, 2013 to June 30, 2013	\$163
July 1, 2013 to June 30, 2014	—

The following payments were paid from Nationwide to Prospect Administration as reimbursement for legal, tax and portfolio level accounting services provided directly to Nationwide Holdings 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):



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

January 31, 2013 to June 30, 2013	\$—
July 1, 2013 to June 30, 2014	234

The following amounts were due from Nationwide Holdings to Prospect for reimbursement of expenses paid by Prospect and included by Prospect within other receivables on the respective Consolidated Statement of Assets and Liabilities (no income was recognized by Prospect):

June 30, 2013	\$—
June 30, 2014	2

The following amounts were due to Nationwide Holdings from Prospect for reimbursement of expenses and included by Prospect within other liabilities on the respective Consolidated Statement of Assets and Liabilities (no income was recognized by Prospect):

June 30, 2013	\$7
June 30, 2014	—

NMMB Holdings, Inc.

Prospect owns 100% of the equity of NMMB Holdings, Inc. (“NMMB Holdings”). NMMB Holdings owns 92.93% of the fully-diluted equity of NMMB, Inc. (“NMMB,” previously NMMB Acquisition, Inc.), with NMMB management owning the remaining 7.07% of the equity. NMMB owns 100% of Refuel Agency, Inc. (“Refuel Agency”). Refuel Agency owns 100% of Armed Forces Communications, Inc. (“Armed Forces”). NMMB is an advertising media buying business.

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

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

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

On June 12, 2014, Prospect made a new \$7,000 senior secured term loan to Armed Forces. Armed Forces distributed this amount to Refuel Agency as a return of capital. Refuel Agency distributed this amount to NMMB as a return of capital, which was used to pay down \$7,000 of NMMB’s \$10,714 senior secured term loan to Prospect. As of June 30, 2014, Prospect held \$3,714 of senior secured term loan NMMB and \$7,000 senior secured term loan of Armed Forces. Effective June 12, 2014, NMMB Acquisition, Inc. was renamed NMMB, Inc. (continues as “NMMB”). NMMB Holdings continues to own 92.93% of the fully-diluted equity of NMMB as of June 30, 2014.

The following interest income was accrued and subsequently paid to Prospect for interest due from NMMB Holdings and recognized by Prospect as interest income:

July 1, 2011 to June 30, 2012	\$428
July 1, 2012 to June 30, 2013	426
July 1, 2013 to June 30, 2014	192

At June 30, 2013, \$3 of interest recognized above had not yet been paid by NMMB Holdings to Prospect and was included by Prospect within interest receivable. There was no such outstanding interest due to Prospect from NMMB Holdings as of June 30, 2014.

F-92

---

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

The following interest income was accrued by Prospect for interest due from NMMB and recognized by Prospect as interest income:

July 1, 2011 to June 30, 2012	\$3,255
July 1, 2012 to June 30, 2013	2,600
July 1, 2013 to June 30, 2014	1,859

At June 30, 2013 and 2014, \$20 and \$4 of interest recognized above had not yet been paid by NMMB to Prospect and was included by Prospect within interest receivable.

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

July 1, 2011 to June 30, 2012	\$361
July 1, 2012 to June 30, 2013	500
July 1, 2013 to June 30, 2014	100

At June 30, 2014, \$300 of managerial assistance due had not yet been paid by NMMB Holdings to Prospect and was included by Prospect within other receivables.

The following amounts were due from Prospect to Prospect Administration for reimbursement of managerial assistance payments for which Prospect received payment on behalf of Prospect Administration (no direct income was recognized by Prospect):

June 30, 2013	\$100
June 30, 2014	300

The following payments were paid from NMMB Holdings to Prospect Administration as reimbursement for legal, tax and portfolio level accounting services provided directly to NMMB Holdings (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):

July 1, 2011 to June 30, 2012	\$—
July 1, 2012 to June 30, 2013	12
July 1, 2013 to June 30, 2014	—

NPH Property Holdings, LLC

Prospect owns 100% of the equity of NPH Property Holdings, LLC (“NPH”). NPH owns 100% of the common equity of National Property Holdings Corp. (“NPRC”). NPRC is a Maryland corporation and a qualified REIT for federal income tax purposes. In order to qualify as a REIT, NPRC issued 125 shares of Series A Cumulative Non-Voting Preferred Stock to 125 accredited investors. The preferred stockholders are entitled to receive cumulative dividends semi-annually at an annual rate of 12.5% and do not have the ability to participate in the management or operation of NPRC.

NPRC was formed to acquire, operate, finance, lease, manage, and sell a portfolio of real estate assets and engage in any and all other activities as may be necessary, incidental or convenient to carry out the foregoing. NPRC acquires real estate assets, including, but not limited to, industrial, commercial, and multi-family properties.

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

On December 31, 2013, Prospect made a \$10,620 investment in NPH, of which \$8,800 was a Senior Term Loan and \$1,820 was used to purchase additional membership interests of NPH. The proceeds were utilized by NPH to purchase additional NPRC common equity for \$10,620. The proceeds were utilized by NPRC to purchase a 93.0% ownership

interest in APH Carroll Bartram Park, LLC for \$10,288 and to pay \$113 of structuring fees to Prospect (which was recognized by Prospect as structuring fee

F-93

---

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

income), with \$219 retained by NPRC for working capital. APH Carroll Bartram Park, LLC was purchased by NPRC for \$38,000 which included debt financing and minority interest of \$28,500 and \$774, respectively. The remaining proceeds were used to pay \$206 of structuring fees to Prospect (which was recognized by Prospect as structuring fee income), \$1,038 of third party expenses, \$5 of legal services provided by attorneys at Prospect Administration, and \$304 of pre-paid assets, with \$9 retained by NPRC for working capital.

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

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

Effective as of April 1, 2014, Prospect made a new \$104,460 senior term loan to NPRC. NPRC then distributed this amount to NPH as a return of capital which was used to pay down the Senior Term Loan from NPH by the same amount. Effective April 1, 2014, National Property Holdings Corp. was renamed National Property REIT Corp. (continues as "NPRC"). NPH continues to own 100% of the common equity of NPRC at June 30, 2014.

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

The following cash distributions were declared and paid from NPRC to NPH and recorded as a return of capital by NPH:

December 31, 2013 to June 30, 2014	\$ 106,810
------------------------------------	------------

The following cash distributions were declared and paid from NPRC to Prospect and recorded as a return of capital by Prospect:

December 31, 2013 to June 30, 2014	\$ 9,900
------------------------------------	----------

The following interest income was accrued and subsequently paid by NPH to Prospect and recognized by Prospect as interest income:

December 31, 2013 to June 30, 2014	\$ 2,406
------------------------------------	----------

The following interest income was accrued and subsequently paid by NPRC to Prospect and recognized by Prospect as interest income:

December 31, 2013 to June 30, 2014	\$ 3,117
------------------------------------	----------

At June 30, 2014, \$432 and \$18 of interest from NPH and NPRC was capitalized payment-in-kind interest and was included by Prospect in the investment cost basis, respectively.

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

December 31, 2013 to June 30, 2014	\$ 278
------------------------------------	--------

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

December 31, 2013 to June 30, 2014	\$ 288
------------------------------------	--------

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

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

December 31, 2013 to June 30, 2014	\$ 255
------------------------------------	--------

The following amounts were due from Prospect to Prospect Administration for managerial assistance payments for which Prospect received payment on behalf of Prospect Administration (no direct income was recognized by Prospect):

June 30, 2014	\$ 128
---------------	--------

The following amounts were due from NPH to Prospect for reimbursement of expenses paid by Prospect on behalf of NPH and included by Prospect within other receivables on the respective Consolidated Statement of Assets and Liabilities:

June 30, 2014	\$ 7
---------------	------

R-V Industries, Inc.

As of July 1, 2011 and continuing through June 30, 2014, Prospect owns 88.27% of the fully-diluted equity of R-V Industries, Inc. ("R-V"), with R-V management owning the remaining 11.73% of the equity. As of June 30, 2011, Prospect's equity investment cost basis was \$1,682 and \$5,087 for warrants and common stock, respectively.

On November 30, 2012, Prospect made a \$9,500 second lien term loan to R-V and R-V received an additional \$4,000 of senior secured financing from a third-party lender. The combined \$13,500 of proceeds was partially utilized by R-V to pay a dividend to its common stockholders in an aggregate amount equal to \$13,288 (including \$11,073 to Prospect recognized by Prospect as a dividend). The remaining proceeds were used by R-V to pay \$142 of structuring fees to Prospect (which was recognized by Prospect as structuring fee income), \$47 for third party expenses and \$23 for legal services provided by attorneys at Prospect Administration.

On June 12, 2013, Prospect provided an additional \$23,250 to the second lien term loan to R-V. The proceeds were partially utilized by R-V to pay a dividend to the common stockholders in an aggregate amount equal to \$15,000 (including \$13,240 dividend to Prospect). The remaining proceeds were used to pay off \$7,835 of outstanding debt due from R-V to a third-party, \$11 for legal services provided by attorneys at Prospect Administration and \$404 was retained by R-V for working capital. On February 28, 2014, R-V repaid \$2,339 of the second lien term loan due to Prospect.

The following dividends were paid from R-V to Prospect and recognized by Prospect as dividend income:

July 1, 2011 to June 30, 2012	\$ 283
July 1, 2012 to June 30, 2013	24,462
July 1, 2013 to June 30, 2014	1,100

All dividends were paid from earnings and profits of R-V.

The following income was accrued and subsequently paid from R-V to Prospect and recognized by Prospect as interest income:

July 1, 2011 to June 30, 2012	\$ —
July 1, 2012 to June 30, 2013	781
July 1, 2013 to June 30, 2014	3,188

The following amounts were due from R-V to Prospect for interest and included by Prospect within interest receivable on the respective Consolidated Statement of Assets and Liabilities:

June 30, 2012	\$ —
June 30, 2013	27
June 30, 2014	—

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

F-95



PROSPECT CAPITAL CORPORATION AND SUBSIDIARIES  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(in thousands, except share and per share data)

(unaudited)

July 1, 2011 to June 30, 2012	\$ 174
July 1, 2012 to June 30, 2013	180
July 1, 2013 to June 30, 2014	180

The following amounts were due from Prospect to Prospect Administration for reimbursement of managerial assistance payments for which Prospect received payment on behalf of Prospect Administration (no direct income was recognized by Prospect):

June 30, 2012	\$45
June 30, 2013	15
June 30, 2014	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):

July 1, 2011 to June 30, 2012	\$—
July 1, 2012 to June 30, 2013	37
July 1, 2013 to June 30, 2014	—

STI Holding, Inc.

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

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

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

UPH Property Holdings, LLC

Prospect owns 100% of the equity of UPH Property Holdings, LLC (“UPH”). UPH owns 100% of the common equity of United Property Holdings Corp. (“UPRC”). UPRC is a Maryland corporation and a qualified REIT for federal income tax purposes. In order to qualify as a REIT, UPRC issued 125 shares of Series A Cumulative Non-Voting Preferred Stock to 125 accredited investors. The preferred stockholders are entitled to receive cumulative dividends semi-annually at an annual rate of 12.5% and do not have the ability to participate in the management or operation of UPRC.

UPRC was formed to acquire, operate, finance, lease, manage, and sell a portfolio of real estate assets and engage in any and all other activities as may be necessary, incidental or convenient to carry out the foregoing. UPRC acquires real estate assets, including, but not limited to, industrial, commercial, and multi-family properties.

On December 31, 2013, UPRC distributed its majority interests in five JVs holding real estate assets to APH. APH then distributed these JV interests to Prospect in a transaction characterized as a return of capital. Prospect, on the same day, contributed certain of these JV interests to NPH and the remainder to UPH (each wholly-owned subsidiaries of Prospect). Each of NPH and UPH immediately thereafter contributed these JV interests to UPRC and



UPRC, respectively. The total investments in the JVs transferred to UPH and from UPH to UPRC consisted of \$18,855 and \$3,707 of debt and equity financing, respectively. There was no material gain or loss realized on these transactions.

F-96

---

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

Effective as of April 1, 2014, Prospect made a new \$19,027 senior term loan to UPRC. UPRC then distributed this amount to UPH as a return of capital which was used to pay down the Senior Term Loan from UPH by the same amount. Effective April 1, 2014, United Property Holdings Corp. was renamed United Property REIT Corp. (continues as "UPRC"). UPH continues to own 100% of the common equity of UPRC at June 30, 2014.

On June 4, 2014, Prospect made a \$1,405 investment in UPH to purchase additional membership interests of UPH. The proceeds were utilized by UPH to purchase additional UPRC common equity for \$1,405. The proceeds were utilized by UPRC to acquire the real property located at 1201 West College, Marshall, MO ("Taco Bell, MO") for \$1,405.

The following cash distributions were declared and paid from UPRC to UPH and recorded as a return of capital by UPH:

December 31, 2013 to June 30, 2014	\$ 20,086
------------------------------------	-----------

The following interest income was accrued and subsequently paid by UPH to Prospect and recognized by Prospect as interest income:

December 31, 2013 to June 30, 2014	\$ 375
------------------------------------	--------

The following interest income was accrued and subsequently paid by UPRC to Prospect and recognized by Prospect as interest income:

December 31, 2013 to June 30, 2014	\$ 553
------------------------------------	--------

At June 30, 2014, \$6 of interest recognized above had not yet been paid by UPRC to Prospect and was included by Prospect within interest receivable.

At June 30, 2014, \$173 of interest from UPH was capitalized payment-in-kind interest and was included by Prospect in the investment cost basis.

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

December 31, 2013 to June 30, 2014	\$ 69
------------------------------------	-------

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

December 31, 2013 to June 30, 2014	\$ 87
------------------------------------	-------

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

December 31, 2013 to June 30, 2014	\$ 100
------------------------------------	--------

Valley Electric Holdings I, Inc.

As of June 30, 2014, Prospect owns 100% of the common stock of Valley Electric Holdings I, Inc. ("Valley Holdings I"). Valley Holdings I owns 100% of Valley Electric Holdings II, Inc. ("Valley Holdings II"). 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 U.S.

On December 31, 2012, Prospect initially invested \$52,098 (including 4,141,547 common shares of Prospect at a fair value of \$44,650) in exchange for \$32,572 was in the form of a senior secured note of Valley Holdings I, a \$10,000 senior secured note of Valley Electric (discussed below) and \$9,526 to purchase the common stock of Valley Holdings I. The proceeds were partially utilized by Valley Holdings I to purchase 100% of Valley Holdings II common stock for \$40,528. The remaining proceeds at Valley Holdings I were used to pay \$977 of structuring fees from Valley Holdings I to Prospect (which were recognized by Prospect as structuring fee income), \$345 for legal services provided by attorneys at Prospect Administration and \$248 was retained by Valley Holdings I as working capital. The \$40,528 of proceeds received by Valley Holdings II were subsequently used to purchase 96.3%

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

of Valley Electric's common stock. The \$40,528 proceeds received by Valley Electric, in addition to \$1,500 co-invest from management, were used to fund an equity investment in Valley.

On December 31, 2012, Prospect invested \$10,000 (as mentioned above) into Valley in the form of senior secured debt. Total proceeds of \$52,028 received by Valley (including \$42,028 equity investment mentioned above) were used to purchase the equity of Valley from third-party sellers for \$45,650, pay \$4,628 of third-party transaction expenses (including bonuses to Valley's management of \$2,320), pay \$250 from Valley to Prospect (which were recognized by Prospect as structuring fee income) and \$1,500 was retained by Valley for working capital.

On June 24, 2014, Valley Holdings II and management of Valley formed Valley Electric and contributed their shares of Valley stock to Valley Electric. Prospect made a new \$20,471 senior secured loan to Valley Electric. Valley Electric then distributed this amount to Valley Holdings I, via Valley Holdings II, as a return of capital which was used to pay down the senior secured note of Valley Holdings I by the same amount. The remaining principal amount of the senior secured note, \$16,754, was then contributed to the capital of Valley Holdings I. At June 30, 2014, Prospect holds \$30,581 of senior secured debt issued by Valley.

The following dividends were declared and paid from Valley to Valley Holdings II, which were subsequently distributed to and recognized as dividend income by Valley Holdings I:

December 31, 2012 to June 30, 2013	\$ 1,865
July 1, 2013 to June 30, 2014	2,953

All dividends were paid from earnings and profits of Valley and Valley Holdings II.

The following cash payments from Valley Holdings I to Prospect were recorded as a repayment of loan receivable by Prospect:

December 31, 2012 to June 30, 2013	\$—
July 1, 2013 to June 30, 2014	20,471

The following cash payments from Valley to Prospect were recorded as a repayment of loan receivable by Prospect:

December 31, 2012 to June 30, 2013	\$ 100
July 1, 2013 to June 30, 2014	200

The following interest income was accrued and subsequently paid from Valley Holdings I to Prospect and recognized by Prospect as interest income:

December 31, 2012 to June 30, 2013	\$ 1,489
July 1, 2013 to June 30, 2014	3,161

The following payment-in-kind interest was capitalized in the senior secured note to Valley Holdings I and recognized as interest income by Prospect:

December 31, 2012 to June 30, 2013	\$ 1,489
July 1, 2013 to June 30, 2014	3,161

The following interest income was accrued by Prospect for interest due from Valley and recognized by Prospect as interest income:

December 31, 2012 to June 30, 2013	\$ 408
July 1, 2013 to June 30, 2014	820

At June 30, 2014, \$3 of interest recognized above had not yet been paid by Valley to Prospect and was included by Prospect within interest receivable.

The following payment-in-kind interest was capitalized in the senior secured note to Valley and recognized as interest income by Prospect:

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

December 31, 2012 to June 30, 2013	\$ 125
July 1, 2013 to June 30, 2014	255

The following interest income was accrued and subsequently paid from Valley Electric to Prospect for interest due and recognized by Prospect as interest income:

December 31, 2012 to June 30, 2013	\$ —
July 1, 2013 to June 30, 2014	74

At June 30, 2014, \$45 of interest recognized above had not yet been paid by Valley Electric to Prospect and was included by Prospect within interest receivable.

The following payment-in-kind interest was capitalized in the senior secured note to Valley Electric and recognized as interest income by Prospect:

December 31, 2012 to June 30, 2013	\$ —
July 1, 2013 to June 30, 2014	29

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

December 31, 2012 to June 30, 2013	\$ 98
July 1, 2013 to June 30, 2014	148

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

December 31, 2012 to June 30, 2013	\$ 150
July 1, 2013 to June 30, 2014	300

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

December 31, 2012 to June 30, 2013	\$ 345
July 1, 2013 to June 30, 2014	91

The following amounts were due from Valley Holdings I to Prospect for reimbursement of expenses and included by Prospect within other receivables on the respective Consolidated Statement of Assets and Liabilities:

June 30, 2013	\$ 27
June 30, 2014	—

At June 30, 2014, Prospect had a \$6 payable to Valley Holdings I for reimbursement in excess of expenses which was subsequently utilized to pay other expenses by Prospect on behalf of Valley Holdings I.

#### Wolf Energy Holdings Inc.

Prospect owns 100% of the equity of Wolf Energy Holdings Inc. (“Wolf Energy Holdings”). Wolf Energy Holdings owns 100% of each of Appalachian Energy Holdings LLC (“AEH”), Coalbed, LLC (“Coalbed”) and Wolf Energy, LLC (“Wolf Energy”). AEH owns 100% of C&S Operating, LLC and Coalbed owns 100% of Coalbed Operator, 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

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

those operations. In addition, effective June 29, 2012, C&J Cladding Holding Company, Inc. (“C&J Holdings”) merged with and into Wolf Energy Holdings, with Wolf Energy Holdings as the surviving entity. At the time of the merger, C&J Holdings held the remaining undistributed proceeds in cash from the sale of its membership interests in C&J Cladding, LLC (“C&J”) (discussed below). The merger was effectuated in connection with the broader simplification of Prospect’s energy investment holdings.

On June 1, 2012, Prospect sold the membership interests in C&J for \$5,500. Proceeds from the sale were used to pay a \$3,000 distribution to Prospect (\$580 reduction in cost basis and \$2,420 realized gain recognized by Prospect), an advisory fee of \$1,500 from C&J to Prospect (which was recognized by Prospect as other income) and \$978 was retained by C&J as working capital to pay \$22 of legal services provided by attorneys at Prospect Administration and third-party expenses.

On June 30, 2012, AEH and Coalbed loans with a cost basis of \$7,991 were assigned by Prospect to Wolf Energy Holdings Inc. from Manx Energy, Inc.

On February 27, 2013, Prospect made a \$50 senior secured debt investment senior secured to East Cumberland, L.L.C. (“East Cumberland”), a former wholly-owned subsidiary of AEH with AEH as guarantor. Proceeds were used to pay off vendors.

On April 15, 2013, Prospect foreclosed on the assets of H&M Oil & Glass, LLC (“H&M”). At the time of foreclosure, H&M was in default on loans receivables due to Prospect with a cost basis of \$64,449. The assets previously held by H&M were assigned by Prospect to Wolf Energy in exchange for a \$66,000 term loan secured by the assets. The cost basis in this loan of \$44,632 was determined in accordance with ASC 310-40, Troubled Debt Restructurings by Creditors, and was equal to the fair value of assets at the time of transfer resulting in a capital loss of \$19,647 in connection with the foreclosure on the assets. On May 17, 2013, Wolf Energy sold the assets located in Martin County, which were previously held by H&M, for \$66,000. Proceeds from the sale were primarily used to repay the loan and net profits interest receivable due to us resulting in a realized capital gain of \$11,826 offsetting the previously recognized loss. Prospect received \$3,960 of structuring and advisory fees from Wolf Energy during the year ended June 30, 2013 related to the sale and \$991 under the net profits interest agreement which was recognized as other income during the fiscal year ended June 30, 2013.

Effective June 6, 2014, Appalachian Energy Holdings LLC was renamed Appalachian Energy LLC (continues as “AEH”).

The following interest income was paid to Prospect for interest due from Wolf Energy and recognized by Prospect as interest income:

June 30, 2012	\$—
July 1, 2012 to June 30, 2013	452
July 1, 2013 to June 30, 2014	—

#### Note 15. Litigation

From time to time, we may become involved in various investigations, claims and legal proceedings that arise in the ordinary course of our business. These matters may relate to intellectual property, employment, tax, regulation, contract or other matters. The resolution of these matters as they arise will be subject to various uncertainties and, even if such claims are without merit, could result in the expenditure of significant financial and managerial resources. During the year ended June 30, 2014, we received \$5,825 of legal cost reimbursement from a litigation settlement, which had been expensed in prior quarters, and is recognized as other income on our consolidated financial statements. We are not aware of any other material litigation as of the date of this report.

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

Note 16. Financial Highlights

The following is a schedule of financial highlights for each of the five years in the period ended June 30, 2014:

	Year Ended June 30,					
	2014	2013	2012	2011	2010	
<b>Per Share Data</b>						
Net asset value at beginning of year	\$ 10.72	\$ 10.83	\$ 10.36	\$ 10.30	\$ 12.40	
Net investment income(1)	1.19	1.57	1.63	1.10	1.13	
Net realized (loss) gain on investments(1)	(0.01 )	(0.13 )	0.32	0.19	(0.87 )	
Net change in unrealized (depreciation) appreciation on investments(1)	(0.12 )	(0.37 )	(0.28 )	0.09	0.07	
Dividends to shareholders	(1.32 )	(1.28 )	(1.22 )	(1.21 )	(1.33 )	
Common stock transactions(2)	0.10	0.10	0.02	(0.11 )	(1.22 )	
Fair value of equity issued for Patriot acquisition	—	—	—	—	0.12	
Net asset value at end of year	\$ 10.56	\$ 10.72	\$ 10.83	\$ 10.36	\$ 10.30	
<b>Per share market value at end of year</b>						
Total return based on market value(3)	10.88	% 6.24	% 27.21	% 17.22	% 17.66	%
Total return based on net asset value(3)	10.97	% 10.91	% 18.03	% 12.54	% (6.82	%)
Shares of common stock outstanding at end of year	342,626,637	247,836,965	139,633,870	107,606,690	69,086,862	
Weighted average shares of common stock outstanding	300,283,941	207,069,971	114,394,554	85,978,757	59,429,222	
<b>Ratios/Supplemental Data</b>						
Net assets at end of year	\$3,618,182	\$2,656,494	\$1,511,974	\$1,114,357	\$711,424	
Portfolio turnover rate	15.21	% 29.24	% 29.06	% 27.63	% 21.61	%
Annualized ratio of operating expenses to average net assets	11.11	% 11.50	% 10.73	% 8.47	% 7.54	%
Annualized ratio of net investment income to average net assets	11.18	% 14.86	% 14.92	% 10.60	% 10.69	%

(1) Financial highlights are based on the weighted average number of common shares outstanding for the period presented (except for dividends to shareholders which is based on actual rate per share).

(2) Common stock transactions include the effect of our issuance of common stock in public offerings (net of underwriting and offering costs), shares issued in connection with our dividend reinvestment plan and shares issued to acquire investments. The fair value of equity issued to acquire portfolio investments from Patriot has been presented separately for the year ended June 30, 2010.

(3) Total return based on market value is based on the change in market price per share between the opening and ending market prices per share in each period and assumes that dividends are reinvested in accordance with our dividend reinvestment plan. Total return based on net asset value is based upon the change in net asset value per share between the opening and ending net asset values per share in each period and assumes that dividends are reinvested in accordance with our dividend reinvestment plan.

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

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, 2014:

Quarter Ended	Investment Income		Net Investment Income		Net Realized and Unrealized Gains (Losses)		Net Increase in Net Assets from Operations	
	Total	Per Share <sup>(1)</sup>	Total	Per Share <sup>(1)</sup>	Total	Per Share <sup>(1)</sup>	Total	Per Share <sup>(1)</sup>
September 30, 2011	\$55,342	\$ 0.51	\$27,877	\$ 0.26	\$ 12,023	\$ 0.11	\$ 39,900	\$ 0.37
December 31, 2011	67,263	0.61	36,508	0.33	27,984	0.26	64,492	0.59
March 31, 2012	95,623	0.84	58,072	0.51	(7,863 )	(0.07 )	50,209	0.44
June 30, 2012	102,682	0.82	64,227	0.52	(27,924 )	(0.22 )	36,303	0.29
September 30, 2012	123,636	0.76	74,027	0.46	(26,778 )	(0.17 )	47,249	0.29
December 31, 2012	166,035	0.85	99,216	0.51	(52,727 )	(0.27 )	46,489	0.24
March 31, 2013	120,195	0.53	59,585	0.26	(15,156 )	(0.07 )	44,429	0.20
June 30, 2013	166,470	0.68	92,096	0.38	(9,407 )	(0.04 )	82,689	0.34
September 30, 2013	161,034	0.62	82,337	0.32	(2,437 )	(0.01 )	79,900	0.31
December 31, 2013	178,090	0.62	92,215	0.32	(6,853 )	(0.02 )	85,362	0.30
March 31, 2014	190,327	0.60	98,523	0.31	(16,422 )	(0.06 )	82,101	0.26
June 30, 2014	182,840	0.54	84,148	0.25	(12,491 )	(0.04 )	71,657	0.21

<sup>(1)</sup> Per share amounts are calculated using the weighted average number of common shares outstanding for the period presented.

Note 18. Subsequent Events

On July 11, 2014, we increased total commitments to our Revolving Credit Facility by \$10,000 to \$867,500 in the aggregate.

On July 22, 2014, Injured Workers Pharmacy, LLC repaid the \$22,678 loan receivable to us.

On July 23, 2014, Correctional Healthcare Holding Company, Inc. repaid the \$27,100 loan receivable to us.

On July 23, 2014, we increased total commitments to our Revolving Credit Facility by \$10,000 to \$877,500 in the aggregate.

On July 24, 2014, we issued 98,503 shares of our common stock in connection with the dividend reinvestment plan.

On July 28, 2014, Tectum Holdings, Inc. repaid the \$10,000 loan receivable to us.

On August 1, 2014, we sold our investments in AMU Holdings Inc. and Airmall Inc. for net proceeds of \$51,379. In addition, there is \$6,000 being held in escrow, of which 98% is due to Prospect, which will be recognized if and when received.

On August 5, 2014, we made an investment of \$39,105 to purchase 70.94% of the subordinated notes in CIFIC Funding 2014-IV, Ltd.

On August 13, 2014, we provided \$210,000 of senior secured financing, of which \$200,000 was funded at closing, to support the recapitalization of Trinity Services Group, Inc., a leading food services company in the H.I.G. Capital portfolio.

On August 14, 2014, we announced the then current conversion rate on the 2018 Notes as 83.6661 shares of common stock per \$1 principal amount of the 2018 Notes converted, which is equivalent to a conversion price of approximately \$11.95.

On August 21, 2014, we issued 129,435 shares of our common stock in connection with the dividend reinvestment plan.

On August 22, 2014, Byrider Systems Acquisition Corp. repaid the \$11,177 loan receivable to us.

On August 22, 2014, Capstone Logistics, LLC repaid the \$189,941 loan receivable to us.

On August 22, 2014, TriMark USA, LLC repaid the \$10,000 loan receivable to us.

F-102

---



Table of Contents

PROSPECTUS SUPPLEMENT

February 6, 2015

Incapital LLC  
BofA Merrill Lynch  
Citigroup  
RBC Capital Markets