

RONALD FRIEDMAN, as trustee for
the SportCo Creditors' Liquidation
Trust,

Plaintiff,

v.

WELLSPRING CAPITAL
MANAGEMENT LLC, WELLSPRING
CAPITAL PARTNERS IV, L.P., WCM
GENPAR IV, L.P., WCM GENPAR IV
GP, LLC, ALEXANDER E. CARLES,
BRADLEY JOHNSON, F. HEWITT
GRANT, CHARLES E. WALKER, JR.,
TODD BOEHLI, BERNARD
ZIOMEK, and ANDREW KUPCHIK,

Defendants.

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Defendants Wellspring Capital Management LLC (“Wellspring Capital”), Wellspring Capital Partners IV, L.P. (“Wellspring”), WCM GenPar IV, L.P. and WCM GenPar IV GP, LLC (together, “WCM GenPar,” and together with Wellspring Capital and Wellspring, the “Wellspring Defendants”), and Alexander E. Carles move the Court pursuant to [Fed. R. Civ. P. 12\(b\)\(6\)](#) and [Fed. R. Bankr. P. 7012](#) to dismiss the First Amended Complaint (the “Complaint” or “Compl.”) with prejudice (the “Motion”). In support of the Motion, the Wellspring Defendants and Mr. Carles submit the following:

PRELIMINARY STATEMENT

This is a fraudulent conveyance action in which the Trustee Plaintiff, standing in the shoes of Prospect Capital Corporation (“Prospect”), seeks to avoid two dividends paid as part of the second lien financing transactions entered into by Ellett Brothers, LLC (“Ellett”) and its subsidiaries and Prospect. Prospect participated in, funded, and approved these bona fide second lien financing transactions, and negotiated and signed the governing contracts that required the loan proceeds to be used, in part, to pay these dividends. Those contracts also include a choice of law provision mandating that New York law apply to any claims. Prospect, and the Trustee, should be held to that contractual agreement. And under New York law, Plaintiff’s Complaint does not support a cause of action: it makes no allegations that the borrowers were insolvent at the time of, or left with unreasonably small capital as a result of, the transactions, or that the borrowers entered into the transactions believing that they would incur debts that they were unable to pay.

The Complaint should be dismissed for the following reasons:

First, Prospect’s participation in the transactions bars the claims. No matter the legal concept—“ratification, consents, estoppel or material participa[tion] in the transaction”— “[c]reditors who authorized or sanctioned the transaction, or, indeed, participated in it themselves, can hardly claim to have been defrauded by it, or otherwise to be victims of it.” *In re Lyondell*

Chem. Co., [503 B.R. 348, 384–85](#) (Bankr. S.D.N.Y. 2014), *as corrected* (Jan. 16, 2014), and *modified on other grounds by In re Tribune*, [818 F.3d 98](#) (2d Cir. 2016). In 2012, Prospect agreed to lend to certain Debtors,¹ knowing and agreeing that the proceeds of its second lien loan would be used, in part, to pay a dividend to Debtor SportCo’s shareholders. In 2013, Prospect agreed to supplement the second lien loan, again to pay a dividend to Debtor Sportco’s shareholders. Prospect “authorized or sanctioned” the transaction and the dividends, and therefore, Prospect and the Trustee are barred from asserting this claim.

Second, New York law governs claims arising out of the challenged transactions. Prospect, a New York-based entity, agreed to a choice of law provision in favor of New York encompassing “any claims sounding *in contract or tort law* arising out of the subject matter” of the Agreement. (Ex. 4, Second Amendment to the Second Lien Loan and Security Agreement (the “Second Amendment”) ¶ 1(b) (emphasis added).)² Under New York law, there are no facts alleged in this Complaint to support a fraudulent conveyance claim.

Third, even if the Court were to apply South Carolina law, Plaintiff’s fraudulent conveyance claims still fail. Prospect was the counterparty to the transactions, had notice of their purpose and, therefore, made an informed decision to participate. Like any subsequent creditor, Prospect cannot say the dividends were a fraud upon it. *See In re Ducate*, [369 B.R. 251, 260](#) (Bankr. D.S.C. 2007). Indeed, this Court has held that “*it would be unjust*” for a creditor to “avoid

¹ On June 10, 2019, SportCo Holdings, Inc. (“SportCo”), United Sporting Companies, Inc. (“United Sporting”), Ellett, Bonitz Brothers, Inc. (“Bonitz”), Evans Sports, Inc. (“Evans”), Jerry’s Sports, Inc. (“Jerry’s”), Outdoor Sports Headquarters, Inc. (“Outdoor Sports”), Quality Boxes, Inc., and Simmons Guns Specialties, Inc. (“Simmons”) (collectively, the “Debtors”) filed for relief under chapter 11 of the United States Bankruptcy Code in the United States Bankruptcy Court for the District of Delaware (the “Delaware Bankruptcy Court”), *see In re SportCo Holdings, Inc., et al.*, Case No. 19-11299 (LSS) (the “SportCo Bankruptcy”). The bankruptcy court confirmed the Debtors’ Fourth Amended Combined Disclosure Statement and Joint Chapter 11 Plan of Liquidation (“Liquidation Plan”) ([Dkt. 525-1](#)) on November 6, 2019.

² “Ex.” refers to an exhibit to the Declaration of Daniel H. Levi, dated February 19, 2020.

a transfer, even one that is voluntary, as fraudulent if the creditor knew or should have known of the transfer before the debt was incurred.” *Id.* at 260–61 (emphasis added). Under South Carolina law, a subsequent creditor must plead actual fraud to state a claim for fraudulent conveyance. No such claim is pled here.

Fourth, Plaintiff’s claim is barred by South Carolina’s three-year statute of limitations, as subject to the discovery rule. Prospect is a sophisticated lender, with \$6.2 billion under management.³ From day one, Prospect had knowledge of the loan’s purpose and potential risks. Prospect disclosed as a risk factor in its filings with the U.S. Securities and Exchange Commission (“SEC”) that its investments might not be repaid in full. And in its 2015 SEC filings, Prospect disclosed that it marked down this specific investment below par, reflecting its belief that the Debtors would not be able to repay the second lien loan in full. Thus, Prospect had notice of the facts and circumstances to place a reasonable person on notice that a claim might exist at the time of the transactions and, in any event, no later than 2015, more than three years before filing these claims.

Fifth, Plaintiff has failed to plead the requisite standing under section 544(b) of the Bankruptcy Code. Section 544(b) requires the Plaintiff to establish the existence of a triggering creditor that holds an allowable, unsecured claim as of the Petition Date who has standing to bring the avoidance claim at issue. 11 U.S.C. § 544(b). Plaintiff cannot rely on Prospect as the triggering creditor not only because Prospect ratified the transactions but also because the Debtors stipulated to, and the Delaware Bankruptcy Court entered, a binding order that Prospect held *secured* (not unsecured) claims as of the Petition Date.

³ Prospect Capital Corporation, Middle Market Finance and Private Equity, *available at* http://presentation.prospectstreet.com/PSEC_Prospect_Capital_Overview.pdf (last accessed Feb. 6, 2020).

Sixth, Plaintiff has failed to plead requisite facts to sustain a right to recover the alleged fraudulent transfers from Wellspring Capital or WCM GenPar pursuant to section 550(a) of the Bankruptcy Code. [11 U.S.C. § 550\(a\)](#). Plaintiff fails to plead the “necessary vital statistics—the who, when, and how much of the purported transfers” that these Defendants received, and thus fails to plead that they are liable as transferees of the purported transfer. *See In re Dreier LLP*, [452 B.R. 451, 464–65](#) (Bankr. S.D.N.Y. 2011) (internal quotation marks omitted).

Finally, Plaintiff’s negligent misrepresentation claim against Wellspring Capital and Mr. Carles (a Wellspring employee who is alleged to be an officer and director of SportCo and its subsidiaries) fails. The Complaint identifies three purported misrepresentations made to Prospect regarding predicted inventory, profits, and sales forthcoming from a transaction with one of the Debtors’ competitors, AcuSport Corporation (“AcuSport”). No specific factual details regarding the alleged misrepresentations are alleged as required by Rule 9(b). Moreover, the purported representations alleged are non-actionable, forward-looking statements.

BACKGROUND⁴

The following facts are based upon the Complaint, documents that are integral to the Complaint, and documents that are a matter of public record.⁵

⁴ Solely for the purposes of this Motion, the well-pleaded allegations of the Complaint are accepted as true. *See Nemet Chevrolet, Ltd. v. Consumer Affairs Corp., Inc.*, [591 F.3d 250, 253](#) (4th Cir. 2009). However, the Court need not accept conclusory allegations, “legal conclusions, elements of a cause of action, and bare assertions devoid of further factual enhancement” and “unwarranted inferences, unreasonable conclusions, or arguments.” *Id.* at 255 (internal citations omitted).

⁵ On a motion to dismiss, a court may consider documents integral to the complaint. *See Kensington Volunteer Fire Dep’t, Inc. v. Montgomery Cty., Md.*, [684 F.3d 462, 467](#) (4th Cir. 2012). Here, the Court may rely upon the Second Lien Loan Agreement, which is referenced in the Complaint. (*See* Compl. ¶¶ 35–36, 38–39.) Amendments to that Agreement may likewise be considered. *Pope v. Barnwell Cty. Sch. Dist. No. 19*, [2017 WL 1148741](#), at *1 n.1 (D.S.C. Mar. 28, 2017) (court may consider contract and any of its amendments under Rule 12(b)(6)). A court may also consider matters of which it may take judicial notice, such as matters of public record. *Philips v. Pitt Cty. Mem’l Hosp.*, [572 F.3d 176, 180](#) (4th Cir. 2009).

I. THE PARTIES AND PARTICIPANTS

A. The Plaintiff

Plaintiff Ronald Friedman is the Trustee. (Compl. ¶ 6.) He is the successor-in-interest to the Debtors' causes of action to avoid and recover alleged prepetition fraudulent transfers dating back to 2012 and 2013. (*Id.* ¶ 4.) To have standing under [11 U.S.C. §§ 544](#) and [550](#) to assert a claim for fraudulent conveyance, the Trustee must step into the shoes of a triggering creditor. Here, the only creditor that the Trustee specifically identifies is Prospect. (*Id.*; *see also id.* ¶¶ 72, 82.) The Trustee brings the negligent misrepresentation claim pursuant to an assignment from Prospect. (*Id.* ¶ 22.)

B. The Debtors

SportCo was a Delaware corporation and the parent and 100% owner of United Sporting, also a Delaware corporation. (*Id.* ¶ 19.) United Sporting was the 100% owner of Ellett, a South Carolina limited liability company with its principal place of business in South Carolina. (*Id.*) Ellett was the parent company of various subsidiaries, some incorporated in Delaware, some in South Carolina. (*See generally* Ex. 1, Liquidation Plan.) Ellett was a distributor of products and accessories for hunting, shooting, and other outdoor activities. (Compl. ¶ 27.)

C. The Defendants

Plaintiff alleges that Defendant Wellspring is a New York limited partnership that acquired Ellett in 2008 and was SportCo's largest shareholder (*id.* ¶¶ 9, 30), and that Defendant Wellspring Capital is a Delaware limited liability company that served as the manager of SportCo. (*Id.* ¶ 8.) Plaintiff alleges that Defendant WCM GenPar IV, L.P. is a New York limited partnership and the

general partner of Wellspring (*id.* ¶ 10), and that Defendant WCM GenPar IV GP, LLC is a New York limited liability company, and the general partner of WCM GenPar IV, L.P. (*Id.* ¶ 11.)⁶

Alexander Carles is a citizen and resident of Connecticut. (*Id.* ¶ 12.) Mr. Carles is a Managing Partner of Wellspring Capital and is alleged to be an officer and director of SportCo and its subsidiaries. (*Id.*) Bradley Johnson was the President and Chief Executive Officer of SportCo and is alleged to be a citizen and resident of Virginia. (*Id.* ¶ 13.) Charles E. Walker, Jr., F. Hewitt Grant, Bernard Ziomek, Todd Boehly, and Andrew Kupchik were equity holders of SportCo. (*Id.* ¶¶ 14–18.) Only Mr. Grant is alleged to be a citizen and resident of South Carolina. (*Id.* ¶ 14.) The other equity holders are alleged to be citizens and residents of Maryland, Connecticut, and Pennsylvania. (*Id.* ¶¶ 15–18.)

D. The Lenders

Prospect is a Maryland corporation whose principal place of business is in New York. (*Id.* ¶ 22.) Prospect is a publicly traded business development company that makes loans to middle-market companies across 38 industries and has \$6.2 billion under management.⁷ Prospect initially filed suit against Wellspring, Wellspring Capital, WCM GenPar, Mr. Carles, and others on May 23, 2019 in the Court of Common Pleas for the County of Lexington, South Carolina (the “State Court Action”). Summons and Complaint, *Prospect Capital Corp. v. Wellspring Cap. Mgmt., LLC*, No. 2019-CP-32-02045 (S.C. Ct. Com. Pl. May 23, 2019), [Dkt. No. 1](#). Pursuant to the Liquidation Plan, Prospect transferred these claims to the Liquidation Trust. (*See* Compl. ¶ 7.)

⁶ Although the Complaint alleges that Wellspring, WCM GenPar IV, L.P., and WCM GenPar IV, L.P. are New York entities, they are all, in fact, Delaware entities.

⁷ Prospect Capital Corporation, Middle Market Finance and Private Equity, *available at* http://presentation.prospectstreet.com/PSEC_Prospect_Capital_Overview.pdf (last accessed on Feb. 6, 2020).

Prospect and Summit Partners Credit Funds, LP (“Summit”) were lenders under the Second Lien Loan and Security Agreement (the “Second Lien Loan Agreement” or “Agreement”).⁸ (*See id.* ¶ 35.) Prospect also served as agent for itself and Summit. (*See* Ex. 2, Second Lien Loan Agreement, Introductory Paragraph.) There are no specific facts pled to support that Prospect or Summit was a creditor of any Debtor before the transactions at issue.

II. THE TRANSACTIONS AND SUBSEQUENT EVENTS

A. The Transactions

In 2012, Ellett and certain of its subsidiaries recapitalized their capital structure. (*See* Ex. 2, Second Lien Loan Agreement § 1.1.3.) As part of this recapitalization, on September 28, 2012, Ellett and certain of its subsidiaries entered into (i) the Third Amended and Restated Loan and Security Agreement, and (ii) the Second Lien Loan Agreement with Prospect and Summit (collectively, the “2012 Loan Agreements”).⁹ (Compl. ¶ 35.) The 2012 Loan Agreements collectively provided \$280 million (the “2012 Loan”) for the express purpose of enabling the Borrowers to pay down existing debts and pay a shareholder dividend. (*See id.* ¶¶ 35, 36.) Prospect and Summit agreed in the Second Lien Loan Agreement to provide \$170 million of the total financing. (Ex. 2, Second Lien Loan Agreement § 1.1.1.)

Prospect and Summit agreed to the required uses of the financing proceeds: “(i) to make a one-time Distribution to [United Sporting] (for further Distribution to SportCo) to repay a portion of the Wellspring Debt on the Closing Date; (ii) to pay the Closing Date Distribution on the Closing

⁸ The Second Lien Loan Agreement was executed between certain Debtors: Ellett, Evans, Jerry’s, Simmons, Bonitz, and Outdoor Sports (collectively, the “Borrowers”) and the lenders, Prospect and Summit. (*See* Ex. 2, Second Lien Loan Agreement, Introductory Paragraph.)

⁹ The lenders to the 2012 Loan Agreements included Bank of America, Wells Fargo, Regions Bank (collectively, the “Prepetition ABL Lenders”), who signed the Third Amended and Restated Loan and Security Agreement, and Prospect and Summit, who signed the Second Lien Loan Agreement. (Compl. ¶ 35 n.3.) The Prepetition ABL Lenders were paid in full with the proceeds of certain sales of Debtors’ assets. (*See* Ex. 1 at 21.)

Date; and (iii) to pay the fees and transaction expenses associated with the closing of the Transactions described herein.” (*Id.* § 1.1.3.) The “Wellspring Debt” is defined as the “Debt of SportCo . . . by and between SportCo and Wellspring Capital IV, L.P. . . . the aggregate principal amount outstanding of \$35,000,000.” (*Id.* at App’x A.) The “Closing Date Distribution” is defined as “the one-time cash Distribution by Borrowers to [United Sporting] (for further distribution to SportCo and Wellspring and the other shareholders of SportCo) on the Closing Date in an amount up to \$134,500,000.” (*Id.*; see Compl. ¶ 36.) As required by the 2012 Loan Agreements, the Borrowers used approximately \$139.6 million of proceeds to repay existing debts, approximately \$134 million to fund distributions to shareholders (the “2012 Dividend”), and the remaining proceeds to pay the lending and transaction fees associated with the overall financial reorganization. (Compl. ¶ 36; Ex. 2, Second Lien Loan Agreement § 1.1.3.)

In consideration of their financing, Prospect and Summit bargained for and received rights and benefits, including:

- Board Observer Rights: Prospect and Summit had the right to appoint an observer to attend all meetings of Ellett and SportCo’s boards and receive relevant board materials and presentations. (*See id.* § 9.1.10 (Board Information Rights).)
- Audit Rights: Prospect and Summit had the right to visit and inspect the Borrowers’ properties, conduct appraisals of the properties, and inspect and audit the Borrowers’ books and records at their discretion. (*See id.* § 9.1.1 (Visits and Inspections).)
- Access to Financial Information: Prospect and Summit had access to the Borrowers’ financial information on a monthly, quarterly, and yearly basis, and the right to audit those financials. (*See id.* § 9.1.3 (Financial and Other Information).)
- Limitations on Existing Debt and Distributions: The Agreement restricted Borrowers from paying certain debts and from declaring or making any distributions other than those specified within the Agreement. (*See id.* § 9.2.6 (Restrictions on Payment of Certain Debt); § 9.2.7 (Distributions).)
- Interest: Prospect and Summit received interest on the loans at a rate per annum equal to the greater of the LIBOR rate plus 11% and 12.75%. (*See id.* § 2.1.1 (Interest Rate).)

Prospect and Summit also made several affirmative representations in the Agreement. They represented that they conducted their own due diligence and that “based upon such documents, information and analyses as [they have] deemed appropriate, made [their] own credit analysis of each Obligor and [their] own decision to enter into this Agreement and to fund the Term Loans[.]” (Ex. 2, Second Lien Loan Agreement § 12.10.) As a condition precedent to funding, Prospect and Summit “received evidence satisfactory to them . . . that, after giving effect to” the transaction contemplated by the Agreement “each Borrower is Solvent.” (*Id.* § 10.1.10.)

On March 7, 2013, Prospect agreed to loan supplemental amounts to the Borrowers (the “2013 Supplement”), again with the express requirement that the funds be used for a dividend to the Borrowers’ shareholders (the “2013 Dividend”). (*See* Compl. ¶¶ 38–39.) This supplemental \$60 million financing was memorialized in an amendment to the Second Lien Loan Agreement (the “First Amendment”). (Ex. 3, First Amendment.) In that First Amendment, Prospect “consent[ed]” to both the loan and its intended purpose and again agreed that the loan “*shall be used* to make the Incremental Term Loan Funding Date Distribution.” (*Id.* at 1 (emphasis added); *see also id.* ¶ 2(F).) The “Incremental Term Loan Funding Date Distribution” is “the one-time cash Distribution by Borrowers to [United Sporting] (for immediate further distribution to SportCo and Wellspring and the other shareholders of SportCo) on the Incremental Term Loan Funding Date in an amount up to . . . \$60,000,000[.]” (*Id.* ¶ 2(A).)

Funding the 2013 Supplement was conditioned on both Prospect and Summit “receiv[ing] evidence satisfactory to them . . . that, after giving effect to the [2013 Supplement] and [2013 Dividend], each Borrower [was] Solvent.” (Ex. 3, First Amendment ¶ 2(M).) Prospect and Summit also agreed to amend Section 9.2.7 of the Second Lien Loan Agreement, which had restricted further distributions, in order to expressly allow the 2013 Dividend. (*Id.* ¶ 2(L).)

Prospect and Summit represented and agreed that New York law would govern “any claims sounding in contract or tort arising out of the subject matter” of the Agreement. (Ex. 4, Second Amendment ¶ 1(b) (amending § 14.20.1 of Second Lien Loan Agreement).) While both the Second Lien Loan Agreement and its First Amendment included a New York choice of law provision (Ex. 2, Second Lien Loan Agreement § 14.20; Ex. 3, First Amendment ¶ 8), in 2014 Prospect and Summit clarified that the choice of law provision governing the transactions was meant to broadly cover any and all claims arising out of the subject matter of the transactions:

This Agreement shall be governed by, and construed in accordance with, the law of the State of New York and the validity, interpretation, construction, and performance hereof shall be governed by and construed and enforced in accordance with, and any claim by any party hereto against any other party hereto (*including any claims sounding in contract or tort* arising out of the subject matter hereof and any determinations with respect to post-judgment interest) shall be determined in accordance with, the internal laws of the State of New York

(Ex. 4, Second Amendment ¶ 1(b).) Prospect and the Trustee are bound by the choice of law provision that Prospect negotiated and to which it consented and agreed.

B. Prospect Recognizes Risk Associated with Its Investments

Prospect is also bound by the disclosures that it made to its investors in certified contemporaneous SEC filings. Those filings show that Prospect was on notice of the transactions and the risks associated with them as early as 2013, but certainly no later than 2015, and its claims are thus time barred.

Prospect’s SEC filings made clear that it understood the risks associated with investing in middle-market companies like Ellett. Prospect warns its investors that the investments it makes may be “highly speculative” and involve “a high degree of risk of credit loss.” (See Ex. 5, Prospect Capital Corp. Form 10-K for Year Ended June 30, 2013 at 32, filed Aug. 21, 2013.) In its 2013 10-K, covering the period of the transactions, Prospect advised its investors that “[a] portfolio company’s failure to satisfy financial or operating covenants imposed by us or other lenders could

lead to defaults and, potentially, termination of its loans and foreclosure on its secured assets, which could trigger cross-defaults under other agreements and jeopardize a portfolio company's ability to meet its obligations under the debt or equity securities that we hold.” (*Id.* at 44.)

Then, in its 2015 10-K, Prospect disclosed that it wrote down the value of its investment in the Borrowers below par. (See Ex. 6, Prospect Capital Corp. Form 10-K for Year Ended June 20, 2015, filed Aug. 26, 2015 at 152.) In that filing, Prospect explained that its management made the decision to change its valuation methodology of certain Debtors, to adopt an enterprise value “due to a deterioration in operating results and resulting credit impairment.” *Id.* Prospect also disclosed that “[a]s 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 [certain Debtors] to \$145,618[,000] as of June 30, 2015, a discount of \$12,620[,000] from its amortized cost, compared to being valued at cost at June 30, 2014.” *Id.* In short, Prospect’s 2015 SEC filing discloses that Prospect did not believe that the Debtors’ assets were sufficient to repay the indebtedness owed to Prospect.

C. The AcuSport Transaction

In 2017, the Debtors were presented with an opportunity to pursue a transaction with AcuSport, a competitor firearms distributor in financial distress. (See Compl. ¶¶ 45–46; Ex. 7, Decl. of John K. Flanagan in Support of First Day Motions, *In re AcuSport Corp.*, Case 2:18-bk-52736 (Bankr. S.D. Ohio, May 1, 2018) [Dkt. No. 17](#) (“AcuSport First Day Declaration”) at ¶ 6.) In 2017, the Debtors considered merging with AcuSport, but did not. (See Compl. ¶¶ 49, 54.)

In January 2018, AcuSport began the process of selling its assets. (Ex. 7, AcuSport First Day Declaration ¶ 20.) On April 30, 2018, AcuSport and Ellett executed an asset purchase agreement that contemplated, *inter alia*, that Ellett would acquire certain of AcuSport’s assets for a payment of \$7.75 million plus the value of AcuSport’s inventory at the time the transaction

closed, at an amount to be determined. (*Id.* ¶ 21–22.) The asset purchase agreement required the transaction be consummated in a chapter 11 case. (*Id.*) AcuSport filed for chapter 11 relief on May 1, 2018 and, on June 28, 2018, the court approved the asset purchase agreement.¹⁰

The Complaint alleges that Wellspring Capital, Mr. Carles, and Mr. Johnson misrepresented to Prospect that the AcuSport transaction would result in: (a) the Debtors capturing 20% to 30% of AcuSport sales; (b) the Debtors acquiring \$14 million worth of AcuSport inventory; and (c) a realization of a \$7 million profit on the sale of the AcuSport inventory. (Compl. ¶ 48.) The Complaint contains no details regarding when, where, or by whom these purported representations were made, or to whom they were purportedly made.

D. Prospect Files a Lawsuit

On May 23, 2019, Prospect filed the State Court Action. *See generally* Summons and Complaint, *Prospect Capital Corp.*, No. 2019-CP-32-02045, [Dkt. No. 1](#). Less than a month later, on June 10, 2019 (the “Petition Date”), the Debtors filed for bankruptcy. (Compl. ¶ 66.) During the pendency of the SportCo Bankruptcy, the State Court Action was removed to this Court. (*See id.* ¶ 24.) The Liquidation Plan transferred the causes of action alleged in the State Court Action to the Liquidation Trust. (*See id.* ¶¶ 6–7.)

The Trustee was substituted as Plaintiff and filed the Complaint. (*See id.*) The Complaint brings two alternative claims of fraudulent conveyance based on different transferors. (*See id.* ¶¶ 71–90.) The first claim alleges that Ellett made the purported fraudulent transfers and the second claim alleges that SportCo made the transfers. (*Id.* ¶¶ 75, 85.) The claims are asserted against Wellspring, Wellspring Capital, WCM GenPar and the individual shareholders of SportCo.

¹⁰ See Ex. 8, Chapter 11 Voluntary Petition Non-Individual, *In re AcuSport Corp.*, No. 18-52736 (Bankr. S.D. Ohio, May 1, 2018), [Dkt. No. 1](#); Ex. 9, Order Approving and Authorizing Sale of Certain of Debtor’s Assets Pursuant to Successful Bidder’s Asset Purchase Agreement, *In re AcuSport Corp.*, No. 18-52736 (Bankr. S.D. Ohio June 28, 2018), [Dkt. No. 230](#).

(See generally *id.* Introductory Paragraph, ¶¶ 71–90.) The Trustee also brings a claim for negligent misrepresentation against Wellspring Capital, Mr. Carles and Mr. Johnson. (*Id.* ¶¶ 91–101.)¹¹

LEGAL STANDARD

Fed. R. Civ. P. 12(b)(6) is applicable to adversary proceedings pursuant to Fed. R. Bankr. P. 7012. *In re Steinmetz*, 2011 WL 4543894, at *4 (Bankr. D.S.C. Mar. 18, 2011). To survive a motion to dismiss, “a complaint must contain sufficient factual matter, accepted as true, to ‘state a claim to relief that is plausible on its face.’” *Ashcroft v. Iqbal*, 556 U.S. 662, 678 (2009) (quoting *Bell Atlantic Corp. v. Twombly*, 550 U.S. 544, 570 (2007)). “Plausibility does not require probability, but does require something ‘more than a sheer possibility that a defendant has acted unlawfully.’” *In re Steinmetz*, 2011 WL 4543894, at *4 (quoting *Iqbal*, 553 U.S. at 679). The negligent misrepresentation claim is subject to the higher standard of Rule 9(b) and requires that a plaintiff plead the circumstances with particularity. See Fed. R. Civ. P. 9(b).

ARGUMENT

I. THE FRAUDULENT CONVEYANCE CLAIMS FAIL AS A MATTER OF LAW

A. The Trustee Cannot Challenge Transactions That Prospect Ratified

Where—as here—the triggering creditor is subject to a defense that bars its claim, the trustee is also barred. *Smith v. Am. Founders Fin. Corp.*, 365 B.R. 647, 659 (S.D. Tex. 2007); see also *In re Refco, Inc. Sec. Litig.*, 2009 WL 7242548, at *12 (S.D.N.Y. Nov. 13, 2009), *report and*

¹¹ Plaintiff demands a jury trial on all issues. (Compl. ¶ 70.) As an equitable statute, there is no right to a jury trial under the Statute of Elizabeth. See *Integrity Worldwide, Inc. v. Int’l Safety Access Corp.*, 2015 WL 1297823, at *6 (D.S.C. Mar. 23, 2015) (finding no jury trial right on Statute of Elizabeth claim); *In re Vereen*, 1999 WL 33485641, at *2 (Bankr. D.S.C. May 24, 1999) (same); see also *Oskin v. Johnson*, 735 S.E.2d 459, 463 (S.C. 2012) (“An action to set aside a conveyance under the Statute of Elizabeth is an equitable action.”). Furthermore, the Second Lien Loan Agreement and First Amendment, as modified by the Second Amendment, contain a jury waiver provision. (Ex. 4, Second Amendment ¶ 7.) Prospect, and thus the Trustee, is bound by that provision. And even if it were not, Wellspring may enforce the jury waiver provision. See *infra* 18–20. To the extent any of the claims are permitted to go to a jury, the Wellspring Defendants and Mr. Carles do not consent to a jury trial before the bankruptcy court. See Bankr. D.S.C. R. 9015-1.

recommendation adopted sub nom. In re Refco Sec. Litig., [2010 WL 5129072](#) (S.D.N.Y. Jan. 12, 2010); *In re J.R. Deans Co.*, [249 B.R. 121, 129](#) (Bankr. D.S.C. 2000).¹²

Prospect—and therefore the Trustee—cannot bring this fraudulent conveyance claim because Prospect “was a material participant in the alleged fraudulent transaction.” *In re Refco*, [2009 WL 7242548](#), at *11. Prospect negotiated and agreed to a transaction in 2012 that authorized the challenged dividend. In 2013, Prospect agreed to a supplement of the second lien financing, as an amendment to its original contractual agreement. The Second Lien Loan Agreement and First Amendment (together, the “Loan Agreements”) are explicit that proceeds of Prospect’s loans would be used to pay distributions to shareholders. (Ex. 2, Second Lien Loan Agreement § 1.1.3; Ex. 3, First Amendment at 1.) Prospect is barred from voiding transactions that it made years ago with its eyes wide open. *See, e.g., Victory Med. Ctr. Beaumont, L.P. v. Conn. Gen. Life Ins. Co.*, [2018 WL 3467915](#), at *10–11 (E.D. Tex. July 17, 2018) (dismissing fraudulent conveyance action under theories of ratification, estoppel, and quasi-estoppel where creditor signed the instrument effectuating transfer); *In re Lyondell Chem. Co.*, [503 B.R. at 384–85](#) (dismissing fraudulent conveyance claim where creditors funded challenged transactions with knowledge of their purpose and thereby ratified them); *In re Crescent Res. Litig. Trust ex rel. Bensimon v. Duke Energy Corp.*, [500 B.R. 464, 479](#) (W.D. Tex. 2013) (barring fraudulent conveyance claim where lenders participated in the transaction with full knowledge of transaction); *U.S. Bank Nat’l Ass’n v. Verizon Commc’ns Inc.*, [479 B.R. 405, 411](#) (N.D. Tex. 2012) (barring fraudulent conveyance claim where triggering creditors participated in the challenged transactions).¹³

¹² Dismissal under Rule 12(b)(6) is appropriate where the complaint reveals a meritorious affirmative defense. *In re Goodstein*, [2011 WL 1575509](#), at *1 (Bankr. D.S.C. Apr. 26, 2011) (“[T]he court may grant a 12(b)(6) motion ‘when the face of the complaint clearly reveals the existence of a meritorious affirmative defense.’”) (quoting *Brooks v. City of Winston-Salem, N.C.*, [85 F.3d 178, 181](#) (4th Cir. 1996)).

¹³ Though South Carolina has not directly addressed this issue in the context of a fraudulent transfer claim, South Carolina courts recognize similar principles where a party assented to an act it then challenges. *See, e.g.,*

A trustee cannot assert a fraudulent conveyance claim on behalf of a creditor whose claim is barred, and therefore the claim should be dismissed. *See, e.g., In re Refco*, [2009 WL 7242548](#), at *11 (where creditor “was heavily involved in structuring the transaction,” and the credit agreement “provide[d] that the funds from [the creditor] could be used only for the” transaction, that same creditor could not “be the triggering creditor, because it was a material participant in the alleged fraudulent transaction”); *In re Crescent Res.*, [500 B.R. at 479–80](#); *HSBC Bank USA, Nat’l Ass’n v. Adelphia Commc’ns Corp.*, [2009 WL 385474](#), at *6–7 (W.D.N.Y. Feb. 12, 2009), *aff’d*, [634 F.3d 678](#) (2d Cir. 2011).

In re Lyondell Chemical Co. is instructive. [503 B.R. at 384–85](#). There, certain lenders financed a leveraged buyout (the “LBO Lenders”), and portions of the loan proceeds were distributed to Lyondell’s shareholders. *Id.* at 353–54. Lyondell filed for chapter 11, and the trustee commenced suit to recover the distributions. *Id.* The court dismissed the trustee’s claims brought on behalf of the LBO Lenders on the grounds that “creditors who are participants in an alleged fraudulent transfer, or who have ratified it, cannot then seek to have that transfer avoided.” *Id.* at 383. As the court explained, though the “rubrics” by which various courts have reached this same conclusion have varied—“ratification, consents, estoppel or material participa[tion] in the transaction”—all have agreed that: “[c]reditors who authorized or sanctioned the transaction, or, indeed, participated in it themselves, can hardly claim to have been defrauded by it, or otherwise to be victims of it.” *Id.* at 383–84 (internal quotation marks omitted). The court concluded that

Cunningham v. Jaffe, [251 F. Supp. 143, 149, 153](#) (D.S.C. 1966) (holding corporation and its shareholders were estopped from recovering amounts paid in salaries where salaries were “formally adopted at a stockholders and directors meeting . . . [and] made to the defendants pursuant to formal action of the corporation”); *Seabrook Island Prop. Owners Ass’n v. Pelzer*, [356 S.E.2d 411, 414](#) (S.C. Ct. App. 1987) (holding that, where party had knowledge of monetary charges assessed against him and acquiesced to them, he was estopped from claim seeking relief from those charges); *L.F.S. Corp. v. Kennedy*, [337 S.E.2d 209, 210](#) (S.C. 1985) (applying ratification to bar legal malpractice claim); *Miller ex rel. Grand Strand Diversified, Inc. v. Gande*, [328 S.E.2d 482, 483–84](#) (S.C. Ct. App. 1985) (holding shareholder asserting derivative claim on behalf of corporation estopped from challenging transaction to which he previously assented).

the LBO Lenders could not have been “ignorant of the fact that [they] w[ere] lending for the purpose of financing an LBO, and that LBO proceeds would then go to stockholders—especially since . . . the loan documents required loan proceeds to be used for that purpose.” *Id.* at 384–85.

The court in the Northern District of Texas reached a similar conclusion when considering claims brought on behalf of creditors who financed the acquisition of Verizon’s yellow page business by Idearc, when Idearc was spun-off from Verizon. *U.S. Bank Nat’l Ass’n*, [479 B.R. at 410–11](#). There, the creditor lenders had made the loans to Idearc “for the express purpose” of financing that acquisition. *Id.* at 410. Idearc later filed for bankruptcy. *Id.* The Court held that the trustee was barred from bringing a fraudulent conveyance suit for those creditor lenders because they “not only *knew* that their loans would be used to pay Verizon, they not only *consented* that their loans be used to pay Verizon; they *required* that their loans be used to pay Verizon.” *Id.* at 411. Because of the credit lenders’ participation in the transfers, they would have been barred from bringing the claims. *Id.* And therefore, so was the trustee. *Id.*

So too here. Prospect participated in and expressly consented to the transactions the Trustee now seeks to void. As admitted in the Complaint, the Second Lien Loan Agreement “provided that on or after closing, the Transferee Defendants would receive a ‘one-time cash Distribution.’”¹⁴ (Compl. ¶ 36; see Ex. 2, Second Lien Loan Agreement § 1.1.3.) As for the supplemental financing in 2013, Plaintiff concedes that Prospect agreed that the Transferee Defendants would receive a “one-time cash Distribution.” (Compl. ¶ 39; see Ex. 3, First Amendment at 1.) In fact, because the Second Lien Loan Agreement limited how and when distributions could be made, Prospect expressly agreed in the First Amendment to amend the

¹⁴ The Complaint defines the Transferee Defendants to include Wellspring, WCM GenPar, F. Hewitt Grant, Charles E. Walker, Jr., Todd Boehly, Bernard Ziomek, and Andrew Kupchik.

Second Lien Loan Agreement to permit the 2013 Dividend. (See Ex. 3, First Amendment ¶ 2(L).)

It is uncontested that Prospect made the 2012 and 2013 loans with the understanding that the proceeds of Prospect's financings were required to be used, in part, to pay the distributions now challenged.

Fraudulent conveyance statutes are equitable remedies not meant to reward those who come to the court with unclean hands or to facilitate gamesmanship by sophisticated lenders like Prospect, who invest capital for a specific, identified purpose—who receive numerous rights and significant benefits in exchange—and then, with the benefit of seven years of hindsight, seek to force others to bear the burden of their calculated investment decision. This is especially true when such sophisticated lenders enter into arm's-length bona fide recapitalization transactions with a solvent company that years later falls victim to downturns in the market. Prospect's participation in the transactions bars it, and therefore the Trustee, from bringing these claims.

B. New York Law Governs and Precludes the Fraudulent Conveyance Claims

Prospect negotiated and executed an agreement containing a New York choice of law provision. Though Prospect, and the Trustee now standing in its shoes, may not like the results that are dictated by the application of New York law to the facts here, they are bound by that provision. But even if the Court does not apply the clear and binding contractual choice of law provision, South Carolina's choice of law analysis mandates that New York law apply to Plaintiff's fraudulent conveyance claims. And because Plaintiff utterly fails to plead any facts to state a claim under New York law for fraudulent conveyance, the claims should be dismissed.

1. The Loan Agreement's Choice of Law Provision Governs the Fraudulent Conveyance Claims

South Carolina respects choice of law provisions. See, e.g., *Accident Ins. Co., Inc. v. U.S. Bank Nat'l Ass'n*, [2019 WL 2865222](#), *2 (D.S.C. July 3, 2019) ("South Carolina choice-of-law

rules dictate that the court must apply the law specified in the contract.”). The Loan Agreements that Prospect negotiated and executed contain a choice of law provision requiring that New York law apply. Consistent with the choice of law provision—and further revealing Prospect’s preference for New York law and jurisdiction—the Loan Agreements also contain a choice of venue provision designating New York as the exclusive venue for claims brought against Prospect. That makes perfect sense: Prospect is located in New York and having its state’s governing law apply to this agreement rather than that of a foreign jurisdiction is a reasonable condition to include. Prospect—and by extension, the Trustee—should be held to the choice of law of its agreement. See *e.g.* *MainStreet Bank v. Nat’l Excavating Corp.*, [791 F. Supp. 2d 520, 529](#) (E.D. Va. 2011) (enforcing Virginia choice of law provision in loan agreement to fraudulent conveyances).

The choice of law provision is broadly worded. It applies to “any claims” arising out of the subject matter of the Loan Agreements that sound in “either contract or tort.” (Ex. 4, Second Amendment ¶ 1(b).) Prospect agreed that New York law applies to all tort and contract claims arising out of the agreement, and the provision should be enforced here. See, *e.g.*, *Hitachi Credit Am. Corp. v. Signet Bank*, [166 F.3d 614, 628](#) (4th Cir. 1999) (applying choice of law provision in agreement given the close relationship between the tort and the agreement); *Accident Ins. Co., Inc.*, [2019 WL 2865222](#), at *4 n.3 (applying choice of law provision to tort claims where conduct giving rise to claims related to subject matter of the agreement); *Palmetto Health Credit Union v. Open Sols. Inc.*, [2010 WL 2710551](#), at *2 (D.S.C. July 7, 2010) (applying choice of law provision to tort claims because claims were sufficiently related to agreement).

To the extent the Court needs another reason to apply the choice of law provision here, Wellspring and the other shareholders are entitled to enforce that provision as third-party

beneficiaries of the Loan Agreements. Whether someone is a third-party beneficiary to a contract is a matter of contract interpretation. *See, e.g., THI of S.C. at Columbia, LLC v. Wiggins*, [2011 WL 4089435](#), at *6 (D.S.C. Sept. 13, 2011); *In re BHB Enters., LLC*, [1998 WL 2016846](#), at *18 (Bankr. D.S.C. Sept. 30, 1998). Thus, the Court should look to the law specified in the Loan Agreements—New York—to address this question. *See Lightsey v. Toshiba Corp.*, [2019 WL 5872168](#), at *3 (D.S.C. Mar. 4, 2019) (applying New York law to determine whether plaintiffs were third-party beneficiaries because contract specified New York law); *Vititoe v. Bridgestone Am. Tire Operations, Inc.*, [2018 WL 5724084](#), at *4 (D.S.C. Jan. 17, 2018) (applying law of the state chosen in contract to determine matter of contract interpretation).

Under New York law, a nonparty to a contract can enforce the contract as a third-party beneficiary upon establishing “(1) the existence of a valid and binding contract between other parties, (2) that the contract was intended for [the nonparty’s] benefit, and (3) that the benefit to them is sufficiently immediate . . . to indicate the assumption by the contracting parties of a duty to compensate them if the benefit is lost.”¹⁵ *Saratoga Schenectady Gastroenterology Assocs., P.C. v. Bette & Cring, LLC*, [921 N.Y.S.2d 393, 394](#) (N.Y. App. Div. 2011). A nonparty is an intended beneficiary if the contractual language and circumstances “indicate that the promisee intends to give the beneficiary the benefit of the promised performance.” *Bayerische Landesbank, N.Y. Branch v. Aladdin Cap. Mgmt LLC*, [692 F.3d 42, 52](#) (2d Cir. 2012) (quoting *Levin v. Tiber Holding Corp.*, [277 F.3d 243, 248](#) (2d Cir. 2002)).

¹⁵ South Carolina third-party beneficiary law is substantively similar. *See Hardaway Concrete Co. v. Hall Contracting Corp.*, [647 S.E.2d 488, 492–93](#) (S.C. Ct. App. 2007) (“[I]f a contract is made for the benefit of a third person, that person may enforce the contract if the contracting parties intended to create a direct, rather than an incidental or consequential, benefit to such third person.” (quoting *Bob Hammond Constr. Co. v. Banks Constr. Co.*, [440 S.E.2d 890, 891](#) (S.C. Ct. App. 1994))). Under South Carolina law, Wellspring is a third-party beneficiary able to enforce the contractual choice of law provision. *See Beverly v. Grand Stand Reg’l Med. Ctr., LLC*, [2020 WL 215928](#), at *5 (S.C. Ct. App. Jan. 25, 2020) (third party could enforce contract where contract showed intent to benefit the third party); *Hardaway Concrete*, [647 S.E.2d at 493](#) (same).

The elements establishing third-party beneficiary status are easily met here. *First*, it is undisputed that the Loan Agreements are valid and binding contracts. *Second*, the Loan Agreements state that the parties intended for Wellspring and the other shareholders of SportCo to be beneficiaries of a dividend paid with loan proceeds. (Ex. 2, Second Lien Loan Agreement § 1.1.3; *id.* App’x A at 5 (emphasis added); *see also* Ex. 3, First Amendment ¶¶ 2(F), 2(A).) The clear language of the Loan Agreements evinces that the contracting parties intended for the shareholders to receive an immediate benefit from the lenders’ performance, in the form of shareholder distributions. *Third*, because the Loan Agreements expressly provide that Wellspring and others were to receive a portion of the funds loaned pursuant to the agreements, it is clear that the parties intended that they would receive a direct benefit from the transactions and that these beneficiaries could enforce the Loan Agreements to secure that right. *See, e.g., Bayerische*, [692 F.3d at 56](#) (third-party beneficiary could enforce contract where language “plausibly evince[d] an intent by the [contracting parties] to provide a benefit to the [third party]”); *Goodman-Marks Assocs., Inc. v. Westbury Post Assocs.*, [420 N.Y.S.2d 26, 28–29](#) (N.Y. App. Div. 1979) (plaintiff could enforce contract as third-party beneficiary where contract provided that contracting party was to “pay (the) balance of (the) fee to (the plaintiff)”).

Wellspring and the other shareholders are thus entitled to enforce the choice of law provision in the Loan Agreements, as modified by the Second Amendment. *See, e.g., Roby v. Corp. of Lloyd’s*, [996 F.2d 1353, 1359](#) (2d Cir. 1993) (applying forum selection clause and choice of law provision to third-party beneficiaries); *In re Kingate Mgmt. Ltd. Litig.*, [2016 WL 5339538](#), at *16 (S.D.N.Y. Sept. 21, 2016), *aff’d*, [746 F. App’x 40](#) (2d Cir. 2018); *see also MainStreet Bank*, [791 F. Supp. 2d at 528–29](#). New York law thus applies to the fraudulent conveyance claims.

South Carolina will enforce the parties' choice of law absent a strong public policy reason to disregard. *Jerrold A. Watson & Sons, LLC v. C.H. Robinson Co.*, [2017 WL 11317861](#), at *4 (D.S.C. Sept. 28, 2017). That requires a showing that the clause is "against good morals or natural justice, or, for some other such reason the enforcement of it would be prejudicial to the general interests of [the state's] own citizens." *Accident Ins. Co.*, [2019 WL 2865222](#), at *4 (citations omitted) (noting that "[t]he South Carolina Supreme Court has never utilized the [] public policy exception to avoid application of foreign laws which prevent South Carolina citizens from recovering for a wrong."). Examples of foreign laws against good morals and natural justice include "prohibited marriages, wagers, lotteries, racing, contracts for gaming or the sale of liquors, and others." *Dawkins v. State*, [412 S.E.2d 407, 408](#) (S.C. 1991). Plaintiff has pled no such strong public policy reason, and none exists here.

2. Under South Carolina's Choice of Law Analysis, New York Law Applies

Under South Carolina's choice of law analysis, New York law governs the fraudulent conveyance claims. Because federal courts apply the choice of law principles of the state within which they sit, this Court will apply South Carolina's choice of law principles. *See In re Infinity Bus. Grp., Inc.*, [497 B.R. 794, 804](#) (Bankr. D.S.C. 2013) (citing *In re Merritt Dredging Co.*, [839 F.2d 203, 205–06](#) (4th Cir. 1988)). Because New York and South Carolina constructive fraudulent conveyance laws differ, *compare* N.Y. Debt. & Cred. Law §§ 273–75 *with* S.C. Code § 27-23-10, the Court must classify the claim as sounding in either tort or contract to determine which South Carolina analysis applies. *See Lister v. NationsBank of Del., N.A.*, [494 S.E.2d 449, 454–56](#) (S.C. Ct. App. 1997) (noting that South Carolina applies traditional common law choice of law rules classifying claims as sounding in either contract or tort and that it has not adopted other tests).

If the contractual provision does not apply, the Court should apply a tort-based choice of law analysis. That would be consistent with a recent South Carolina district court decision that

applied tort-based choice of law principles to a fraudulent conveyance claim. *See, e.g., Integrity Worldwide, Inc. v. Int’l Safety Access Corp.*, [2015 WL 1297823](#), at *2 (D.S.C. Mar. 23, 2015) (applying South Carolina law to fraudulent conveyance claim because injury occurred in South Carolina); *but see Ashmore for Wilson v. Dodds*, [262 F. Supp. 3d 341, 359–61](#) (D.S.C. 2017).¹⁶ Doing so would be consistent with the underlying agreement here, which made the location of Prospect, the creditor, the governing law. It would also be consistent with several other jurisdictions that have analyzed fraudulent conveyance as sounding in tort. *See, e.g., MainStreet Bank*, [791 F. Supp. 2d at 529 n.14](#) (Maryland); *Bank of Am., N.A. v. Corporex Cos., LLC*, [99 F. Supp. 3d 708, 713](#) (E.D. Ky. 2015) (Kentucky), *abrogated on other grounds by Helm v. Ratterman*, [778 Fed. App’x 359, 370–73](#) (6th Cir. 2019); *Rosa v. TCC Commc’ns, Inc.*, [2017 WL 980338](#), at *7 (S.D.N.Y. Mar. 13, 2017) (New York); *Terry v. Walker*, [2006 WL 736861](#), at *7 (W.D. Va. Mar. 23, 2006) (Virginia); *In re Sverica Acquisition Corp.*, [179 B.R. 457, 469](#) (Bankr. E.D. Pa. 1995) (Pennsylvania).

Under South Carolina law, if a claim sounds in tort, “the substantive law . . . is determined by the state in which the injury occurred.” *Lister*, [494 S.E.2d at 454](#). Applying the place of injury approach, the Court should look to the location of the creditor harmed by the purportedly fraudulent conveyance. *See, e.g., MainStreet Bank*, [791 F. Supp. 2d at 531](#). Plaintiff’s alleged

¹⁶ In *Ashmore*, the district court looked to *Sheldon v. Blauvelt*, [7 S.E. 593, 594](#) (1888). But *Sheldon* did not make a determination, or render a holding, as to whether a fraudulent conveyance sounds in tort or in contract. *See Sheldon*, [7 S.E. at 594](#). Rather, it applied a choice of law based on the facts and circumstances of that case. And *Ashmore* reads *Sheldon*’s choice of law analysis to be limited to those facts and therefore not controlling. *Ashmore*, [262 F. Supp. 3d at 361](#). Other courts that have looked to *Sheldon* for choice of law guidance have reached different conclusions as to the analysis that court engaged in. *See Ashmore*, [262 F. Supp. 3d at 360](#) (describing three interpretations of *Sheldon* ascribed to case law and secondary sources). Moreover, the court’s decision in *Ashmore* is not binding on this Court. *See Order Dismissing Case at 9, In re Davis*, No. 06-02808-dd (Bankr. D.S.C., Oct. 2, 2006) (“[T]he modern trend [is] that a bankruptcy court is not bound by *stare decisis* to follow the decision of a single district judge in a multi-judge district.”) (citing cases). Here, should the Court not enforce the contractual choice of law provision, it should follow *Integrity Worldwide* and apply South Carolina’s tort choice of law analysis.

injury here is the financial harm Prospect purportedly suffered. (Compl. ¶¶ 42, 77, 87.) When an entity suffers financial harm, the injury occurs where the entity—here, the creditor Prospect—maintains its principal place of business. *See, e.g., In re Joseph Walker & Co.*, [522 B.R. 165, 189 n. 35](#) (Bankr. D.S.C. 2014) (“When an entity suffers an economic injury, the situs of that injury is the state in which the entity experiences the impact of the alleged financial loss: the state in which its business operates.”); *In re Infinity Bus. Grp., Inc.*, [497 B.R. at 804](#) (tort claim governed by law of state where injured corporation’s offices were located); *see also Lister*, [494 S.E.2d at 545–55](#). Prospect’s principal place of business is in New York (*see* Compl. ¶ 22), and it suffered its purported injury in New York.

3. The Trustee Fails to, and Cannot, Plead Fraudulent Conveyance
 Under New York Law

Applying New York law, Plaintiff has not stated and cannot state a claim for fraudulent conveyance. Under New York’s Debtor and Creditor Law (“DCL”), a transfer is deemed to be constructively fraudulent where the transfer is made without “fair consideration” *and* one of the following conditions is met: (1) the transferor is insolvent or will be rendered insolvent by the transfer in question; (2) the transferor is engaged in or is about to engage in a business transaction for which its remaining property constitutes “unreasonably small capital”; or (3) the transferor believes that it will incur debts beyond its ability to pay. DCL §§ 273–75; *Innovative Custom Brands, Inc. v. Minor*, [2016 WL 308805](#), at *3 (S.D.N.Y. Jan. 25, 2016). Plaintiff makes no attempt to plead facts sufficient to state a claim under New York law.

Plaintiff nowhere alleges that, at the time of the transactions, the Borrowers were insolvent, had unreasonably small capital, or believed that they would incur debts beyond their ability to pay. To the contrary, the Complaint concedes that the Borrowers were solvent for years after the transactions. (*See* Compl. ¶¶ 31–32; *see also* Ex. 2, Second Lien Loan Agreement § 8.1.11; Ex.

3, First Amendment ¶ 2(M).) Plaintiff even claims that the Debtors’ experienced success for years following the transfers. (See Compl. ¶¶ 31–32.) Without pleading these facts, Plaintiff’s allegations are insufficient under New York law and should be dismissed. See, e.g., *Ray v. Ray*, [2019 WL 1649981](#), at *6 (S.D.N.Y. Mar. 28, 2019), *aff’d*, [2020 WL 374556](#) (2d Cir. Jan. 23, 2020) (dismissing DCL § 273 claim for failure to plead that defendant’s assets were less than probable liabilities and DCL § 275 claim for failure to plead that defendant held a “subjective belief that she would incur debts beyond her ability to pay at the time the transfers were made”); *Innovative Custom Brands, Inc.*, [2016 WL 308805](#), at *3 (dismissing DCL § 273 claim for failure to adequately plead insolvency, DCL § 274 claim for failure to plead that defendants lacked sufficient assets at the time of the transfers, and DCL § 275 claim for failure to plead facts concerning defendants’ subjective intent); *In re Operations NY LLC*, [490 B.R. 84](#), 98–99 (Bankr. S.D.N.Y. 2013) (dismissing DCL § 274 and § 275 claims).

C. Even if South Carolina Law Applies, the Fraudulent Conveyance Claims Cannot Proceed as a Matter of Law

Even under South Carolina law, the Complaint fails to state a claim for fraudulent conveyance because Plaintiff, who stands in Prospect’s shoes, should be required to plead actual fraud, which he failed to—and cannot—do. Further, because the triggering creditor upon whom Plaintiff relies for its right to assert these claims had notice of its rights more than three years before this action was filed, the claims are barred by the applicable statute of limitation.

1. The Trustee Is Required to Plead Actual Fraud and Fails to Do So

The facts alleged show that Prospect became a creditor only because of the transactions, and not before.¹⁷ Given that Prospect became a creditor through its knowing participation in the

¹⁷ In deciding this Motion, only well-pled allegations in the Complaint must be taken as true. See *Nemet Chevrolet*, [591 F.3d at 253](#). The Complaint alleges no facts to show that Prospect was a creditor of any Debtor before entering into the transactions.

transactions it now challenges as fraudulent, and that the Trustee alleged no facts demonstrating that Prospect was a creditor before those transactions were completed, Prospect should be required to plead actual fraud under the Statute of Elizabeth, as is required of all subsequent creditors.

A subsequent creditor—who has notice of the allegedly objectionable transaction when making its decision to extend credit to the borrower— may only have a transfer set aside upon a showing of actual fraud, *i.e.*, when “(1) the conveyance was voluntary, that is, without consideration, and (2) it was made with a view to future indebtedness or with an actual fraudulent intent on the part of the grantor to defraud creditors.” *See In re Ducate*, 369 B.R. at 259 (quoting *In re J.R. Deans Co.*, 249 B.R. at 130–31) (internal quotation marks omitted). A subsequent creditor “can have no ground upon which he can say that a gift [the alleged fraudulent transfer] is a fraud upon him.” *Id.* at 260 (quoting *Walker, Evans & Cogswell v. Bollmann Bros.*, 22 S.C. 512, 528 (S.C. 1885)); *see also Egleberger v. Kibler*, 1 S.C. Eq. 113, 120 (S.C. Ct App. 1833) (creditors “with a full knowledge of the conveyance” who “stood by for near ten years” before bringing claim not entitled to relief). Indeed, this Court recognized in *In re Ducate* that “it would be *unjust* to allow a subsequent creditor to avoid a transfer, even one that is voluntary, as fraudulent if the creditor knew or should have known of the transfer before the debt was incurred.” 369 B.R. at 260–61 (emphasis added); *see also Gentry v. Lanneau*, 32 S.E. 523, 523 (S.C. 1899) (“[I]t is unquestionably true that the mere fact that a deed is without consideration . . . will not render it fraudulent as to subsequent creditors, especially where they have notice”) (quoting *Jackson v. Pylar*, 17 S.E. 255, 256 (S.C. 1893)).

Under the facts as pled, Prospect extended the second lien financing to the Borrowers contemporaneously with the allegedly fraudulent transfers. (Compl. ¶¶ 35–40.) The Loan Agreements that Prospect negotiated and executed memorialized its knowledge and approval that

the proceeds of its loans would be used to fund the allegedly fraudulent conveyances. And the First Amendment, which effectuated the 2013 Supplement and is incorporated into the Second Lien Loan Agreement, specifically lifted the restrictions on the Borrowers to make distributions that Prospect had put in place through the Second Lien Loan Agreement in 2012. (See Ex. 3 ¶ 2(L).) Prospect thus is a subsequent creditor as to the 2012 Loan and the 2013 Supplement, because it had every opportunity to evaluate the allegedly fraudulent transfer before deciding whether to extend credit. Like any subsequent creditor, Prospect “can have no ground upon which [it] can say that a gift [the alleged fraudulent transfer] is a fraud upon [it].” *In re Ducate*, 369 B.R. at 260. And in the same vein, it would be “unjust” for Prospect to avoid the dividends that it negotiated and ratified. *Id.* at 161.

Because Prospect is a subsequent creditor, the Complaint should be dismissed for failure to plead actual fraud. That the Plaintiff alleges that the transfers were purportedly made without consideration (see Compl. ¶¶ 37, 40), is inadequate on its own to state a claim for fraudulent conveyance.¹⁸ *In re Ducate*, 369 B.R. at 259 (subsequent creditor must establish lack of consideration *and* actual fraud to prevail). There is no suggestion of fraud alleged in the Complaint. Actual fraud requires showing “a conscious intent to defeat, delay, or hinder [one’s] creditors in the collection of their debts.” *Judy v. Judy*, 742 S.E.2d 672, 675 (S.C. Ct. App. 2013) (quoting *First Carolinas Joint Stock Land Bank of Columbia v. Knotts*, 1 S.E.2d 797, 808 (S.C. 1939)). No such showing has been made here.

¹⁸ The Wellspring Defendants dispute that the transactions were without consideration and intend to challenge these allegations at the appropriate time if this action proceeds.

2. The Statute of Limitations Bars the Fraudulent Conveyance Claims

Plaintiff also cannot proceed on a fraudulent conveyance claim under South Carolina law because any such claim is barred by the statute of limitations. Claims under South Carolina's Statute of Elizabeth are subject to a three-year statute of limitations. S.C. Code § 15-3-530(7); *In re J.R. Deans Co.*, [249 B.R. at 132](#). This three-year limitations period is subject to the "discovery rule," which provides that the statute of limitations "does not begin to run until discovery of the fraud itself or of such facts as would have led to the knowledge thereof, if pursued with reasonable diligence." *In re J.R. Deans Co.*, [249 B.R. at 132](#) (quotation marks and citations omitted). The discovery rule is triggered where "the facts and circumstances . . . place a reasonable person of common knowledge and experience on *notice* that a claim against another party might exist." *Dean v. Ruscon Corp.*, [468 S.E.2d 645, 647](#) (S.C. 1996). The discovery rule is triggered even when the injured party may not comprehend the full extent of its injury. *Id.*; *Davis v. Citimortgage, Inc.*, [2016 WL 4040084](#), at *2–3, 5 (D.S.C. July 28, 2016) (statute of limitations period began to run once plaintiff had constructive notice of unlawful conduct thus the possibility for legal recourse).

The statute of limitations began to run here when the purportedly fraudulent conveyances occurred or, at the latest, when Prospect wrote down the value of its loans below par, reflecting its expectation that it would not recover the full amount of its loan. When Prospect executed the Second Lien Loan Agreement in 2012, it knew that there was a risk, as with any investment of this size in this type of company, it would not be paid in full. Prospect recognized this in its public risk disclosures immediately following the transactions. *See supra* 10–11. Then, in August 2015, Prospect disclosed that it marked down the specific investment in the Borrowers to an amount below a par recovery. *See id.* Prospect did not file suit on any cause of action prior to 2019.

Wellspring is not aware of any case in which South Carolina's Statute of Elizabeth has been applied to void a lawful dividend, issued many years earlier when the company was solvent, as a result of unrelated changed circumstances that subsequently caused financial distress for the company. Here, where the challenging creditor participated in the challenged transfers, and secured the rights to inspect and audit the financials of the company that made the investment it later challenged, the three-year statute of limitations should begin to toll when the challenged transfers occurred in 2012 and 2013. At the latest, the statute of limitations should begin to toll in 2015 when Prospect wrote down its second lien debt and disclosed in its SEC filings that it did not believe that it would be able to recover in full the amount of its loans to the Borrowers. Certainly, at that point in time, Prospect (as well as its investors and others) was "on notice that a claim against another party might exist." *Dean*, [468 S.E.2d at 647](#).

D. The Trustee Has Failed to Allege a Triggering Creditor

To have standing to bring fraudulent conveyance claims, the Trustee must plausibly allege the existence of an unsecured creditor who held an allowable unsecured claim on the Petition Date *and* that could have asserted the claims set forth in the Complaint. That is because section 544(b) of the Bankruptcy Code merely gives the Trustee the status and rights of a triggering creditor under state law. See [11 U.S.C. § 544\(b\)](#); *In re J.R. Deans Co.*, [249 B.R. at 129](#); *In re Lang*, [5 B.R. 371, 375](#) (Bankr. S.D.N.Y. 1980). Here, Plaintiff fails to meet this standing requirement.

Plaintiff asserts that "[a]t all times relevant [to the Complaint], there have been one or more creditors, including, without limitation, Prospect, who have held and still hold unsecured claims" against the relevant Debtors that "were and are allowable" under section 502 of the Bankruptcy Code and that such creditors have claims against the Defendants. (Compl. ¶¶ 72, 82.) Prospect is the only alleged "unsecured" creditor specifically named in the Complaint. But Prospect cannot serve as the requisite "triggering creditor" because there is a binding court order that Prospect was

a secured lender as of the Petition Date. The Debtors and Prospect cannot stipulate to one fact before the Delaware Bankruptcy Court, and then come into this Court pleading another.

Prospect, the Debtors, and the Trustee are bound by the Delaware Bankruptcy Court’s Cash Collateral Order, in which it was stipulated that as of the Petition Date, Prospect’s claims under the Second Lien Loan Agreement constituted allowed, secured—not *unsecured*—claims.¹⁹ That Order provides that “[t]he Debtors acknowledge and agree that as of the Petition Date . . . the Prepetition Term Loan Obligations constitute *allowed, secured claims* within the meaning of section 502 and 506 of the Bankruptcy Code.”²⁰ (Ex. 10, Cash Collateral Order at ¶ F(ix) (emphasis added).) The Order further provides that the Debtors’ stipulations and agreements, including those with respect to Prospect’s status as a secured creditor, are “binding, conclusive, and final . . . for all purposes” on any person or entity, including the Debtors, all creditors in the Debtors’ chapter 11 cases, and their respective successors. (*Id.* at ¶ 40(c).) The Order was approved by the Delaware Bankruptcy Court in a now final and non-appealable order.

The Debtors derived significant benefits from their stipulation that Prospect’s claims were secured as of the Petition Date, as that stipulation was included in a negotiated form of order that allowed the Debtors to use the Second Lien Lenders’ cash collateral. As set forth in the Order, the Debtors needed to use the cash collateral to, among other things, “administer and preserve the value of [the Debtors’] estates” and “to pay their employees and related taxes, and otherwise finance their operations [which] requires the use of Cash Collateral, the absence of which would

¹⁹ See Ex. 10, Final Order (I) Approving the Debtors’ Postpetition Financing, (II) Authorizing the Debtors Continued Use of Cash Collateral, (III) Granting Liens, and Providing Superpriority Administrative Expense Status, (IV) Granting Adequate Protection to the Prepetition Lenders, (V) Modifying Automatic Stay, and (VI) Granting Related Relief ([Dkt. No. 238](#)) (the “Cash Collateral Order” or the “Order”), at ¶ F(ix).

²⁰ The Cash Collateral Order defines the Prepetition Term Loan Obligations to include all amounts outstanding under the Second Lien Loan. (See *id.* ¶ F(v).)

immediately and irreparably harm the Debtors, their estates and all parties in interest.” (*Id.* at ¶ J(viii).)

Prospect and Summit also benefited. They secured the right to adequate protection payments (in cash) during the pendency of the chapter 11 cases, protection from surcharges to their collateral otherwise permitted under section 506 of the Bankruptcy Code, waiver of the “equities of the case” exception to section 552 of the Bankruptcy Code, application of cash generated from the liquidation of their collateral during the chapter 11 case to the paydown of their prepetition claims (outside of a chapter 11 plan and ahead of any payments made to unsecured creditors), adequate protection liens and claims, and numerous other rights and benefits only secured creditors receive in bankruptcy. (*See id.* ¶¶ 12, 14, 15, 16, 26.)

Plaintiff, as successor to the Debtors, is therefore estopped from pleading that Prospect (or Summit, the only other second lien lender), were unsecured creditors as of the Petition Date. “[W]here a party assumes a certain position in a legal proceeding, and succeeds in maintaining that position, he may not thereafter, simply because his interests have changed, assume a contrary position[.]” *In re Williams*, [553 B.R. 550, 554](#) (Bankr. D.S.C. 2016) (quoting *New Hampshire v. Maine*, [532 U.S. 742, 749](#) (2001)); *see also Lowery v. Stovall*, [92 F.3d 219, 223](#) (4th Cir. 1996).

As the Complaint fails to allege facts that identify any creditors other than Prospect as a triggering party under section 544(b)(1), it should be dismissed. *See, e.g., In re Bolon*, [538 B.R. 391, 404–05](#) (Bankr. S.D. Ohio 2015); *In re Indus. Commercial Elec., Inc.*, [2004 WL 1354530](#), at *5 (Bankr. D. Mass. Apr. 27, 2004); *see also J.R. Deans Co.*, [249 B.R. at 131](#).

E. The Complaint Fails to Plead a Right to Recover from Wellspring Capital and WCM GenPar

Counts One and Two should be dismissed as to Wellspring Capital and WCM GenPar because the Complaint fails to plead a right to recover from these Defendants pursuant to

section 550 of the Bankruptcy Code. Section 550 allows a trustee to recover only from the initial transferee and its subsequent transferees, or from any entity for whose benefit the initial transfer was made. 11 U.S.C. § 550; see, e.g., *In re Finley*, 130 F.3d 52, 57 (2d Cir. 1997).

The Complaint fails to show that WCM GenPar were initial, mediate or subsequent transferees, or that they are transfer beneficiaries. The Trustee alleges only that “[p]ursuant to 11 U.S.C. § 550, the Liquidation Trust may recover the avoided Fraudulent Transfers received by the Transferee Defendants as either initial or subsequent transferees.” (Compl. ¶¶ 78, 88.) While Plaintiff pleads generally that the “Transferee Defendants” received dividends, and includes WCMGenPar in that defendant group, that conclusory allegation is contradicted by the Complaint itself. WCM GenPar is not alleged to be a shareholder of any Debtor. Nor is WCM GenPar included in the list of shareholders that received a dividend. (See Table at Compl. ¶ 41.) Plaintiff thus falls short of pleading a viable right to recover from these Defendants. See, e.g., *In re Railworks Corp.*, 760 F.3d 398, 404–05 (4th Cir. 2014) (holding plaintiff could not recover from entity that was neither initial transferee nor one for whose benefit the transfer was made); *In re Dreier*, 452 B.R. at 479–807 (dismissing complaint where it failed to plead sufficient facts showing defendant was a transferee under section 550); *In re Direct Response Media, Inc.*, 466 B.R. 626, 654, 656 (Bankr. D. Del. 2012) (dismissing fraudulent transfer claim where it was not pled that defendants were either initial transferees or entities for whose benefit the transfers were made).²¹

The Trustee’s claims as to Wellspring Capital are similarly flawed. The Trustee’s sole allegation relating to section 550 is that “Wellspring Capital, as the entity that caused the Fraudulent Transfers to be made, is the entity for whose benefit such Fraudulent Transfers were

²¹ The Complaint’s passing allegation asserted in a footnote that WCM GenPar IV, L.P. is liable for all of Wellspring’s debts and WCM GenPar IV GP, LLC is liable for WCM GenPar IV, LP’s debts (Compl. 11 n.5) does not establish transferee liability under section 550 of the Bankruptcy Code, even if general partners are strictly liable for the debts of the partnership they serve.

made.” (Compl. ¶¶ 79, 89.) This, too, falls short of the necessary pleading requirements. Although the Bankruptcy Code does not define the term “entity for whose benefit such transfer was made,” courts generally interpret it to mean someone “other than an initial or subsequent transferee, who receives the benefit of the transfer from the debtor, but does not receive the actual money.” *In re Harris Agency, LLC*, [477 B.R. 590, 593](#) n.3 (Bankr. E.D. Pa. 2012) (citation omitted). In the Fourth Circuit, “a person must actually receive a benefit from the transfer in order to be an ‘entity for whose benefit’ the transfer was made.” *In re Meredith*, [527 F.3d 372, 376](#) (4th Cir. 2008); *see also, e.g., In re Int’l Mgmt. Assoc.*, [399 F.3d 1288, 1293](#) (11th Cir. 2005) (holding that sole shareholder of debtor was not “the entity for whose benefit” transfer was made because the “benefit” was “unquantifiable and . . . bears ‘no necessary correspondence to the value of the property transferred or received,’” and thus was not a cognizable benefit).

The Complaint does not allege that Wellspring Capital was an initial or subsequent transferee and does not identify or allege any actual, quantifiable, or accessible benefits Wellspring Capital received from the alleged fraudulent transfers. *See, e.g., In re McCook Metals, L.L.C.*, [319 B.R. 570, 590](#) (Bankr. N.D. Ill. 2005) (“[T]ransfer beneficiary status depends on three aspects of the ‘benefit’: (1) it must actually have been received by the beneficiary; (2) it must be quantifiable; and (3) it must be accessible to the beneficiary.”). Simply “causing” alleged fraudulent transfers to be made, even if true (which the Wellspring Defendants dispute), does not support a factual or logical inference that Wellspring Capital received a benefit from them. *See, e.g., In re Harris Agency*, [477 B.R. at 593](#) n.3. Thus, the Complaint fails to plead a viable basis to recover from Wellspring Capital. *See, e.g., In re Dreier*, [452 B.R. at 466](#) (granting motion to dismiss and finding that “[t]he fact that Amaranth Advisors was the investment manager of the Amaranth entities does not, in and of itself, support the conclusion that the transfers were made for its benefit.”).

II. THE COMPLAINT FAILS TO PLEAD NEGLIGENT MISREPRESENTATION

The Trustee asserts a claim for negligent misrepresentation against Defendants Wellspring Capital, Mr. Carles, and Mr. Johnson, as the assignee of claims belonging to Prospect. (Compl. ¶ 5.) As such, the Trustee again stands in Prospect's shoes. *Bank of Am., N.A. v. Draper*, 746 S.E.2d 478, 481 (S.C. Ct. App. 2013). As discussed *supra* 22–23, Prospect was allegedly injured in New York, and therefore New York law governs this claim. *Lister*, 494 S.E.2d at 455. In any event, New York and South Carolina negligent misrepresentation law is substantially similar so the Court need not resolve a choice of law issue. See *Rice-Marko v. Wachovia Corp.*, 728 S.E.2d 61, 65 (S.C. Ct. App. 2012). The claim fails under the laws of both states.

To properly allege a claim for negligent misrepresentation, the Complaint must plead facts to indicate that defendant made a false representation to a plaintiff, defendant had a pecuniary interest in the statement,²² defendant owed plaintiff a duty that was breached, and that, in justifiably relying on that statement, plaintiff suffered a loss. See, e.g., *In re Marine Energy Sys. Corp.*, 362 B.R. 247, 255 (Bankr. D.S.C. 2006); see also *Anschutz Corp. v. Merrill Lynch & Co.*, 690 F.3d 98, 114 (2d Cir. 2012). To be actionable, the representation must relate to a present or preexisting fact and be false when made; it cannot be based on statements as to future events. *Hydro Inv., Inc. v. Trafalgar Power, Inc.*, 227 F.3d 8, 21 (2d Cir. 2000); *Koontz v. Thomas*, 511 S.E.2d 407, 413 (S.C. Ct. App. 1999); *Bango v. Naughton*, 584 N.Y.S.2d 942, 944 (1992).

A. The Allegations Fail to Meet Rule 9(b)'s Heightened Pleading Standards

Plaintiff's core allegation is that Mr. Carles, Wellspring Capital, and Mr. Johnson made three false statements to Prospect, in order to induce Prospect to forebear on certain interest payments. (Compl. ¶¶ 62, 93, 99.) Each statement allegedly relates to a proposed acquisition of

²² A pecuniary interest is an element of negligent misrepresentation under South Carolina law but not New York.

assets from AcuSport, a competitor going through financial difficulties. See Ex. 8, Chapter 11 Voluntary Petition Non-Individual, *In re AcuSport Corp.*, No. 18-52736 (Bankr. S.D. Ohio, May 1, 2018), [Dkt. No. 1](#). The alleged misrepresentations were that the asset purchase (1) would allow the Debtors to acquire \$14 million of AcuSport inventory at a substantial discount, (2) would result in the Debtors' immediate realization of a \$7 million profit on the sale of the inventory, and (3) would result in the Debtors' capturing 20% to 30% of AcuSport's sales. (Compl. ¶¶ 48, 93.)

Claims for negligent misrepresentation must be pled with particularity pursuant to Rule 9(b). [Fed. R. Civ. P. 9\(b\)](#); see *Becker v. Chandler Oaks, LLC*, [2019 WL 7761728](#) at *5 (D.S.C. June 11, 2019); *Riker v. Premier Capital, LLC*, [2016 WL 5334980](#), at *5 (S.D.N.Y. Sept. 22, 2016); *Ameristone Tile, LLC v. Ceramic Consulting Corp.*, [966 F. Supp. 2d 604, 619](#) (D.S.C. 2013); *Ethox Chem, LLC v. Coca-Cola Co.*, [2013 WL 41001](#), at *4 (D.S.C. Jan. 3, 2013); *Pitten v. Jacobs*, [903 F. Supp. 937, 951](#) (D.S.C. 1995).²³ Here, Plaintiff's claim and allegations sound in fraud and are thus subject to 9(b). See *Matsumura v. Benihana Nat. Corp.*, [542 F. Supp. 2d 245, 252](#) (S.D.N.Y. 2008) (applying Rule 9(b) where negligent misrepresentation claim sounded in fraud); *Pitten*, [903 F. Supp. at 951](#) ("Although the language of Rule 9(b) confines its requirements to claims of mistake and fraud, the requirements of the rule apply to all cases where the gravamen of the claim is fraud even though the theory supporting the claim is not technically termed fraud.") (internal citations omitted).

²³ Courts in this district have applied Rule 9(b) to negligent misrepresentation claims sounding in fraud. See, e.g., *Becker*, [2019 WL 7761728](#) at *5; *Ameristone Tile*, [966 F. Supp. 2d at 619](#). Two cases that do not apply Rule 9(b), *Smith v. Nationstar Mortgage*, [2015 WL 13759742](#) at *3 (D.S.C. Aug. 3, 2015), and *Creaturo v. Wells Fargo Bank NA*, [2012 WL 13005318](#) at *5 (D.S.C. April 30, 2012) rely on *Baltimore County v. Cigna Healthcare*, [238 Fed. Appx. 914](#) (4th Cir. 2007), which found, under Maryland law, that negligent misrepresentation does not "contain an essential showing of fraud" and therefore Rule 9(b) does not apply. *Id.* at 922. *Baltimore County* applied Maryland law and is unpublished, and therefore not binding. In *Dineen v. Pella Corp.*, [2015 WL 6688040](#), at *9 n.6 (D.S.C. Oct. 30, 2015), the Court noted that prior to and following *Baltimore County*, courts have applied Rule 9(b) to negligent misrepresentation claims arising under the laws of states other than Maryland (citing cases arising under laws of Nevada, North Carolina, and South Carolina).

Rule 9(b) requires a plaintiff to “specify the statements at issue, identify the speaker, state where and when the statements were made, and explain why the statements were fraudulent.” *Riker*, [2016 WL 5334980](#) at *5; *see also Walters v. Pella Corp.*, [2015 WL 2381335](#) at *9 (D.S.C. May 19, 2015) (citing *U.S. ex rel. Elms v. Accenture LLP*, [341 F. App’x 869, 872](#) (4th Cir. 2009)). As to Mr. Carles and Wellspring Capital, the Complaint offers no communications that concern any of the alleged statements, and pleads no facts as to the time and place when the alleged statements were made or to whom. Nor does the Complaint plead which of the Defendants made which of the statements. The failure to plead with particularity requires dismissal.

B. The Alleged Statements Are Forward-Looking Statements That Are Not Alleged to Have Been False When Made

Even if Rule 9(b) is not applied, Plaintiff has failed to state a claim for negligent misrepresentation. Under both New York and South Carolina law, a representation must concern a present or preexisting fact. *See, e.g., Hydro Inv.*, [227 F.3d at 20–21](#); *Pitten*, [903 F. Supp. at 951](#); *Koontz*, [511 S.E.2d at 413](#). A claim cannot ordinarily be based on statements or predictions of future events. *See, e.g., Hydro Inv.*, [227 F.3d at 20–21](#); *Pitten*, [903 F. Supp. at 951](#); *Fields v. Melrose Ltd. P’ship*, [439 S.E.2d 283, 285](#) (S.C. Ct. App. 1993); *Sheth v. New York Life Ins. Co.*, [709 N.Y.S.2d 74, 75](#) (N.Y. App. Div. 2000). Nor are opinions actionable as misrepresentations. *In re Marine Energy*, [362 B.R. at 261](#); *Sheth*, [709 N.Y.S.2d at 75](#).

Statements as to potential future business results are quintessential opinions or statements of future events and are not actionable. *See, e.g., Sotheby’s Fin. Services, Inc. v. Baran*, [107 Fed. App’x. 235, 238](#) (2d Cir. 2004) (representation that stone would sell for over one million dollars was nonactionable opinion); *Hydro Inv.*, [227 F.3d at 21–22](#) (statements concerning output predictions and profitable development of plants were “just the sort of representations about future events that cannot support a claim.”); *Fields*, [439 S.E.2d at 285](#) (affirming dismissal of negligent

misrepresentation claim based on statements that defendants would sell future memberships at higher prices and would complete various projects).

The alleged statements Plaintiff pleads here concern potential future events, and none states a present or preexisting fact. Each one is alleged in the hypothetical conditional: that the purchase “would allow” or “would result” in certain outcomes. If these statements were made (and we dispute that they were), at most the statements were discussing the potential of profits or business results that may occur in the future and are not actionable. As the court explained in *In re Marine*, “misrepresentation of future profits, [is] a type of opinion and prediction of future events[.]” 362 B.R. at 261 (quoting *Miller v. Premier Corp.*, 608 F.2d 973, 981 (4th Cir.1979)); *see also Hydro Inv.*, 227 F.3d at 21–22. By definition, these statements cannot be a basis for a misrepresentation claim. *See also Lampman v. DeWolff Boberg & Assocs., Inc.*, 319 F. App’x 293, 298 (4th Cir. 2009) (stating that “representation cannot ordinarily be based on unfulfilled promises or statements as to future events”) (quoting *Koontz v. Thomas*, 511 S.E.2d at 413).

Nor could Prospect have justifiably relied upon these statements of opinion or future prediction. *See, e.g., In re Marine Energy*, 362 B.R. at 261 (stating that “there is no right to rely on” a “false prediction or promise of future events”) (quoting *Miller*, 608 F.2d at 981); *Elghanian v. Harvey*, 671 N.Y.S.2d 266, 266 (N.Y. App. Div. 1998) (dismissing complaint and explaining that statements of “puffery, opinions of value or future expectations . . . could not have been relied upon justifiably”).

Critically, the Complaint does not allege, as required, that any of the statements were false when made or that Mr. Carles or Wellspring Capital knew or should have known the alleged misrepresentations were false when made. *See Koontz*, 511 S.E.2d at 413 (“[T]o be actionable, the representation must relate to a present or pre-existing fact and be false when made.”) *Hydro*

Inv., 227 F.3d at 20 (negligent misrepresentation under New York law requires a “false representation that [defendant] should have known was incorrect”); *Rosoff v. Mountain Laurel Center for Performing Arts*, 317 F. Supp. 2d 493, 500 (S.D.N.Y. 2004) (dismissing negligent misrepresentation claim where there was no allegation that defendant knew or should have known that statement was incorrect when made); *Fields*, 439 S.E.2d at 285 (affirming dismissal where defendant’s statements “were not false when made”). The negligent misrepresentation claim as against Mr. Carles and Wellspring Capital should be dismissed on this ground alone.

C. Mr. Carles’s Emails Are Not Actionable

The Complaint describes eight emails sent by Mr. Carles to Prospect. (Compl. ¶¶ 49–54, 57, 60.) Though some may be colorful, none make any mention of (a) the value of inventory, (b) the amount of potential future sales, or (c) the amount of any future profits. Rather, each email reflects either opinions about the proposed AcuSport transaction, pressure on Prospect to act expeditiously and for it to make its own decisions, or insulting (but still not actionable) statements directed to Prospect employees:

- “[T]he only way to optimize is to merge with AcuSport[.]” (*Id.* ¶ 49.)
- “If you think AcuSport must get done, I would go to committee tomorrow and figure out what you can live with . . . we think it must get done . . . consequences [of not getting it done] could be severe.” (*Id.* ¶ 50.)
- “So you will waive [your interest payments]. Otherwise you cannot get paid.” (*Id.* ¶ 51.)
- “[W]aiting was a mistake . . . you’re [sic] economics are going down and the risk of chapter is going up.” (*Id.* ¶ 54.)
- “Gotta get your interest? The company will explode, Rich! We are hiring lawyers and advisors . . . THIS IS SERIOUS. ACT FAST.” (*Id.* ¶ 57.)
- “There is no time for games. Acusport needs to file and we need to buy it . . . THIS WILL HELP YOUR RECOVERY – THIS WILL MAKE THE BUSINESS STRONGER[.]” (*Id.* ¶ 60.)

The first three of these emails were sent in 2017, in connection with the proposed merger that did not close. *See supra* 11. Plaintiff nowhere explains how Prospect—in connection with the 2018 asset purchase—could have reasonably relied on statements made about a potential merger that never happened. And none of the emails constitutes a statement of present or preexisting facts. Indeed, Plaintiff has not identified anything false in any of the emails. At most, the statements constitute nonactionable opinions (“the only way to optimize is to merge with AcuSport”; “we think it must get done”; “waiting was a mistake”) or opinions of future performance (“this will help your recovery, this will make the business stronger”), which cannot support a claim of negligent misrepresentation. *See Hydro Inv.*, [227 F.3d at 20–21](#); *In re Marine Energy*, [362 B.R. at 261](#); *Pitten*, [903 F. Supp. at 951](#); *Sheth*, [709 N.Y.S.2d at 75](#); *Fields*, [439 S.E.2d. at 285](#). The statements urging Prospect to move faster likewise are not statements of present or preexisting fact.

D. Plaintiff’s Allegations Concerning Overstatement of Inventory Also Fail

Finally, Plaintiff alleges that Wellspring Capital caused Ellett to overstate to Prospect the value of Debtors’ inventory on their books and records. (See Compl. ¶ 100.) This allegation first appears in the penultimate paragraph of the Complaint with no supporting facts. *Id.* Allegations unsupported by any facts should be dismissed. *Blackmon-Taylor v. Saks Fifth Ave., Inc.*, [2014 WL 5106891](#), at *1 (D.S.C. Oct. 10, 2014) (dismissing complaint where it failed to allege sufficient facts to support the elements of the claim).

The Complaint fails to identify the specific alleged overstatement in the value of inventory, the identity of the speaker, or the time, place, and manner in which the alleged overstatement was made, and therefore fails to satisfy the requirements of Rule 9(b). Even if Rule 9(b) is not applied, there are insufficient facts to support this allegation. A negligent misrepresentation claim requires *the defendant* to make a false representation to a plaintiff. The Complaint identifies no such

statement by Wellspring Capital to Prospect concerning the value of Debtors' inventory. And, in any event, even if Prospect heard such a representation, regardless of from whom, Prospect had the right to audit the Debtors' books and records. (See Ex. 2, Second Lien Loan Agreement § 9.1.1 (Visits and Inspections).) It therefore had no reason to rely on Wellspring when it could have reviewed the Debtors' books and records itself. Accordingly, this allegation cannot be credited.

Because the Complaint contains no actionable misrepresentations of fact, and because a sophisticated investor like Prospect could not have reasonably relied on the statements pled, Plaintiff cannot proceed on his negligent misrepresentation claim.

CONCLUSION

For the foregoing reasons, the Wellspring Defendants and Mr. Carles request that the Court dismiss the Complaint in its entirety, with prejudice. The Wellspring Defendants and Mr. Carles further incorporate by reference any and all applicable arguments and objections raised in the Motions to Dismiss and Memorandums in Support thereof filed by Mr. Johnson and the other equity holder defendants.

Dated: February 19, 2020

Respectfully submitted,

MCCARTHY, REYNOLDS, & PENN, LLC

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**UNITED STATES BANKRUPTCY COURT
FOR THE DISTRICT OF SOUTH CAROLINA**

RONALD FRIEDMAN, as trustee for	)	
the SportCo Creditors' Liquidation	)	
Trust,	)	Adversary No. 19-80071-dd
	)	
Plaintiff,	)	
	)	
	)	
v.	)	
	)	
WELLSPRING CAPITAL	)	
MANAGEMENT LLC, WELLSPRING	)	
CAPITAL PARTNERS IV, L.P., WCM	)	
GENPAR IV, L.P., WCM GENPAR IV	)	
GP, LLC, ALEXANDER E. CARLES,	)	
BRADLEY JOHNSON, F. HEWITT	)	
GRANT, CHARLES E. WALKER, JR.,	)	
TODD BOEHLY, BERNARD	)	
ZIOMEK, and ANDREW KUPCHIK,	)	
	)	
Defendants.	)	
	)	

**DECLARATION OF DANIEL H. LEVI IN SUPPORT OF THE WELLSPRING
DEFENDANTS AND ALEXANDER CARLES'S MOTION TO DISMISS**

I, Daniel H. Levi, declare as follows:

1. I am an attorney admitted to practice law in the State of New York and counsel with the law firm Paul, Weiss, Rifkind, Wharton & Garrison LLP, counsel for Wellspring Capital Management LLC ("Wellspring Capital"), Wellspring Capital Partners IV, L.P. ("Wellspring"), WCM GenPar IV, L.P. and WCM GenPar IV GP, LLC (together, "WCM GenPar" and, together with Wellspring Capital and Wellspring, the "Wellspring Defendants"), and Alexander E. Carles. I am admitted to practice *pro hac vice* before this Court.

2. I submit this Declaration in support of the Wellspring Defendants and Alexander Carles's Motion to Dismiss (the "Motion") and to place before the Court certain documents relevant to the Motion.

3. Attached as Exhibit 1 is a true and correct copy of the Order Confirming the Debtors' Fourth Amended Combined Disclosure Statement and Joint Chapter 11 Plan of Liquidation in the action captioned *In re SportCo Holdings, Inc.*, Case No. 19-11299 (Bankr. D. Del.), dated November 6, 2019 ([Dkt. 525](#)), with attached confirmed Liquidation Plan ([Dkt. 525-1](#)).

4. Attached as Exhibit 2 is a true and correct copy of the Second Lien Loan and Security Agreement (the "Second Lien Loan Agreement"), dated September 28, 2012.

5. Attached as Exhibit 3 is a true and correct copy of the First Amendment to the Second Lien Loan Agreement, dated March 7, 2013.

6. Attached as Exhibit 4 is a true and correct copy of the Second Amendment to the Second Lien Loan Agreement, dated September 30, 2014.

7. Attached as Exhibit 5 is a true and correct copy of the Annual Report for Prospect Capital Corporation ("Prospect") on Form 10-K, for the fiscal year ended June 30, 2013, as filed with the SEC on August 21, 2013.

8. Attached as Exhibit 6 is a true and correct copy of the Annual Report for Prospect on Form 10-K, for the fiscal year ended June 30, 2015, as filed with the SEC on August, 26, 2015.

9. Attached as Exhibit 7 is a true and correct copy of the Declaration of John K. Flanagan in Support of First Day Motions, in the action captioned *In re AcuSport Corp.*, Case No. 2:18-bk-52736 (Bankr. S.D. Ohio), dated May 1, 2018 ([Dkt. 17](#)).

10. Attached as Exhibit 8 is a true and correct copy of the Chapter 11 Voluntary Petition for Non-Individuals Filing for Bankruptcy, in the action captioned *In re AcuSport Corp.*, Case No. 2:18-bk-52736 (Bankr. S.D. Ohio), dated May 1, 2018 ([Dkt. 1](#)).

11. Attached as Exhibit 9 is a true and correct copy of the Order (I) Approving and Authorizing Sale of Certain of Debtor's Assets Pursuant to Successful Bidder's Asset Purchase Agreement, Free and Clear of All Liens, Claims, Encumbrances and Other Interests; (II) Approving the Assumption and Assignment of Certain Executory Contracts and Unexpired Leases Related Thereto; and (III) Granting Related Relief, in the action captioned *In re AcuSport Corp.*, Case No. 2:18-bk-52736 (Bankr. S.D. Ohio), dated June 28, 2018 ([Dkt. 230](#)).

12. Attached as Exhibit 10 is a true and correct copy of the Final Order (I) Approving the Debtors' Postpetition Financing, (II) Authorizing the Debtors Continued Use of Cash Collateral, (III) Granting Liens, and Providing Superpriority Administrative Expense Status, (IV) Granting Adequate Protection to the Prepetition Lenders, (V) Modifying Automatic Stay, and (VI) Granting Related Relief (the "Cash Collateral Order"), in the action captioned *In re SportCo Holdings, Inc.* Case No. 19-11299 (Bankr. D. Del.), dated August 7, 2019 ([Dkt. 238](#)).

Pursuant to [28 U.S.C. § 1746](#), I declare under penalty of perjury that the foregoing is true and correct.

Executed in New York, New York on this 19th day of February, 2020.


Daniel H. Levi

Exhibit 1

**IN THE UNITED STATES BANKRUPTCY COURT
FOR THE DISTRICT OF DELAWARE**

In re:

SPORTCO HOLDINGS, INC., *et al.*,¹

Debtors.

)
) Chapter 11

)
) Case No. 19-11299 (LSS)

)
) (Jointly Administered)

)
) **Re: Docket No. 521**

**ORDER CONFIRMING DEBTORS' FOURTH AMENDED COMBINED DISCLOSURE
STATEMENT AND JOINT CHAPTER 11 PLAN OF LIQUIDATION**

WHEREAS, SportCo Holdings, Inc. and certain of its wholly-owned direct and indirect subsidiaries, as debtors and debtors in possession (collectively, the “Debtors”) in the above-captioned chapter 11 cases (these “Chapter 11 Cases”) have proposed and filed with the United States Bankruptcy Court for the District of Delaware (the “Court”): (a) the *Debtors’ Fourth Amended Combined Disclosure Statement and Joint Chapter 11 Plan of Liquidation* (as amended, the “Combined Plan and Disclosure Statement”)² [Docket No. 521], and (b) the *Debtors’ Motion for the Entry of an Order (A) Conditionally Approving the Combined Disclosure Statement and Joint Chapter 11 Plan of Liquidation for Solicitation Purposes Only on Limited Notice, (B) Establishing Procedures for Solicitation and Tabulation of Votes to Accept or Reject Plan of Liquidation, (C) Approving the Form of Ballot and Solicitation Materials, (D) Establishing Voting Record Date, (E) Fixing the Date, Time and Place for the*

¹ The Debtors, together with the last four digits of each Debtor’s federal tax identification number, are: Bonitz Brothers, Inc. (4441); Ellett Brothers, LLC (7069); Evans Sports, Inc. (2654); Jerry’s Sports, Inc. (4289); Outdoor Sports Headquarters, Inc. (4548); Quality Boxes, Inc. (0287); Simmons Guns Specialties, Inc. (4364); SportCo Holdings, Inc. (0355); and United Sporting Companies, Inc. (5758). The location of the Debtors’ corporate headquarters and the service address for all Debtors is 267 Columbia Ave., Chapin, SC 29036.

² All capitalized terms not otherwise defined herein shall have the meaning ascribed to them in the Combined Plan and Disclosure Statement. A copy of the Combined Plan and Disclosure Statement is annexed hereto as **Exhibit A**.

Confirmation Hearing and the Deadline for Filing Objections Thereto, and (F) Approving Related Notice Procedures (the “Motion”) [Docket No. 309];

WHEREAS, on September 17, 2019, the Court entered the *Order (A) Approving on a Conditional Basis Combined Disclosure Statement and Joint Chapter 11 Plan of Liquidation for Solicitation Purposes Only, (B) Establishing Procedures for Solicitation and Tabulation of Votes to Accept or Reject Combined Disclosure Statement and Plan, (C) Approving the Form of Ballot and Solicitation Materials, (D) Establishing Voting Record Date, (E) Fixing the Date, Time and Place for the Confirmation Hearing and the Deadline for Filing Objections Thereto, and (F) Approving Related Notice Procedures* [Docket No. 399] (the “Conditional Approval and Procedures Order”);

WHEREAS, due notice of the Confirmation Hearing has been given to holders of Claims against the Debtors and other parties in interest in compliance with the Bankruptcy Code, the Federal Rules of Bankruptcy Procedure (the “Bankruptcy Rules”) and the Conditional Approval and Procedures Order, by the mailing of the *Notice of (I) Deadline for Casting Votes to Accept or Reject the Debtors’ Combined Disclosure Statement and Joint Chapter 11 Plan of Liquidation, (II) the Hearing to Consider Confirmation of the Combined Plan and Disclosure Statement, and (III) Certain Related Matters* [Docket No. 408] (the “Confirmation Notice”), as set forth in the *Affidavit of Service*, dated October 4, 2019 [Docket No. 451] (the “Confirmation Notice Affidavit”);

WHEREAS, in compliance with the Bankruptcy Code and Conditional Approval and Procedures Order, the Combined Plan and Disclosure Statement, the Confirmation Notice, and approved ballots for voting on the Combined Plan and Disclosure Statement (the “Ballots”) have been duly transmitted to Holders of Impaired Claims that are entitled to vote;

WHEREAS the Debtors filed a *Declaration of Brad Daniel of BMC Group, Inc. Certifying the Methodology for the Solicitation and Tabulation of Votes and Results of Voting with Respect to the Debtors' Second Amended Combined Disclosure Statement and Joint Chapter 11 Plan of Liquidation* on October 17, 2019 [Docket No. 476] and a *Supplemental Declaration of Voting Agent, Bradford Daniel, on Behalf of BMC Group, Inc., Regarding Solicitation and Tabulation of Ballots Accepting and Rejecting the Combined Disclosure Statement and Chapter 11 Plan of Liquidation for SportCo Holdings, Inc.* on October 21, 2019 [Docket No. 485] containing a tabulation of all valid Ballots received (the "Tally of Ballots") and demonstrating acceptance of the Combined Plan and Disclosure Statement by Classes 2 and 4;

WHEREAS, the notice provided in the Confirmation Notice is sufficient under the circumstances and no other or further notice is required;

WHEREAS, on October 21, 2019, the Court conducted a hearing on the Combined Plan and Disclosure Statement (the "Confirmation Hearing");

NOW, THEREFORE, based upon the Court's consideration of the entire record of these Chapter 11 Cases, including, among other things, (i) the Combined Plan and Disclosure Statement, (ii) the Motion, (iii) the Confirmation Notice Affidavit; (iv) any objections to the Combined Plan and Disclosure Statement; and (v) the Confirmation Hearing, and the Court having found that the Combined Plan and Disclosure Statement is confirmable in its current form and all objections thereto have either been settled, withdrawn or overruled at the Confirmation Hearing; and after due deliberation and sufficient cause appearing therefor, the Court hereby **FINDS, DETERMINES, AND CONCLUDES** that:

I.

FINDINGS

A. Findings and Conclusions. The findings and conclusions set forth herein and in the record of the Confirmation Hearing constitute the Court's findings of fact and conclusions of law pursuant to Rule 52 of the Federal Rules of Civil Procedure, as made applicable herein by Bankruptcy Rules 7052 and 9014. To the extent any of the following findings of fact constitute conclusions of law, they are adopted as such. To the extent any of the following conclusions of law constitute findings of fact, they are adopted as such.

B. Jurisdiction, Venue, Core Proceeding (28 U.S.C. §§ 157(b)(2), 1334(a)). The Court has jurisdiction over the Debtors' Chapter 11 Cases pursuant to 28 U.S.C. § 1334. Approval and confirmation of the Combined Plan and Disclosure Statement are core proceedings pursuant to 28 U.S.C. § 157(b) and this Court has jurisdiction to enter a final order with respect thereto. The Debtors are eligible debtors under section 109 of the Bankruptcy Code. Venue is proper before this Court pursuant to 28 U.S.C. §§ 1408 and 1409. The Debtors are the plan proponents in accordance with section 1121(a) of the Bankruptcy Code. On June 10, 2019 (the "Filing Date"), the Debtors commenced with this Court voluntary cases under chapter 11 of the Bankruptcy Code. The Debtors are authorized to continue to hold and manage their assets as debtors in possession pursuant to sections 1107(a) and 1108 of the Bankruptcy Code.

C. Creditors' Committee. On June 17, 2019, an Official Committee of Unsecured Creditors (the "Committee") was appointed by the United States Trustee. *See Notice of Appointment of Creditors' Committee* [Docket No. 58]. No trustee, examiner, or other official committee has been appointed in these Chapter 11 Cases.

D. Disclosure Statement. The Disclosure Statement contains adequate information within the meaning of Bankruptcy Code section 1125.

E. Conditional Approval and Procedures Order Compliance. The Debtors have complied with the Conditional Approval and Procedures Order, including the solicitation process, in all respects.

F. Burden of Proof. The Debtors have the burden of proving the elements of sections 1129(a) and (b) of the Bankruptcy Code by a preponderance of the evidence. The Debtors have met such burden.

G. Voting. As evidenced by the Tally of Ballots, votes to accept or reject the Combined Plan and Disclosure Statement have been solicited and tabulated fairly, in good faith, and in a manner consistent with the Bankruptcy Code, the Bankruptcy Rules, and the Local Rules of Bankruptcy Practice and Procedure of the United States Bankruptcy Court for the District of Delaware (the “Local Rules”), the solicitation process set forth in the Conditional Approval and Procedures Order, and applicable nonbankruptcy law.

H. Solicitation. The Combined Plan and Disclosure Statement, the Ballots, and the Confirmation Notice were transmitted and served in compliance with the Bankruptcy Rules, including Bankruptcy Rules 3017 and 3018, the Local Rules, and the Conditional Approval and Procedures Order. The forms of the Ballot adequately addressed the particular needs of these Chapter 11 Cases and are appropriate for the Holders of the Claims in Classes 2 and 4 of the Combined Plan and Disclosure Statement (the “Voting Classes”), which are impaired and may receive a distribution under the Combined Plan and Disclosure Statement, and whose votes were, therefore, solicited.

1. The period during which the Debtors solicited acceptances of the Combined Plan and Disclosure Statement was reasonable in the circumstances of these Chapter 11 Cases and enabled Holders to make an informed decision to accept or reject the Combined Plan and Disclosure Statement. The Debtors were not required to solicit votes from the Holders of Claims in the following Classes (the “Deemed Accepting Classes”), as each such Class is unimpaired under the Combined Plan and Disclosure Statement and conclusively presumed to have accepted the Combined Plan and Disclosure Statement: Class 1 – Other Priority Claims, Class 2 – Other Secured Claims.

2. The Debtors also were not required to solicit votes from the Holders of Claims in the following Classes (the “Deemed Rejecting Classes”) as such Classes receive no recovery under the Combined Plan and Disclosure Statement and are deemed to reject the Combined Plan and Disclosure Statement: Class 5 – Wellspring Subordinated Claims, Class 6 – Equity Interests.

3. As described in and as evidenced by the Tally of Ballots and the Confirmation Notice Affidavit, the transmittal and service of the Combined Plan and Disclosure Statement, the Ballots, and the Confirmation Notice was timely, adequate, and sufficient under the circumstances. The solicitation of votes on the Combined Plan and Disclosure Statement complied with the Conditional Approval and Procedures Order, was appropriate and satisfactory based upon the circumstances of these Chapter 11 Cases, and was in compliance with the provisions of the Bankruptcy Code, the Bankruptcy Rules, and the Local Rules, and any other applicable rules, laws, and regulations. In connection therewith, the Debtors, and any and all affiliates, members, managers, shareholders, partners, employees, attorneys and advisors of the foregoing are entitled to the protection of section 1125(e) of the Bankruptcy Code.

I. Good Faith. The Debtors have not engaged in any collusive or unfair conduct in connection with the Combined Plan and Disclosure Statement. The Combined Plan and Disclosure Statement was negotiated and conducted at arms-length and without collusion with any person or entity.

J. Notice. As is evidenced by the Tally of Ballots, the transmittal and service of the Combined Plan and Disclosure Statement, the Confirmation Notice, and the Ballots were adequate and sufficient under the circumstances, and all parties required to be given notice of the Confirmation Hearing (including the deadline for filing and serving objections to confirmation of the Combined Plan and Disclosure Statement) have been given due, proper, timely, and adequate

notice in accordance with the Conditional Approval and Procedures Order and in compliance with the Bankruptcy Code, the Bankruptcy Rules, the Local Rules, and applicable nonbankruptcy law, and such parties have had an opportunity to appear and be heard with respect thereto. No other or further notice is required.

K. Compliance with the Bankruptcy Code (11 U.S.C. § 1129(a)(1)). The Combined Plan and Disclosure Statement complies with the applicable provisions of the Bankruptcy Code and, as required by Bankruptcy Rule 3016, the Combined Plan and Disclosure Statement is dated and identifies the Debtors as proponents, thereby satisfying section 1129(a)(1) of the Bankruptcy Code.

L. The Debtors' Compliance with the Bankruptcy Code (11 U.S.C. § 1129(a)(2)). The Debtors have complied with all applicable provisions of the Bankruptcy Code, satisfying the requirements of section 1129(a)(2) of the Bankruptcy Code.

M. Proposed in Good Faith (11 U.S.C. § 1129(a)(3)). The Combined Plan and Disclosure Statement has been proposed in good faith and not by any means forbidden by law, thereby satisfying section 1129(a)(3) of the Bankruptcy Code.

N. Payment for Services or Costs and Expenses (11 U.S.C. § 1129(a)(4)). Any payment made or to be made by the Debtors for services or for costs and expenses of the Debtors' professionals in connection with the Chapter 11 Cases, or in connection with the Combined Plan and Disclosure Statement and incident to the Chapter 11 Cases, has been approved by, or is subject to the approval of, the Court as reasonable, thereby satisfying section 1129(a)(4) of the Bankruptcy Code.

O. Liquidation Trustee, Directors, Officers, and Insiders (11 U.S.C. § 1129(a)(5)). The Debtors have complied with section 1129(a)(5) of the Bankruptcy Code. The identity of the

Liquidation Trustee has been identified in the Plan Supplement and is consistent with the interests of Holders of Claims and Interests in the Debtors and public policy. [Docket No. 449]. On the Effective Date, as set forth in the Combined Plan and Disclosure Statement, the members of the board of directors or managers, as the case may be, and the respective officers, of each of the Debtors shall be deemed to have been removed, and each such Debtor shall be deemed dissolved for all purposes unless the Liquidation Trustee determines that dissolution can have any adverse impact on the Causes of Action.

P. No Rate Changes (11 U.S.C. § 1129(a)(6)). After confirmation of the Combined Plan and Disclosure Statement, the Debtors' business will not involve rates established or approved by, or otherwise subject to, any governmental regulatory commission. Thus, section 1129(a)(6) of the Bankruptcy Code is satisfied.

Q. Best Interest of Creditors (11 U.S.C. § 1129(a)(7)). The Combined Plan and Disclosure Statement satisfies section 1129(a)(7) of the Bankruptcy Code. The liquidation analysis provided in the Disclosure Statement, and the other evidence proffered or adduced at the Confirmation Hearing (i) is persuasive and credible, (ii) has not been controverted by other evidence, and (iii) establishes that each Holder of an impaired Claim or Interest either has accepted the Combined Plan and Disclosure Statement or will receive or retain under the Combined Plan and Disclosure Statement, on account of such Claim or Interest, property of a value, as of the Effective Date, that is not less than the amount that such Holder would receive or retain if the Debtors were liquidated under chapter 7 of the Bankruptcy Code on such date.

R. Acceptance by Certain Classes (11 U.S.C. § 1129(a)(8)). The Deemed Rejecting Classes are impaired by the Combined Plan and Disclosure Statement and are not entitled to receive or retain any property thereunder. Therefore, they are deemed to have rejected the

Combined Plan and Disclosure Statement pursuant to section 1126(g) of the Bankruptcy Code. As found and determined below, pursuant to section 1129(b)(1) of the Bankruptcy Code, the Combined Plan and Disclosure Statement may be confirmed notwithstanding the fact that the Deemed Rejecting Classes are impaired and are deemed to have rejected the Combined Plan and Disclosure Statement. The Deemed Accepting Classes are not Impaired under the Combined Plan and Disclosure Statement and are deemed to have accepted the Combined Plan and Disclosure Statement. The Holders of Claims in Classes 2 and 4 are Impaired by the Combined Plan and Disclosure Statement and were entitled to vote. Classes 2 and 4 voted to accept the Combined Plan and Disclosure Statement.

S. Treatment of Administrative Expense Claims and Priority Tax Claims (11 U.S.C. § 1129(a)(9)). The treatment of Allowed Administrative Expense Claims under the Combined Plan and Disclosure Statement satisfies the requirements of section 1129(a)(9)(A) of the Bankruptcy Code. The treatment of Allowed Priority Tax Claims pursuant to the Combined Plan and Disclosure Statement satisfies the requirements of section 1129(a)(9)(C) of the Bankruptcy Code.

T. Acceptance by Impaired Class (11 U.S.C. § 1129(a)(10)). Holders of Claims in Classes 2 and 4 are Impaired and voted to accept the Combined Plan and Disclosure Statement, determined without including any acceptance of the Combined Plan and Disclosure Statement by any insider, thereby satisfying the requirements of section 1129(a)(10) of the Bankruptcy Code.

U. Feasibility (11 U.S.C. § 1129(a)(11)). The Combined Plan and Disclosure Statement provides for the Debtors' assets already liquidated or to be liquidated over time to be distributed to creditors pursuant to the Combined Plan and Disclosure Statement, the Liquidating

Trust Agreement, and Bankruptcy Code, thereby satisfying the requirements of section 1129(a)(11) of the Bankruptcy Code.

V. Payment of Fees (11 U.S.C. § 1129(a)(12)). The Combined Plan and Disclosure Statement provides that on the Effective Date, and thereafter as may be required, the Debtors shall pay all fees payable pursuant to section 1930 of title 28 of the United States Code, thereby satisfying section 1129(a)(12) of the Bankruptcy Code.

W. Continuation of Retiree Benefits (11 U.S.C. § 1129(a)(13)). The Debtors do not maintain retirement plans or other benefits obligations. Accordingly, section 1129(a)(13) of the Bankruptcy Code is not applicable to the Combined Plan and Disclosure Statement.

X. No Domestic Support Obligations (11 U.S.C. § 1129(a)(14)). The Debtors are not required by a judicial or administrative order, or by statute, to pay a domestic support obligation. Accordingly, section 1129(a)(14) of the Bankruptcy Code is inapplicable to these Chapter 11 Cases.

Y. The Debtors Are Not Individuals (11 U.S.C. § 1129(a)(15)). The Debtors are not individuals, and accordingly, section 1129(a)(15) of the Bankruptcy Code is inapplicable to these Chapter 11 Cases.

Z. No Applicable Nonbankruptcy Law Regarding Transfers (11 U.S.C. § 1129(a)(16)). The Debtors are moneyed, business, and/or commercial corporations, and accordingly, section 1129(a)(16) of the Bankruptcy Code is inapplicable to these Chapter 11 Cases.

AA. Fair and Equitable; No Unfair Discrimination (11 U.S.C. § 1129(b)). Holders of Interests in the Deemed Rejecting Classes are deemed to have not accepted the Combined Plan and Disclosure Statement. Based upon the evidence proffered, adduced, and presented by the

Debtors at the Confirmation Hearing, the Combined Plan and Disclosure Statement does not discriminate unfairly and is fair and equitable with respect to the aforementioned Classes, as required by sections 1129(b)(1) and (b)(2) of the Bankruptcy Code. Thus, the Combined Plan and Disclosure Statement may be confirmed notwithstanding the deemed rejection of the Combined Plan and Disclosure Statement by the Deemed Rejecting Classes.

BB. Only One Plan (11 U.S.C. § 1129(c)). The Combined Plan and Disclosure Statement is the only plan filed in these Chapter 11 Cases, and accordingly, section 1129(c) of the Bankruptcy Code is inapplicable.

CC. Principal Purpose of the Plan (11 U.S.C. § 1129(d)). The principal purpose of the Combined Plan and Disclosure Statement is not the avoidance of taxes or the avoidance of the application of section 5 of the Securities Act, and no governmental entity has objected to the confirmation of the Combined Plan and Disclosure Statement on any such grounds. Therefore, the Combined Plan and Disclosure Statement satisfies the requirements of section 1129(d) of the Bankruptcy Code.

DD. Good Faith Solicitation (11 U.S.C. § 1125(e)). Based on the record before the Court and the record of these Chapter 11 Cases, the Debtors and their agents, successors, predecessors, control persons, members, officers, directors, employees and their respective attorneys, financial advisors, investment bankers, accountants, and other professionals retained by such persons, have acted in “good faith” within the meaning of section 1125(e) of the Bankruptcy Code in compliance with the applicable provisions of the Bankruptcy Code, the Bankruptcy Rules, the Local Rules and any applicable non-bankruptcy law, rule, or regulation governing the adequacy of disclosure in connection with all their respective activities relating to the solicitation of acceptances to the Combined Plan and Disclosure Statement and their

participation in the activities described in section 1125 of the Bankruptcy Code, and therefore are not, and on account of such solicitation will not be, liable at any time for the violation of any applicable law, rule, or regulation governing the solicitation of acceptances or rejections of the Combined Plan and Disclosure Statement and are entitled to the protections afforded by section 1125(e) of the Bankruptcy Code and, to the extent such parties are listed therein, the exculpation and release provisions set forth in Section XI.B. and XI.C. of the Combined Plan and Disclosure Statement.

EE. Implementation. All documents necessary to implement the Combined Plan and Disclosure Statement, and all other relevant and necessary documents have been developed and negotiated in good faith and at arms-length and shall, upon completion of documentation and execution, and subject to the occurrence of the Effective Date, be valid, binding, and enforceable agreements and not be in conflict with any federal or state law.

FF. Exculpation. The Court has jurisdiction under sections 1334(a) and (b) of title 28 of the United States Code to approve the exculpations set forth in Section XI.B. and elsewhere in the Combined Plan and Disclosure Statement and Confirmation Order.

GG. Based on the foregoing, the Combined Plan and Disclosure Statement satisfies the requirements for confirmation set forth in section 1129 of the Bankruptcy Code.

**NOW, THEREFORE, IT IS, BY THE UNITED STATES BANKRUPTCY COURT
FOR THE DISTRICT OF DELAWARE, HEREBY ORDERED,
ADJUDGED, AND DECREED THAT:**

1. Findings of Fact and Conclusions of Law. The above-referenced findings of fact and conclusions of law are hereby incorporated by reference as though fully set forth herein.

2. Notice of the Confirmation Hearing. Notice of the Confirmation Hearing complied with the terms of the Conditional Approval and Procedures Order, was appropriate and satisfactory based upon the circumstances of these Chapter 11 Cases, and was in compliance with the provisions of the Bankruptcy Code, the Bankruptcy Rules, and the Local Rules.

3. Disclosure Statement. The Disclosure Statement is approved on a final basis as containing adequate information within the meaning of section 1125 of the Bankruptcy Code, and any objections to the adequacy of the information contained in the Disclosure Statement not otherwise consensually resolved are overruled.

4. Solicitation. The solicitation of votes on the Combined Plan and Disclosure Statement complied with the Conditional Approval and Procedures Order, was appropriate and satisfactory based upon the circumstances of these Chapter 11 Cases, and was in compliance with the provisions of the Bankruptcy Code, the Bankruptcy Rules, the Local Rules, and applicable nonbankruptcy law.

5. Ballots. The form of Ballot annexed to the Motion is in compliance with Bankruptcy Rule 3018(c), as modified, conforms to Official Form Number 314, and is approved in all respects.

6. Confirmation of the Combined Plan and Disclosure Statement. The Combined Plan and Disclosure Statement, annexed hereto as **Exhibit A**, and each of its provisions shall be, and hereby are, approved and confirmed under section 1129 of the Bankruptcy Code.

7. Objections Resolved or Overruled. Except as provided herein, all objections, responses, statements and comments, if any, in opposition to the Combined Plan and Disclosure Statement, other than those withdrawn with prejudice, waived, or settled prior to, or on the record at, the Confirmation Hearing, shall be, and hereby are, overruled in their entirety.

8. General Authorizations. The Combined Plan and Disclosure Statement was approved by all officers of the Debtors whose approval was necessary. Pursuant to the appropriate provisions of the corporate or business organizations law of the applicable states of organization of the Debtors, and section 1142(b) of the Bankruptcy Code, no additional action of the respective directors or stockholders of the Debtors shall be required to authorize the Debtors to enter into, execute, deliver, file, adopt, amend, restate, consummate, or effectuate, as the case may be, the Combined Plan and Disclosure Statement and any contract, instrument, or other document to be executed, delivered, adopted or amended in connection with the implementation of the Combined Plan and Disclosure Statement.

9. Binding Effect. On the date of and following entry of this Confirmation Order and subject to the occurrence of the Effective Date, the provisions of the Combined Plan and Disclosure Statement shall bind the Debtors, all Holders of Claims and Interests of the Debtors (irrespective of whether such Claims or Interests are impaired under the Combined Plan and Disclosure Statement or whether the Holders of such Claims or Interests have accepted the Combined Plan and Disclosure Statement), any and all non-debtor parties to executory contracts and unexpired leases with the Debtors, any other party in interest in these Chapter 11 Cases, and the respective heirs, executors, administrators, successors, or assigns, if any, of any of the foregoing.

10. Vesting of Remaining Assets. Except as otherwise provided in the Combined Plan and Disclosure Statement, as of the Effective Date, pursuant to the provisions of Bankruptcy Code section 1141(b) and (c), all Remaining Assets, including but not limited to Privileged Documents (as defined in the Liquidation Trust Agreement), shall vest in the Liquidation Trust free and clear of all Claims, liens, encumbrances, charges, membership

interests and other interests, except as otherwise expressly provided in the Combined Plan and Disclosure Statement or this Confirmation Order, and subject to the terms and conditions of the Combined Plan and Disclosure Statement, the Liquidation Trust Agreement, and this Confirmation Order. To the extent the Combined Plan and Disclosure Statement or this Confirmation Order describes and/or characterizes the South Carolina Action or the South Carolina Complaint, such description and/or characterization shall not prejudice Wellspring or any of the other defendants or parties in the South Carolina Action.

11. Implementation of the Combined Plan and Disclosure Statement. The Debtors are hereby authorized to execute, deliver, file, or record such documents, contracts, instruments, releases, and other agreements, and take such other actions as may be necessary to effectuate, implement, and further evidence the terms and conditions of the Combined Plan and Disclosure Statement, including all such actions delineated in Sections VIII and X of the Combined Plan and Disclosure Statement.

12. Assumption or Rejection of Executory Contracts and Unexpired Leases. Pursuant to Section XII of the Combined Plan and Disclosure Statement, on the Effective Date, all Executory Contracts not assumed before the Confirmation Date are hereby deemed rejected. For the avoidance of doubt, the Debtors shall assume (i) Executory Contracts, if any, relevant to the preservation of data necessary for the Liquidation Trustee to perform his duties under the Liquidation Trust Agreement, and (ii) all of their Insurance Policies.

Notwithstanding anything to the contrary in the Plan, this Confirmation Order, or the Liquidation Trust Agreement, absent a further order of this Court or agreement between the applicable parties, none of (i) the executory contracts between one or more of the Debtors and Infor (US), Inc. (including any of its predecessors-in-interest) (the “Infor Agreements”) or (ii)

the software and related services subject to the Infor Agreements shall be rejected or assumed, assumed and assigned, or otherwise transferred to any party, and all parties' rights are reserved with respect to the Infor Agreements, including, but not limited to, their rejection, assumption, assignment, transferability, cure issues, adequate assurance, executory nature or otherwise.

13. Assignment of Executory Contracts. With respect to any Executory Contract assumed by the Debtors prior to, on, or after the Confirmation Date, pursuant to sections 105(a), 363 and 365 of the Bankruptcy Code, any provision that prohibits, restricts, or conditions the assignment or transfer by the Debtors of any such Executory Contract or that terminates or modifies such Executory Contract or allows the counterparty to such Executory Contract to terminate, modify, recapture, impose any penalty, condition renewal or extension, or modify any term or condition upon any such transfer and assignment constitutes an unenforceable anti-assignment provision and is void and of no force or effect for purposes of assignment or transfer pursuant to this paragraph.

14. Conditions to Effective Date. The Combined Plan and Disclosure Statement shall not become effective unless and until the conditions set forth in Section XIII.A. of the Combined Plan and Disclosure Statement and in this Confirmation Order have been satisfied or waived pursuant to Section XIII.C. of the Combined Plan and Disclosure Statement. In the event that one or more of the conditions specified in Section XIII.A. of the Combined Plan and Disclosure Statement have not been satisfied or waived in accordance with Section XIII.C. of the Combined Plan and Disclosure Statement within forty-five (45) days after the Confirmation Date, then upon motion by any party in interest, made before the time that each of the conditions has been satisfied or duly waived and upon notice to such parties in interest as this Court may direct, the Confirmation Order may be vacated by this Court; provided, however, that notwithstanding the

filing of such motion, the Confirmation Order shall not be vacated if each of the conditions to the Effective Date is either satisfied or duly waived by the Debtors before the any order granting such relief becomes a Final Order. If the Confirmation Order is vacated pursuant to Section XIII.B. of the Combined Plan and Disclosure Statement, the Combined Plan and Disclosure Statement shall be deemed null and void in all respects and nothing contained therein shall (A) constitute a waiver or release of any Claims by or against the Debtors, or (B) prejudice in any manner the rights of the Debtors.

15. Professional Claims. Except as provided in the Combined Plan and Disclosure Statement, all entities seeking awards by the Court of compensation for services rendered or reimbursement of expenses incurred through and including the confirmation of the Combined Plan and Disclosure Statement shall file their respective final applications for allowance of compensation for services rendered and reimbursement of expenses incurred by the Business Day that is thirty (30) days after the Effective Date. Professional Claims shall be paid in accordance with Sections X.A.2 and X.A.4 of the Combined Plan and Disclosure Statement up to the amounts set forth in the Approved Budget for each Professional (*provided, however*, that the Debtors reserve their right to seek payment of such administrative and Debtors' Professional fees in excess of the budgeted amount in light of any unforeseen substantial circumstances, so long as such amounts are incurred after September 30, 2019 and do not exceed \$100,000 allocated solely to the Debtors' Professionals; and *provided further, however*, that the Committee's professionals are entitled to a \$150,000 administrative claim payable from the Liquidation Trust to cover Professional fees in excess of the amounts included in the Approved Budget for the Committee's professionals).

16. Exculpation and Limitation of Liability. Except as otherwise specifically provided in the Combined Plan and Disclosure Statement, the Exculpated Parties and any of such parties' successors and assigns, solely in their capacities as such, shall not have or incur any liability for any claim, action, proceeding, cause of action, avoidance action, suit, account, controversy, agreement, promise, right to legal remedies, right to equitable remedies, right to payment, or claim (as defined in Bankruptcy Code section 101(5)), whether known, unknown, reduced to judgment, not reduced to judgment, liquidated, unliquidated, fixed, contingent, matured, unmatured, disputed, undisputed, secured, or unsecured and whether asserted or assertable directly or derivatively, in law, equity, or otherwise to one another or to any Claim holder or Equity Interest holder, or any other party in interest, or any of their respective agents, employees, representatives, advisors, attorneys, or affiliates, or any of their successors or assigns, for any act or omission originating or occurring on or after the Petition Date through and including the Effective Date in connection with, relating to, or arising out of the Debtors, the Chapter 11 Cases, the negotiation and filing of the Combined Plan and Disclosure Statement, the filing of the Chapter 11 Cases, the pursuit of confirmation of the Combined Plan and Disclosure Statement, the consummation of the Combined Plan and Disclosure Statement, the administration of the Combined Plan and Disclosure Statement, or the property to be liquidated and/or distributed under the Combined Plan and Disclosure Statement, except for their willful misconduct or gross negligence as determined by a Final Order of a court of competent jurisdiction, and in all respects shall be entitled to rely reasonably upon the advice of counsel with respect to their duties and responsibilities under the Combined Plan and Disclosure Statement. The foregoing shall apply to attorneys only to the extent permissible under applicable bar rules and applicable case law.

17. Binding Exculpation Provision. All exculpation provisions embodied in the Combined Plan and Disclosure Statement, including but not limited to those contained in Section XI.B. of the Combined Plan and Disclosure Statement, are approved and shall be effective and binding on all persons and entities, to the extent provided therein.

18. Injunction. All injunctions or stays provided for in the Chapter 11 Cases under sections 105 or 362 of the Bankruptcy Code, or otherwise, and in existence on the Confirmation Date, shall remain in full force and effect until the Effective Date. Except as otherwise provided in the Combined Plan and Disclosure Statement or to the extent necessary to enforce the terms and conditions of the Combined Plan and Disclosure Statement, this Confirmation Order or a separate Order of the Bankruptcy Court, all entities who have held, hold or may hold Claims against, or Equity Interests in, the Debtors shall be permanently enjoined from taking any of the following actions against any property that is to be distributed under the terms of the Combined Plan and Disclosure Statement on account of any such Claims or Equity Interests: (a) commencing or continuing, in any manner or in any place, any action or other proceeding; (b) enforcing, attaching, collecting, or recovering in any manner any judgment, award, decree or order; (c) creating, perfecting, or enforcing any lien or encumbrance; (d) asserting a setoff, right, or subrogation of any kind against any debt, liability or obligation due to the Debtors, unless such setoff was formally asserted in a timely Filed proof of Claim or in a pleading Filed with the Bankruptcy Court prior to entry of this Confirmation Order; and (e) commencing or continuing, in any manner or in any place, any action that does not comply with or is inconsistent with the provisions of the Combined Plan and Disclosure Statement; *provided, however*, that such entities shall not be precluded from exercising their rights pursuant to and consistent with the terms of the Combined Plan and Disclosure Statement or this Confirmation Order; *provided, further*, that

the foregoing provisions of Section XI.A. of the Combined Plan and Disclosure Statement shall not apply to any acts, omissions, claims, causes of action or other obligations expressly set forth in and preserved by the Combined Plan and Disclosure Statement or any defenses thereto.

19. Payment of Statutory Fees. All fees payable pursuant to section 1930 of title 28 of the United States Code, plus any interest under [37 U.S.C. § 3717](#), shall be paid by the Debtors or the Liquidation Trustee, as applicable, from Cash on Hand. On and after the Effective Date and through the closing of the Chapter 11 Cases, (i) all fees payable pursuant to section 1930 of title 28 of the United States Code, plus any interest under [37 U.S.C. § 3717](#), shall be paid by the Liquidation Trustee, and (ii) the Liquidation Trustee shall file with the Bankruptcy Court quarterly reports in a form reasonably acceptable to the UST. Notwithstanding any substantive consolidation of the Debtors under the Combined Plan and Disclosure Statement, each and every Debtor and the Liquidation Trustee shall remain obligated to pay quarterly fees to the Office of the UST until the particular Debtor's case has been closed, dismissed or converted to a case under chapter 7 of the Bankruptcy Code.

20. Retention of Jurisdiction. Notwithstanding the entry of this Confirmation Order or the occurrence of the Effective Date, pursuant to Section XIV of the Combined Plan and Disclosure Statement and sections 105 and 1142 of the Bankruptcy Code, this Court shall retain exclusive jurisdiction over all matters arising out of, and related to, the Chapter 11 Cases and the Combined Plan and Disclosure Statement to the fullest extent as is legally permissible.

21. Exemption from Certain Taxes and Fees. Pursuant to section 1146(a) of the Bankruptcy Code, the issuance, transfer, or exchange of a security, or the making or delivery of an instrument of transfer under the Combined Plan and Disclosure Statement, shall not be taxed under any law imposing a stamp tax or similar tax.

22. Modifications. The Combined Plan and Disclosure Statement may be amended, modified, or supplemented by the Debtors in the manner provided for by section 1127 of the Bankruptcy Code or as otherwise permitted by law without additional disclosure pursuant to section 1125 of the Bankruptcy Code, subject to the terms of the Combined Plan and Disclosure Statement and this Confirmation Order. In addition, after the Confirmation Date, the Debtors or the Liquidation Trustee may institute proceedings in the Court to remedy any defect or omission or reconcile any inconsistencies in the Combined Plan and Disclosure Statement or this Confirmation Order, with respect to such matters as may be necessary to carry out the purposes and effects of the Combined Plan and Disclosure Statement. Further, subject to the restrictions on modifications set forth in section 1127 of the Bankruptcy Code, Bankruptcy Rule 3019 and Article XV of the Combined Plan and Disclosure Statement, the Debtors and the Liquidation Trustee, as applicable, expressly reserve the right to alter, amend or modify the Combined Plan and Disclosure Statement one or more times before its substantial consummation, with the prior written consent of the Prepetition Term Loan Agent and the Committee.

23. Provisions of Combined Plan and Disclosure Statement and Confirmation Order Nonseverable and Mutually Dependent. The provisions of the Combined Plan and Disclosure Statement and this Confirmation Order, including the findings of fact and conclusions of law set forth herein, are nonseverable and mutually dependent.

24. Governing Law. Except to the extent the Bankruptcy Code, Bankruptcy Rules or other federal law is applicable, or to the extent an exhibit to the Combined Plan and Disclosure Statement provides otherwise, the rights and obligations arising under the Combined Plan and Disclosure Statement shall be governed by, and construed and enforced in accordance with, the

laws of the State of Delaware, without giving effect to the principles of conflicts of law of such jurisdiction.

25. Applicable Nonbankruptcy Law. Pursuant to sections 1123(a) and 1142(a) of the Bankruptcy Code, the provisions of this Confirmation Order, the Combined Plan and Disclosure Statement and related documents or any amendments or modifications thereto shall apply and be enforceable notwithstanding any otherwise applicable nonbankruptcy law.

26. Documents and Instruments. Each federal, state, commonwealth, local, foreign, or other governmental agency is hereby authorized to accept any and all documents and instruments necessary or appropriate to effectuate, implement or consummate the transactions contemplated by the Combined Plan and Disclosure Statement and this Confirmation Order.

27. Governmental Approvals Not Required. This Confirmation Order shall constitute all approvals and consents required, if any, by the laws, rules, or regulations of any state or other governmental authority with respect to the implementation or consummation of the Combined Plan and Disclosure Statement, any documents, instruments, or agreements, and any amendments or modifications thereto, and any other acts referred to in, or contemplated by, the Combined Plan and Disclosure Statement.

28. Inconsistency. To the extent of any inconsistency between this Confirmation Order and the Combined Plan and Disclosure Statement, this Confirmation Order shall govern.

29. No Waiver. The failure to specifically include any particular provision of the Combined Plan and Disclosure Statement in this Confirmation Order shall not diminish the effectiveness of such provision nor constitute a waiver thereof, it being the intent of this Court that the Combined Plan and Disclosure Statement is confirmed in its entirety and incorporated herein by this reference.

Dated: November 6th, 2019
Wilmington, Delaware

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LAURIE SELBER SILVERSTEIN
UNITED STATES BANKRUPTCY JUDGE

EXHIBIT A TO ORDER

**IN THE UNITED STATES BANKRUPTCY COURT
FOR THE DISTRICT OF DELAWARE**

In re:

SPORTCO HOLDINGS, INC., *et al.*,¹

Debtors.

)
) Chapter 11

)
) Case No. 19-11299 (LSS)

)
) (Jointly Administered)
)

**DEBTORS' FOURTH AMENDED COMBINED DISCLOSURE STATEMENT
AND JOINT CHAPTER 11 PLAN OF LIQUIDATION**

Dated: November 6, 2019
Wilmington, Delaware

POLSINELLI PC

/s/ Christopher A. Ward

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Brenna A. Dolphin (Del. Bar No. 5604)

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Counsel to the Debtors and Debtors in Possession

¹ The Debtors, together with the last four digits of each Debtor's federal tax identification number, are: Bonitz Brothers, Inc. (4441); Ellett Brothers, LLC (7069); Evans Sports, Inc. (2654); Jerry's Sports, Inc. (4289); Outdoor Sports Headquarters, Inc. (4548); Quality Boxes, Inc. (0287); Simmons Guns Specialties, Inc. (4364); SportCo Holdings, Inc. (0355); and United Sporting Companies, Inc. (5758). The location of the Debtors' corporate headquarters and the service address for all Debtors is 267 Columbia Ave., Chapin, SC 29036.

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NOTICE

THERE HAS BEEN NO INDEPENDENT AUDIT OF THE FINANCIAL INFORMATION CONTAINED IN THIS COMBINED PLAN AND DISCLOSURE STATEMENT EXCEPT AS EXPRESSLY INDICATED HEREIN. THIS COMBINED PLAN AND DISCLOSURE STATEMENT WAS COMPILED FROM INFORMATION OBTAINED FROM NUMEROUS SOURCES BELIEVED TO BE ACCURATE TO THE BEST OF THE DEBTORS' KNOWLEDGE, INFORMATION AND BELIEF. NO GOVERNMENTAL AUTHORITY HAS PASSED ON, CONFIRMED OR DETERMINED THE ACCURACY OR ADEQUACY OF THE INFORMATION CONTAINED HEREIN.

NOTHING STATED HEREIN SHALL BE DEEMED OR CONSTRUED AS AN ADMISSION OF ANY FACT OR LIABILITY BY ANY PARTY, OR BE ADMISSIBLE IN ANY PROCEEDING INVOLVING THE DEBTORS OR ANY OTHER PARTY, OR BE DEEMED CONCLUSIVE EVIDENCE OF THE TAX OR OTHER LEGAL EFFECTS OF THE COMBINED PLAN AND DISCLOSURE STATEMENT ON THE DEBTORS OR HOLDERS OF CLAIMS OR EQUITY INTERESTS. CERTAIN STATEMENTS CONTAINED HEREIN, BY NATURE, ARE FORWARD-LOOKING AND CONTAIN ESTIMATES AND ASSUMPTIONS. THERE CAN BE NO ASSURANCE THAT SUCH STATEMENTS WILL REFLECT ACTUAL OUTCOMES.

THE STATEMENTS CONTAINED HEREIN ARE MADE AS OF THE DATE HEREOF, UNLESS ANOTHER TIME IS SPECIFIED. THE DELIVERY OF THIS COMBINED PLAN AND DISCLOSURE STATEMENT SHALL NOT BE DEEMED OR CONSTRUED TO CREATE ANY IMPLICATION THAT THE INFORMATION CONTAINED HEREIN IS CORRECT AT ANY TIME AFTER THE DATE HEREOF.

HOLDERS OF CLAIMS AND EQUITY INTERESTS SHOULD NOT CONSTRUE THE CONTENTS OF THIS COMBINED PLAN AND DISCLOSURE STATEMENT AS PROVIDING ANY LEGAL, BUSINESS, FINANCIAL OR TAX ADVICE. THEREFORE, EACH SUCH HOLDER SHOULD CONSULT WITH ITS OWN LEGAL, BUSINESS, FINANCIAL AND TAX ADVISORS AS TO ANY SUCH MATTERS CONCERNING THE COMBINED PLAN AND DISCLOSURE STATEMENT AND THE TRANSACTIONS CONTEMPLATED HEREBY.

I.

INTRODUCTION²

The Debtors in these Chapter 11 Cases hereby propose their Fourth Amended Combined Plan and Disclosure Statement (the “Combined Plan and Disclosure Statement”) pursuant to sections 1125 and 1129 of the Bankruptcy Code. The Debtors are the proponents of the Combined Plan and Disclosure Statement within the meaning of Bankruptcy Code section 1129.

The Combined Plan and Disclosure Statement is a liquidating chapter 11 plan. The Combined Plan and Disclosure Statement provides for the proceeds from the Debtors’ assets already liquidated or to be liquidated over time to be distributed to holders of Allowed Claims in accordance with the terms of the Combined Plan and Disclosure Statement and the priority of claims provisions in the Bankruptcy Code. Distributions will occur on the Effective Date or as soon thereafter as is practicable and at various intervals thereafter, except as otherwise provided by Order of the Bankruptcy Court. At the Liquidation Trustee’s option, the Liquidation Trustee will cause the Debtors’ existence to be terminated by dissolution, or as otherwise permitted by applicable law, as soon as practicable on or after the Effective Date on such terms as the Liquidation Trustee determines to be necessary or appropriate to implement the Combined Plan and Disclosure Statement and without further order of the Bankruptcy Court. The Liquidation Trustee may cause the Debtors to adopt any plan and execute, deliver, and file any agreement or document the Liquidation Trustee determines to be necessary and appropriate.

Subject to the restrictions on modifications set forth in Bankruptcy Code section 1127, Bankruptcy Rule 3019, and Article XV of the Combined Plan and Disclosure Statement, the Debtors and the Liquidation Trustee, as applicable, expressly reserve the right to alter, amend, or

² All capitalized terms not defined in this introduction shall have the same meanings set forth in Article II of the Combined Plan and Disclosure Statement.

modify the Combined Plan and Disclosure Statement one or more times before its substantial consummation, with the prior written consent of the Prepetition Term Loan Agent and the Committee.

II.

DEFINITIONS AND CONSTRUCTION OF TERMS

A. Definitions.

Capitalized terms used but not otherwise defined herein shall have the respective meanings specified below, unless the context otherwise requires:

1. **“Administrative Expense Bar Date”** means (i) October 16, 2019 at 5:00 p.m. (prevailing Eastern Time) for Administrative Expense Claims arising from the Petition Date through and including October 9, 2019 that are not Professional Claims; and (ii) for Professional Claims and all other Administrative Expense Claims arising after October 9, 2019, the date that is thirty (30) days after the Effective Date. For the avoidance of doubt, Claims arising under Bankruptcy Code section 503(b)(9) shall be filed by the general bar date for proofs of Claim.

2. **“Administrative Expense Claim”** means any right to payment constituting actual and necessary costs and expenses of preserving the Estate under Bankruptcy Code sections 503(b) and 507(a)(2) including, without limitation: (a) Professional Claims, (b) any fees or charges assessed against the Estate under section 1930 of title 28 of the United States Code, and (c) all Claims arising under Bankruptcy Code section 503(b)(9).

3. **“Allowed”** means, with reference to any Claim, proof of which was timely and properly Filed or, if no proof of Claim was Filed, that has been or hereafter is listed by the Debtors in the Schedules as liquidated in amount and not disputed or contingent and, in each case, as to which: (a) no objection to allowance has been interposed within the applicable period

fixed by the Combined Plan and Disclosure Statement, the Bankruptcy Code, the Bankruptcy Rules, the Local Rules, or the Bankruptcy Court; or (b) an objection has been interposed and such Claim has been allowed, in whole or in part, by a Final Order.

4. **“Approved Budget”** shall have the meaning set forth in the Final Cash Collateral Order. For the avoidance of doubt, the September 30, 2019 budget filed at Docket Number 438 is an Approved Budget, as the same may be amended.

5. **“Avoidance Actions”** means all Claims and Causes of Action now owned or hereafter acquired by the Debtor or the Debtors’ estates, whether arising under the Bankruptcy Code or other federal or state law, including, without limitation, any causes of action arising under chapter 5 of the Bankruptcy Code. All avoidance actions against the Prepetition Term Loan Lenders will be released and waived under the Combined Plan and Disclosure Statement.

6. **“Ballot”** means the form or forms distributed to certain Holders of Claims or Interests that are entitled to vote on the Plan by which such parties may indicate acceptance or rejection of the Plan.

7. **“Bankruptcy Code”** means title 11 of the United States Code, as amended from time to time.

8. **“Bankruptcy Court or Court”** means the United States Bankruptcy Court for the District of Delaware, having jurisdiction over the Chapter 11 Cases or, if such Court ceases to exercise jurisdiction over the Chapter 11 Cases, such court or adjunct thereof that exercises jurisdiction over the Chapter 11 Cases in lieu of the United States Bankruptcy Court for the District of Delaware.

9. **“Bankruptcy Exceptions”** means the exception to the recognition of COD Income under Tax Code section 108(a)(1)(A) when a taxpayer discharging indebtedness is under

the jurisdiction of a court in a case under the Bankruptcy Code and when the discharge is granted, or is effected pursuant to a plan approved, by a United States Bankruptcy Court.

10. **“Bankruptcy Rules”** means the Federal Rules of Bankruptcy Procedure as promulgated by the United States Supreme Court under section 2075 of title 28 of the United States Code, as amended from time to time.

11. **“Bar Date”** means the date or dates that will be established by the Bankruptcy Court as the deadline for Holders of Claims against the Debtors to file proofs of Claim in the Chapter 11 Cases.

12. **“Beneficiary”** means, with respect to the Liquidating Trust, any Holder of an Allowed Claim that may, or that is entitled to, receive a Distribution from the Liquidating Trust under the terms of this Combined Plan and Disclosure Statement.

13. **“Bonitz”** means Bonitz Brothers, Inc., a Delaware corporation.

14. **“Business Day”** means any day other than a Saturday, Sunday, or any other day on which commercial banks in New York, New York are required or authorized to close by law or executive order.

15. **“Cash”** means legal tender of the United States of America and equivalents thereof.

16. **“Cash on Hand”** means the Cash held by the Debtors’ Estates as of the Effective Date, excluding a reserve for the Debtors’ post-Effective Date operating expenses and Professional fees (including post-confirmation fees).

17. **“Causes of Action”** means any Claim, cause of action (including Avoidance Actions, and including all claims direct or derivative, as applicable, that are set forth in the South Carolina Complaint), controversy, right of setoff, cross claim, counterclaim, or recoupment and

any claim on contracts or for breaches of duties imposed by law or in equity, demand, right, action, lien, indemnity, guaranty, suit, obligation, liability, damage, judgment, account, defense, power, privilege, license, or franchise of any kind or character whatsoever, known, unknown, fixed or contingent, matured or unmatured, suspected or unsuspected, liquidated or unliquidated, disputed or undisputed, secured or unsecured, assertable directly or derivatively, whether arising before, on, or after the Petition Date, in contract or in tort, in law or in equity, or pursuant to any other theory of law, which was the Debtors' property or property of the Estates, or in which the Debtors or their Estates held rights as of the Effective Date.

18. **"Charity"** means any non-profit organization that is unrelated to the Liquidation Trustee or its professionals or the Debtors or their professionals, whose primary purpose is the pursuit of philanthropic endeavors that may be selected by the Liquidation Trustee in its sole discretion.

19. **"Chapter 11 Cases"** means the cases under chapter 11 of the Bankruptcy Code commenced by the Debtors, jointly administered as SportCo Holdings, Inc., Case No. 19-11299 (LSS), currently pending in the Bankruptcy Court.

20. **"Claim"** shall have the meaning set forth in Bankruptcy Code section 101(5).

21. **"Claims and Balloting Agent"** means BMC Group, Inc.

22. **"Claims Objection Deadline"** means one hundred and eighty (180) days after the Effective Date or such later date as may be approved by the Bankruptcy Court.

23. **"Class"** means any group of substantially similar Claims or Equity Interests classified by the Combined Plan and Disclosure Statement pursuant to Bankruptcy Code sections 1122 and 1123(a)(1).

24. **"Clerk"** means the clerk of the Bankruptcy Court.

25. **“COD”** means cancellation of indebtedness.
26. **“Combined Plan and Disclosure Statement”** means this fourth amended combined disclosure statement and joint chapter 11 plan of liquidation including, without limitation, all exhibits, supplements, appendices, and schedules hereto, either in their present form or as the same may be altered, amended, or modified from time to time.
27. **“Committee”** means official committee of unsecured creditors in the Debtors’ Chapter 11 Cases.
28. **“Confirmation Date”** means the date on which the Confirmation Order is entered on the Docket.
29. **“Confirmation Hearing”** means the hearing held by the Bankruptcy Court to consider (a) approval of the Combined Plan and Disclosure Statement as providing adequate information pursuant to Bankruptcy Code section 1125, and (b) confirmation of the Combined Plan and Disclosure Statement pursuant to Bankruptcy Code section 1129, as such hearing may be adjourned or continued from time to time.
30. **“Confirmation Order”** means the Order of the Bankruptcy Court confirming the Combined Plan and Disclosure Statement pursuant to Bankruptcy Code section 1129.
31. **“Creditor”** means any Person that is the Holder of a Claim against the Debtors.
32. **“D&O Policies”** means all primary and excess insurance policies that provide coverage for liability related to the actions or omissions of the Debtors’ directors and officers, and, if applicable, “tail” or “runoff” coverage for such policies.
33. **“Debtors”** means SportCo Holdings, Inc.; Bonitz Brothers, Inc.; Ellett Brothers, LLC; Evans Sports, Inc.; Jerry’s Sports, Inc.; Outdoor Sports Headquarters, Inc.; Quality Boxes, Inc.; Simmons Guns Specialties, Inc.; and United Sporting Companies, Inc.

34. **“DIP Agent”** means Bank of America, N.A., as administrative and collateral agent to the DIP Lenders (as defined in Docket No. 238).

35. **“Disputed”** means any Claim or Equity Interest, or any portion thereof, that is: (a) listed on the Schedules as unliquidated, disputed, and/or contingent for which no proof of claim in a liquidated and non-contingent amount has been filed, or (b) the subject of an objection or request for estimation filed by the Debtors, the Liquidation Trustee or any other party in interest in accordance with applicable law and which objection has not been withdrawn, resolved, or overruled by a Final Order.

36. **“Distribution”** means any distribution to the Holders of Allowed Claims.

37. **“Distribution Matrix”** means the Claims lists and data compiled by the Liquidation Trustee that will serve as the basis for Distributions to be made by the Liquidation Trustee under the Combined Plan and Disclosure Statement.

38. **“Docket”** means the docket in the Chapter 11 Cases maintained by the Clerk.

39. **“Ellett”** means Ellett Brothers, LLC, a South Carolina limited liability company and wholly-owned subsidiary of United Sporting Cos.

40. **“Effective Date”** means the date on which the conditions specified in Article XIII of the Combined Plan and Disclosure Statement have been satisfied or waived.

41. **“Entity”** means an entity as defined in Bankruptcy Code section 101(15).

42. **“Equity Interests”** means all equity interests in the Debtors, including, but not limited to, all issued, unissued, authorized, or outstanding shares or membership interests together with any warrants, options, or contract rights to purchase or acquire such interests at any time.

43. **“Estates”** means the estates of the Debtors created upon the commencement of the Chapter 11 Cases pursuant to Bankruptcy Code section 541.

44. **“Evans”** means Evans Sports, Inc., a South Carolina corporation.

45. **“Executory Contract”** means any executory contract or unexpired lease as of the Petition Date between any of the Debtors and any other Person or Persons, specifically excluding contracts and agreements entered into pursuant to this Combined Plan and Disclosure Statement.

46. **“Exculpated Parties”** means, collectively and individually, the Debtors, the Committee, and each of their respective members, attorneys, financial advisors, investment bankers, accountants, agents, and other Professionals.

47. **“File, Filed, or Filing”** means file, filed, or filing with the Bankruptcy Court in the Chapter 11 Cases.

48. **“Final Cash Collateral Order”** means the *Final Order (I) Approving the Debtors’ Postpetition Financing, (II) Authorizing the Debtors Continued Use of Cash Collateral, (III) Granting Liens and Providing Superpriority Administrative Expense Status, (IV) Granting Adequate Protection to the Prepetition Lenders, (V) Modifying Automatic Stay, and (VI) Granting Related Relief* [Docket No. 238].

49. **“Final Order”** means an order of the Bankruptcy Court or a Court of competent jurisdiction to hear appeals from the Bankruptcy Court that has not been reversed, stayed, modified or amended and as to which the time to appeal, to petition for certiorari, or to move for reargument or rehearing has expired and as to which no appeal, petition for certiorari, or other proceedings for reargument or rehearing shall then be pending.

50. **“General Unsecured Claim”** means any Claim against the Debtors that arose or is deemed by the Bankruptcy Code or Bankruptcy Court, as the case may be, to have arisen

before the Petition Date and that is not an Administrative Expense Claim, Priority Tax Claim, Other Priority Claim, Prepetition Term Loan Claim, Other Secured Claim, Prepetition Term Loan Deficiency Claims, or Intercompany Claim.

51. **“Governmental Unit”** shall have the meaning set forth in Bankruptcy Code section 101(27).

52. **“Holder”** means the beneficial holder of any Claim or Equity Interest.

53. **“Insurance Policies”** means all insurance policies of the Debtors, including any D&O Policy.

54. **“IRS”** means the Internal Revenue Service.

55. **“Jerry’s”** means Jerry’s Sports, Inc., a Delaware corporation.

56. **“Liquidation Trust”** means the trust to be established pursuant to Article VIII of this Combined Plan and Disclosure Statement.

57. **“Liquidation Trustee”** means (a) initially, Ronald Friedman of SilvermanAcampora LLP, and (b) any successors or replacements, duly appointed under the terms of the Liquidation Trust Agreement and the Plan, who is defined in the Plan as the Liquidation Trustee.

58. **“Liquidation Trust Agreement”** means the agreement which shall memorialize the conduct of the Liquidation Trust and Liquidation Trustee to be agreed to by the Committee, Prepetition Term Loan Agent, and the Debtors.

59. **“Liquidation Trust Funding Amount B”** means the \$500,000 in Cash to be funded initially from the Cash on hand in the Debtors’ estates constituting cash collateral of the Prepetition Term Loan Lenders on the Effective Date to an account maintained by the Liquidation Trustee, plus additional amounts from such cash collateral, if any, as the Prepetition

Term Loan Lenders in their sole discretion may elect to fund the litigation by the Liquidation Trustee of the Type B Causes of Action.

60. **“Local Rules”** means the Local Rules of Bankruptcy Practice and Procedure of the United States Bankruptcy Court for the District of Delaware.

61. **“Non-Operating Subsidiaries”** means, collectively, Quality Boxes and Bonitz.

62. **“Non-United States Person”** means a Holder of a Claim that is not subject to either federal or state income taxation unless such Holder (a) is engaged in a trade or business in the United States to which income, gain, or loss from the exchange is “effectively connected” for United States federal income tax purposes, or (b) is an individual, is present in the United States for 183 days or more during the taxable year of the exchange, and certain other requirements are met.

63. **“Operating Subsidiaries”** means, collectively, Simmons, Evans, Jerry’s, and Outdoor Sports.

64. **“Order”** means an order or judgment of the Bankruptcy Court as entered on the Docket.

65. **“Other Priority Claim”** means a Claim that is entitled to priority in payment under Bankruptcy Code section 507, other than an Administrative Expense Claim or Priority Tax Claim.

66. **“Other Secured Claim”** means any secured claim other than a Prepetition Term Loan Claim.

67. **“Outdoor Sports”** means Outdoor Sports Headquarters, Inc., a Delaware corporation.

68. **“Oversight Board”** means a creditors’ oversight board consisting of two (2) members selected by Prepetition Term Loan Agent and one (1) member selected by the Committee.

69. **“Permitted Investment”** shall include (a) short-term direct obligations of, or obligations guaranteed by, the United States of America, (b) short-term obligations of any agency or corporation which is or may hereafter be created by or pursuant to an act of the Congress of the United States of America as an agency or instrumentality thereof, (c) such other investments as the Bankruptcy Court may approve from time to time, or (d) demand deposits or certificates of deposit at any bank or trust company that has, at the time of the deposit, a capital stock and surplus aggregating at least \$1,000,000,000, provided, however, that the scope of any Permitted Investments shall be limited to include only those investments that a liquidating trust, within the meaning of Treasury Regulation Section 301.7701-4(d), may be permitted to hold, pursuant to Treasury Regulations, or any modification in the IRS guidelines, whether set forth in IRS rulings, other IRS pronouncements, or otherwise.

70. **“Person”** shall have the meaning set forth in Bankruptcy Code section 101(41).

71. **“Petition Date”** means June 10, 2019.

72. **“Plan Supplement”** means the appendix of schedules and exhibits to be filed with the Bankruptcy Court at least ten (10) calendar days prior to the Voting Deadline, as may be modified and/or supplemented. The Plan Supplement shall include a description of any and all preserved Causes of Action, to the extent any are identified and such other documents as the Debtors deem appropriate.

73. **“Prepetition ABL Agreement”** means that certain Third Amended and Restated Loan and Security Agreement (as amended and restated from time to time) dated September 28,

2012, between the Prepetition Borrowers, various lender parties thereto (including the Prepetition ABL Lenders), and Bank of America, N.A., as administrative and collateral agent on behalf of the Prepetition ABL Lenders.

74. **“Prepetition ABL Lenders”** means Bank of America, N.A., Wells Fargo Bank, National Association, and Regions Bank.

75. **“Prepetition ABL Facility”** means the revolving loans by the various lender parties thereto (including the Prepetition ABL Lenders) to the Prepetition Borrowers in an aggregate principal amount not to exceed \$175 million.

76. **“Prepetition ABL Obligations”** means the aggregate principal amount outstanding under the Prepetition ABL Facility, which, as of the Petition Date, is approximately \$23,056,470.93.

77. **“Prepetition Borrowers”** means, collectively, Ellett, the Operating Subsidiaries, and Bonitz.

78. **“Prepetition Guarantors”** means, collectively, SportCo and United Sporting Cos., pursuant to those certain Second Amended and Restated Guaranties, dated September 28, 2012.

79. **“Prepetition Secured Obligations”** means, collectively, the Prepetition Term Loan Obligations and the Prepetition ABL Obligations.

80. **“Prepetition Secured Parties”** means, collectively, the Prepetition Term Loan Agent and the Prepetition Term Loan Lenders.

81. **“Prepetition Term Loan Agent”** means Prospect Capital Corporation, as administrative and collateral agent on behalf of the Prepetition Term Loan Lenders.

82. **“Prepetition Term Loan Agreement”** means that certain Second Lien Loan and Security Agreement (as amended from time to time), dated September 28, 2012, and entered into between the Prepetition Borrowers and the Prepetition Secured Parties.

83. **“Prepetition Term Loan Adequate Protection Liens”** shall have the meaning ascribed in the Final Cash Collateral Order.

84. **“Prepetition Term Loan Claims”** means Claims on account of the Prepetition Term Loan Obligations.

85. **“Prepetition Term Loan Deficiency Claims”** means that portion of the Prepetition Term Loan Claims not satisfied from the Remaining Assets and the proceeds thereof.

86. **“Prepetition Term Loan Diminution Claim”** means the Allowed Prepetition Term Loan Adequate Protection Superpriority Claim as defined in the Final Cash Collateral Order and granted to the Prepetition Term Loan Agent pursuant thereto for diminution in value in the amount of at least \$6,801,666, which are secured by the Prepetition Term Loan Adequate Protection Liens.

87. **“Prepetition Term Loan Facility”** means the term loans in the aggregate principal amount of \$230 million, pursuant to the Prepetition Term Loan Agreement, extended to the Prepetition Borrowers by the Prepetition Term Loan Lenders.

88. **“Prepetition Term Loan Lenders”** means the various lenders party to the Prepetition Term Loan Agreement, which, as of the Petition Date, included: (i) Prospect Capital Corporation; (ii) Summit Partners Credit Fund, L.P.; (iii) Summit Partners Credit Fund A-1, L.P.; (iv) Summit Investors I, LLC; (v) Summit Investors I (UK), L.P.; and (vi) Summit Partners Credit Offshore Intermediate Fund, L.P.

89. **“Prepetition Term Loan Obligations”** means the aggregate principal amount outstanding under the Prepetition Term Loan Facility, which, together with accrued and unpaid interest through the Petition Date, is approximately \$249,800,405.00.

90. **“Priority Tax Claim”** means a Claim that is entitled to priority in payment under Bankruptcy Code section 507(a)(8).

91. **“Professional”** means any professional Person employed in the Chapter 11 Cases pursuant to Bankruptcy Code section 327, 328, 363, or 1103 pursuant to an Order of the Bankruptcy Court who is to be compensated for services rendered pursuant to Bankruptcy Code sections 327, 328, 329, 330, 331, or 363.

92. **“Professional Claims”** means all claims for compensation and reimbursement of expenses by Professionals to the extent Allowed by the Bankruptcy Court.

93. **“Professional Fee Escrow Account”** means the account to be established on the Confirmation Date with Winter Harbor, LLC (the Debtors’ restructuring advisory service provider), which shall be funded with Cash on Hand, including from proceeds of the Remaining Assets, in an amount equal to the sum of the Professional fee amounts set forth in the Approved Budget plus a conditional \$100,000, as further described in Sections VI. B. and X. A.2. of this Combined Plan and Disclosure Statement.

94. **“Prospect Claims”** shall have the meaning ascribed to such term in section VIII.D.1.a of the Combined Plan and Disclosure Statement.

95. **“Pro Rata”** means the proportion that an Allowed Claim in a particular Class bears to the aggregate amount of Allowed Claims in the same Class.

96. **“Quality Boxes”** means Quality Boxes, Inc., a South Carolina corporation.

97. **“Remaining Assets”** means all of the assets held by the Debtors’ Estates on the Effective Date, including, without limitation, any real and personal property, Cash on Hand, and Causes of Action.

98. **“Schedules”** means the schedules of assets and liabilities, the lists of Holders of Equity Interests, and the statements of financial affairs filed by the Debtors under Bankruptcy Code section 521 and Bankruptcy Rule 1007, and all amendments and modifications thereto.

99. **“Simmons”** means Simmons Gun Specialties, Inc., a Delaware corporation.

100. **“South Carolina Action”** shall have the meaning ascribed to such term in section VIII.D.1.a of the Combined Plan and Disclosure Statement.

101. **“South Carolina Complaint”** means the complaint filed by the Prepetition Term Loan Agent in *Prospect Capital Corp. v. Wellspring Capital Management LLC, et al.*, Case No. 2019CP3202045, which case is pending in the Eleventh Judicial Circuit Court for the State of South Carolina.

102. **“SportCo”** means SportCo Holdings, Inc., a Delaware corporation.

103. **“Tax Attributes”** means the collective attributes of the taxpayer, including net operating losses, general business and minimum tax credit carry forwards, capital loss carry forwards, the basis of the taxpayer’s assets, and foreign tax credit carry forwards.

104. **“Tax Code”** means the Internal Revenue Code, as amended.

105. **“Treasury Regulations”** means the regulations, including temporary regulations or any successor regulations, promulgated under the United States Internal Revenue Code, as amended from time to time.

106. **“Type A Causes of Action”** shall have the meaning ascribed to such term in section VIII.D.1.a of the Combined Plan and Disclosure Statement.

107. **“Type A Cause of Action Recoveries”** shall have the meaning ascribed to such term in section VII.A.4.c.i (Class 4) of the Combined Plan and Disclosure Statement.

108. **“Type B Causes of Action”** shall have the meaning ascribed to such term in section VIII.D.1.b of the Combined Plan and Disclosure Statement.

109. **“Type B Causes of Action Recoveries”** means shall have the meaning ascribed to such term in section VII.A.4.c.ii (Class 4) of the Combined Plan and Disclosure Statement.

110. **“Unclaimed Distribution”** means a Distribution that is not claimed by a Holder of an Allowed Claim on or prior to the Unclaimed Distribution Deadline.

111. **“Unclaimed Distribution Deadline”** means ninety (90) days after the date on which the Liquidation Trustee makes a Distribution of Cash or other property under the Combined Plan and Disclosure Statement to a Holder of an Allowed Claim.

112. **“United Sporting Cos.”** means United Sporting Companies, Inc., a Delaware corporation.

113. **“Unsecured Claims Distributions”** means Distributions on account of Allowed Unsecured Claims.

114. **“UST”** means the Office of the United States Trustee for the District of Delaware.

115. **“Voting Deadline”** means October 15, 2019 at 4:00 p.m. prevailing Eastern Time.

116. **“Wellspring”** shall have the meaning ascribed to such term in section VIII.D.1.a of the Combined Plan and Disclosure Statement.

117. **“Wellspring Defendants”** shall have the meaning ascribed to such term in section VIII.D.1.a of the Combined Plan and Disclosure Statement.

118. **“Wellspring Subordinated Claims”** means any of Wellspring’s Claims that the Bankruptcy Court finds are subordinate, whether by agreement or otherwise. To the extent that any of Wellspring’s Claims are not found to be subordinate, such Claims shall be General Unsecured Claims under this Combined Plan and Disclosure Statement.

B. Interpretation; Application of Definitions and Rules of Construction.

1. Wherever from the context it appears appropriate, each term stated in either the singular or the plural shall include both the singular and the plural and pronouns stated in the masculine, feminine, or neuter gender shall include the masculine, feminine, and neuter genders. Unless otherwise specified, each section, article, schedule, or exhibit reference in the Combined Plan and Disclosure Statement is to the respective section in, article of, schedule to, or exhibit to the Combined Plan and Disclosure Statement. The words “herein,” “hereof,” “hereto,” “hereunder,” and other words of similar import refer to the Combined Plan and Disclosure Statement as a whole and not to any particular section, subsection, or clause contained in the Combined Plan and Disclosure Statement. The rules of construction contained in Bankruptcy Code section 102 shall apply to the construction of the Combined Plan and Disclosure Statement. A term used herein that is not defined herein but that is used in the Bankruptcy Code shall have the meaning ascribed to that term in the Bankruptcy Code. The headings in the Combined Plan and Disclosure Statement are for convenience of reference only and shall not limit or otherwise affect the provisions of the Combined Plan and Disclosure Statement.

III.

BACKGROUND AND DISCLOSURES

On the Petition Date, the Debtors filed voluntary petitions for relief pursuant to chapter 11 of the Bankruptcy Code initiating these Chapter 11 Cases. After the Petition Date, the

Debtors have remained in possession of their assets and management of their businesses as debtors in possession pursuant to sections 1107 and 1108 of the Bankruptcy Code.

A. Debtors' Organizational Structure.

SportCo is a holding company with no business operations. As of the Petition Date, 94.30% of SportCo's fully-diluted shares were held by three investor groups: Wellspring Capital Partners IV, L.P. (60.58%), Prospect Capital Corporation and certain affiliates (21.16%), and Summit Partners Credit Fund, L.P. and certain affiliates (12.55%). The remaining 5.70% of SportCo's fully-diluted shares are held by certain individuals, including current and former members of the Debtors' management team or reserved for issuance under the Debtors' management incentive plan.³ United Sporting Cos. is an intermediate holding company and wholly-owned subsidiary of SportCo. Like SportCo, United Sporting Cos. has no business operations.

The Debtors operated their business primarily through Ellett, and four of Ellett's six wholly-owned subsidiaries: Evans, Jerry's, Outdoor Sports, and Simmons. Ellett's two remaining wholly-owned subsidiaries, Bonitz and Quality Boxes, ceased operations prior to the Petition Date.

B. Description of the Debtors' Business as of the Petition Date.

The Debtors were founded in 1933 under the name Ellett Brothers, Inc. before merging with Jerry's Sports, Inc. in 2009 and formally changing their name to United Sporting Companies, Inc. on July 16, 2010. Headquartered in Chapin, South Carolina, the Debtors were a marketer and distributor of a broad line of products and accessories for hunting and shooting

³ The individual shareholders and each of their respective holdings as of the Petition Date is as follows: Andy Kupchik (.57984%); Berne Ziomek (.04832%); Chuck Walker (.03276%); Hewitt Grant (.32790%); Jim McCrudden (.06562%); and Todd Boehly (.96641%).

sports, marine, camping, archery, and other outdoor activities. The Debtors' customer base consisted of 20,000 independent retailers covering all 50 states.

As of the Petition Date, the Debtors employed approximately 321 full-time, part-time, and temporary employees. Their Chapin facility included a 154,000 square foot distribution center and a 40,000 square foot sales office. In addition, the Debtors owned and operated two additional distribution centers—a 128,000 square foot facility in Newberry, South Carolina and a 192,000 square foot distribution facility in Bellefontaine, Ohio. The Debtors also leased a 198,000 square foot distribution and office facility in Pittston, Pennsylvania, a 30,000 square foot distribution facility in Salt Lake City, Utah, and additional sales offices in Pennsylvania, California, Minnesota, and Texas.

In 2018, the Debtors' net sales across all distribution channels were approximately \$557.0 million, with \$531.1 million in net sales for 2017. Despite the Debtors' strong sales volume, these figures are well below the Debtors' \$885.3 million in average net sales from 2012 through 2016.

In line with the Debtors' decreased sales, their adjusted EBITDA dropped from an average of \$55.8 million from 2012 through 2016 to \$4.0 million in 2018.

C. The Debtors' Pre-Petition Indebtedness.

In September 2012, the Prepetition Borrowers entered into the Prepetition ABL Agreement with the Prepetition ABL Lenders, and Bank of America, N.A., as administrative and collateral agent on behalf of the Prepetition ABL Lenders. Pursuant to the Prepetition ABL Agreement, the Prepetition ABL Lenders agreed to extend to the Prepetition Borrowers the Prepetition ABL Facility in an aggregate principal amount not to exceed \$175 million. As of

February 15, 2019, the maximum revolver commitment under the Prepetition ABL Facility was reduced to \$110 million.

The Prepetition ABL Facility was secured by a first priority lien over substantially all of the Prepetition Borrowers' assets, including the Prepetition Borrowers' accounts receivable, inventory, cash collateral, and real estate, all as set forth in greater detail in the Prepetition ABL Agreement and related documents. The Prepetition ABL Facility is also guaranteed by the Prepetition Guarantors pursuant to those certain Second Amended and Restated Guaranties, dated September 28, 2012.

As of the Petition Date, the aggregate principal amount outstanding under the Prepetition ABL Obligations was approximately \$23,056,470.93. After the Petition Date, the Prepetition ABL Obligations were paid in full with the proceeds of certain sales of the Debtors' assets in the ordinary course of business.

In September 2012, the Prepetition Borrowers also entered into the Prepetition Term Loan Agreement with the Prepetition Term Loan Lenders, and the Prepetition Term Loan Agent. As of the Petition Date, the Prepetition Term Loan Lenders were: (i) Prospect Capital Corporation; (ii) Summit Partners Credit Fund, L.P.; (iii) Summit Partners Credit Fund A-1, L.P.; (iv) Summit Investors I, LLC; (v) Summit Investors I (UK), L.P.; and (vi) Summit Partners Credit Offshore Intermediate Fund, L.P.

Pursuant to the Prepetition Term Loan Agreement, the Prepetition Term Loan Lenders agreed to extend to the Prepetition Borrowers the Prepetition Term Loan Facility in the aggregate principal amount of \$230 million.

The Prepetition Term Loan Facility is secured by a second priority lien over substantially all of the Prepetition Borrowers' assets, including the Prepetition Borrowers' accounts

receivable, inventory, cash collateral, and real estate, all as set forth in greater detail in the Prepetition Term Loan Agreement and related documents. The Prepetition Term Loan Facility is guaranteed by the Prepetition Guarantors pursuant to those certain Guaranties, dated September 28, 2012.

As of the Petition Date, the aggregate Prepetition Term Loan Obligations outstanding under the Prepetition Term Loan Facility, together with accrued and unpaid interest through the Petition Date, is approximately \$249,800,405.00.

In addition to the Prepetition Secured Obligations, as of the Petition Date, the Debtors had approximately \$40.9 million of outstanding unsecured debt, which was comprised mostly of professional services, trade debt, and employee severance.

D. Events Precipitating the Chapter 11 Filing.

The following recitation is provided by the Debtors, but is not agreed to by the creditors or binding as an admission on any parties, including without limitation the Liquidation Trustee. Since 2015, the Debtors faced economic headwinds and operational challenges that significantly and adversely impacted the operating performance of the Debtors' businesses, including:

- *Industry-Wide Decline Due to an Uncertain Political Climate.* In the lead up to the 2016 presidential election, the Debtors anticipated an uptick in firearms sales historically attributable to the election of a Democratic presidential nominee. The Debtors increased their inventory to account for anticipated sales increases. In the aftermath of the unexpected Republican victory, the Debtors realized lower than expected sales figures for the 2017 and 2018 fiscal years, with higher than expected carrying costs due to the Debtors' increased inventory. These factors contributed to the Debtors' tightening liquidity and an industry-wide glut of inventory.
- *Excess Inventory Led to Discounting, Which Eroded the Debtors' Margins.* An over-supply of firearms following the 2016 presidential election and the financial distress of certain market participants led to industry-wide sales discounts. The Debtors

were forced to lower prices to remain competitive and maintain sales figures, which further eroded the Debtors' slim margins and contributed to the Debtors' tightening liquidity.

- *The Debtors' Over-Leveraged Capital Structure Further Eroded the Debtors' Margins.* The Debtors' high fixed costs under the prepetition credit facilities adversely affected the Debtors' financial liquidity and required the Debtors' to stretch accounts payable beyond the Debtors' customary payment terms. The resulting management of accounts payable resulted in the Debtors foregoing customary discount terms and volume rebates offered by the Debtors' top vendors.
- *Significant Disruptions in the Industry Eroded the Debtors' Channel Sales.* Many of the Debtors' vendors and manufacturers suffered heavy losses as a result of the Cabela's-Bass Pro Shop merger, Dick's Sporting Good's pull back from the market, and the recent Gander Mountain and AcuSport bankruptcies.⁴ Those losses adversely impacted the terms and conditions on which such vendors and manufacturers were willing to extend credit to the Debtors. With respect to the Gander Mountain and AcuSport bankruptcies, the dumping of excess product into the marketplace pushed prices—and margins—even lower. The resulting tightening of credit terms eroded the Debtors' sales and further contributed to the Debtors' tightening liquidity.
- *Disruptions Caused by Natural Disasters.* The recent spate of disastrous hurricanes in the Southeastern United States resulted in decreased demand for firearms and other sporting goods where the Debtors' sales are disproportionately focused. The reduction in demand caused additional losses for the Debtors and contributed to the Debtors' tightening liquidity.

In June 2018, the Debtors acquired certain assets from competitor AcuSport Corporation, including the Debtors' distribution facility in Bellefontaine, Ohio (the "AcuSport Assets"), in an asset sale approved by the United States Bankruptcy Court for the District of Ohio pursuant to Bankruptcy Code section 363 (the "AcuSport Transaction"). The Debtors consummated the AcuSport Transaction to realize certain supply chain synergies attributable to the integration of the AcuSport Assets and expand the Debtors' sales footprint. However, as of the Petition Date,

⁴ Case Nos. 17-30673 (MER) (Bankr. D. Minn. Mar. 10, 2017) and 18-52736 (Bankr. S.D. Ohio May 1, 2018), respectively.

the Debtors had been unable to realize the operational savings and increased sales anticipated from the AcuSport Transaction due to higher than anticipated costs of integrating the AcuSport Assets with the Debtors' existing distribution infrastructure and maintaining such assets post-integration, as well as lower than anticipated incremental sales.

The lower than anticipated increase in customer base following the AcuSport Transaction magnified the adverse effects of the market factors discussed above and resulted in a faster than expected tightening of the Debtors' liquidity and overall deterioration of the Debtors' financial condition.

E. The Chapter 11 Cases.

The following is a brief description of certain major events that occurred during these Chapter 11 Cases.

1. First Day Motions and Orders.

On the Petition Date, in addition to the voluntary petitions for relief filed by the Debtors under chapter 11 of the Bankruptcy Code, the Debtors also filed a number of motions and applications seeking certain "first day" relief, including the following:

a. *Debtors' Motion for Entry of an Order Directing Joint Administration of Related Chapter 11 Cases.* The Debtors sought entry of an Order directing the joint administration of the Chapter 11 Cases and the consolidation thereof for procedural purposes only. On June 11, 2019, the Bankruptcy Court entered an Order granting the motion [Docket No. 38].

b. Debtors' Application for Entry of an Order Authorizing Employment and Retention of BMC Group, Inc. as the Claims and Noticing Agent *nunc pro tunc* to the Petition Date. The Debtors sought to appoint BMC Group, Inc. as the claims and noticing agent in order

to assume responsibility for the distribution of notices and the maintenance, processing, and docketing of proofs of claim filed in the Chapter 11 Cases. On June 11, 2019, the Bankruptcy Court entered an Order granting the application [Docket No. 40].

c. Debtors' Motion for Interim and Final Orders Authorizing the Debtors to Continue Using Existing Bank Accounts, Business Forms, and Cash Management System. The Debtors requested the authority to, among other things, continue to use their existing bank accounts with the same account numbers, styles, and business forms as the Debtors used prepetition. On June 11, 2019, the Bankruptcy Court entered an Order granting the motion on an interim basis [Docket No. 41]. On July 16, 2019, the Bankruptcy Court entered an order granting the motion on a final basis [Docket No. 155].

d. Debtors' Motion for Entry of Interim and Final Orders Authorizing Payment of Certain Prepetition Employee Wages, Benefits, and Related Items. The Debtors sought entry of an Order authorizing, but not directing, the Debtors to pay all prepetition wages, salaries, and other accrued compensation to employees, all reimbursable prepetition employee business expenses, all payments for which prepetition payroll deductions, withholdings or matching employer contributions were made, and all processing costs and administrative expenses relating to the foregoing payments and contributions, including any payments to third-party administrators or other administrative service providers. On June 11, 2019, the Bankruptcy Court entered an Order granting the motion on an interim basis [Docket No. 42]. On July 15, 2019, the Bankruptcy Court entered an order granting the motion on a final basis [Docket No. 136].

e. Debtors' Motion for Entry of Interim and Final Orders (I) Authorizing the Debtors to (A) Continue Insurance Coverage Entered into Prepetition and Satisfy Prepetition

Obligations Related Thereto, Including Broker Fees, (B) Renew, Supplement, or Purchase Insurance Policies, (C) Honor Prepetition Insurance Premium Financing Agreement, and (D) Renew Insurance Premium Financing Agreement in the Ordinary Course of Business; (II) Authorizing Banks to Honor and Process Checks and Electronic Transfer Requests Related Thereto; and (III) Granting Related Relief. The Debtors sought entry of an Order (i) authorizing, but not directing them to: (a) continue insurance coverage entered into prepetition, (b) renew, supplement, or purchase new insurance policies, including tail coverage for directors & officers liability and other insurance, (c) honor the Debtors' prepetition insurance premium financing agreement and renew such agreement in the ordinary course of business, (d) pay all prepetition obligations relating thereto, including broker fees, and (ii) authorizing and directing the Debtors' banks and other financial institutions to process and honor checks and transfers related to such obligations. On June 11, 2019, the Bankruptcy Court entered an Order granting the motion on an interim basis [Docket No. 43]. On July 15, 2019, the Bankruptcy Court entered an order granting the motion on a final basis [Docket No. 137].

f. Debtors' Motion for Entry of an Order Extending Time to File Schedules of Assets and Liabilities, Schedules of Executory Contracts and Unexpired Leases, and Statement of Financial Affairs. The Debtors sought entry of an Order extending the deadline to file the Debtors' schedules of assets and liabilities, schedules of executory contracts and unexpired leases, and statements of financial affairs to July 22, 2019. On June 11, 2019, the Bankruptcy Court entered an Order granting the motion [Docket No. 39].

g. Motion of Debtors for Entry of Interim and Final Orders (I) Authorizing the Debtors to Obtain Postpetition Financing, (II) Authorizing the Debtors to Use Cash Collateral, (III) Granting Liens and Providing Superpriority Administrative Expense Status, (IV)

Granting Adequate Protection to the Prepetition Lenders, (V) Modifying Automatic Stay, (VI) Scheduling a Final Hearing, and (VII) Granting Related Relief. The Debtors sought an Order (a) authorizing the Debtors to obtain postpetition financing on a senior secured, priming, superpriority basis; (b) authorizing the Debtors to use Cash Collateral; (c) granting liens and providing superpriority administrative expense status to the DIP Secured Parties; (d) granting adequate protection to the Prepetition Secured Parties; (e) modifying the automatic stay; and (f) scheduling a final hearing on the DIP motion. On June 13, 2019, the Bankruptcy Court entered an Order granting the motion on an interim basis [Docket No. 51]. On July 12, 2019, the Committee filed its Objection of the Official Committee of Unsecured Creditors to the Motion of Debtors for Entry of Interim and Final Orders (I) Authorizing the Debtors to Obtain Postpetition Financing, (II) Authorizing the Debtors to Use Cash Collateral, (III) Granting Liens and Providing Superpriority Administrative Expense Status, (IV) Granting Adequate Protection to the Prepetition Lenders, (V) Modifying Automatic Stay, (VI) Scheduling a Final Hearing, and (VII) Granting Related Relief [Docket No. 130]. On July 15, 2019, the Committee filed its Supplemental Objection of the Official Committee of Unsecured Creditors to the Motion of Debtors for Entry of Interim and Final Orders (I) Authorizing the Debtors to Obtain Postpetition Financing, (II) Authorizing the Debtors to Use Cash Collateral, (III) Granting Liens and Providing Superpriority Administrative Expense Status, (IV) Granting Adequate Protection to the Prepetition Lenders, (V) Modifying Automatic Stay, (VI) Scheduling a Final Hearing, and (VII) Granting Related Relief [Docket No. 146]. On July 16, 2019, and July 29, 2019 respectively, the Bankruptcy Court entered bridge orders continuing the Debtors' use of cash collateral on an interim basis while the Debtors, the Committee, the DIP Agent, and the Prepetition Term Loan Agent continued their negotiations to resolve the Committee's objections.

The Debtors, the Committee, the DIP Agent, and the Prepetition Term Loan Agent ultimately agreed to a resolution of the Committee's objections, and on August 6, 2019, the Bankruptcy Court entered an Order granting the motion on a final basis in accordance with the aforementioned resolution [Docket No. 238].

2. Employee Retention Motions.

On June 25, 2019, the Debtors filed a number of motions seeking additional relief, including the following:

a. *Motion to Approve the Debtors' Key Employee Retention Program for Certain Non-Insider Employees.* The Debtors sought entry of an Order authorizing the Debtors to pay retention bonuses to certain non-insider employees necessary to effectuate an orderly liquidation of the Debtors' inventory and administration of the Debtors' Estates. On July 11, 2019, the motion was supplemented to add certain additional employees to the proposed retention program [Docket No. 127]. On July 16, 2019, the Bankruptcy Court entered an Order granting the motion [Docket No. 154].

b. *Motion to Authorize the Debtors to Make Post-Petition Severance Payments to Non-Insider Employees in Accordance with the Debtors' Pre-Petition Severance Program.* The Debtors sought entry of an Order authorizing the Debtors to continue their pre-petition severance program for non-insider employees on a post-petition basis. On July 16, 2019, the Bankruptcy Court entered an Order granting the motion [Docket No. 156].

c. *Motion to Approve the Debtors' Key Employee Incentive Program for Certain Employees.* The Debtors sought entry of an Order authorizing the Debtors to make certain bonus payments to certain members of the Debtors' management team. On July 11, 2019, the Debtors withdrew the motion [Docket No. 128].

3. Employment and Compensation of Debtors' Professionals and Advisors.

On July 15, 2019, the Bankruptcy Court entered Orders authorizing the Debtors to retain McDermott Will & Emery LLP as general bankruptcy counsel [Docket No. 138], Polsinelli PC as Delaware bankruptcy counsel [Docket No. 139], and Winter Harbor LLC to provide the Debtors' with a chief restructuring officer and additional personnel [Docket No. 140], all *nunc pro tunc* to the Petition Date. On August 5, 2019, the Bankruptcy Court entered an Order authorizing the Debtors to retain BMC Group, Inc. as administrative advisor *nunc pro tunc* to the Petition Date [Docket No. 235]. On August 16, 2019, the Bankruptcy Court entered an Order authorizing the Debtors to retain CBRE, Inc. as real estate broker for the Debtors' distribution facility located in Bellefontaine, Ohio.

On September 10, 2019, the Debtors were authorized to employ Wilson Kibler, Inc. as real estate broker for the Debtors' distribution facility located in Newberry, South Carolina and headquarters located in Chapin, South Carolina. [Docket No. 363].

4. Appointment of Committee.

On June 17, 2019, the UST appointed the Committee [Docket No. 58]. The members of the Committee are Vista Outdoor Sales, LLC, Magpul Industries Corporation, American Outdoor Brands Corporation and Subsidiaries, Garmin USA, Inc., Fiocchi of America, Inc., FN America, LLC, and Remington Arms Company, LLC.

To assist the Committee in carrying out its duties, the Committee selected Lowenstein Sandler LLP and Morris James LLP as its counsel, and Emerald Capital Advisors as its financial advisor.

5. Committee Going-Concern Sale Process.

On July 3, 2019, the Bankruptcy Court entered an order authorizing the Committee and its professionals to run a going-concern sale process for the Debtors' businesses [Docket No. 109]. The Committee's sale process lasted three weeks, after which time the process concluded without any interested parties submitting a binding offer.

6. Claims Process and Bar Date.

a. Section 341(a) Meeting of Creditors

On July 26, 2019, the UST presided over the Section 341(a) meeting of creditors in the Chapter 11 Cases.

b. Schedules and Statements

The Debtors filed their Schedules with the Bankruptcy Court on July 24, 2019. The Debtors subsequently amended certain Schedules on August 15, 2019.

c. Bar Date(s)

The Bankruptcy Court has fixed October 16, 2019 at 5:00 p.m. (prevailing Eastern Time) as the last date and time by which proofs of Claim (including Claims under Bankruptcy Code section 503(b)(9)) relating to the Debtors in these Chapter 11 Cases must be filed (with the exception of proofs of Claim of government units, the applicable bar date for which is December 9, 2019 at 5:00 p.m. (prevailing Eastern Time)).

7. The Prepetition Term Lenders' Adequate Protection Liens and Claims.

As adequate protection against diminution in value, the Final Cash Collateral Order granted to the Prepetition Term Loan Agent, among other things, the Prepetition Term Loan Diminution Claim and the Prepetition Term Loan Adequate Protection Liens, which liens include, but are not limited to, superpriority liens in Avoidance Actions. The Prepetition Term

Loan Diminution Claim is at least \$6,801,666 arising from the Prepetition Term Loan Lenders' funding from its cash collateral professional fees totaling \$4,887,000 and employee severance and retention payments totaling \$1,914,066 as of the date hereof pursuant to the *Order (I) Authorizing and Approving the Debtors' Key Employee Retention Program for Certain Non-Insider Employees and (II) Granting Related Relief* dated July 16, 2019 [Docket No. 156] and the *Order Pursuant to Sections 105(a), 363 and 503 of the Bankruptcy Code, Authorizing the Debtors to Make PostPetition Severance Payments to Non-Insider Employees in Accordance with the Debtors' PrePetition Severance Program* dated July 16, 2019 [Docket No. 154]. In consideration of certain treatment set forth in this Plan, upon the Effective Date, the Prepetition Term Loan Agent shall waive the Prepetition Term Loan Diminution Claim and release the Prepetition Adequate Protection Liens.

8. The Wellspring Claims. Wellspring has filed proofs of Claim and alleges that the Debtors are liable to Wellspring for unpaid management fees and expenses owed pursuant to the Management Expense Reimbursement Agreement (as amended and restated, the "Management Agreement") in amounts of not less than \$3,000,000 and \$486,259, respectively. The Prepetition Term Loan Agent and the Committee allege that pursuant to the terms of the Prepetition Term Loan Agreement, such claims arising from the Management Agreement are contractually prohibited and subordinated to the Prepetition Term Loan Lenders until the Obligations (as defined in the Prepetition Term Loan Agreement) owing to the Prepetition Term Loan Lenders are indefeasibly paid in full, and as such have no value. In addition, the Committee filed an omnibus reclassification objection to Wellspring's proofs of claim on September 10, 2019 [Docket No. 365]. The Committee asserts that Wellspring is not a general unsecured creditor entitled to vote on the Combined Plan and Disclosure Statement, given that

all of Wellspring's liquidated Claims are contractually subordinated to the Claims of the Prepetition Term Loan Lenders.

9. For these reasons, Wellspring's Claims are separately classified pursuant to this Combined Plan and Disclosure Statement.

10. Prior Sales of the Debtors' Assets.

As of the Petition Date, the Debtors had \$59,384,717 in inventory and \$23,481,902 in accounts receivable. During the course of these Chapter 11 Cases, the Debtors sold substantially all of the remaining inventory in the ordinary course of business, with no remaining inventory as of the filing of this Combined Plan and Disclosure Statement. Similarly, during the course of these Chapter 11 Cases, the Debtors collected substantially all of the initial \$23,481,902 in accounts receivable, with only \$3,391,210 of such amount remaining as of the filing of this Combined Plan and Disclosure Statement. Additionally, during the course of these Chapter 11 Cases, the Debtors had gross sales of \$47,238,647 of which \$44,254,898 has been collected, leaving an additional \$2,983,749 of accounts receivable remaining as of the filing of this Combined Plan and Disclosure Statement. The Debtors intend to continue collecting the remaining accounts receivable in the ordinary course of business. If any inventory or accounts receivable remain as of the Effective Date, such assets will be distributed to the Holders of the Class 2 Claims as set forth in this Combined Plan and Disclosure Statement.

11. On July 25, 2019, the Debtors filed a motion to sell the business assets of Evans Sports, Inc. (the "Evans Assets") as a going concern through a private sale to Jeffrey Gabel and Jennifer Gabel. The Debtors believed that the \$170,000 purchase price, along with the value of certain liabilities that the buyers agreed to assume, provided value to the Estates superior to what would have resulted from liquidating the Evans Assets. The Debtors further believed that any

subsequent marketing efforts were unlikely to yield superior offers for the assets, and could have jeopardized the proposed transaction with the buyers and caused the Debtors to continue incurring administrative obligations with respect to the Evans Assets. On August 16, 2019, the Bankruptcy Court entered an order authorizing the Debtors' sale of the Evans Assets [Docket No. 281], and the sale subsequently closed on August 19, 2019.

12. Proposed Sales of Certain of the Debtors' Assets.

On July 25, 2019, the Debtors filed a motion to sell the Debtors' distribution facility located in Bellefontaine, Ohio (the "Bellefontaine Facility"). As set forth in the Sale Motion, the bid procedures proposed thereunder provide a process designed to ensure the Debtors, their Estates and Creditors receive the highest and best value possible for the Bellefontaine Facility, in the context of these Chapter 11 Cases. On August 16, 2019, the Bankruptcy Court entered an Order approving the Debtors' proposed bid procedures, approving E Brothers Ltd. as a stalking horse bidder (in the amount of \$7,395,000) for the Bellefontaine Facility, scheduling a bid deadline of August 30, 2019, scheduling, if necessary, an auction to take place on September 6, 2019, and scheduling a sale hearing for September 11, 2019. On August 30, 2019, the Debtors received a bid for the Bellefontaine Facility from Thomas & Marker Construction Co. for a purchase price of \$7,815,000. The auction for the Bellefontaine Facility occurred on September 6, 2019, at which E Brothers Ltd. was the winning bidder with a bid of \$8,415,000. See [Docket No. 353].

The Debtors plan to liquidate all of their remaining property, including their owned real property located in Chapin, South Carolina and Newberry, South Carolina, and have retained Wilson Kibler, Inc. to assist with those efforts.

F. Certain Federal Income Tax Consequences

The following discussion is a summary of certain U.S. federal income tax consequences of the Combined Plan and Disclosure Statement to the Debtors and to Holders of Claims and Equity Interests. This discussion is based on the Tax Code, Treasury Regulations promulgated and proposed thereunder, judicial decisions and published administrative rules and pronouncements of the IRS, all as in effect on the date hereof.

Due to the complexity of certain aspects of the Combined Plan and Disclosure Statement, the lack of applicable legal precedent, the possibility of changes in the law, the differences in the nature of the Claims, and each Holder's status and method of accounting and the potential for disputes as to legal and factual matters with the IRS, the tax consequences described herein are uncertain. No legal opinions have been requested from counsel with respect to any of the tax aspects of the Combined Plan and Disclosure Statement and no rulings have been or will be requested from the IRS with respect to any of the issues discussed below. Further, legislative, judicial or administrative changes may occur, perhaps with retroactive effect, which could affect the accuracy of the statements and conclusions set forth below as well as the tax consequences to the Debtors and the Holders of Claims and Equity Interests.

This discussion does not purport to address all aspects of U.S. federal income taxation that may be relevant to the Debtors or the Holders of Claims or Equity Interests in light of their personal circumstances, nor does the discussion deal with tax issues with respect to taxpayers subject to special treatment under the U.S. federal income tax laws (including, for example, insurance companies, financial institutions, real estate investment trusts, tax-exempt organizations, small business investment companies, regulated investment companies, foreign taxpayers, persons whose functional currency is not the U.S. dollar, persons subject to the

alternative minimum tax, and persons holding Claims or Equity Interests as part of a “straddle,” “hedge,” “constructive sale” or “conversion transaction” with other investments). This discussion does not address the tax consequences to Holders of Claims who did not acquire such Claims at the issue price on original issue. No aspect of foreign, state, local or estate and gift taxation is addressed.

EACH HOLDER OF A CLAIM OR EQUITY INTEREST IS URGED TO CONSULT WITH SUCH HOLDER’S TAX ADVISORS CONCERNING THE U.S. FEDERAL, STATE, LOCAL, FOREIGN AND OTHER TAX CONSEQUENCES OF THE COMBINED PLAN AND DISCLOSURE STATEMENT.

1. Tax Consequences to the Debtors.

Pursuant to the Tax Code and subject to certain exceptions, a taxpayer generally must recognize COD income to the extent that such taxpayer’s indebtedness is discharged for an amount less than the indebtedness’ adjusted issue price determined in the manner described below. Generally, the amount of COD income, subject to certain statutory and judicial exceptions, is the excess of (i) the adjusted issue price of the discharged indebtedness less, (ii) the sum of the fair market value (determined at the date of the exchange) of the consideration, if any, given in exchange for such discharged indebtedness.

The recognition of COD income may be treated differently in the context of a confirmed chapter 11 plan. For example, under the Bankruptcy Exception, instead of recognizing COD Income, the taxpayer is required, pursuant to section 108(b) of the Tax Code to reduce certain of that taxpayer’s tax attributes to the extent of the amount of COD income. The Tax Attributes of the taxpayer generally are reduced in the following order: net operating losses, general business and minimum tax credit carry forwards, capital loss carry forwards, the basis of the taxpayer’s

assets and, finally, foreign tax credit carry forwards. If the amount of COD income exceeds the amount of Tax Attributes available to be reduced, the excess still is excluded from income. Pursuant to section 108(b)(4)(A) of the Tax Code, the reduction of Tax Attributes does not occur until the end of the taxable year after such Tax Attributes have been applied to determine the tax in the year of discharge or, in the case of asset basis reduction, the first day of the taxable year following the taxable year in which the COD income is realized. Section 108(e)(2) of the Tax Code provides a further exception to the recognition of COD income upon the discharge of debt, providing that a taxpayer will not recognize COD income to the extent that the taxpayer's satisfaction of the debt would have given rise to a deduction for United States federal income tax purposes.

2. Tax Consequences to Creditors.

a. Holders of Claims

Generally, a Holder of a Claim should in most, but not all circumstances, recognize gain or loss equal to the difference between the "amount realized" by such Holder in exchange for its Claim and such Holder's adjusted tax basis in the Claim. The "amount realized" is equal to the sum of the cash and the fair market value of any other consideration received under a plan of reorganization in respect of a Holder's Claim. The tax basis of a Holder in a Claim will generally be equal to the Holder's cost. To the extent applicable, the character of any recognized gain or loss (e.g., ordinary income, or short-term or long-term capital gain or loss) will depend upon the status of the Holder, the nature of the Claim in the Holder's hands, the purpose and circumstances of its acquisition, the Holder's holding period of the Claim, and the extent to which the Holder previously claimed a deduction for the worthlessness of all or a portion of the Claim. Generally, if the Claim is a capital asset in the Holder's hands, any gain or loss realized

generally will be characterized as capital gain or loss, and will constitute long-term capital gain or loss if the Holder has held such Claim for more than one year.

A Holder who received Cash (or potentially other consideration) in satisfaction of its Claims may recognize ordinary income or loss to the extent that any portion of such consideration is characterized as accrued interest. A Holder who did not previously include in income accrued but unpaid interest attributable to its Claim, and who receives a distribution on account of its Claim pursuant to the Combined Plan and Disclosure Statement, will be treated as having received interest income to the extent that any consideration received is characterized for United States federal income tax purposes as interest, regardless of whether such Holder realizes an overall gain or loss as a result of surrendering its Claim. A Holder who previously included in its income accrued but unpaid interest attributable to its Claim should recognize an ordinary loss to the extent that such accrued but unpaid interest is not satisfied, regardless of whether such Holder realizes an overall gain or loss as a result of the distribution it may receive under the Combined Plan and Disclosure Statement on account of its Claim.

b. Non-United States Persons.

A Non-United States Person generally will not be subject to United States federal income tax with respect to property (including money) received in exchange for such Claim pursuant to the Combined Plan and Disclosure Statement.

3. Importance of Obtaining Professional Tax Assistance.

THE FOREGOING DISCUSSION IS INTENDED ONLY AS A SUMMARY OF CERTAIN INCOME TAX CONSEQUENCES OF THE COMBINED PLAN AND DISCLOSURE STATEMENT. THE ABOVE DISCUSSION IS FOR INFORMATIONAL PURPOSES ONLY AND IS NOT TAX ADVICE. THE TAX CONSEQUENCES ARE IN

MANY CASES UNCERTAIN AND MAY VARY DEPENDING ON A CLAIM HOLDER'S PARTICULAR CIRCUMSTANCES. ACCORDINGLY, CLAIM HOLDERS ARE URGED TO CONSULT THEIR TAX ADVISORS ABOUT THE UNITED STATES FEDERAL, STATE AND LOCAL, AND APPLICABLE FOREIGN INCOME AND OTHER TAX CONSEQUENCES OF THE COMBINED PLAN AND DISCLOSURE STATEMENT.

G. Certain Risk Factors To Be Considered

Prior to voting on the Combined Plan and Disclosure Statement, each Holder of a Claim entitled to vote should consider carefully the risk factors described below, as well as all of the information contained in this Combined Plan and Disclosure Statement, including the exhibits hereto. These risk factors should not, however, be regarded as constituting the only risks involved in connection with the Combined Plan and Disclosure Statement and its implementation.

1. Risk of Non-Confirmation of Combined Plan and Disclosure Statement.

Although the Debtors believe the Combined Plan and Disclosure Statement will satisfy all requirements necessary for confirmation by the Bankruptcy Court, there can be no assurance that the Bankruptcy Court will reach the same conclusion. Moreover, there can be no assurance that modifications to the Combined Plan and Disclosure Statement will not be required for confirmation or that such modifications would not necessitate a re-solicitation of votes.

2. Delays of Confirmation and/or Effective Date.

Any delay in confirmation and effectiveness of the Combined Plan and Disclosure Statement could result in, among other things, increased Administrative Expense Claims. These or any other negative effects of delays in confirmation or effectiveness of the Combined Plan and

Disclosure Statement could endanger the ultimate approval of the Combined Plan and Disclosure Statement by the Bankruptcy Court.

3. Alternative Plan.

If the Combined Plan and Disclosure Statement is not confirmed, the Debtors, the Committee, or any other party in interest could attempt to formulate a different plan. However, the additional costs, all of which would constitute Administrative Expense Claims, may be so significant that one or more parties in interest could request that the Chapter 11 Cases be converted to chapter 7. Accordingly, the Debtors believe that the Combined Plan and Disclosure Statement enables creditors to realize the best return under the circumstances.

IV.

**SUMMARY OF DEBTORS' ASSETS; SUMMARY
OF TREATMENT OF CLAIMS AND ESTIMATED RECOVERIES**

A. Summary of Remaining Assets

The following chart provides a summary of the Remaining Assets and the estimated value of such assets:⁵

Asset	Estimated Value
Cash on Hand	\$8,529,000
Inventory	\$0
Accounts Receivable	\$6,374,959
Furniture, Fixtures and Equipment	Unknown
Personal Property and IT Assets	Unknown
Bellefontaine, Ohio Facility	\$8,415,000.00
Chapin, South Carolina Facility	\$3,360,000
Newberry, South Carolina Facility	\$2,590,000
Causes of Action	Unknown
Other Assets (including claims of the Debtors in the bankruptcy cases of Gander Mountain Company and Pacific Gas and Electric Company)	\$152,800.56 (Gander Mountain Sports) \$6,298.16 (PG&E)

The following chart provides a summary of treatment of each Class of Claims and of unclassified claims and an estimate of the recoveries for each Class of Claims and the unclassified claims. The treatment provided in the chart below is for information purposes only and is qualified in its entirety by Article VII of the Combined Plan and Disclosure Statement.

⁵ Pursuant to this Combined Plan and Disclosure Statement, most Remaining Assets and proceeds thereof (excluding the Liquidation Trust Funding Amount B and after payment of Priority Claims and Administrative Claims) will be distributed to the Holders of Class 2 Prepetition Term Loan Claims. However, Type A Cause of Action Recoveries will be distributed pursuant to section VII.A.4.c.i of this Combined Plan and Disclosure Statement, and Type B Cause of Action Recoveries will be distributed pursuant to section VII.A.4.c.ii of this Combined Plan and Disclosure Statement.

Class	Estimated Allowed Claims⁶	Treatment	Estimated Recovery to Holders of Allowed Claims⁷
Unclassified Administrative Expense Claims	\$3,261,145	Paid in Full up to the total amount set forth in the Approved Budget; <i>provided, however</i> , that the Debtors reserve their right to seek payment of administrative and Debtors' Professional fees in excess of the total budgeted amount in light of any unforeseen substantial circumstances, so long as such amounts are incurred after September 30, 2019 and do not exceed \$100,000 allocated solely to the Debtors' Professionals.	100%
Unclassified Intercompany Claims	\$0	Disallowed as of the Effective Date	0%
Unclassified Priority Tax Claims	\$570,637	Paid in Full	100%
Class 1 – Other Priority Claims	\$27,300	Paid in Full	100%
Class 2 – Prepetition Term Loan Claims	\$249,800,405	Payable from the Remaining Assets and proceeds thereof (but excluding the Liquidation Trust Funding Amount B), after carving out from the proceeds of the Remaining Assets to allow for the payment of Priority Claims and Administrative Claims. Recoveries from the Type A Causes	14.3%

⁶ These amounts represent estimated Allowed Claims, and, with the exception of the Allowed Class 2 Claims and Wellspring Subordinated Claims, do not represent amounts actually asserted by creditors in proofs of claim or otherwise. The Debtors have not completed their analysis of Claims in the Chapter 11 Cases, and objections to such Claims have not been fully litigated and may continue following the Effective Date. Moreover, as of the date hereof, the Bar Date has not been established and, as a result, additional Claims may be asserted against the Debtors. Therefore, there can be no assurances of the exact amount of the Allowed Claims at this time. Rather, the actual amount of the Allowed Claims may be greater or lower than estimated.

⁷ The estimated percentage recovery is based upon, among other things, an estimate of the Allowed Claims in the Chapter 11 Cases. As set forth in footnote 5 above, the actual amount of the Allowed Claims may be greater or lower than estimated. Thus, the actual recoveries may be higher or lower than projected depending upon, among other things, the amounts and priorities of Claims that are actually Allowed by the Bankruptcy Court.

		of Action will be distributed to Holders of Allowed Prepetition Term Loan Claims in the percentage amounts as described herein.	
Class 3 – Other Secured Claims	\$815	Paid in Full	100%
Class 4 – General Unsecured Claims and Prepetition Term Loan Deficiency Claim	\$43,000,000 in General Unsecured Claims amounting to approximately 16% of total Class 4 Claims. \$223,828,000 in Prepetition Term Loan Deficiency Claims amounting to approximately 84% of total Class 4 Claims.	Holders of Allowed General Unsecured Claims and Prepetition Term Loan Deficiency Claims will share in recoveries from both Type A and Type B Causes of Action in the percentage amounts described herein.	Unknown
Class 5 – Wellspring Subordinated Claims	\$3,486,259 ⁸	No Distribution	0%
Class 6 – Equity Interests	\$0	No Distribution	0%

⁸ Wellspring has asserted Claims against the Debtors totaling not less than \$3,486,259 for unpaid management fees and expenses owed pursuant to the Management Agreement, plus other contingent and unliquidated amounts. As described in this Combined Plan and Disclosure Statement, the Prepetition Term Loan Agent and the Committee allege that pursuant to the terms of the Prepetition Term Loan Agreement, Wellspring's Claims arising from the Management Agreement are contractually prohibited and subordinated to the Prepetition Term Loan Lenders until the Obligations (as defined in the Prepetition Term Loan Agreement) owing to the Prepetition Term Loan Lenders are indefeasibly paid in full, and as such have no value. As described herein, to the extent that the Bankruptcy Court finds that Wellspring's Claims are subordinate, by agreement or otherwise, such Claims shall be treated as Class 5 Wellspring Subordinated Claims. To the extent that any of Wellspring's Claims are not found to be subordinate, such Claims shall be General Unsecured Claims under this Combined Plan and Disclosure Statement.

V.

CONFIRMATION AND VOTING PROCEDURES

A. Confirmation Procedure

1. Confirmation Hearing

A hearing before the Bankruptcy Court has been scheduled for October 21, 2019 at 10:00 a.m. (ET) at the United States Bankruptcy Court, 824 North Market Street, 6th Floor, Courtroom #2, Wilmington, DE 19801 to consider (i) approval of the Combined Plan and Disclosure Statement as providing adequate information pursuant to section 1125 of the Bankruptcy Code, and (ii) confirmation of the Combined Plan and Disclosure Statement pursuant to section 1129 of the Bankruptcy Code. The Confirmation Hearing may be adjourned from time to time by the Bankruptcy Court without further notice, except for an announcement of the adjourned date made at the Confirmation Hearing.

2. Procedure for Objections

Any objection to approval or confirmation of the Combined Plan and Disclosure Statement must be made in writing and specify in detail the name and address of the objector, all grounds for the objection and the amount of the Claim held by the objector. Any such objection must be filed with the Bankruptcy Court and served on the Debtors' counsel, Committee's counsel, the UST, the Prepetition Term Loan Agent's counsel, and all parties who have filed a notice of appearance by 4:00 p.m., prevailing Eastern Time, on October 15, 2019. Unless an objection is timely filed and served, it may not be considered by the Bankruptcy Court.

3. Requirements for Confirmation

The Bankruptcy Court will confirm the Combined Plan and Disclosure Statement only if it meets all the applicable requirements of section 1129 of the Bankruptcy Code. Among the

requirements for confirmation in these Chapter 11 Cases are that the Combined Plan and Disclosure Statement be: (i) accepted by all impaired classes of Claims and Equity Interests, or if rejected by an impaired class, that the Combined Plan and Disclosure Statement “does not discriminate unfairly” against and is “fair and equitable” with respect to such class; and (ii) feasible.

If the Combined Plan and Disclosure Statement is rejected by an impaired Class, as part of the Bankruptcy Court’s analysis of whether the Combined Plan and Disclosure Statement is “fair and equitable” with respect to such Class, the Bankruptcy Court will consider whether the Combined Plan and Disclosure Statement is in the “best interests” of impaired Creditors. The “best interests” of impaired creditors test requires that each Holder of a Claim that has not voted to accept the Combined Plan and Disclosure Statement and belongs to an impaired Class receive or retain under the Combined Plan and Disclosure Statement property of a value that is not less than the value such Holder would receive or retain if the Debtors were liquidated under chapter 7 of the Bankruptcy Code. To determine what members of each impaired Class of Claims would receive if the Debtors were liquidated, the Bankruptcy Court must determine the dollar amount that a liquidation of the Debtors’ assets would generate in the context of a chapter 7 liquidation. The amount available for satisfaction of Claims would consist of the proceeds resulting from the liquidation, reduced by the Claims of secured creditors to the extent of the value of their collateral, and the costs and expenses of the liquidation.

Because the Combined Plan and Disclosure Statement is a plan of orderly liquidation, each Class of Creditors will receive substantially the same treatment it would receive if the Debtors’ assets were liquidated pursuant to chapter 7 of the Bankruptcy Code, except that the Estates will neither be taxed with the additional expenses and commissions of a chapter 7 trustee

nor delayed by such a trustee's appointment and need to become familiar with these Chapter 11 Cases. Attached as **Exhibit A** is a liquidation analysis prepared by the Debtors' financial advisors reflecting a greater distribution to Creditors pursuant to the Combined Plan and Disclosure Statement than Creditors would receive in a hypothetical chapter 7 liquidation. Accordingly, the Debtors believe the Combined Plan and Disclosure Statement satisfies the "best interests" of impaired creditors test.

In addition, to confirm the Combined Plan and Disclosure Statement, the Bankruptcy Court must also find that:

- a. The Combined Plan and Disclosure Statement has classified claims and interests in a permissible manner;
- b. The Combined Plan and Disclosure Statement complies with the technical requirements of chapter 11 of the Bankruptcy Code; and
- c. The Combined Plan and Disclosure Statement has been proposed in good faith.

4. Classification of Claims and Equity Interests

Section 1122 of the Bankruptcy Code requires the Combined Plan and Disclosure Statement to place a claim or equity interest in a particular class only if such claim or equity interest is substantially similar to the other claims or equity interests in such class. The Combined Plan and Disclosure Statement creates separate Classes to deal respectively with priority Claims, secured Claims, unsecured Claims, and Equity Interests. The Debtors believe that the Combined Plan and Disclosure Statement's classifications place substantially similar Claims or Equity Interests in the same Class and thus, meet the requirements of section 1122 of the Bankruptcy Code.

B. Voting Procedure**1. Impaired Claims and Equity Interests**

Pursuant to Bankruptcy Code section 1126, only the Holders of Claims in Classes “Impaired” by the Combined Plan and Disclosure Statement that may receive a payment or Distribution under the Combined Plan and Disclosure Statement may vote on the Combined Plan and Disclosure Statement. Pursuant to Bankruptcy Code section 1124, a Class of Claims may be “Impaired” if the Combined Plan and Disclosure Statement alters the legal, equitable or contractual rights of the Holders of such Claims treated in such Class. The Holders of Claims not Impaired by the Combined Plan and Disclosure Statement are deemed to accept the Combined Plan and Disclosure Statement and do not have the right to vote on the Combined Plan and Disclosure Statement. The Holders of Claims in any Class that will not receive any payment or Distribution or retain any property pursuant to the Combined Plan and Disclosure Statement are deemed to reject the Combined Plan and Disclosure Statement and do not have the right to vote.

2. Eligibility to Vote on the Combined Plan and Disclosure Statement

Unless otherwise ordered by the Bankruptcy Court, only Holders of Prepetition Term Loan Claims in Class 2 and General Unsecured Claims and Prepetition Term Loan Deficiency Claims in Class 4 may vote on the Combined Plan and Disclosure Statement. In order to vote on the Combined Plan and Disclosure Statement, you must hold a Claim in Class 2 or 4 and have timely filed a proof of Claim or have a Claim that is identified on the Schedules that is not listed as disputed, unliquidated or contingent, or be the holder of a Claim that has been temporarily Allowed for voting purposes only under Bankruptcy Rule 3018(a).

3. Solicitation Notice

All parties in interest will receive a notice containing (a) notice of the Confirmation Hearing; (b) the email address, wlancaster@mwe.com, at which parties in interest may request copies of the Combined Plan and Disclosure Statement, ballot, and related documents; and (c) a telephone number, (212) 547-5511, through which parties in interest can request to obtain paper copies of the Combined Plan and Disclosure Statement, ballot, and related documents. Holders of Claims in Classes 2 and 4, which are the only Classes entitled to vote to accept or reject the Combined Plan and Disclosure Statement, will be provided a notice and a ballot. Each Holder of a Claim in Classes 2 or 4 should complete its respective ballot by (i) indicating such Holder's decision to either accept or reject the Combined Plan and Disclosure Statement in the boxes provided on the ballot, and (ii) signing and returning the ballot to the address set forth on the ballot (please note that envelopes and prepaid postage will be included with the ballot). **BALLOTS SENT BY FACSIMILE OR EMAIL TRANSMISSION ARE NOT ALLOWED AND WILL NOT BE COUNTED.**

4. Procedure/Voting Deadlines

In order for your ballot to count, you must complete, date, sign and properly mail a paper ballot to the Claims and Balloting Agent at the following address:

<u>If by Regular Mail:</u>	<u>If by Messenger or Overnight Delivery:</u>
BMC Group Attn: SportCo Claims Processing PO Box 90100 Los Angeles, CA 90009	BMC Group Attn: SportCo Claims Processing 3732 West 120th Street Hawthorne, CA 90250

The Claims and Balloting Agent must RECEIVE original ballots by mail or overnight delivery, on or before **October 15, 2019 at 4:00 p.m. (ET)** (the “**Voting Deadline**”).

Any Ballot that is timely received and contains sufficient information to permit the identification of the claimant and that is cast as an acceptance or rejection of the Combined Plan and Disclosure Statement will be counted and will be deemed to be cast as an acceptance or rejection, as the case may be, of the Combined Plan and Disclosure Statement.

The following Ballots will not be counted or considered for any purpose in determining whether the Combined Plan and Disclosure Statement has been accepted or rejected:

1. any Ballot received after the Voting Deadline, unless the Court grants an extension of the Voting Deadline with respect to such Ballot;
2. any Ballot that is illegible or contains insufficient information to permit the identification of the claimant;
3. any Ballot cast by a Person or Entity that does not hold a Claim in a class that is entitled to vote to accept or reject the Combined Plan and Disclosure Statement;
4. any Ballot cast for a Claim designated as unliquidated, contingent or disputed or as zero or unknown in amount and for which there is no timely filed proof of Claim or no Bankruptcy Rule 3018(a) motion has been filed by the Bankruptcy Rule 3018(a) motion deadline;
5. any Ballot timely received that is cast in a manner that indicates neither acceptance nor rejection of the Combined Plan and Disclosure Statement or that indicates both acceptance and rejection of the Combined Plan and Disclosure Statement;
6. any unsigned Ballot; or
7. any Ballot that is submitted by fax or email.

5. Acceptance of the Combined Plan and Disclosure Statement.

As a Creditor, your acceptance of the Combined Plan and Disclosure Statement is important. In order for the Combined Plan and Disclosure Statement to be accepted by an impaired Class of Claims, a majority in number (*i.e.*, more than half) and two-thirds in dollar amount of the Claims voting (of each Impaired Class of Claims) must vote to accept the Combined Plan and Disclosure Statement. At least one impaired Class of creditors, excluding the votes of insiders, must actually vote to accept the Combined Plan and Disclosure Statement. The Debtors urge that you vote to accept the Combined Plan and Disclosure Statement. **YOU ARE URGED TO COMPLETE, DATE, SIGN AND PROMPTLY MAIL THE BALLOT ATTACHED TO THE NOTICE. PLEASE BE SURE TO COMPLETE THE BALLOT PROPERLY AND LEGIBLY, IDENTIFY THE EXACT AMOUNT OF YOUR CLAIM, AND THE NAME OF THE CREDITOR.**

VI.

TREATMENT OF UNCLASSIFIED CLAIMS

A. **Administrative Expense Bar Date.**

Administrative Expense Claims must be filed no later than the Administrative Expense Bar Date (except for claims pursuant to [28 U.S.C. § 1930](#) and administrative tax claims pursuant to [11 U.S.C. § 503\(b\)\(1\)\(D\)](#), for which no request for payment is required; and except for Claims under Bankruptcy Code section 503(b)(9), which will be filed by the proposed general bar date of October 16, 2019). Holders of Administrative Expense Claims that do not file proofs of Claim on or before the Administrative Expense Bar Date shall forever be barred from asserting such Administrative Expense Claims against the Debtors or their Estates.

B. Administrative Expense Claims.

Except to the extent that any Person entitled to payment of an Allowed Administrative Expense Claim agrees to a different treatment, each Holder of an Allowed Administrative Expense Claim shall receive Cash in an amount equal to such Allowed Administrative Expense Claim on the date that is the later of the Effective Date and seven (7) Business Days after such Administrative Expense Claim becomes an Allowed Claim, or as soon thereafter as is reasonably practicable. All administrative and Professional fees that are Allowed Administrative Expense Claims shall be paid up to and capped by the Approved Budget⁹; *provided, however*, that the Debtors reserve their right to seek payment of such administrative and Debtors' Professional fees in excess of the budgeted amount in light of any unforeseen substantial circumstances, so long as such amounts are incurred after September 30, 2019 and do not exceed \$100,000 allocated solely to the Debtors' Professionals.

If Administrative Claims exceed the Approved Budget, the Plan may not be able to go effective. The most recent Approved Budget filed with the Bankruptcy Court provides for the payment in full of all estimated Allowed Administrative Claims. As noted in the Liquidation Analysis, all Professional Fees set forth in the Approved Budget have been segregated into a separate, fully funded account, and all Administrative Expenses that have accrued to date have been paid in the ordinary course of business. Therefore, barring any unforeseen substantial Administrative Claims, the Debtors and their Chief Restructuring Officer believe that the budgeted amounts are sufficient to provide for the payment in full of Administrative Claims.

The deadline for submission by Professionals for Bankruptcy Court approval of accrued compensation and reimbursement of expenses shall be thirty (30) days after the Effective Date.

⁹ For the avoidance of doubt, any budgeted Professional fees that are unearned in any week shall rollover and thereby increase the budgeted Professional fee amount for subsequent weeks.

C. Priority Tax Claims.

Each Holder of an Allowed Priority Tax Claim, if any, shall receive in full satisfaction of such Allowed Priority Tax Claim (a) payment in Cash equal to the unpaid portion of such Allowed Priority Tax Claim on the date that is the earlier of the Effective Date and seven (7) Business Days after such Allowed Priority Tax Claim becomes an Allowed Claim, or as soon thereafter as is reasonably practicable; or (b) Cash in an amount agreed to by the Liquidation Trustee and such Holder; *provided, however*, that any Claim or demand for payment of a penalty (other than a penalty of the type specified in Bankruptcy Code section 507(a)(8)(G)) shall be disallowed pursuant to this Combined Plan and Disclosure Statement and the Holder of an Allowed Priority Tax Claim shall not assess or attempt to collect such penalty from the Liquidation Trust, Liquidation Trustee, the Debtors, or the Debtors' Estates, as applicable.

As detailed in the most recent Approved Budget filed with the Bankruptcy Court, and barring any unforeseen substantial circumstances, the Debtors and their Chief Restructuring Officer believe that the budgeted amounts are sufficient to provide for the payment in full of all Priority Tax Claims.

D. Intercompany Claims.

All Intercompany Claims shall be disallowed pursuant to this Combined Plan and Disclosure Statement as of the Effective Date.

E. Payment of Statutory Fees.

All fees due and payable prior to the Effective Date, pursuant to section 1930 of title 28 of the United States Code, plus any interest under [37 U.S.C. § 3717](#), shall be paid by the Debtors or the Liquidation Trustee, as applicable, from Cash on Hand. On and after the Effective Date and through the closing of the Chapter 11 Cases, (i) all fees payable pursuant to section 1930 of

title 28 of the United States Code, plus any interest under [37 U.S.C. § 3717](#), shall be paid by the Liquidation Trustee, and (ii) the Liquidation Trustee shall file with the Bankruptcy Court quarterly reports in a form reasonably acceptable to the UST. Notwithstanding any substantive consolidation of the Debtors under the Combined Plan and Disclosure Statement, each and every Debtor and the Liquidation Trustee shall remain obligated to pay quarterly fees to the Office of the UST until the particular Debtor's case has been closed, dismissed or converted to a case under chapter 7 of the Bankruptcy Code.

VII.

CLASSIFICATION OF CLAIMS AND EQUITY INTERESTS; ESTIMATED RECOVERIES

Claims, other than Administrative Expense Claims, Priority Tax Claims and Intercompany Claims are classified for all purposes, including voting, confirmation and Distribution pursuant to the Combined Plan and Disclosure Statement, as follows:

Class	Status
Class 1 – Other Priority Claims	Unimpaired
Class 2 – Prepetition Term Loan Claims	Impaired
Class 3 – Other Secured Claims	Unimpaired
Class 4 – General Unsecured Claims and Prepetition Term Loan Deficiency Claims	Impaired
Class 5 – Wellspring Subordinated Claims ¹⁰	Impaired
Class 6 – Equity Interests	Impaired

¹⁰ To the extent that any Wellspring Claim is not a Class 5 Wellspring Subordinated Claim, such claim shall be treated as a Class 4 General Unsecured Claim.

A. TREATMENT OF CLAIMS AND EQUITY INTERESTS.

1. CLASS 1 –OTHER PRIORITY CLAIMS

a. Classification. Class 1 consists of Other Priority Claims against the Debtors.

b. Impairment and Voting. Class 1 is unimpaired by the Combined Plan and Disclosure Statement. Holders of Class 1 Claims are conclusively presumed to have accepted the Combined Plan and Disclosure Statement and, therefore, are not entitled to vote to accept or reject the Combined Plan and Disclosure Statement.

c. Treatment. Unless otherwise agreed to by Holders of Allowed Class 1 Claims and the Debtors or the Liquidation Trustee, as applicable, Holders of Allowed Class 1 Claims, if any, shall be paid on the date that is the earlier of the Effective Date and seven (7) Business Days after such Allowed Class 1 Claim becomes an Allowed Claim, in full and final satisfaction of their Class 1 Claims, Cash equal to one hundred percent (100%) of their Allowed Claims.

2. CLASS 2 – PREPETITION TERM LOAN CLAIMS

a. Classification. Class 2 consists of the Prepetition Term Loan Claims against the Debtors.

b. Allowance. The Prepetition Term Loan Claims shall be Allowed in the amount of \$249,800,405.00, less any payments made to the Prepetition Term Loan Agent after the Petition Date.

c. Impairment and Voting. Class 2 is impaired by the Combined Plan and Disclosure Statement. Holders of Class 2 Claims are entitled to vote to accept or reject the Combined Plan and Disclosure Statement.

d. Treatment. Holders of Prepetition Term Loan Claims shall be deemed to hold Allowed Prepetition Term Loan Claims and shall receive on account of such Allowed Prepetition Term Loan Claims on the Effective Date the Remaining Assets and proceeds thereof (but excluding the Liquidation Trust Funding Amount B and proceeds of Causes of Action), subject to a carve out from proceeds of the Remaining Assets for payment of Administrative Claims (up to the amounts set forth in the Approved Budget) and Other Priority Claims. Holders of Allowed Prepetition Term Loan Claims shall have an Allowed Prepetition Term Loan Deficiency Claim equal to the portion of their Allowed Prepetition Term Loan Claim that is unpaid, calculated in accordance with Bankruptcy Code section 506(a) and on account of such Allowed Prepetition Term Loan Deficiency Claim, shall further receive a share of Recoveries from the Type A Causes of Action and Type B Causes of Action as set forth in Section VII A.4.c(i)-(ii) hereto.

3. CLASS 3 – OTHER SECURED CLAIMS

a. Classification. Class 3 consists of all Other Secured Claims against the Debtors.

b. Impairment and Voting. Class 3 is unimpaired by the Combined Plan and Disclosure Statement. Holders of Class 3 Claims are conclusively presumed to have accepted the Combined Plan and Disclosure Statement and, therefore, are not entitled to vote to accept or reject the Combined Plan and Disclosure Statement.

c. Treatment. Unless otherwise agreed to by Holders of Allowed Class 3 Claims and the Debtors, Holders of Allowed Class 3 Claims, if any, shall receive in full satisfaction of such Allowed Class 3 Claim on the date that is the earlier of the Effective Date and seven (7) Business Days after such Allowed Class 3 Claim becomes an Allowed Claim, the

collateral securing their Claims, or Cash equal to one hundred percent (100%) of the value of the collateral securing their Allowed Claims.

4. CLASS 4 – GENERAL UNSECURED CLAIMS AND PREPETITION TERM LOAN DEFICIENCY CLAIMS

a. Classification. Class 4 consists of General Unsecured Claims and Prepetition Term Loan Deficiency Claims against the Debtors.

b. Impairment and Voting. Class 4 is impaired by the Combined Plan and Disclosure Statement. Holders of Class 4 Claims are entitled to vote to accept or reject the Combined Plan and Disclosure Statement.

c. Treatment. Holders of Allowed Class 4 Claims shall receive an interest in the Recoveries from the Type A Causes of Action and Type B Causes of Action as follows:

- i. *Type A Cause of Action Recoveries:* The Prepetition Term Loan Agent and those Prepetition Term Loan Lenders which agree to fund the Type A Causes of Action shall receive 38% of the proceeds from the Type A Causes of Action (representing repayment of (i) the costs associated with the prosecution of the Type A Causes of Action, including, but not limited to contingency fees, (ii) the general economic risk incurred in funding litigation, (iii) funding by the Prepetition Term Loan Agent of administrative and priority claims, (iv) the Effective Date waiver of the Allowed Prepetition Term Loan Diminution Claim, and (v) the Effective Date release of the Prepetition Term Loan Adequate Protection Liens), and the remaining 62% of such proceeds shall be distributed as follows: Holders of General Unsecured Claims shall be entitled to receive 15%,

and the Prepetition Term Loan Lenders on account of their Allowed Prepetition Term Loan Deficiency Claims shall be entitled to receive 85%, of the remaining proceeds from the Type A Causes of Action. The Type A Cause of Action Recoveries shall be unaffected by any stay, removal, remand, transfer (by any mechanism whatsoever, including but not limited to an order granting a motion to transfer or a dismissal without prejudice to refile in a different jurisdiction), or appeal of any of the Type A Causes of Action.

- ii. *Type B Causes of Action Recoveries:* After repayment of the Liquidation Trust Funding Amount B (plus any potential additional funding amounts in accordance with the Liquidating Trust Agreement) to the Prepetition Term Loan Agent and Prepetition Term Loan Lenders which agree to fund the Type B Causes of Action (in each case up to the amounts such Prepetition Term Loan Lender in fact participates in such funding whether out of the Cash on hand in the Debtors' estates constituting cash collateral of the Prepetition Term Loan Lenders or otherwise), and any additional professional fees, expenses, and any and all other related costs associated with the prosecution of the Type B Causes of Action, Holders of General Unsecured Claims shall be entitled to receive 30%, and the Prepetition Term Loan Deficiency Claims shall be entitled to receive 70%, of the proceeds from the Type B Causes of Action.

5. CLASS 5 – WELLSPRING SUBORDINATED CLAIMS

- a. Classification. Class 5 consists of the Wellspring Subordinated Claims.¹¹
- b. Impairment and Voting. Class 5 is impaired under the Combined Plan and Disclosure Statement. The Holders of the Class 5 Wellspring Subordinated Claims are deemed to have rejected the Combined Plan and Disclosure Statement and, therefore, are not entitled to vote to accept or reject the Combined Plan and Disclosure Statement.
- c. Treatment. The Holders of the Class 5 Wellspring Subordinated Claims will receive no Distribution.

6. CLASS 6– EQUITY INTERESTS

- a. Classification. Class 6 consists of the Equity Interests in the Debtors.
- b. Impairment and Voting. Class 6 is impaired under the Combined Plan and Disclosure Statement. The Holders of the Class 6 Equity Interests are deemed to have rejected the Combined Plan and Disclosure Statement and, therefore, are not entitled to vote to accept or reject the Combined Plan and Disclosure Statement.
- c. Treatment. The Holders of the Class 6 Equity Interests will receive no Distribution. On the Effective Date, all outstanding Equity Interests will be cancelled. Upon cancellation, no property will be distributed to, or retained by, Holders of such Equity Interests.

B. Modification of Treatment of Claims and Equity Interests.

The Liquidation Trustee reserves the right to modify the treatment of any Allowed Claim in any manner adverse only to the Holder of such Claim at any time after the Effective Date upon the consent of the Holder of the Claim whose Allowed Claim is being adversely affected.

¹¹ To the extent that the Bankruptcy Court finds that Wellspring's Claims are subordinate, by agreement or otherwise, such Claims shall be treated as Class 5 Wellspring Subordinated Claims. To the extent that any of Wellspring's Claims are not found to be subordinate, such Claims shall be General Unsecured Claims under this Combined Plan and Disclosure Statement.

VIII.
LIQUIDATION TRUST AND OVERSIGHT BOARD

A. The Liquidation Trust

1. Execution of the Liquidation Trust Agreement. On the Effective Date, the Liquidation Trust Agreement shall be executed by the Debtors and the Liquidation Trustee, and all other necessary steps shall be taken to establish the Liquidation Trust and the beneficial interests therein, which shall be for the benefit of the Liquidation Trust beneficiaries, whether their Claims are Allowed on or after the Effective Date.

2. Purpose of the Liquidation Trust. The Liquidation Trust shall be established for the purposes set forth in the Liquidation Trust Agreement, with no objective to continue or engage in the conduct of a trade or business. The Liquidation Trust is intended to qualify as a liquidating trust pursuant to Treasury Regulation Section 301.7701-4(d).

3. Transfer of Assets and Assumption of Liabilities. On the Effective Date, after the payment of claims as described herein, (i) the Debtors shall, in accordance with the Combined Plan and Disclosure Statement, cause the Remaining Assets to be transferred to the Liquidation Trust subject only to Liens of the Prepetition Term Loan Agent under the Final Cash Collateral Order and Prepetition Term Loan Agreement, but free and clear of liens, claims, and interests, and subject to the Combined Plan and Disclosure Statement. Under this Combined Plan and Disclosure Statement, the Debtors (under the authority of the Liquidation Trustee) shall retain any remaining obligations of the Debtors' Estates, including without limitation the payment of any Allowed Administrative Expense Claim and Allowed Priority Tax Claim or other Priority Claim. Prior to the Effective Date, the Debtors shall be permitted to (i) continue liquidating their assets, including inventory, in the ordinary course of business, and (ii) file one or more motions with the Bankruptcy Court seeking approval of any non-ordinary course sale or sales of assets,

including the sale of the Debtors' facilities in Chapin and Newberry, South Carolina and Bellefontaine, Ohio. All proceeds from the sale of the Remaining Assets, excluding proceeds of any Causes of Action (which shall be distributed after the Effective Date as described herein), shall be paid to the Prepetition Term Loan Agent for the benefit of the Prepetition Term Loan Lenders and to be distributed to them in accordance with the Plan as and when received. The Debtors are authorized and directed to turnover their books, records, and all other materials – including, but not limited to, privileged books, records and other materials – to the Liquidation Trust.

4. Insurance Policies. Nothing in this Combined Plan and Disclosure Statement, the Confirmation Order, or the Liquidating Trust Agreement, alters the rights and obligations of the Debtors (and their Estates) and the Debtors' insurers (and third-party claims administrators) under the Insurance Policies or modifies the coverage or benefits provided thereunder or the terms and conditions thereof or diminishes or impairs the enforceability of the Insurance Policies. All of the Debtors' rights and their Estates' rights under any Insurance Policy to which the Debtors and/or the Debtors' Estates may be beneficiaries shall vest with the Liquidating Trust for the benefit of the Beneficiaries of the Liquidating Trust and all of the beneficiaries of such policies. For the avoidance of doubt, the Debtors are deemed to have assumed all of the Insurance Policies.

5. Liquidation and Dissolution of Debtors. On the Effective Date, without the necessity for any other or further action to be taken by or on behalf of the Debtors, and upon the transfer of the Remaining Assets to the Liquidation Trust in accordance with this Section VIII(B) of the Combined Plan and Disclosure Statement, the members of the board of directors or managers, as the case may be, and the respective officers, of each of the Debtors shall be deemed

to have been removed, and each such Debtor shall be deemed dissolved for all purposes unless the Liquidation Trustee determines that dissolution can have any adverse impact on the Causes of Action; provided, however, that neither the Debtors nor any party released pursuant to Article XI of the Plan shall be responsible for any liabilities that may arise as a result of non-dissolution of the Debtors.

6. Liquidation Trust Funding Amount B. The Liquidation Trust will be funded initially with \$500,000 in Cash from the Cash on hand in the Debtors' estates constituting cash collateral of the Prepetition Term Loan Lenders on the Effective Date and may be funded with additional amounts from such cash collateral, if any, at the sole discretion of Prepetition Term Loan Lenders.

7. Exemption from Certain Taxes and Fees. Pursuant to section 1146(a) of the Bankruptcy Code, the making or delivery of any instrument or transfer from a Debtor to the Liquidating Trust, or to any other Person pursuant to this Combined Plan and Disclosure Statement, shall not be subject to any document recording tax, stamp tax, conveyance fee, intangibles or similar tax, mortgage tax, stamp tax, real estate transfer tax, mortgage recording tax or other similar tax or governmental assessment, and the Confirmation Order shall direct the appropriate state or local governmental officials or agents to forego the collection of any such tax or governmental assessment and to accept for filing and recordation any of the forgoing instruments or other documents without the payment of any such tax or governmental assessment.

B. The Liquidation Trustee

1. Appointment of the Liquidation Trustee. Ronald Friedman of SilvermanAcampora LLP shall be the Liquidation Trustee, and upon and after the Effective Date shall serve in accordance with the Plan and the Liquidation Trust Agreement.

2. Duties and Powers of the Liquidation Trustee. The Liquidation Trustee shall (i) be a representative of the Estates pursuant to Bankruptcy Code section 1123 and serve as the Estates' representative before the Bankruptcy Court or any other court as necessary, (ii) have the rights and powers set forth in the Plan and the Liquidation Trust Agreement, and (iii) be governed in all things by the terms hereof and the Liquidation Trust Agreement. Subject to the terms of the Plan and the Liquidation Trust Agreement, and the limitations and/or obligations set forth in this ARTICLE VIII, the Liquidation Trustee shall be authorized, empowered, and directed to take all actions necessary to comply with the Combined Plan and Disclosure Statement exercise and fulfill the duties and obligations arising hereunder, including, without limitation, the rights, powers, and duties of a trustee under Bankruptcy Code sections 704(a)(1), (2), (4), (5) and (7) and 1106(a)(6) and (7) and the rights and duties set forth in this Combined Plan and Disclosure Statement (i) to act as a trustee for and administer the Remaining Assets, including to enter into a lease or leases with respect to the Remaining Assets; (ii) to take any action necessary to effect the transfer of the Remaining Assets to the Liquidation Trust; (iii) to employ and compensate the Professionals currently employed by the Debtors or the Committee or other professionals; (iv) to collect, administer, sell, liquidate, and dispose of all Remaining Assets and to otherwise administer the Estates as necessary; (v) to review, investigate and (if appropriate) object to or seek equitable subordination of Claims against the Estates and to assert any rights of setoff, or other legal or equitable defenses of the Debtors; (vi) to investigate,

prosecute and/or settle all Causes of Action; (vii) to voluntarily engage in arbitration or mediation with respect to any Cause of Action; (viii) to invest the Debtors' Cash in any Permitted Investment;¹² (ix) to open, maintain, and administer bank accounts as necessary and appropriate to carry out the powers and duties of the Liquidation Trustee, including to establish, as necessary, disbursement accounts for the deposit and Distribution of all amounts distributed under the Combined Plan and Disclosure Statement; (x) to calculate and make all Distributions; (xi) to prepare and file tax returns for the Debtors; (xii) to seek estimation of contingent or unliquidated Claims under Bankruptcy Code section 502(c) or determinations of tax liabilities under Bankruptcy Code section 505; (xiii) to prepare and file quarterly financial reports after the Effective Date; (xiv) to comply with applicable Orders of the Bankruptcy Court over the matters set forth herein, and all applicable laws and regulations concerning the matters set forth herein; (xv) to enter into the Liquidating Trust Agreement; (xvi) to obtain any funding necessary for the prosecution of the Causes of Action; (xvii) to take all other actions in furtherance of the implementation of the Combined Plan and Disclosure Statement, including executing all agreements, instruments, and other documents necessary to perform the Liquidation Trustee's duties under the Combined Plan and Disclosure Statement and Liquidating Trust Agreement; and (xviii) after the Estates are fully administered, to bring a motion for a final decree closing the Chapter 11 Cases. Except as otherwise set forth in the Combined Plan and Disclosure Statement or Liquidating Trust Agreement, the Liquidation Trustee may take any and all actions that it deems reasonably necessary or appropriate to defend against any Claim, including, without limitation, the right to: (a) exercise any and all judgment and discretion with respect to the manner in which to prosecute or settle a Cause of Action or defend against or settle any Claim,

¹² The Liquidation Trustee shall be under no obligation to so invest such Cash or proceeds and shall have no liability to any party for any investment made or any omission to invest such Cash, other property or proceeds.

including, without limitation, the retention of professionals, experts and consultants; and (b) enter into any settlement agreement in good faith. While the Liquidation Trustee is granted standing to pursue the Type A Causes of Action and the Type B Causes of Action, this and the foregoing duties and powers of the Liquidation Trustee are subject in all respects to the rights of the Prepetition Term Loan Agent to consent to the Liquidation Trustee's conduct with regard to the Type A Causes of Action, and the rights of the Committee's appointee to the Oversight Board to consent to the Liquidation Trustee's conduct with regard to the Type B Causes of Action.

3. Effectuating Documents and Further Transactions. All documents, agreements and instruments entered into and delivered on or as of the Effective Date contemplated by or in furtherance of the Combined Plan and Disclosure Statement, Plan Supplement, the Confirmation Order and any other agreement or document related to or entered into in connection with the Combined Plan and Disclosure Statement, shall become, and shall remain, effective and binding in accordance with their respective terms and conditions upon the parties thereto, in each case without further notice or Order of the Bankruptcy Court, act or action under applicable law, regulation, order or rule or the vote, consent, authorization or approval of any Person (other than as expressly required by such applicable agreement). The Debtors or Liquidation Trustee, as applicable, may, and all Holders of Allowed Claims receiving Distributions pursuant to this Combined Plan and Disclosure Statement, at the request or direction of the Debtors or Liquidation Trustee, as applicable, shall, from time to time, prepare, execute, and deliver any agreements or documents, and take any other actions as may be necessary or advisable to effectuate the provisions and intent of this Combined Plan and Disclosure Statement.

4. Liquidation Trustee Compensation. The Liquidation Trustee shall receive reasonable compensation from the Liquidation Trust Funding Amount B and from the proceeds of the Causes of Action for services rendered pursuant to the Combined Plan and Disclosure Statement without further Court Order on such terms and conditions as shall be set forth in the Liquidating Trust Agreement to be negotiated with the Prepetition Term Loan Agent and the Committee and filed with the Bankruptcy Court as part of the Plan Supplement.

5. Accounting and Reporting. The Liquidation Trustee shall maintain an accounting of receipts and disbursements. After the Effective Date, the Liquidation Trustee shall serve the UST with, and shall file with the Bankruptcy Court, a quarterly financial report for each quarter (or portion thereof) that the Chapter 11 Cases remain open, as well as a final financial report after the Bankruptcy Court enters a final decree closing each of the Chapter 11 Cases.

6. Termination of the Liquidation Trust and Liquidation Trustee. The Liquidation Trust and Liquidation Trustee shall be terminated upon the earlier of (i) the three (3) year anniversary of the Effective Date, or (ii) the entry by the Bankruptcy Court of a final decree closing each of the Chapter 11 Cases and submission by the Liquidation Trustee of the final financial report to the Bankruptcy Court, except the Liquidation Trust may be extended to the extent the litigation, of any Causes of Action, is ongoing. On or prior to the date of termination of the Liquidation Trust, the Bankruptcy Court, upon motion the Liquidation Trustee, may extend the term of the Liquidation Trust for cause shown. Upon termination of the Liquidation Trust, or as soon as practicable thereafter, the balance of any Cash and other property of the Liquidation Trust shall be given to Charity.

7. The Liquidation Trustee may resign at any time by giving the Oversight Board at least 30 days' written notice of the Liquidation Trustee's intention to do so, in which case the

resignation shall be effective on the 30th day following issuance of such notice or such other date agreed to by the Liquidation Trustee and Oversight Board. In the event of a resignation, the resigning Liquidation Trustee shall render to the Oversight Board an accounting of monies and assets received, disbursed, and held during the term of office of the resigning Liquidation Trustee. In the event of a resignation of the Liquidation Trustee, the resigning Liquidation Trustee shall be entitled to payment of all compensation earned by the Liquidation Trustee through and including the effective date of such resignation.

8. Limitation on Liability. No recourse shall ever be had, directly or indirectly, against the Liquidation Trustee or its officers, directors, agents, employees, attorneys, advisors or other Professionals by legal or equitable proceedings or by virtue of any statute or otherwise, or any deed of trust, mortgage, pledge, or note, or upon any promise, contract, instrument, undertaking, obligation, covenant or agreement whatsoever executed by the Liquidation Trustee under the Combined Plan and Disclosure Statement or by reason of the creation of any indebtedness by the Liquidation Trustee under the Combined Plan and Disclosure Statement for any purpose authorized by the Combined Plan and Disclosure Statement. All such liabilities, covenants, and agreements of the Liquidation Trustee, its respective officers, directors, agents, employees, attorneys, advisors, or other Professionals, whether in writing or otherwise, under the Combined Plan and Disclosure Statement shall be enforceable, if at all, only against, and shall be satisfied only out of, the Remaining Assets. Every undertaking, contract, covenant or agreement entered into in writing by the Liquidation Trustee shall provide expressly against the personal liability of the Liquidation Trustee. The Liquidation Trustee and its officers, directors, agents, employees, attorneys, advisors and other Professionals shall not be liable for any act they may do, or omit to do hereunder in good faith and in the exercise of their respective best judgment,

and the fact that such act or omission was advised, directed or approved by an attorney acting as counsel for the Liquidation Trustee shall be conclusive evidence of such good faith and best judgment; *provided, however*, that this Section VIII(B) shall not apply to any bad faith, fraud, gross negligence, or willful misconduct by the Liquidation Trustee or its officers, directors, agents, employees, attorneys, advisors or other Professionals.

9. Reliance on Documents. The Liquidation Trustee may rely, and shall be protected in acting or refraining from acting, upon any certificates, opinions, statements, instruments or reports believed by it to be genuine and to have been signed or presented by the proper entity, including, without limitation, claims lists and data provided to the Liquidation Trustee by the Claims and Balloting Agent, the Debtors, or the Debtors' financial advisor, upon which the Liquidation Trustee shall base Distributions.

C. Oversight Board

1. Appointment. The Oversight Board's membership shall consist of one Person appointed by the Committee and two Persons appointed by the Prepetition Term Loan Agent no later than ten (10) calendar days prior to the Voting Deadline. On or before the Effective Date, the Debtors shall file in the Chapter 11 Cases a notice identifying the initial members of the Oversight Board, and stating that any party may obtain a copy of such notice by contacting wlancaster@mwe.com or (212) 547-5511.

2. Termination. The Oversight Board shall continue in existence until such time as the Liquidation Trust is terminated or its member(s) unanimously elect to cause the Oversight Board's dissolution.

3. Oversight Board Duties and Powers. The Oversight Board shall represent the interests of Holders of Allowed General Unsecured Claims and Allowed Prepetition Term Loan

Claims during the existence of the Liquidation Trust and shall have the obligation to undertake in good faith each of the acts and the responsibilities set forth for the Oversight Board in this Combined Plan and Disclosure Statement to:

- (a) Terminate by unanimous vote the Liquidation Trustee for cause or upon resignation, death, incapacity or removal of the Liquidation Trustee, with the agreement of the Prepetition Term Loan Agent and the Committee, appoint a successor Liquidation Trustee; *provided*, that the Oversight Board shall file with the Bankruptcy Court a notice of the appointment of such successor;
- (b) Approve the sale of any Remaining Assets;
- (c) Receive and review any report detailing the means by which the Liquidation Trustee invests and/or insures the Remaining Assets pending final Distribution; and
- (d) Approve any and all actions of the Liquidation Trustee, as detailed in the Liquidation Trust Agreement.

4. Voting Rights. The Oversight Board shall create such by-laws (if any) as it deems necessary or convenient.

5. Reporting Rights. The Liquidation Trustee shall report to the Oversight Board at such period as agreed to by the Oversight Board and the Liquidation Trustee, as to the status of all Distributions, material litigation, investment/insurance of Remaining Assets, Claims objections, and all other material matters affecting the Allowed General Unsecured Claims and Prepetition Term Loan Deficiency Claims. The Liquidation Trustee shall also host a monthly call with the Oversight Board, and all Prepetition Term Loan Lenders will be invited onto such call.

D. Causes of Action.

1. Preservation of Causes of Action. In accordance with section 1123(b) of the Bankruptcy Code or any corresponding provision of federal or state laws, and except as otherwise provided in the Combined Plan and Disclosure Statement or the Confirmation Order, on and after the Effective Date, all Remaining Assets shall be transferred to the Liquidation Trust, and the Liquidation Trustee may, in accordance with this Combined Plan and Disclosure Statement, enforce, sue on, settle, or compromise (or decline to do any of the foregoing) any or all of such Remaining Assets. The preservation for the Liquidating Trust of any and all rights to conduct investigations pursuant to Bankruptcy Rule 2004 is necessary and relevant to the liquidation and administration of the Liquidating Trust. Accordingly, any and all rights to conduct investigations pursuant to Bankruptcy Rule 2004 held by the Debtors and the Committee prior to the Effective Date, shall vest with the Liquidating Trust and shall continue until dissolution of the Liquidating Trust. Subject to Section XI.C of the Combined Plan and Disclosure Statement, these preserved Causes of Action include, but are not limited to, (i) the potential Causes of Action related to the South Carolina Action; (ii) any potential Causes of Action that may result from the Committee's investigation of the Wellspring Defendants; (iii) any Causes of Action resulting from the yet-undiscovered conduct of the Debtors', their managers, directors, and shareholders; (iv) any Causes of Action that may result from financial transactions that may have resulted in the improper taking of value out of the Debtors' estates; and (v) any other potential Causes of Action that likely exist, but have yet to be identified, due to the Committee's ongoing investigation.

a. *Type A Causes of Action.* The Remaining Assets to be transferred to the Liquidation Trust on the Effective Date include the following, subject to Section XI.C of the

Combined Plan and Disclosure Statement, “Type A Causes of Action”: The First, Second and Fifth Causes of Action, and those aspects of the Sixth Cause of Action that arise from the First, Second and Fifth Causes of Action, filed by Prepetition Term Loan Agent (collectively, the “Prospect Claims”) in a pending lawsuit filed in the Court of Common Pleas for the County of Lexington, South Carolina captioned *Prospect Capital Corp. v. Wellspring Capital Management LLC, et al.*, Civil Action No. 2019-CP-32-02045 (the “South Carolina Action”) against (i) Wellspring Capital Management LLC, Wellspring Capital Partners IV, L.P., WCM GenPar IV, L.P., and WCM GenPar IV GP, LLC (collectively, “Wellspring”), (ii) Alexander E. Carles, William F. Dawson, Jr., and John E. Morningstar (collectively with Wellspring, the “Wellspring Defendants”), and (iii) Bradley Johnson, F. Hewitt Grant, Charles E. Walker, Jr., Todd Boehly, Bernard Ziomek, Andrew Kupchik, and John Does One through One Hundred, along with (x) any cause of action that seeks any of the damages arising from any of the Prospect Claims and (y) any direct cause of action possessed by the Prepetition Term Loan Agent (together, the “Type A Causes of Action”), with the proceeds to be shared as set forth herein.

The Prepetition Term Loan Agent shall have sole discretion over the conduct of the litigation of any and all Type A Causes of Action, including, but not limited to, with respect to the choice and funding of counsel and expenses. The Liquidation Trustee shall consult with the two Persons appointed by the Prepetition Term Loan Agent to the Oversight Board in connection with all aspects of the Type A Causes of Action.

The Prepetition Term Loan Agent shall amend the South Carolina Complaint to dismiss without prejudice all causes of action that are not Type A Causes of Action, after consultation with the Liquidation Trustee. After consultation with the Liquidation Trustee, the Prepetition

Term Loan Agent intends to substitute, or add, the Liquidation Trustee as the, or an additional, named plaintiff with respect to the Type A Causes of Action, and such substitution or addition shall have no effect on this Section VIII D.1.a. as a whole, Section VIII D.1.b. below, and Section VII A.4.c(i)-(ii) above. The provisions in this Section VIII D.1.a as a whole, Section VIII D.1.b. below, and Section VII A.4.c(i)-(ii) above shall be unaffected by any stay, removal, remand, transfer (by any mechanism whatsoever, including but not limited to an order granting a motion to transfer or a dismissal without prejudice to refile in a different jurisdiction), or appeal of any of the Type A Causes of Action.

In the event that the Type A Causes of Action are transferred to the Bankruptcy Court and consolidated, in any manner with the Type B Causes of Action (*e.g.*, for discovery only and/or trial), counsel for both matters shall negotiate and enter into joint prosecution agreement whereby counsel responsible for prosecuting the Type B Causes of Action shall be designated lead counsel. The Prepetition Term Loan Agent shall maintain day-to-day authority and control over the Type A Causes of Action.

The Type A Causes of Action shall be unaffected by any stay, removal, remand, transfer (by any mechanism whatsoever, including but not limited to an order granting a motion to transfer or a dismissal without prejudice to refile in a different jurisdiction), or appeal of any of the Type A Causes of Action.

b. *Type B Causes of Action.* The Remaining Assets to be transferred to the Liquidation Trust on the Effective Date include the following “Type B Causes of Action”: All Causes of Action preserved and not released under this Combined Plan and Disclosure Statement aside from the Type A Causes of Action, including, but expressly not limited to, Causes of Action against the Debtors’ current and former directors, officers and/or managers, any third-

party, and claims against Insiders (as defined in the Bankruptcy Code), Avoidance Actions or otherwise shall collectively be referred to as the “Type B Causes of Action”, with the proceeds to be shared as detailed in Section VIII.A.4.c.ii (Type B Causes of Action Recoveries) of the Combined Plan and Disclosure Statement.

The Committee’s appointee to the Oversight Board shall have sole discretion over the conduct of the litigation of any and all Type B Causes of Action, including, but not limited to, with respect to the choice of counsel, except that with respect to the funding of counsel and expenses, the definition of “Liquidation Trust Funding Amount B” and Section VIII. A.5 of the Combined Plan and Disclosure Statement shall apply. For the avoidance of doubt, the Liquidation Trust Agreement shall vest all power to consent to the Liquidation Trustee’s conduct in the Type B Causes of Action (including the settlement thereof) in the Committee’s appointee to the Oversight Board. The Liquidation Trustee shall consult with the Person appointed by the Committee to the Oversight Board in connection with all aspects of the Type B Causes of Action.

The Liquidation Trust Funding Amount B shall be used solely (i) to fund the litigation by the Liquidation Trustee of the Type B Causes of Action, and (ii) by the Liquidation Trustee to conduct daily trust business (*i.e.*, claims reconciliation, reporting, etc.).

In the event a dispute arises over whether a claim or cause of action is a Type A Cause of Action or Type B Cause of Action, counsel for the Type A Causes of Action and the Type B Causes of Action shall meet and confer and attempt to resolve the dispute. If a resolution cannot be reached, the dispute shall be presented to, and resolved by, the Oversight Board.

2. No Waiver. Except as otherwise explicitly provided in this Combined Plan and Disclosure Statement, nothing in the Combined Plan and Disclosure Statement shall be deemed

to be a waiver or relinquishment of any Claim, Cause of Action, account receivable, right of setoff, or other legal or equitable right or defense that the Estates may have or choose to assert on behalf of the Debtors or their respective Estates under any provision of the Bankruptcy Code or any applicable nonbankruptcy law. No entity may rely on the absence of a specific reference in the Combined Plan and Disclosure Statement to any Cause of Action or account receivable against it as an indication that the Liquidation Trustee will not pursue any and all available Causes of Action or accounts receivable against it, and all such rights to prosecute or pursue any and all Causes of Action or accounts receivable against any entity are expressly reserved for later adjudication and, therefore, no preclusion doctrine, including, without limitation, the doctrines of res judicata, collateral estoppel, estoppel (judicial, equitable or otherwise) or laches, shall apply to such Causes of Action or accounts receivable upon or after the confirmation or consummation of the Combined Plan and Disclosure Statement. The Debtors intend to preserve, and expressly reserve, all Causes of Action, rights, and remedies, if any, the Debtors may have against any and all Persons for the benefit of their Estates and Creditors.

3. Authority to Act. Prior to, on, or after the Effective Date, as applicable, all matters expressly provided for under the Combined Plan and Disclosure Statement that would otherwise require approval of the stockholders, equity security holders, officers, directors, partners, managers, members, or other owners of one or more of the Debtors shall be deemed to have occurred and shall be in effect prior to, on, or after the Effective Date, as applicable, pursuant to applicable laws, without any requirement of further vote, consent, approval, authorization or other action by such stockholders, equity security holders, officers, directors, partners, managers, members or other owners of such entities or notice to, order of or hearing before the Bankruptcy Court.

IX.

**PROVISIONS GOVERNING DISTRIBUTIONS UNDER
THE COMBINED PLAN AND DISCLOSURE STATEMENT**

A. Method of Payment.

Unless otherwise expressly agreed, in writing, all Cash payments to be made pursuant to the Combined Plan and Disclosure Statement shall be made by check drawn on a domestic bank, an electronic wire, or ACH transfer.

B. Objections to and Resolution of Claims.

The Liquidation Trustee shall have the right to file objections to Claims after the Effective Date. All objections shall be litigated to entry of a Final Order; *provided, however*, that only the Liquidation Trustee shall have the authority to compromise, settle, otherwise resolve or withdraw any objections, without approval of the Bankruptcy Court.

C. Claims Objection Deadline.

The Liquidation Trustee, and any other party in interest to the extent permitted pursuant to section 502(a) of the Bankruptcy Code, shall file and serve any objection to any Claims no later than the Claims Objection Deadline; *provided, however*, the Claims Objection Deadline may be extended by the Bankruptcy Court from time to time upon notice of motion by the Liquidation Trustee for cause.

D. No Distribution Pending Allowance.

Notwithstanding any other provision of the Combined Plan and Disclosure Statement, no payment or Distribution of Cash or other property shall be made with respect to any portion of a Disputed Claim unless and until all objections to such Claim are resolved by Final Order or as otherwise permitted by this Combined Plan and Disclosure Statement.

E. Escrow of Cash Distributions.

On any date that Distributions are to be made under the terms of the Combined Plan and Disclosure Statement, the Liquidation Trustee shall deposit in one or more segregated accounts, Cash or property equal to 100% of the Cash or property that would otherwise be distributed on such date on account of Disputed Claims as if each such Disputed Claim were an Allowed Claim, but for the pendency of a dispute with respect thereto. The Liquidation Trustee shall also segregate any interest, dividends or proceeds of such Cash. Such Cash, together with any interest, dividends or proceeds thereof, shall be held in trust for the benefit of the Holders of all such Disputed Claims pending determination of their entitlement thereto.

F. Distribution After Allowance.

Except as otherwise provided herein, within the earlier of (i) seven (7) Business Days after a Claim becomes an Allowed Claim, and (ii) thirty (30) days after the expiration of the Claims Objection Deadline, the Liquidation Trustee shall distribute all Cash or other property, including any interest, dividends or proceeds thereof, to which a Holder of an Allowed Claim is then entitled.

G. Investment of Segregated Cash and Property.

To the extent practicable, the Liquidation Trustee may invest any Cash or other property segregated on account of a Disputed Claim, undeliverable distribution, or any proceeds thereof in any Permitted Investment; *provided, however*, that the Liquidation Trustee shall be under no obligation to so invest such Cash or proceeds and shall have no liability to any party for any investment made or any omission to invest such Cash, other property or proceeds.

H. Delivery of Distributions.

Except as provided herein, Distributions to Holders of Allowed Claims shall be made: (1) at the addresses set forth on the respective proofs of claim Filed by such holders; (2) at the addresses set forth in any written notices of address changes delivered to the Liquidation Trustee after the date of any related Proof of Claim; or (3) at the address reflected in the Schedules if no Proof of Claim is filed and the Liquidation Trustee has not received a written notice of a change of address. The Liquidation Trustee shall be entitled to conclusively rely on the Distribution Matrix for purposes of making Distributions.

1. Undeliverable Distributions. If the Distribution to the Holder of any Claim is returned to the Liquidation Trustee as undeliverable, no further distribution shall be made to such holder unless and until the Liquidation Trustee is notified in writing of such Holder's then current address. Undeliverable Distributions shall remain in the possession of the Liquidation Trustee until the earlier of (i) such time as a Distribution becomes deliverable, or (ii) such undeliverable Distribution becomes an Unclaimed Distribution.

2. Until such time as an undeliverable Distribution becomes an Unclaimed Distribution, within 30 days after the end of each calendar quarter following the Effective Date, or upon such other interval as the Bankruptcy Court may order, but in no event less frequently than annually, the Liquidation Trustee shall make distributions of all Cash and property that has become deliverable during the preceding quarter. Each such Distribution shall include the net return yielded from the investment of any undeliverable Cash, from the date such Distribution would have been due had it then been deliverable to the date that such Distribution becomes deliverable.

3. The Liquidation Trustee shall make reasonable efforts to update or correct contact information for recipients of undeliverable Distributions, *provided, however*, nothing contained in the Combined Plan and Disclosure Statement shall require the Liquidation Trustee to locate any Holder or an Allowed Claim.

I. Unclaimed Distributions.

Any Cash or other property to be distributed under the Combined Plan and Disclosure Statement shall revert to the Liquidation Trustee if it is not claimed by the Entity on or before the Unclaimed Distribution Deadline, without any further motion or court order. If such Cash or other property is not claimed on or before the Unclaimed Distribution Deadline, the Distribution made to such Entity shall be deemed to be reduced to zero. Any Unclaimed Distributions to Holders of General Unsecured Claims shall be donated to Charity if the amount of the Unclaimed Distribution exceeds the cost of effectuating another Distribution.

J. Set-Off.

The Debtors and/or Liquidation Trustee, as applicable, retain the right to reduce any Claim by way of setoff in accordance with the Debtors' books and records and in accordance with the Bankruptcy Code.

K. Minimum Distributions.

Notwithstanding anything herein to the contrary, the Liquidation Trustee shall not be required to make Distributions or payments of less than \$50.00.

X.

**IMPLEMENTATION AND EFFECT OF CONFIRMATION
OF COMBINED PLAN AND DISCLOSURE STATEMENT**

A. Means for Implementation of the Combined Plan and Disclosure Statement.

In addition to the provisions set forth elsewhere in the Combined Plan and Disclosure Statement, the following shall constitute the means for implementation of the Combined Plan and Disclosure Statement:

1. Limited Substantive Consolidation. This Combined Plan and Disclosure Statement provides for the limited substantive consolidation of the Debtors' Estates, but solely for the purposes of this Combined Plan and Disclosure Statement, including voting on this Combined Plan and Disclosure Statement by the Holders of Claims and making any Distributions to Holders of Claims. On the Effective Date: (i) all assets and liabilities of the Debtors will, solely for voting and Distribution purposes, be treated as if they were merged, (ii) each Claim against the Debtors will be deemed a single Claim against, and a single obligation of, the Debtors, (iii) any Claims filed or to be filed in the Chapter 11 Cases will be deemed single Claims against all of the Debtors, (iv) all guarantees of any Debtor of the payment, performance, or collection of obligations of any other Debtor shall be eliminated and canceled, (v) all transfers, disbursements and Distributions on account of Claims made by or on behalf of any of the Debtors' Estates hereunder will be deemed to be made by or on behalf of all of the Debtors' Estates, and (vi) any obligation of the Debtors as to Claims will be deemed to be one obligation of all of the Debtors. Holders of Allowed Claims entitled to Distributions under this Combined Plan and Disclosure Statement shall be entitled to their share of assets available for Distribution to such Claim without regard to which Debtor was originally liable for such Claim. Except as set forth herein, such limited substantive consolidation shall not (other than for purposes related to

this Combined Plan and Disclosure Statement) affect the legal and corporate structures of the Debtors.

The Debtors propose limited substantive consolidation as described herein for a number of reasons. Prepetition, the Prepetition Term Loan Lenders obtained a blanket lien on substantially all of the assets of the Prepetition Borrowers, including the Prepetition Borrowers' accounts receivable, inventory, cash collateral, and real estate, all as set forth in greater detail in the Prepetition Term Loan Agreement and related documents. The Prepetition Term Loan Obligations are guaranteed by SportCo and United Sporting Cos., both of which are holding companies with no business operations, and whose only assets are equity interests in the other Debtors (which interests, pursuant to this Combined Plan and Disclosure Statement, will receive no recovery and have no value).

Prior to the Petition Date, the Prepetition Term Loan Lenders extended credit to the Debtors as consolidated entities. For example, under the Prepetition Term Loan Agreement, the Prepetition Term Loan Lenders received combined financial reports from the Debtors and calculated covenant compliance based on the assets and liabilities of all of the Debtor entities. The restrictions imposed on the Prepetition Borrowers by the Prepetition Term Loan Agreement (for example, restrictions on the ability to incur additional indebtedness, make certain payments, and sell certain assets) indicate that the Prepetition Term Loan Lenders relied upon the collective identity of the Prepetition Borrowers and Prepetition Guarantors when extending credit. In addition, when the Debtors commenced the liquidation of their assets but prior to their bankruptcy filings, the Debtors commingled their inventory and the proceeds from the sale of such inventory.

Further, after the Petition Date, the Debtors have not maintained a separate accounting of assets and liabilities for each Debtor. The Debtors' inventory remained commingled, as did the proceeds from the sale of such inventory. This is because all proceeds of assets that have been liquidated are Cash Collateral of the Prepetition Term Loan Lenders. The Debtors have either used such Cash Collateral for operational and wind-down purposes consistent with the Approved Budget (including the payment of Professional fees and other administrative expenses, which were not allocated on a Debtor by Debtor basis), or have paid down the Prepetition Term Loan Lenders as required under the Final Cash Collateral Order. The Approved Budget pursuant to the Final Cash Collateral Order (and the interim debtor-in-possession financing and cash collateral order) was and continues to be a consolidated budget, reflecting cash flows and expenses on a consolidated basis. Separating the Debtors' assets and liabilities at this stage would be prohibitive and harm all of the Debtors' creditors.

Limited substantive consolidation will avoid the inefficiency of proposing and voting in respect of entity-specific Claims where there would be no impact on distributions. In fact, the Debtors, their Chief Restructuring Officer, the Prepetition Agent, and the Committee believe that creditors would receive less under separate plans than they stand to receive under the Combined Plan and Disclosure Statement because, among other things, the Combined Plan and Disclosure Statement provides for a recovery on account of General Unsecured Claims that Holders of such Claims would not otherwise stand to receive. Therefore, the Debtors believe that the benefits of substantive consolidation outweigh any harm suffered by creditors.

2. Funding of Liabilities and Distributions. On the date that is the earlier of the Effective Date and the date that such Claims become Allowed Claims, the Liquidation Trustee shall pay using Cash on Hand: (i) Allowed Administrative Expense Claims, including Allowed

Professional Claims up to the amounts set forth in the Approved Budget (*provided, however*, that the Debtors reserve their right to seek payment of such administrative and Debtors' Professional fees in excess of the budgeted amount in light of any unforeseen substantial circumstances, so long as such amounts are incurred after September 30, 2019 and do not exceed \$100,000 allocated solely to the Debtors' Professionals), (ii) Allowed Priority Tax Claims, (iii) Allowed Other Priority Claims, and (iv) Allowed Other Secured Claims. On and after the Effective Date, the Liquidation Trustee shall use the Remaining Assets to satisfy the wind-down costs of the Estates consistent with the Approved Budget and make Distributions to the Holders of Allowed Prepetition Term Loan Claims. The Liquidation Trust Funding Amount B shall be used solely (i) to fund the litigation by the Liquidation Trustee of the Type B Causes of Action, and (ii) by the Liquidation Trustee to conduct daily trust business (*i.e.*, claims reconciliation, reporting, etc.). One hundred percent (100%) of all outstanding Allowed section 503(b)(9) claims, if any, will be paid by the Debtors within 3 business days of the Effective Date. If any section 503(b)(9) claim is not allowed by the Effective Date, the Liquidation Trustee must, in good faith, file any objections to such section 503(b)(9) claim within 60 days after the Effective Date or the claim will be deemed allowed in the amount asserted by the creditor and paid by the Liquidation Trustee within 10 days of allowance. Additionally, intercompany claims between the Debtors will receive no distribution under the Plan.

3. Recoveries from the Type A Causes of Action and Type B Causes of Action shall be distributed by the Liquidation Trustee as follows:

- *Type A Cause of Action Recoveries:* The Prepetition Term Loan Agent and those Prepetition Term Loan Lenders which agree to fund the Type A Causes of Action shall receive 38% of the proceeds from the Type A Causes of Action (representing repayment of (i) the costs associated with the prosecution of the Type A Causes of Action, including, but not limited to contingency

fees, (ii) the general economic risk incurred in funding litigation, (iii) funding by the Prepetition Term Loan Agent of administrative and priority claims, (iv) the Effective Date waiver of the Allowed Prepetition Term Loan Diminution Claim, and (v) the Effective Date release of the Prepetition Term Loan Adequate Protection Liens), and the remaining 62% of such proceeds shall be distributed as follows: Holders of General Unsecured Claims shall be entitled to receive 15%, and the Prepetition Term Loan Lenders on account of their Allowed Prepetition Term Loan Deficiency Claims shall be entitled to receive 85%, of the remaining proceeds from the Type A Causes of Action. The Type A Cause of Action Recoveries shall be unaffected by any stay, removal, remand, transfer (by any mechanism whatsoever, including but not limited to an order granting a motion to transfer or a dismissal without prejudice to refile in a different jurisdiction), or appeal of any of the Type A Causes of Action.

- *Type B Causes of Action Recoveries:* After repayment of the Liquidation Trust Funding Amount B (plus any potential additional funding amounts in accordance with the Liquidating Trust Agreement) to the Prepetition Term Loan Agent and Prepetition Term Loan Lenders which agree to fund the Type B Causes of Action (in each case up to the amounts such Prepetition Term Loan Lender in fact participates in such funding whether out of the Cash on hand in the Debtors' estates constituting cash collateral of the Prepetition Term Loan Lenders or otherwise), and any additional professional fees, expenses, and any and all other related costs associated with the prosecution of the Type B Causes of Action, Holders of General Unsecured Claims shall be entitled to receive 30%, and the Prepetition Term Loan Deficiency Claims shall be entitled to receive 70%, of the proceeds from the Type B Causes of Action.

4. Professional Fee Escrow Account. In accordance with this Combined Plan and Disclosure Statement, on the Confirmation Date, the Debtors shall establish with Winter Harbor, LLC (the Debtors' restructuring advisory service provider) a Professional Fee Escrow Account and shall fund such Professional Fee Escrow Account with Cash on Hand, including from proceeds of the Remaining Assets, in an amount equal to the sum of the Professional Fee amounts set forth in the Approved Budget plus a conditional \$100,000 as provided for in Sections VI. B. and X. A.2. herein. The Professional Fee Escrow Account shall be maintained in

trust for the Professionals. Such funds shall not be considered property of the Debtors' Estates and shall not vest with the Liquidation Trustee/Liquidation Trust. The amount of Professional Claims owing to the Professionals shall be paid in Cash to such Professionals from funds held in the Professional Fee Escrow Account when such Claims are Allowed by a Final Order. When all Allowed Professional Claims are paid in full in Cash, amounts remaining in the Professional Fee Escrow Account, if any, shall revert to the Liquidation Trustee and constitute a Liquidation Trust asset subject to further disposition as provided for herein.

5. Corporate Action; Effectuating Documents; Further Transactions. On the Effective Date, all matters and actions provided for under the Combined Plan and Disclosure Statement that would otherwise require approval of the member or managers of the Debtors shall be deemed to have been authorized and effective in all respects as provided herein and shall be taken without any requirement for further action by the members and managers of the Debtors.

XI.

INJUNCTION, EXCULPATION, AND RELEASE

A. Injunction.

All injunctions or stays provided for in the Chapter 11 Cases under sections 105 or 362 of the Bankruptcy Code, or otherwise, and in existence on the Confirmation Date, shall remain in full force and effect until the Effective Date. Except as otherwise provided in the Combined Plan and Disclosure Statement or to the extent necessary to enforce the terms and conditions of the Combined Plan and Disclosure Statement, the Confirmation Order or a separate Order of the Bankruptcy Court, all entities who have held, hold or may hold Claims against, or Equity Interests in, the Debtors shall be permanently enjoined from taking any of the following actions against any property that is to be distributed under the terms of the Combined Plan and

Disclosure Statement on account of any such Claims or Equity Interests: (a) commencing or continuing, in any manner or in any place, any action or other proceeding; (b) enforcing, attaching, collecting, or recovering in any manner any judgment, award, decree or order; (c) creating, perfecting, or enforcing any lien or encumbrance; (d) asserting a setoff, right, or subrogation of any kind against any debt, liability or obligation due to the Debtors, unless such setoff was formally asserted in a timely Filed proof of Claim or in a pleading Filed with the Bankruptcy Court prior to entry of the Confirmation Order; and (e) commencing or continuing, in any manner or in any place, any action that does not comply with or is inconsistent with the provisions of the Combined Plan and Disclosure Statement; *provided, however*, that such entities shall not be precluded from exercising their rights pursuant to and consistent with the terms of the Combined Plan and Disclosure Statement or the Confirmation Order; *provided, further*, that the foregoing provisions of this Article XI.A shall not apply to any acts, omissions, claims, causes of action or other obligations expressly set forth in and preserved by this Combined Plan and Disclosure Statement or any defenses thereto.

B. Exculpation.

Except as otherwise specifically provided in this Combined Plan and Disclosure Statement, the Exculpated Parties and any of such parties' successors and assigns, solely in their capacities as such, shall not have or incur any liability to any holder of a Claim or Equity Interest for any act or omission in connection with, related to, or arising out of, the Chapter 11 Cases, the pursuit of confirmation of the Combined Plan and Disclosure Statement, the consummation of the Combined Plan and Disclosure Statement or the administration of the Combined Plan and Disclosure Statement or the property to be liquidated and/or distributed under the Combined Plan and Disclosure Statement, except for their willful misconduct or gross negligence as determined

by a Final Order of a court of competent jurisdiction, and in all respects shall be entitled to rely upon the advice of counsel with respect to their duties and responsibilities under the Combined Plan and Disclosure Statement.

The foregoing paragraph shall apply to attorneys only to the extent permissible under applicable bar rules and applicable case law.

C. Release By Debtors.

AS OF THE EFFECTIVE DATE, THE DEBTORS AND DEBTORS IN POSSESSION, ON BEHALF OF THEMSELVES AND THEIR ESTATES, SHALL BE DEEMED TO FOREVER RELEASE, WAIVE AND DISCHARGE AS AGAINST THE PREPETITION TERM LOAN AGENT AND THE PREPETITION TERM LOAN LENDERS ALL CLAIMS, OBLIGATIONS, SUITS, JUDGMENTS, DAMAGES, DEMANDS, DEBTS, RIGHTS, CAUSES OF ACTION AND LIABILITIES (OTHER THAN THE RIGHTS OF THE PLAN DEBTOR TO ENFORCE THE PLAN) THAT ARE BASED ON ANY ACT, OMISSION, TRANSACTION, EVENT OR OTHER OCCURRENCE TAKING PLACE ON OR PRIOR TO THE EFFECTIVE DATE IN ANY WAY RELATING TO THE DEBTORS, THE CHAPTER 11 CASES, THE PLAN OR THE DISCLOSURE STATEMENT, AND THAT COULD HAVE BEEN ASSERTED BY OR ON BEHALF OF THE DEBTORS OR THEIR ESTATES IN ANY CAPACITY.

XII.

EXECUTORY CONTRACTS

A. Rejection of Executory Contracts.

On the Effective Date, all Executory Contracts not assumed before the Confirmation Date will be deemed rejected. For the avoidance of doubt, the Debtors shall assume Executory

Contracts, if any, relevant to the preservation of data necessary for the Liquidation Trustee to perform his duties under the Liquidation Trust Agreement. The Confirmation Order shall constitute an Order approving such rejections in this Section XII.A. The Debtors believe that all Claims arising from the rejection of Executory Contracts should be treated as General Unsecured Claims under the Combined Plan and Disclosure Statement. The rights of all parties with respect to the classification of such Claims are reserved. For the avoidance of doubt, the Debtors shall assume all of their Insurance Policies.

Unless otherwise specified, each Executory Contract assumed or rejected by the Debtors shall include any and all modifications, amendments, supplements, restatements, or other agreements made directly or indirectly by any agreement, instrument, or other document that in any manner affects such Executory Contract.

B. Deadline for Filing Proofs of Claim Relating to Executory Contracts Rejected Pursuant to the Combined Plan and Disclosure Statement.

If the rejection by the Debtors, pursuant to the Combined Plan and Disclosure Statement or otherwise, of an Executory Contract gives rise to a Claim, a Proof of Claim must be filed with the Claims and Balloting Agent on or before the deadline for filing proofs of Claim, once such a deadline is established by the Court.

XIII.

CONDITIONS TO THE EFFECTIVE DATE

A. Conditions Precedent to the Effective Date.

The Combined Plan and Disclosure Statement shall not become effective unless and until the following conditions shall have been satisfied or waived:

1. The Confirmation Order shall have become a Final Order.

2. All actions, documents, and agreements necessary to implement this Combined Plan and Disclosure Statement, including, without limitation, all actions, documents, and agreements necessary to implement any actions or transactions contemplated under this Combined Plan and Disclosure Statement, including the Liquidating Trust Agreement, shall have been effected or executed.

3. The Liquidation Trustee and the Oversight Board shall be duly appointed, qualified and acting in their respective capacities.

4. The Professional Fee Escrow Account shall be fully funded.

B. Effect of Failure of Conditions.

If each condition to the Effective Date has not been satisfied or duly waived by the Debtors within forty-five (45) days after the Confirmation Date, *provided, however*, the Debtors shall provide written notice to the Committee and the Prepetition Term Loan Agent of any such waiver and an opportunity to consent, which consent shall not be unreasonably withheld, then upon motion by any party in interest, made before the time that each of the conditions has been satisfied or duly waived and upon notice to such parties in interest as the Bankruptcy Court may direct, the Confirmation Order may be vacated by the Bankruptcy Court; *provided further, however*, that notwithstanding the filing of such motion, the Confirmation Order shall not be vacated if each of the conditions to the Effective Date is either satisfied or duly waived by the Debtors before the any Order granting such relief becomes a Final Order. If the Confirmation Order is vacated pursuant to this Section, the Combined Plan and Disclosure Statement shall be deemed null and void in all respects and nothing contained herein shall (A) constitute a waiver or release any Claims by or against the Debtors, or (B) prejudice in any manner the Debtors' rights.

C. Waiver of Conditions to Confirmation and Effective Date.

Each of the conditions to the Effective Date may be waived, in whole or in part, by the Debtors, without notice or an Order of the Bankruptcy Court, *provided, however*, the Debtors shall provide written notice to the Committee and the Prepetition Term Loan Agent of any such waiver and an opportunity to consent, which consent shall not be unreasonably withheld.

XIV.

RETENTION OF JURISDICTION

The Bankruptcy Court shall have exclusive jurisdiction of all matters arising out of, and related to, the Chapter 11 Cases and the Combined Plan and Disclosure Statement pursuant to, and for the purposes of, sections 105(a) and 1142 of the Bankruptcy Code and for, among other things, the following purposes:

1. To hear and determine any objections to Claims and to address any issues relating to Disputed Claims;
2. To enter and implement such Orders as may be appropriate in the event the Confirmation Order is for any reason stayed, revoked, modified or vacated;
3. To issue such Orders in aid of execution and consummation of the Combined Plan and Disclosure Statement, to the extent authorized by section 1142 of the Bankruptcy Code;
4. To consider any amendments to, or modifications of, the Combined Plan and Disclosure Statement, to cure any defect or omission, or reconcile any inconsistency in any Order of the Bankruptcy Court, including, without limitation, the Confirmation Order;

5. To hear and determine all requests for compensation and reimbursement of expenses to the extent Allowed by the Bankruptcy Court under section 330 or 503 of the Bankruptcy Code;

6. To hear and determine disputes arising in connection with the interpretation, implementation or enforcement of the Combined Plan and Disclosure Statement;

7. To hear and determine matters concerning state, local and federal taxes in accordance with sections 346, 505 and 1146 of the Bankruptcy Code;

8. To hear any other matter not inconsistent with the Bankruptcy Code;

9. To enter a final decree closing the Chapter 11 Cases;

10. To ensure that Distributions to Holders of Allowed Claims are accomplished pursuant to the provisions of the Combined Plan and Disclosure Statement;

11. To decide or resolve any motions, adversary proceedings, contested or litigated matters and any other matters and grant or deny any applications involving the Debtors that may be pending in the Bankruptcy Court on the Effective Date or filed prior to the Effective Date, *provided, however*, that nothing in this Paragraph or Combined Plan and Disclosure Statement shall be deemed to confer jurisdiction with respect to any Type A Cause of Action;

12. To issue injunctions, enter and implement other Orders or take such other actions as may be necessary or appropriate to restrain interference by any Person or Entity with the occurrence of the Effective Date or enforcement of the Combined Plan and Disclosure Statement, except as otherwise provided herein;

13. To determine any other matters that may arise in connection with or related to the Combined Plan and Disclosure Statement, the Confirmation Order or any contract,

instrument, release, indenture or other agreement or document created or implemented in connection with the Combined Plan and Disclosure Statement;

14. To enforce, interpret, and determine any disputes arising in connection with any stipulations, orders, judgments, injunctions, exculpations, and rulings entered in connection with the Chapter 11 Cases (whether or not the Chapter 11 Cases have been closed);

15. To resolve disputes concerning any reserves with respect to Disputed Claims or the administration thereof;

16. To resolve any disputes concerning whether a Person or Entity had sufficient notice of the Chapter 11 Cases, the Bar Date, the hearing on the confirmation of the Combined Plan and Disclosure Statement for the purpose of determining whether a Claim, or Equity Interest is discharged hereunder or for any other purpose; and

17. To resolve any other matter or for any purpose specified in this Combined Plan and Disclosure Statement, the Plan Confirmation Order, the Liquidating Trust Agreement, or any other document entered into in connection with any of the foregoing.

XV.

MISCELLANEOUS PROVISIONS

A. Amendment or Modification of the Combined Plan and Disclosure Statement.

Alterations, amendments or modifications of the Combined Plan and Disclosure Statement may be proposed in writing by the Debtors, at any time before the Confirmation Date, *provided that* the Combined Plan and Disclosure Statement, as altered, amended or modified, satisfies the conditions of sections 1122 and 1123 of the Bankruptcy Code, *provided also that* the Debtors have the prior written consent of the Prepetition Term Loan Agent and the Committee, and the Debtors shall have complied with section 1125 of the Bankruptcy Code. The Debtors

shall not propose any material modifications to the Combined Plan and Disclosure Statement without consent of the Prepetition Term Loan Agent and the Committee.

B. Severability.

In the event the Bankruptcy Court determines, before the Confirmation Date, that any provision in the Combined Plan and Disclosure Statement is invalid, void or unenforceable, such provision shall be invalid, void or unenforceable with respect to the Holder or Holders of such Claims or Equity Interest as to which the provision is determined to be invalid, void or unenforceable. The invalidity, voidability or unenforceability of any such provision shall in no way limit or affect the enforceability and operative effect of any other provision of the Combined Plan and Disclosure Statement.

C. Revocation or Withdrawal of the Combined Plan and Disclosure Statement.

The Debtors reserve the right to revoke or withdraw the Combined Plan and Disclosure Statement before the Confirmation Date. If the Debtors revoke or withdraw the Combined Plan and Disclosure Statement before the Confirmation Date, then the Combined Plan and Disclosure Statement shall be deemed null and void. In such event, nothing contained herein shall constitute or be deemed a waiver or release of any Claims by or against the Debtors or to prejudice in any manner the rights of either of the Debtors, or any Holders of Claims in any further proceedings involving the Debtors.

D. Binding Effect.

The Combined Plan and Disclosure Statement shall be binding upon and inure to the benefit of the Debtors, the Holders of Claims, and the Holders of Equity Interests, and their respective successors and assigns.

E. Notices.

All notices, requests and demands to or upon the Liquidation Trustee to be effective shall be in writing and, unless otherwise expressly provided herein, shall be deemed to have been duly given or made when actually delivered or, in the case of notice by facsimile transmission, when received and telephonically confirmed, as shall be set forth in the Confirmation Order.

F. Governing Law.

Except to the extent the Bankruptcy Code, Bankruptcy Rules or other federal law is applicable, or to the extent an exhibit to the Combined Plan and Disclosure Statement provides otherwise, the rights and obligations arising under the Combined Plan and Disclosure Statement shall be governed by, and construed and enforced in accordance with, the laws of the State of Delaware, without giving effect to the principles of conflicts of law of such jurisdiction.

G. Withholding and Reporting Requirements.

In connection with the consummation of the Combined Plan and Disclosure Statement, the Debtors and Liquidation Trustee shall comply with all withholding and reporting requirements imposed by any federal, state, local or foreign taxing authority and all distributions hereunder shall be subject to any such withholding and reporting requirements. All Beneficiaries, as a condition to receiving any distribution, shall provide the Liquidation Trustee with a completed and executed tax form W-8 or Tax Form W-9, or similar form.

H. Allocation of Distributions between Principal and Interest.

To the extent that any Allowed Claim entitled to a Distribution under the Combined Plan and Disclosure Statement is comprised of indebtedness and accrued but unpaid interest thereon, such Distribution shall be allocated to the principal amount of the Claim first and then, to the

extent the consideration exceeds the principal amount of the Claim, to accrued but unpaid interest.

I. Headings.

Headings are used in the Combined Plan and Disclosure Statement for convenience and reference only, and shall not constitute a part of the Combined Plan and Disclosure Statement for any other purpose.

J. Exhibits/Schedules.

All exhibits and schedules to the Combined Plan and Disclosure Statement are incorporated into and are a part of the Combined Plan and Disclosure Statement as if set forth in full herein.

K. Filing of Additional Documents.

On or before substantial consummation of the Combined Plan and Disclosure Statement, the Debtors or the Liquidation Trustee, as applicable, shall file with the Bankruptcy Court such agreements and other documents as may be necessary or appropriate to effectuate and further evidence the terms and conditions of the Combined Plan and Disclosure Statement.

L. No Admissions.

Notwithstanding anything herein to the contrary, nothing contained in the Combined Plan and Disclosure Statement shall be deemed as an admission by any Entity with respect to any matter set forth herein.

M. Successors and Assigns.

The rights, benefits and obligations of any Person or Entity named or referred to in the Combined Plan and Disclosure Statement shall be binding on, and shall inure to the benefit of any heir, executor, administrator, successor or assign of such Person or Entity.

N. Reservation of Rights.

Except as expressly set forth herein, the Combined Plan and Disclosure Statement shall have no force or effect unless the Bankruptcy Court shall enter the Confirmation Order. None of the filing of the Combined Plan and Disclosure Statement, any statement or provision contained herein, or the taking of any action by the Debtors with respect to the Combined Plan and Disclosure Statement shall be, or shall be deemed to be, an admission or waiver of any rights of the Debtors, Holders of Claims or Equity Interest before the Effective Date.

O. Implementation.

The Debtors shall take all steps, and execute all documents, including appropriate releases, necessary to effectuate the provisions contained in this Combined Plan and Disclosure Statement.

P. Inconsistency.

In the event of any inconsistency among the Combined Plan and Disclosure Statement or any other instrument or document created or executed pursuant to the Combined Plan and Disclosure Statement, the provisions of the Combined Plan and Disclosure Statement shall govern.

Q. Closing of Chapter 11 Cases.

Upon substantial consummation, the Liquidation Trustee may move for a final decree to close the Chapter 11 Cases and to request such other Order as may be just.

R. Dissolution of the Committee.

Upon the occurrence of the Effective Date, the Committee shall dissolve automatically, whereupon its members, Professionals and agents shall be released from any duties and responsibilities in the Chapter 11 Cases and under the Bankruptcy Code (except with respect to

(i) obligations arising under confidentiality agreements, which shall remain in full force and effect, (ii) applications for payment of fees and reimbursement of expenses of Professionals, (iii) any pending motions or motions for other actions seeking enforcement of implementation of the provisions of the Combined Plan and Disclosure Statement), and (iv) prosecuting or participating in any appeal of the Confirmation Order or any request for reconsideration thereof.

Dated: November 6, 2019

SPORTCO HOLDINGS, INC.

By: /s/ Dalton Edgecomb
Name: Dalton Edgecomb
Title: Chief Restructuring Officer

Exhibit A

Liquidation Analysis

Liquidation Analysis¹³

A. Introduction

Under the best interests of creditors test, as set forth in section 1129(a)(7) of the Bankruptcy Code, the Bankruptcy Court shall confirm a chapter 11 plan only if the plan provides each holder of an impaired class of claims or interests that does not otherwise vote in favor of the plan with property of a value, as of the effective date of the plan, that is not less than the amount that such holder would receive or retain if the debtors were liquidated under chapter 7 of the Bankruptcy Code. To demonstrate that the Plan satisfies the best interests of creditors test, a hypothetical chapter 7 liquidation analysis (the “Liquidation Analysis”) was prepared. The Liquidation Analysis estimates potential Cash distributions to Holders of Allowed Claims in a hypothetical chapter 7 liquidation of all of the Debtors’ assets. Asset values discussed in the Liquidation Analysis may differ materially from values referred to in the Combined Plan and Disclosure Statement.

With respect to each Class of Claims under the Plan, each Holder of an Allowed Claim in such Class is estimated to receive the following percentage of its estimated aggregate Allowed Claim out of the Liquidation Proceeds (as defined below) in a Plan of Reorganization or a Chapter 7 liquidation:

Estimated Recovery of Estimated Aggregate Amount of Allowed Claims									
	Proposed Plan of Liquidation			Chapter 7 Liquidation			Plan vs. Liquidation		
	Claim Amounts	Recovery		Claim Amounts	Recovery		Plan Better / (Worse)		
	\$	%	\$	\$	%	\$	%	\$	\$
DIP Claims	\$0	N/A	\$0	\$0	N/A	\$0	N/A	N/A	\$0
Other Priority Claims	\$27,300	100.0%	\$27,300	\$27,300	0.0%	\$0	100.0%	100.0%	\$27,300
Unclassified Priority Tax Claims	\$570,637	100.0%	\$570,637	\$570,637	0.0%	\$0	100.0%	100.0%	\$570,637
Prepetition Term Loan Claim	\$249,800,405	14.3%	\$35,792,569	\$249,800,405	13.6%	\$33,915,842	0.8%	0.8%	\$1,876,727
Other Secured Claims	\$815	100.0%	\$815	\$815	0.0%	\$0	100.0%	100.0%	\$815
General Unsecured Claims	\$43,000,000	0.0%	\$0	\$43,000,000	0.0%	\$0	0.0%	0.0%	\$0
Prepetition Term Loan Deficiency Claim	\$223,828,000	0.0%	\$0	\$223,828,000	0.0%	\$0	0.0%	0.0%	\$0
Equity Interests	\$0	N/A	\$0	\$0	N/A	\$0	N/A	N/A	\$0
Administrative / Professional Fees (a)	\$3,220,003	100.0%	\$3,220,003	\$3,220,003	100.0%	\$3,220,003	0.0%	0.0%	\$0
Unclassified Intercompany Claims	\$0	N/A	\$0	\$0	N/A	\$0	N/A	N/A	\$0
Wellspring Claims	\$3,486,259	0.0%	\$0	\$3,486,259	0.0%	\$0	0.0%	0.0%	\$0

Notes

(a) Professional fees are 100% recoverable as funds have been segregated to a separate account and are fully funded.

Additionally, Administrative Expenses are being funded as they come due and will be fully funded upon a conversion to Chapter 7 or upon final confirmation of a Chapter 11 plan of reorganization.

Estimated asset recovery is greater under the Plan due to the consistent and orderly process under the Plan as opposed to the cost intensive nature of a chapter 7 liquidation. Liquidation costs under the Plan are significantly less than a chapter 7 liquidation as the Plan assumes professionals that were retained in the Chapter 11 Cases would not have a “learning curve” regarding case history, litigation, and other relevant matters. The institutional case knowledge of the current chapter 11 professionals would likely result in a faster process and lower overall professional fees. Additionally, chapter 7 trustee fees on disbursed assets are not paid under the Plan and the Liquidation Trust will be more effective in collecting on Causes of Action under the Plan.

¹³ 1. Unless otherwise specifically set forth in the Liquidation Analysis, all capitalized terms used but not defined herein shall have the meanings ascribed to them in the Combined Plan and Disclosure Statement.

B. Scope, Intent, and Purpose of the Liquidation Analysis

The determination of the hypothetical proceeds from, and costs of the liquidation of the Debtors' assets, is an uncertain process involving the extensive use of estimates and assumptions that, although considered reasonable by the Debtors' professionals, are inherently subject to significant business and economic uncertainties and contingencies beyond the control of the Debtors and their advisors. Inevitably, some assumptions in the Liquidation Analysis would not materialize in an actual chapter 7 liquidation, and unanticipated events and circumstances could affect the ultimate results in an actual chapter 7 liquidation. The Liquidation Analysis was prepared for the sole purpose of generating a reasonable good-faith estimate of the proceeds that would be generated if the Debtors were liquidated in accordance with chapter 7 of the Bankruptcy Code. The Liquidation Analysis is not intended and should not be used for any other purpose. The underlying financial information in the Liquidation Analysis was not compiled or examined by any independent accountants. No independent appraisals were conducted in preparing the Liquidation Analysis. ACCORDINGLY, WHILE DEEMED REASONABLE BASED ON THE FACTS CURRENTLY AVAILABLE, NEITHER THE DEBTORS NOR THEIR PROFESSIONALS MAKE ANY REPRESENTATION OR WARRANTY THAT THE ACTUAL RESULTS WOULD OR WOULD NOT APPROXIMATE THE ESTIMATES AND ASSUMPTIONS REPRESENTED IN THE LIQUIDATION ANALYSIS. ACTUAL RESULTS COULD VARY MATERIALLY.

In preparing the Liquidation Analysis, Winter Harbor, LLC ("Winter Harbor"), the Debtors' Chief Restructuring Officer and financial advisor, estimated Allowed Claims based upon a review of Claims listed on the proofs of Claim filed in the Chapter 11 CaseS, the Claims scheduled by the Debtors in their Schedules, and other financial information received from the Debtors, their advisors, and the Claims and Noticing Agent. In addition, the Liquidation Analysis includes estimates for Claims not currently asserted in the Chapter 11 Cases or currently contingent, but which could be asserted and Allowed in a chapter 7 liquidation, including but not limited to Administrative Claims, liquidation costs, chapter 7 trustee fees, and other Allowed Claims. To date, the Bankruptcy Court has not estimated or otherwise fixed the total amount of Allowed Claims to be used for purposes of preparing the Liquidation Analysis. NOTHING CONTAINED IN THE LIQUIDATION ANALYSIS IS INTENDED TO BE, OR CONSTITUTES, A CONCESSION OR AN ADMISSION OF THE DEBTORS. THE ACTUAL AMOUNT OF ALLOWED CLAIMS IN THE CHAPTER 11 CASES COULD MATERIALLY DIFFER FROM THE ESTIMATED AMOUNTS SET FORTH IN THE LIQUIDATION ANALYSIS.

Global Notes to the Liquidation Analysis

1. Conversion Date and Appointment of a Chapter 7 Trustee

The Liquidation Analysis assumes conversion of the Chapter 11 Cases to a chapter 7 liquidation case on October 21, 2019. It is assumed that the Bankruptcy Court would appoint one chapter 7 trustee (the “Trustee”) to oversee the liquidation of the Estates.

The Liquidation Analysis is based upon certain assumptions discussed in the Combined Plan and Disclosure Statement and demonstrates that the Plan satisfies the “best interests” test.

2. Debtors’ Assets

The Liquidation Analysis assumes all of the Debtors’ assets have been liquidated to fund the operating expenses of the chapter 7 cases.

3. Factors Considered in Valuing Hypothetical Liquidation Proceeds

The following are some, but not all, of the considered factors that could negatively impact the recoveries estimated under a chapter 7 liquidation: (a) delays in the liquidation process; and (b) Allowed Claims are materially greater than estimated.

These factors may limit the amount of the proceeds generated by the liquidation of the Debtors’ assets (the “Liquidation Proceeds”) available to the Trustee. For example, it is possible that the liquidation of the Debtors’ remaining assets would be delayed while the trustee and his or her professionals become knowledgeable about the Chapter 11 Cases and the Debtors’ business and assets. This delay could materially reduce the value, on a “present value” basis, of the Liquidation Proceeds.

4. Waterfall and Recovery Ranges

The Liquidation Analysis assumes that the proceeds generated from the liquidation of all of the Debtors’ assets will be reasonably available to the Trustee. After deducting the costs of liquidation, including the Trustee’s fees and expenses and other administrative expenses incurred in the liquidation, the Trustee would allocate net Liquidation Proceeds to Holders of Claims in accordance with the priority scheme set forth in section 726 of the Bankruptcy Code. The Liquidation Analysis provides for a recovery percentage for Claims upon the Trustee’s application of the Liquidation Proceeds. The recovery reflects an estimate of Liquidation Proceeds.

Winter Harbor (a) worked with the Debtors’ other professionals, and (b) drew upon personal experiences in order to estimate recovery percentages by asset class. Winter Harbor and the Debtors do not provide any assurance of such recoveries but have given their best estimates in this scenario.

Specific Notes to the Asset and Liability Assumptions Contained in the Liquidation Analysis

Cash on Hand

The Liquidation Analysis assumes the Debtors have exhausted all cash upon conversion to a Chapter 7 liquidation.

Real Estate

At the time of the conversion to a Chapter 7 liquidation, the Estates will still hold the properties located in Chapin, South Carolina and Newberry, South Carolina. The Liquidation Analysis assumes that the properties will be sold for the same net proceeds that are assumed in the Plan, however; it is assumed that the properties will take longer to sell in a Chapter 7 liquidation than with the Plan, thus the carrying costs will be greater in a Chapter 7 liquidation.

Causes of Action

Since it is not known whether chapter 5 causes of action will ever be pursued, no value from causes of action have been assigned to either the Plan or the Liquidation Analysis. However, the Liquidation Trust has a better chance to collect the Causes of Action under the Plan.

Winter Harbor LLC estimates that directors' and officers' insurance ("D&O Insurance") available in a successful prosecution of such directors' and officers' claims is \$33 million, which represents \$35 million in policy limits less \$2 million of attorney fees paid from the policies. Given the inherent uncertainty of the litigation, both the Liquidation Analysis and recoveries under the Plan assign no value from D&O Insurance, although D&O recoveries are likely to be higher under a Plan as compared to Chapter 7 liquidation.

Claims

DIP Claims

DIP Claims are zero as the Debtors' debtor-in-possession financing has been fully repaid.

Other Priority Claims

Other Priority Claims largely consist of Priority Claims estimated from scheduled and filed proofs of Claim. The Liquidation Analysis assumes Allowed Other Priority Claims total \$27,300.

Unclassified Priority Tax Claims

Unclassified Priority Tax Claims largely consist of Priority Tax Claims estimated from scheduled and filed proofs of Claim. The Liquidation Analysis assumes Allowed Unclassified Priority Tax Claims total \$570,637.

Prepetition Term Loan Claims

The Prepetition Term Loan Claims estimates is derived from scheduled Claims and filed proofs of Claim and amount to \$249,800,405.

Other Secured Claims

The Prepetition Term Loan Claims estimates is derived from scheduled Claims and filed proofs of Claim and amount to \$815.

General Unsecured Claims and Prepetition Term Loan Deficiency Claims

The majority of General Unsecured Claims were estimated from the proofs of Claim filed in the Chapter 11 Cases and the Debtors' Schedules filed with the Bankruptcy Court. The Debtors have not begun a claims analysis or reconciliation and therefore cannot offer any further guidance in relation to the Allowed General Unsecured Claim amounts. For the purpose of this analysis, the Debtors estimate that \$43,000,000 of General Unsecured Claims and \$223,828,000 of Prepetition Term Loan Deficiency Claims will be Allowed in the scenario.

Equity Interests

Equity Interests are zero.

Administrative Expense Claims, Including Professional Claims

Administrative Expense Claims, including Professional Claims, largely consist of Claims estimated from filed proofs of Claim. Based upon scheduled and filed proof of Claims, \$3,220,003 of Administrative / Professional Fee Claims are included in the Liquidation Analysis. These claims are 100% recoverable as funds have been segregated to a separate account and are fully funded. Additionally, Administrative Expenses are being funded as they come due and will be fully funded upon a conversion to chapter 7 or upon final confirmation of a chapter 11 plan of reorganization.

Unclassified Intercompany Claims

Unclassified Intercompany Claims are zero.

Wellspring Claims

Wellspring has asserted Claims against the Debtors totaling not less than \$3,486,259 for unpaid management fees and expenses owed pursuant to the Management Agreement, plus other

contingent and unliquidated amounts. To the extent that the Bankruptcy Court finds that Wellspring's Claims are subordinate, by agreement or otherwise, such Claims shall be treated as Class 5 Wellspring Subordinated Claims. To the extent that any of Wellspring's Claims are not found to be subordinate, such Claims shall be General Unsecured Claims under this Combined Plan and Disclosure Statement.

Exhibit 2

THIS INSTRUMENT AND THE RIGHTS AND OBLIGATIONS EVIDENCED HEREBY ARE SUBORDINATE, IN THE MANNER AND TO THE EXTENT SET FORTH IN THAT CERTAIN INTERCREDITOR AND SUBORDINATION AGREEMENT (THE “SUBORDINATION AGREEMENT”) DATED AS OF SEPTEMBER 28, 2012 BETWEEN PROSPECT CAPITAL CORPORATION, AS SECOND PRIORITY AGENT FOR THE SECOND PRIORITY CREDITORS AND BANK OF AMERICA, N.A., AS SENIOR AGENT FOR THE SENIOR CREDITORS, TO THE INDEBTEDNESS (INCLUDING INTEREST) OWED BY ELLETT BROTHERS, LLC (“ELLETT”), THE OTHER BORROWERS FROM TIME TO TIME PARTY THERETO (TOGETHER WITH ELLETT, INDIVIDUALLY A “BORROWER” AND COLLECTIVELY THE “BORROWERS”), PURSUANT TO THAT CERTAIN THIRD AMENDED AND RESTATED LOAN AND SECURITY AGREEMENT, DATED AS OF SEPTEMBER 28, 2012, BY AND AMONG THE BORROWERS, THE LENDERS FROM TIME TO TIME PARTY THERETO AND BANK OF AMERICA, N.A., AS AGENT, AND THE INDEBTEDNESS OWED BY ANY GUARANTORS UNDER GUARANTIES WITH RESPECT THERETO, AS SUCH AGREEMENTS HAVE BEEN AND HEREAFTER MAY BE AMENDED, RESTATED, SUPPLEMENTED, EXTENDED, RENEWED, REFINANCED, REPLACED OR OTHERWISE MODIFIED AND TO ANY INDEBTEDNESS REFINANCING THE INDEBTEDNESS UNDER SUCH AGREEMENTS AS CONTEMPLATED BY THE SUBORDINATION AGREEMENT; AND EACH HOLDER OF THIS INSTRUMENT, BY ITS ACCEPTANCE HEREOF, IRREVOCABLY AGREES TO BE BOUND BY THE PROVISIONS OF THE SUBORDINATION AGREEMENT.

ELLETT BROTHERS, LLC,
EVANS SPORTS, INC.,
JERRY’S SPORTS, INC.,
SIMMONS GUN SPECIALTIES, INC.,
BONITZ BROTHERS, INC.
and
OUTDOOR SPORTS HEADQUARTERS, INC.,

as Borrowers

SECOND LIEN LOAN AND SECURITY AGREEMENT

Dated: September 28, 2012

THE FINANCIAL INSTITUTIONS
PARTY HERETO FROM TIME TO TIME, as Lenders
and
PROSPECT CAPITAL CORPORATION, as Agent

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SECOND LIEN LOAN AND SECURITY AGREEMENT

THIS SECOND LIEN LOAN AND SECURITY AGREEMENT is made on September 28, 2012, by and among **ELLETT BROTHERS, LLC** ("**EB**"), a South Carolina limited liability company, **EVANS SPORTS, INC.** ("**Evans**"), a South Carolina corporation, **JERRY'S SPORTS, INC.** ("**Jerry**"), a Delaware corporation, **SIMMONS GUN SPECIALTIES, INC.** ("**Simmons**"), a Delaware corporation, **BONITZ BROTHERS, INC.** ("**Bonitz**"), a Delaware corporation, **OUTDOOR SPORTS HEADQUARTERS, INC.** ("**Outdoor**"), a Delaware corporation, each with its chief executive office and principal place of business at 267 Columbia Avenue, Chapin, South Carolina; the various financial institutions listed on the signature pages hereof and their respective successors and permitted assigns which become "Lenders" as provided herein; and **PROSPECT CAPITAL CORPORATION**, in its capacity as collateral and administrative agent for Lenders pursuant to **Section 12** hereof (together with its successors in such capacity, "**Agent**"). Capitalized terms used in this Agreement have the meanings assigned to them in Appendix A, General Definitions.

Recitals:

Each Borrower has requested that Lenders enter into this Agreement to provide funds to the Borrowers to be used solely for payment of a portion of the Wellspring Debt, payment of the Closing Date Distribution (as such terms are defined herein) and payment of transaction fees and expenses in connection therewith. In order to utilize the financial powers of each Borrower in the most efficient and economical manner, and in order to facilitate the financing of each Borrower's needs, Lenders are making loans to Borrowers hereunder on a combined basis and in accordance with the provisions hereinafter set forth.

Each Borrower has agreed to guarantee the obligations of each of the other Borrowers under this Agreement and each of the other Loan Documents.

NOW, THEREFORE, for good and valuable consideration, the adequacy and receipt of which are hereby acknowledged, the parties hereto hereby agree as follows:

SECTION 1. CREDIT FACILITY

1.1 Term Loan.

1.1.1 **Making of Term Loan.** Subject to the terms and conditions hereof and in reliance upon the representations and warranties set forth herein and in the other Loan Documents, each Lender severally agrees to make available to the Borrowers on the Closing Date a principal amount equal to such Lender's Commitment Percentage of the aggregate principal amount of the Term Loans in an original amount equal to \$170,000,000 on the Closing Date, for the purposes hereinafter set forth. Amounts borrowed under this **Section 1.1** which are repaid or prepaid may not be reborrowed.

1.1.2 **Repayment of Term Loan.** The Borrowers shall repay to the Lenders the aggregate outstanding principal balance of the Term Loans on the Maturity Date.

1.1.3 Use of Proceeds. Proceeds of the Term Loans shall be used by Borrowers solely for one or more of the following purposes: (i) to make a one-time Distribution to Holdings (for further Distribution to SportCo) to repay a portion of the Wellspring Debt on the Closing Date; (ii) to pay the Closing Date Distribution on the Closing Date, and (iii) to pay the fees and transaction expenses associated with the closing of the Transactions described herein. In no event may any Term Loan proceeds be used by Borrowers to make a contribution to the equity of any Subsidiary which is not a Borrower, to purchase or to carry, or to reduce, retire or refinance any Debt incurred to purchase or carry any Margin Stock or for any related purpose that violates the provisions of Regulations T, U or X of the Board of Governors.

1.2 Notes.

The Borrower's obligation to repay to each Lender such Lender's Commitment Percentage of the Term Loans shall be evidenced by a Note made payable to such Lender in substantially the form of **Exhibit A**.

SECTION 2. INTEREST, FEES AND CHARGES

2.1 Interest.

2.1.1 Interest Rate. Subject to **Section 2.1.3** and **Section 2.7**, interest shall accrue on the outstanding principal balance of the Term Loans from the Closing Date and until the principal amount of the Term Loans has been repaid in full at a rate per annum equal to the greater of (x) the LIBOR Rate plus eleven percent (11.00%) and (y) twelve and three-quarters percent (12.75%). Any determination of the interest rate by the Agent shall be conclusive and binding on the Borrowers in the absence of manifest error.

2.1.2 Interest Payments. The Borrowers shall pay to the Lenders accrued but unpaid interest in cash (i) in arrears on each Interest Payment Date, (ii) on the principal amount paid or prepaid on the date of any principal payment or prepayment of the Term Loans made pursuant to **Section 4.3** and (iii) on the Maturity Date.

2.1.3 Default Rate of Interest. Borrowers shall pay interest at a rate per annum equal to the Default Rate (i) with respect to any portion of the Obligations (and, to the extent permitted by Applicable Law, all past due interest) that is not paid on the due date thereof (whether due at stated maturity, on demand, upon acceleration or otherwise) until paid in full; and (ii) with respect to all of the Obligations (and, to the extent permitted by Applicable Law, all past due interest) upon the earlier to occur of (x) Borrowers' receipt of notice from Agent or Required Lenders' of the election to charge the Default Rate based upon the existence of any Default or Event of Default (which notice Agent may elect to send and shall send at the direction of Required Lenders), whether or not acceleration or demand for payment of the Obligations has been made or (y) the commencement by or against Borrower of an Insolvency Proceeding whether or not under the circumstances described in clauses (i) or (ii) hereof. To the fullest extent permitted by Applicable Law, the Default Rate shall apply and accrue on any judgment entered with respect to any of the Obligations and to the unpaid principal amount of the Obligations during any Insolvency Proceeding of a Borrower. Borrowers acknowledge that the cost and expense to Agent and each Lender attendant upon the occurrence of an Event of Default

are difficult to ascertain or estimate and that the Default Rate is a fair and reasonable estimate to compensate Agent and Lender for such added cost and expense. Interest accrued at the Default Rate shall be due and payable on demand.

2.2 Fees.

Pursuant to the Structuring Fee Letters, Borrowers shall pay to each Lender or its designee for its own account a structuring fee of two and one quarter percent (2.25%) of the aggregate principal amount of the Term Loans advanced by such Lender on the Closing Date. Such fee shall be fully earned by the Lenders on the date hereof and shall not be subject to rebate, refund or proration. Such fee shall be deemed to be compensation for services and shall not be deemed to be interest or any other charge for the use, forbearance or detention of money.

2.3 Computation of Interest and Fees.

All fees and other charges provided for in this Agreement that are calculated as a per annum percentage of any amount and all interest shall be calculated daily and shall be computed on the actual number of days elapsed over a year of three hundred and sixty (360) days. Subject to **Section 4.7**, for purposes of computing interest and other charges hereunder, all payments received by a Lender shall be deemed applied by such Lender on account of the Obligations on the Business Day that such Lender receives such payments in immediately available funds.

2.4 Reimbursement Obligations.

2.4.1 Borrowers shall reimburse Agent, Summit and Prospect, for so long as either is an Original Lender for, (and, with respect during any period that an Event of Default then exists, each Lender) or, at the request of Agent (or, if applicable, such Lender); pay directly, all reasonable legal, accounting, appraisal and other reasonable fees and out-of-pocket expenses incurred by Agent, such Original Lender or, if applicable, any other Lender in connection with (i) the negotiation and preparation of any of the Loan Documents, any amendment or modification thereto, any waiver of any Default or Event of Default thereunder, or any restructuring or forbearance with respect thereto; (ii) the administration of the Loan Documents and the transactions contemplated thereby, to the extent that such fees and expenses are expressly provided for in this Agreement or any of the other Loan Documents; (iii) action taken to perfect or maintain the perfection or priority of any of Agent's Liens with respect to any of the Collateral; (iv) any effort to verify, protect, preserve, or restore any of the Collateral or to collect, sell, liquidate or otherwise dispose of or realize upon any of the Collateral; (v) any litigation, contest, dispute, suit, proceeding or action (whether instituted by or against Agent, any Lender, any Obligor or any other Person) in any way arising out of or relating to any of the Collateral (or the validity, perfection or priority of any of Agent's Liens thereon), any of the Loan Documents or the validity, allowance or amount of any of the Obligations; (vi) the protection or enforcement of any rights or remedies of Agent or any Lender in any Insolvency Proceeding; (vii) any other action taken by Agent or any Lender to enforce any of the rights or remedies of Agent or such Lender against any Obligor or any Account Debtors to enforce collection of any of the Obligations or payments with respect to any of the Collateral; and (viii) the engagement by Agent of professionals to determine the value of Inventory. In addition to the foregoing, the Borrowers agree to pay to the Agent the allocated, reasonable and documented costs, fees and

expenses of internal counsel in connection with any amendment, waiver or consent delivered hereunder (but in any event not to exceed \$5,000 for any single amendment, waiver or consent), in addition to any other applicable fee that may be payable in connection with any such amendment, waiver or consent. All amounts chargeable to Borrowers under this **Section 2.4** shall constitute Obligations that are secured by all of the Collateral and shall be payable on demand to Agent. Borrowers shall also reimburse Agent for expenses incurred by Agent in its administration of any of the Collateral to the extent and in the manner provided in **Section 7** hereof or in any of the other Loan Documents. The foregoing shall be in addition to, and shall not be construed to limit, any other provision of any of the Loan Documents regarding the reimbursement by Borrowers of costs, expenses or liabilities suffered or incurred by Agent or any Lender.

2.4.2 If at any time Agent or (with the consent of Agent) any Lender shall indemnify any Person against losses or damages that such Person may suffer or incur in its dealings or transactions with Borrowers, or shall guarantee any liability or obligation of a Borrower to such Person, or otherwise shall provide assurances of a Borrower's payment or performance under any agreement with such Person related to or arising in connection with this Agreement, including indemnities, guaranties or other assurances of payment or performance given by Agent or any Lender with respect to any thereof, then the Contingent Obligation of Agent or any Lender providing any such indemnity, guaranty or other assurance of payment or performance, together with any payment made or liability incurred by Agent or any Lender in connection therewith, shall constitute Obligations that are secured by the Collateral and Borrowers shall repay, on demand, any amount so paid or any liability incurred by Agent or any Lender in connection with any such indemnity, guaranty or assurance. Nothing herein shall be construed to impose upon Agent or any Lender any obligation to provide any such indemnity, guaranty or assurance. The foregoing agreement of Borrowers shall apply whether or not such indemnity, guaranty or assurance is in writing or oral and regardless of a Borrower's knowledge of the existence thereof, and shall be in addition to any provision of the Loan Documents regarding reimbursement by Borrowers of costs, expenses or liabilities suffered or incurred by Agent or any Lender. To the extent that Agent or any Lender agrees to provide any such indemnity, guaranty or other assurance of payment or performance for the benefit of Borrower under this **Section 2.4**, such party agrees to use reasonable efforts to timely notify Borrowers of such agreement; provided, however, that the failure to so notify Borrowers shall in no manner impair Borrowers' reimbursement obligations hereunder.

2.5 Bank Charges.

Borrowers shall pay to Agent, **on demand**, any and all fees, costs or expenses which Agent or any Lender pays to a bank or other similar institution (including any fees paid by Agent or any Lender to any Participant) arising out of or in connection with the depositing for collection by Agent or any Lender of any Payment Item received or delivered to Agent or any Lender on account of the Obligations. Borrowers acknowledge and agree that Agent may charge such costs, fees and expenses to Borrowers based upon Agent's good faith estimate of such costs, fees and expenses as they are incurred by Agent or any Lender.

2.6 Increased Costs; Capital Adequacy. To the extent applicable to a Lender:

2.6.1 Change in Law. If any Change in Law shall:

i. impose, modify or deem applicable any reserve, liquidity, special deposit, compulsory loan, insurance charge or similar requirement against assets of, deposits with or for the account of, or credit extended or participated in by, any Lender;

ii. subject any Lender to any Tax with respect to any Term Loan or Loan Document, or change the basis of taxation of payments to such Lender in respect thereof (except for Indemnified Taxes or Other Taxes covered by **Section 4.9** and the imposition of, or any change in the rate of, any Excluded Tax payable by such Lender); or

iii. impose on any Lender any other condition, cost or expense affecting any Term Loan or Loan Document;

and the result thereof shall be to increase the cost to such Lender of making or maintaining any Term Loan, or to reduce the amount of any sum received or receivable by such Lender hereunder (whether of principal, interest or any other amount) then, upon request of such Lender, Borrowers will pay to such Lender such additional amount or amounts as will compensate such Lender for such additional costs incurred or reduction suffered. A certificate as to the amount of such increased cost, submitted to Borrowers by such Lender, shall be final, conclusive and binding for all purposes, absent manifest error.

2.6.2 Capital Adequacy. If any Lender determines that any Change in Law affecting such Lender or any Lending Office of such Lender or such Lender's holding company, if any, regarding capital requirements has or would have the effect of reducing the rate of return on such Lender's or holding company's capital as a consequence of this Agreement, or such Lender's Term Loans, to a level below that which such Lender or holding company could have achieved but for such Change in Law (taking into consideration such Lender's and holding company's policies with respect to capital adequacy), then, subject to **Section 2.8**, from time to time Borrowers will pay to such Lender such additional amount or amounts as will compensate it or its holding company for any such reduction suffered.

2.6.3 Compensation. Failure or delay on the part of any Lender to demand compensation pursuant to this Section shall not constitute a waiver of its right to demand such compensation, but Borrowers shall not be required to compensate a Lender for any increased costs incurred or reductions suffered more than nine months prior to the date that such Lender notifies EB of the Change in Law giving rise to such increased costs or reductions and of such Lender's intention to claim compensation therefor (except that, if the Change in Law giving rise to such increased costs or reductions is retroactive, then the nine-month period referred to above shall be extended to include the period of retroactive effect thereof). For purposes of this **Section 2.6**, all references to a Lender shall be deemed to include any bank holding company or bank parent of such Lender.

2.7 Maximum Interest.

Regardless of any provision contained in any of the Loan Documents, in no contingency or event whatsoever shall the aggregate of all amounts that are contracted for, charged or received by Agent and Lenders pursuant to the terms of this Agreement or any of the other Loan Documents and that are deemed interest under Applicable Law exceed the highest rate permissible under any Applicable Law. No agreements, conditions, provisions or stipulations contained in this Agreement or any of the other Loan Documents or the exercise by Agent of the right to accelerate the payment or the maturity of all or any portion of the Obligations, or the exercise of any option whatsoever contained in any of the Loan Documents, or the prepayment by Borrowers of any of the Obligations, or the occurrence of any contingency whatsoever, shall entitle Agent or any Lender to charge or receive in any event, interest or any charges, amounts, premiums or fees deemed interest by Applicable Law (such interest, charges, amounts, premiums and fees referred to herein collectively as “Interest”) in excess of the Maximum Rate and in no event shall Borrowers be obligated to pay Interest exceeding such Maximum Rate, and all agreements, conditions or stipulations, if any, which may in any event or contingency whatsoever operate to bind, obligate or compel Borrowers to pay Interest exceeding the Maximum Rate shall be without binding force or effect, at law or in equity, to the extent only of the excess of Interest over such Maximum Rate. If any Interest is charged or received in excess of the Maximum Rate (“Excess”), each Borrower acknowledges and stipulates that any such charge or receipt shall be the result of an accident and bona fide error, and such Excess, to the extent received, shall be applied to the Obligations, and the balance, if any, returned to Borrowers, it being the intent of the parties hereto not to enter into a usurious or otherwise illegal relationship. The right to accelerate the maturity of any of the Obligations does not include the right to accelerate any Interest that has not otherwise accrued on the date of such acceleration, and Agent and Lenders do not intend to collect any unearned Interest in the event of any such acceleration. Borrowers recognize that, with fluctuations in the rates of interest set forth in **Section 2.1.1** of this Agreement or in any Term Loan, and the Maximum Rate, such an unintentional result could inadvertently occur. All monies paid to Agent or any Lender hereunder or under any of the other Loan Documents, whether at maturity or by prepayment, shall be subject to any rebate of unearned Interest as and to the extent required by Applicable Law. By the execution of this Agreement, each Borrower covenants that (i) the credit or return of any Excess shall constitute the acceptance by Borrowers of such Excess, and (ii) such Borrower shall not seek or pursue any other remedy, legal or equitable, against Agent or any Lender, based in whole or in part upon contracting for, charging or receiving any Interest in excess of the Maximum Rate. For the purpose of determining whether or not any Excess has been contracted for, charged or received by Agent or any Lender, all Interest at any time contracted for, charged or received from Borrowers in connection with any of the Loan Documents shall, to the extent permitted by Applicable Law, be amortized, prorated, allocated and spread in equal parts throughout the full term of the Obligations. Borrowers, Agent and Lenders shall, to the maximum extent permitted under Applicable Law, (i) characterize any non-principal payment as an expense, fee or premium rather than as Interest and (ii) exclude voluntary prepayments and the effects thereof. The provisions of this **Section 2.7** shall be deemed to be incorporated into every Loan Document (whether or not any provision of this Section is referred to therein). All such Loan Documents and communications relating to any Interest owed by Borrowers and all figures set forth therein shall, for the sole purpose of computing the extent of Obligations, be automatically recomputed by Borrowers, and by any

court considering the same, to give effect to the adjustments or credits required by this **Section 2.7**.

2.8 Mitigation.

To the extent applicable to any Lender party hereto, if such Lender requests compensation under **Sections 2.6**, or if Borrowers are required to pay additional amounts with respect to such Lender under **Section 4.9**, then such Lender shall use reasonable efforts to designate a different Lending Office or to assign its rights and obligations hereunder to another of its offices, branches or Affiliates, if, in the judgment of such Lender, such designation or assignment (a) would eliminate the need for such notice or reduce amounts payable or to be withheld in the future, as applicable; and (b) would not subject such Lender to any unreimbursed cost or expense and would not otherwise be disadvantageous to it or unlawful. Borrowers shall pay all reasonable costs and expenses incurred by any Lender in connection with any such designation or assignment.

SECTION 3. BORROWERS' REPRESENTATIVE

3.1 Appointment.

Each Borrower hereby irrevocably appoints EB, and EB agrees to act under this Agreement, as the agent and representative of itself and each other Borrower for all purposes under this Agreement, including receiving notices and communications to Borrowers (or any of them) from Agent. Agent may rely, and shall be fully protected in relying, on any reports, information or any other notice or communication made or given by EB, whether in its own name, on behalf of any Borrower or on behalf of "Borrowers," and Agent shall not have any obligation to make any inquiry or request any confirmation from or on behalf of any other Borrower as to the binding effect on such Borrower of any such report, information, notice or communication, nor shall the joint and several character of Borrowers' liability for the Obligations be affected.

SECTION 4. PAYMENTS

4.1 General Payment Provisions.

All payments (including all prepayments) of principal of and interest on the Term Loans and other Obligations that are payable to Agent or any Lender shall be made to Agent or Lenders, as applicable, in Dollars without any offset or counterclaim and free and clear of (and without deduction for) any present or future Taxes, except as otherwise provided in **Section 4.9**, and in immediately available funds to each Lending Office not later than 12:00 noon (New York City time) on the due date (and payment made after such time on the due date to be deemed to have been made on the next succeeding Business Day). All payments to Lenders shall be made on a Pro Rata basis. If any payment hereunder becomes due and payable on a day other than a Business Day, such payment shall be extended to the next succeeding Business Day, and, with respect to payments of principal, interest thereon shall be payable at the then applicable rate during such extension.

4.2 Reserved.

4.3 Mandatory and Optional Prepayments.

4.3.1 Prepayment in Full. On or after September 28, 2013, upon not less than ten (10) days' prior written notice to the Agent and the Lenders, which notice shall be irrevocable and shall be delivered no later than 2:00 p.m. (New York City time), the Borrowers shall have the right to prepay the outstanding principal balance of the Term Loans in full, together with accrued but unpaid interest thereon and all other amounts then owing under the Loan Documents, plus the amount of any applicable Prepayment Premium.

4.3.2 Partial Prepayments. On or after September 28, 2013, upon not less than ten (10) days' prior written notice to the Agent and the Lenders, which notice shall be irrevocable and shall be delivered no later than 2:00 p.m. (New York City time), the Borrowers shall have the right to prepay a portion of the outstanding principal balance of the Term Loans, together with accrued but unpaid interest thereon and all other amounts then owing under the Loan Documents, plus the amount of any applicable Prepayment Premium; provided that each partial prepayment of the Term Loans shall be in a minimum principal amount of \$1,000,000 and integral multiples of \$500,000 in excess thereof.

4.3.3 Excess Cash Flow. No later than the date which is ten (10) Business Days after the date on which annual financial statements of the Borrowers are delivered or required to be delivered pursuant to **Section 9.1.3(i)**, beginning with the Fiscal Year ending December 31, 2013, the Borrowers (x) shall deliver to the Agent and the Lenders a written calculation of Excess Cash Flow for the applicable Fiscal Year, certified by a Senior Officer of the Borrowers, and (y) shall prepay the Term Loans in an amount equal to fifty percent (50%) of Excess Cash Flow for such Fiscal Year.

4.3.4 Issuances of Equity. Immediately upon receipt by any Obligor of the proceeds of any Equity Issuance, such Obligor shall prepay the Term Loans in an aggregate amount equal to 100% of the net cash proceeds of such Equity Issuance plus the amount of any applicable Prepayment Premium.

4.3.5 Change of Control. Immediately upon and as a condition to the consummation of the occurrence of a Change of Control, the Borrowers shall prepay the outstanding principal balance of the Term Loans, together with accrued but unpaid interest thereon and all other amounts then owing under the Loan Documents, plus the amount of any applicable Prepayment Premium.

4.3.6 No Implied Consent. The provisions of this **Section 4.3** shall not operate as, or be deemed to constitute, the consent of the Agent or any Lender to any transaction or action to the extent that such transaction or action giving rise to any prepayment is not otherwise permitted by the terms of the Loan Documents.

4.3.7 Reserved.

4.3.8 Proceeds of Sale, Loss, Destruction or Condemnation of Collateral.

Except as provided in **Section 9.2.10**, if any Obligor or any of their respective Subsidiaries sells any of the Collateral, or if a casualty occurs with respect to any of the Collateral, such Obligor or Subsidiary shall, unless otherwise agreed by Lenders, pay to each Lender its Pro Rata share, as and when received by such Obligor or such Subsidiary and as a mandatory prepayment of the Term Loans, as herein provided, of a sum equal to (x) the proceeds (including insurance payments and condemnation awards but net of costs and taxes incurred in connection with such sale or event) ("Sale Proceeds") received by such Obligor or such Subsidiary from such sale or casualty, minus (y) the amount of such proceeds actually paid to the First Priority Lenders to reduce First Priority Debt in accordance with the terms of the First Priority Loan Documents.

4.3.9 Proceeds from Issuance of Additional Debt.

If any Obligor or any of their respective Subsidiaries issues any Debt for Money Borrowed (other than Debt permitted under **Section 9.2.3**), such Obligor or such Subsidiary shall pay to each Lender its Pro Rata share, when and as received by such Obligor or Subsidiary and as a mandatory prepayment of the Obligations, a sum equal to (x) 100% of the net cash proceeds to such Obligor of the issuance of such Debt, minus (y) the amount of such proceeds actually paid to the First Priority Lenders to reduce First Priority Debt in accordance with the terms of the First Priority Loan Documents.

4.3.10 Payment Restrictions.

(i) Notwithstanding anything herein to the contrary, no prepayment of principal pursuant to **Section 4.3.3** shall be required to be made, and such failure shall not constitute a Default or an Event of Default, if and to the extent, any such payment is prohibited by the terms of the First Priority Loan Agreement or the Subordination Agreement, unless the First Priority Agent shall have consented in writing to such payment prior to the making thereof.

(ii) If at any time subsequent to the imposition of a blockage on any such payments or prepayments pursuant to clause (i) immediately above, such payments and prepayments are no longer prohibited, the Borrower shall immediately pay such previously blocked payments and prepayments in the maximum amount then permitted under the First Priority Loan Agreement and the Subordination Agreement.

4.4 Pro Rata Treatment and Payments.

4.4.1 Subject to **Section 4.6**, each payment or prepayment made hereunder (other than any voluntary prepayment made pursuant to **Section 4.3.2**) shall be applied, first, to the payment of any fees, costs or expenses then due and owing by the Borrowers to the Agent and the Lenders, second, to the payment of accrued but unpaid interest on the outstanding principal balance of the Term Loans, and third, to the payment of unpaid principal.

4.4.2 Subject to **Section 4.4**, any partial prepayments made pursuant to **Section 4.3.2** shall be paid Pro Rata to each Lender.

4.5 Marshaling; Payments Set Aside.

4.5.1 Marshaling. None of Agent or any Lender shall be under any obligation to marshal any assets in favor of a Borrower or any other Obligor or against or in payment of any or all of the Obligations. To the extent that Borrowers make a payment or payments to Agent or Lenders or any of such Persons receives payment from the proceeds of any Collateral or exercises its right of setoff, and such payment or payments or the proceeds of such enforcement or setoff or any part thereof are subsequently invalidated, declared to be fraudulent or preferential, set aside or required to be repaid to a trustee, receiver or any other Person, then to the extent of any loss by Agent or Lenders, the Obligations or part thereof originally intended to be satisfied, and all Liens, rights and remedies therefor, shall be revived and continued in full force and effect as if such payment or proceeds had not been made or received and any such enforcement or setoff had not occurred. The provisions of the immediately preceding sentence of this **Section 4.5** shall survive the Full Payment of all Obligations.

4.5.2 Erroneous Allocation. Agent shall not be liable for any allocation or distribution of payments made by it in good faith and, if any such allocation or distribution is subsequently determined to have been made in error, the sole recourse of any Lender to whom payment was due but not made shall be to recover from the other Lenders any payment in excess of the amount to which such other Lenders are determined to be entitled (and such other Lenders hereby agree to return to such Lender any such erroneous payments received by them).

4.6 Allocation of Payments

Upon the occurrence and during the continuance of an Event of Default, the Agent may, and at the direction of the Required Lenders shall, require that any amounts collected or received by the Agent or any Lender on account of the Obligations shall be applied by the Lenders in accordance with clauses “FIRST” through “SIXTH” below. Notwithstanding any other provision of this Agreement to the contrary, upon the acceleration of the Obligations in accordance with **Section 11.2**, all amounts collected or received by the Agent or any Lender on account of the Obligations or in respect of the Collateral shall be applied by the Lenders as follows:

FIRST, to the payment of all costs and expenses of the Agent (including fees, expenses and disbursements of one counsel and one consultancy firm for all Lenders) in connection with enforcing the rights of the Agent and/or the Lenders under the Loan Documents, exercising any remedies under the Loan Documents or otherwise with respect to the Obligations, including repayment of any protective advances made by the Agent with respect to the Collateral under or pursuant to the terms of the Security Documents;

SECOND, to the payment of any outstanding fees owing to the Agent;

THIRD, to the payment of all costs and expenses of the Lenders (including fees, expenses and disbursements of one counsel and one consultancy firm) in connection with enforcing its rights under the Loan Documents or otherwise with respect to the Obligations owing to such Lender;

FOURTH, to the payment of all of the Obligations consisting of outstanding fees owing to the Lenders and any accrued but unpaid interest;

FIFTH, to the payment of the outstanding principal amount of the Obligations;

SIXTH, to all other Obligations and other obligations which shall have become due and payable under the Loan Documents or otherwise and not repaid pursuant to clauses “FIRST” through “FIFTH” above; and

SEVENTH, the payment of the surplus, if any, to the Borrowers or to whomsoever a court of competent jurisdiction shall determine to be entitled thereto.

In carrying out the foregoing, (i) amounts received shall be applied in the numerical order provided until exhausted prior to application to the next succeeding category and (ii) each Lender shall receive a pro rata portion of such amount, based on the value of the aggregate amount of Term Loans held by each such Lender, available to be applied pursuant to clauses “FOURTH”, “FIFTH” and “SIXTH” above.

4.7 Application of Payments and Collateral Proceeds.

All payments received by a Lender by 2:00 p.m., New York, New York time, on any Business Day shall be deemed received on that Business Day. All payments received by a Lender after 2:00 p.m., New York, New York time, on any Business Day shall be deemed received on the following Business Day. Each Borrower irrevocably waives the right to direct the application of any and all payments and Collateral proceeds at any time or times hereafter received by Agent or any Lender from or on behalf of such Borrower, and such Borrower does hereby irrevocably agree that Agent shall have the continuing exclusive right to apply and reapply any and all such payments and Collateral proceeds received at any time or times hereafter by Agent or its agent against the Obligations, in such manner as Agent may deem advisable.

4.8 Reserved.

4.9 Payments Free of Taxes.

4.9.1 Payments Free of Taxes. All payments by Obligor of Obligations shall be free and clear of and without reduction for any Taxes, except as otherwise provided in this **Section 4.9.1**. If Applicable Law requires any Obligor or Lender to withhold or deduct any Tax (including backup withholding or withholding Tax), Obligor or Lender shall timely pay the full amount withheld or deducted to the relevant Governmental Authority in accordance with Applicable Law and the withholding or deduction shall be based on information provided pursuant to **Section 4.10**. If the withholding or deduction is made on account of Indemnified Taxes or Other Taxes, the sum payable by Borrowers shall be increased so that Agent or Lender, as applicable, receives an amount equal to the sum it would have received if no such withholding or deduction (including deductions applicable to additional sums payable under this Section) had been made. Without limiting the foregoing, Borrowers shall timely pay all Other Taxes to the relevant Governmental Authorities.

4.9.2 Payment. Borrowers shall indemnify, hold harmless and reimburse (within 10 days after demand therefor) Agent and Lenders for any Indemnified Taxes or Other

Taxes (including those attributable to amounts payable under this Section) withheld or deducted by any Obligor or Lender, or paid by any Lender, with respect to any Obligations or Loan Documents, whether or not such Taxes were properly asserted by the relevant Governmental Authority, and including all penalties, interest and reasonable expenses relating thereto, as well as any amount that a Lender fails to pay indefeasibly to Agent under **Section 4.10**. A certificate as to the amount of any such payment or liability delivered to EB by a Lender shall be conclusive, absent manifest error. As soon as practicable after any payment of Taxes by a Borrower, EB shall deliver to the affected Lender a receipt from the Governmental Authority or other evidence of payment satisfactory to such Lender.

4.9.3 Refunds. If a Lender shall become aware that it is entitled to claim a refund from a Governmental Authority in respect of Indemnified Taxes or Other Taxes as to which it has been indemnified by Borrowers or with respect to which Borrowers have paid additional amounts pursuant to this **Section 4**, it promptly shall notify Borrowers of the availability of such refund claim and shall make a timely claim to such taxation authority for such refund at Borrowers' expense. If a Lender receives a refund (including pursuant to a claim for refund made pursuant to the preceding sentence) in respect of any Indemnified Taxes or Other Taxes as to which it has been indemnified by Borrowers or with respect to which Borrowers have paid additional amounts pursuant to this **Section 4**, it shall within 30 days from the date of such receipt pay over the amount of such refund to Borrowers, net of all reasonable out-of-pocket expenses of such Lender and without interest (other than interest paid by the relevant taxation authority with respect to such refund); provided that Borrowers, upon the request of such Lender, agree to repay the amount paid over to Borrowers (plus penalties, interest or other reasonable charges) to such Lender in the event such Lender is required to repay such refund to such taxation authority. Notwithstanding anything to the contrary in this Section, in no event will the indemnified party be required to pay any amount to an indemnifying party pursuant to this Section the payment of which would place the indemnified party in a less favorable net after-Tax position than the indemnified party would have been in if the Tax subject to indemnification and giving rise to such refund had not been deducted, withheld or otherwise imposed and the indemnification payments or additional amounts with respect to such Tax had never been paid. This paragraph shall not be construed to require any indemnified party to make available its Tax returns (or any other information relating to its Taxes that it deems confidential) to the indemnifying party or any other Person.

4.10 Lender Tax Information.

4.10.1 Status of Lenders. Each Lender shall deliver documentation and information to Agent and EB, at the times and in form required by Applicable Law or reasonably requested by Agent or EB, sufficient to permit Agent or Borrowers to determine (a) whether or not payments made with respect to Obligations are subject to Taxes, (b) if applicable, the required rate of withholding or deduction, and (c) such Lender's entitlement to any available exemption from, or reduction of, applicable Taxes for such payments or otherwise to establish such Lender's status for withholding tax purposes in the applicable jurisdiction.

4.10.2 Documentation. If any Foreign Lender is entitled to any exemption from or reduction of withholding tax for payments with respect to the Obligations, it shall deliver to EB, on or prior to the date on which it becomes a Lender hereunder (and from time to time

thereafter upon request by EB, but only if such Foreign Lender is legally entitled to do so), (a) IRS Form W-8BEN claiming eligibility for benefits of an income tax treaty to which the United States is a party; (b) IRS Form W-8ECI; (c) IRS Form W-8IMY and all required supporting documentation; (d) in the case of a Foreign Lender claiming the benefits of the exemption for portfolio interest under section 881(c) of the Code, IRS Form W-8BEN and a certificate showing such Foreign Lender is not (i) a “bank” within the meaning of section 881(c)(3)(A) of the Code, (ii) a “10 percent shareholder” of any Obligor within the meaning of section 881(c)(3)(B) of the Code, or (iii) a “controlled foreign corporation” described in section 881(c)(3)(C) of the Code; or (e) any other form prescribed by Applicable Law as a basis for claiming exemption from or a reduction in withholding tax, together with such supplementary documentation necessary to allow Borrowers to determine the withholding or deduction required to be made. Each Foreign Lender shall deliver such forms promptly upon the obsolescence, expiration, or invalidity of any form previously delivered by such Foreign Lender.

4.10.3 FATCA. If a payment made to a Lender under any Loan Document would be subject to U.S. federal withholding Tax imposed by FATCA if such Lender were to fail to comply with the applicable reporting requirements of FATCA (including those contained in Section 1471(b) or 1472(b) of the Code, as applicable), such Lender shall deliver to EB at the time or times prescribed by law and at such time or times reasonably requested by EB or Agent such documentation prescribed by Applicable Law (including as prescribed by Section 1471(b)(3)(C)(i) of the Code) and such additional documentation reasonably requested by EB as may be necessary for Borrowers to comply with their obligations under FATCA and to determine that such Lender has complied with such Lender’s obligations under FATCA or to determine the amount to deduct and withhold from such payment. Solely for purposes of this **Section 4.10.3**, “FATCA” shall include any amendments made to FATCA after the date of this Agreement.

4.10.4 Lender Obligations. Each Lender shall promptly notify Borrowers and Agent of any change in circumstances that would change any claimed Tax exemption or reduction. Each Lender shall indemnify, hold harmless and reimburse (within 10 days after demand therefor) Borrowers and Agent for any Taxes, losses, claims, liabilities, penalties, interest and expenses (including reasonable attorneys’ fees) incurred by or asserted against a Borrower or Agent by any Governmental Authority due to such Lender’s failure to deliver, or inaccuracy or deficiency in, any documentation required to be delivered by it pursuant to this Section. Each Lender authorizes Agent to set off any amounts due to Agent under this Section against any amounts payable to such Lender under any Loan Document.

4.11 Nature and Extent of Each Borrower’s Liability.

4.11.1 Joint and Several Liability. Each Borrower agrees that it is jointly and severally liable for, and absolutely and unconditionally guarantees to Agent and Lenders the prompt payment and performance of, all Obligations and all agreements under the Loan Documents. Each Borrower agrees that its guaranty obligations hereunder constitute a continuing guaranty of payment and not of collection, that such obligations shall not be discharged until the Full Payment of all Obligations, and that such obligations are absolute and unconditional, irrespective of (a) the genuineness, validity, regularity, enforceability, subordination or any future modification of, or change in, any Obligations or Loan Document, or

any other document, instrument or agreement to which any Obligor is or may become a party or be bound; (b) the absence of any action to enforce this Agreement (including this Section) or any other Loan Document, or any waiver, consent or indulgence of any kind by Agent or any Lender with respect thereto; (c) the existence, value or condition of, or failure to perfect a Lien or to preserve rights against, any security or guaranty for the Obligations or any action, or the absence of any action, by Agent or any Lender in respect thereof (including the release of any security or guaranty); (d) the insolvency of any Obligor; (e) any election by Agent or any Lender in an Insolvency Proceeding for the application of Section 1111(b)(2) of the Bankruptcy Code; (f) any borrowing or grant of a Lien by any other Borrower, as debtor-in-possession under Section 364 of the Bankruptcy Code or otherwise; (g) the disallowance of any claims of Agent or any Lender against any Obligor for the repayment of any Obligations under Section 502 of the Bankruptcy Code or otherwise; or (h) any other action or circumstances that might otherwise constitute a legal or equitable discharge or defense of a surety or guarantor, except the Full Payment of all Obligations.

4.11.2 Waivers.

(i) Each Borrower expressly waives all rights that it may have now or in the future under any Applicable Law, in equity or otherwise, to compel Agent or Lenders to marshal assets or to proceed against any Obligor, other Person or security for the payment or performance of any Obligations before, or as a condition to, proceeding against such Borrower. Each Borrower waives all defenses available to a surety, guarantor or accommodation co-obligor other than the Full Payment of all Obligations and waives, to the maximum extent permitted by Applicable Law, any right to revoke any guaranty of any Obligations as long as it is a Borrower. It is agreed among each Borrower, Agent and Lenders that the provisions of this **Section 4.11** are of the essence of the transaction contemplated by the Loan Documents and that, but for such provisions, Agent and Lenders would decline to make Term Loans. Each Borrower acknowledges that its guaranty pursuant to this Section is necessary to the conduct and promotion of its business, and can be expected to benefit such business.

(ii) Agent and Lenders may, in their discretion, pursue such rights and remedies as they deem appropriate, including realization upon Collateral or any Real Estate by judicial foreclosure or nonjudicial sale or enforcement, without affecting any rights and remedies under this **Section 4.11**. If, in taking any action in connection with the exercise of any rights or remedies, Agent or any Lender shall forfeit any other rights or remedies, including the right to enter a deficiency judgment against any Borrower or other Person, whether because of any Applicable Laws pertaining to “election of remedies” or otherwise, each Borrower consents to such action and, to the fullest extent permitted by Applicable Law, waives any claim based upon it, even if the action may result in loss of any rights of subrogation that any Borrower might otherwise have had. Any election of remedies that results in denial or impairment of the right of Agent or any Lender to seek a deficiency judgment against any Borrower shall not impair any other Borrower’s obligation to pay the full amount of the Obligations.

To the fullest extent permitted by Applicable Law, each Borrower waives all rights and defenses arising out of an election of remedies, such as nonjudicial foreclosure with respect to any security for the Obligations, even though that election of remedies destroys such Borrower's rights of subrogation against any other Person. Agent may bid all or a portion of the Obligations at any foreclosure, trustee or other sale, including any private sale, and the amount of such bid need not be paid by Agent but shall be credited against the Obligations. The amount of the successful bid at any such sale, whether Agent or any other Person is the successful bidder, shall be conclusively deemed to be the fair market value of the Collateral, and the difference between such bid amount and the remaining balance of the Obligations shall be conclusively deemed to be the amount of the Obligations guaranteed under this **Section 4.11**, notwithstanding that any present or future law or court decision may have the effect of reducing the amount of any deficiency claim to which Agent or any Lender might otherwise be entitled but for such bidding at any such sale.

4.11.3 Extent of Liability; Contribution.

(i) Notwithstanding anything herein to the contrary, each Borrower's liability under this **Section 4.11** shall be limited to the greater of (i) all amounts for which such Borrower is primarily liable, as described below, and (ii) such Borrower's Allocable Amount.

(ii) If any Borrower makes a payment under this **Section 4.11** of any Obligations (other than amounts for which such Borrower is primarily liable) (a "Guarantor Payment") that, taking into account all other Guarantor Payments previously or concurrently made by any other Borrower, exceeds the amount that such Borrower would otherwise have paid if each Borrower had paid the aggregate Obligations satisfied by such Guarantor Payments in the same proportion that such Borrower's Allocable Amount bore to the total Allocable Amounts of all Borrowers, then such Borrower shall be entitled to receive contribution and indemnification payments from, and to be reimbursed by, each other Borrower for the amount of such excess, pro rata based upon their respective Allocable Amounts in effect immediately prior to such Guarantor Payment. The "Allocable Amount" for any Borrower shall be the maximum amount that could then be recovered from such Borrower under this **Section 4.11** without rendering such payment voidable under Section 548 of the Bankruptcy Code or under any applicable state fraudulent transfer or conveyance act, or similar statute or common law.

(iii) Nothing contained in this **Section 4.11** shall limit the liability of any Borrower to pay Loans made directly or indirectly to that Borrower (including Loans advanced to any other Borrower and then re-loaned or otherwise transferred to, or for the benefit of, such Borrower), LC Obligations relating to Letters of Credit issued to support such Borrower's business, and all accrued interest, fees, expenses and other related Obligations with respect thereto, for which such Borrower shall be primarily liable for all purposes hereunder. Agent

and Lenders shall have the right, at any time in their discretion, to condition Revolver Loans and Letters of Credit upon a separate calculation of borrowing availability for each Borrower and to restrict the disbursement and use of such Loans and Letters of Credit to such Borrower.

4.11.4 Joint Enterprise. Each Borrower has requested that Agent and Lenders make this credit facility available to Borrowers on a combined basis, in order to facilitate the Transactions most efficiently and economically. Borrowers' business is a mutual and collective enterprise, and the successful operation of each Borrower is dependent upon the successful performance of the integrated group. Borrowers believe that consolidation of their credit facility will enhance the borrowing power of each Borrower and ease administration of the facility, all to their mutual advantage. Borrowers acknowledge that Agent's and Lenders' willingness to extend credit and to administer the Collateral on a combined basis hereunder is done solely as an accommodation to Borrowers and at Borrowers' request.

4.11.5 Subordination. Each Borrower hereby subordinates any claims, including any rights at law or in equity to payment, subrogation, reimbursement, exoneration, contribution, indemnification or set off, that it may have at any time against any other Obligor, howsoever arising, to the Full Payment of all Obligations.

SECTION 5. RESERVED

SECTION 6. COLLATERAL

6.1 Grant of Security Interest

To secure the prompt payment and performance of all of the Obligations, each Borrower hereby grants to Agent, for the benefit of itself as Agent and for the benefit of the Secured Parties, a continuing security interest in and Lien upon all personal Property of such Borrower, whether now owned or existing or hereafter created, acquired or arising and wheresoever located, including:

- (i) all Accounts;
- (ii) all Goods, including all Inventory and Equipment and fixtures;
- (iii) all Instruments;
- (iv) all Chattel Paper, including Electronic Chattel Paper and Tangible Chattel Paper;
- (v) all Documents;
- (vi) all General Intangibles, including all Intellectual Property, Payment Intangibles and all Software;
- (vii) all Deposit Accounts;

(viii) all Investment Property (but excluding any portion thereof that constitutes Margin Stock unless otherwise expressly provided in any Security Documents);

(ix) all Letter-of-Credit Rights;

(x) all monies now or at any time or times hereafter in the possession or under the control of Agent or a Lender or a bailee or Affiliate of Agent or a Lender, including any Cash Collateral;

(xi) all Supporting Obligations;

(xii) all Commercial Tort Claims, including those shown on **Schedule 8.1.19**;

(xiii) all accessions to, substitutions for and all replacements, products and cash and non-cash proceeds of the foregoing, including proceeds of and unearned premiums with respect to insurance policies insuring any of the Collateral and claims against any Person for loss of, damage to or destruction of any of the Collateral; and

(xiv) all books and records (including customer lists, files, correspondence, tapes, computer programs (to the extent permitted), print-outs, and other computer materials and records) of such Borrower pertaining to any of the foregoing;

provided, however, that “Collateral” shall not include any Excluded Property; and provided further, that if any property shall cease to be Excluded Property, such property shall be deemed at all times from and after the date hereof to constitute Collateral.

6.2 Lien on Deposit Accounts.

6.2.1 Deposit Accounts. As additional security for the payment and performance of the Obligations, each Borrower hereby grants to Agent, for the benefit of itself as Agent and for the benefit of the Secured Parties, a continuing security interest in and Lien upon, and hereby collaterally assigns to Agent, all of such Borrower’s right, title and interest in and to each Deposit Account of such Borrower (including each Dominion Account) and in and to any deposits or other sums at any time credited to each such Deposit Account (other than the Deposit Accounts which are excluded from the requirements set forth in **Section 7.6** (such accounts, the “Excluded Accounts”)), including any sums in any blocked account or any special lockbox account and in the accounts in which sums are deposited.

6.2.2 Cash Collateral. Each Borrower hereby grants to Agent, as security for the Obligations, a security interest in all Cash Collateral held from time to time and all proceeds thereof, whether held in a Cash Collateral Account or otherwise. Agent may apply Cash Collateral to the payment of Obligations as they become due, in such order as Agent may elect. Each Cash Collateral Account and all Cash Collateral shall, (i) prior to the Payment in Full of the

First Priority Debt, be under the dominion and control of the Agent and First Priority Agent in accordance with the Subordination Agreement, and (ii) from and after the Payment in Full of the First Priority Debt, be under the sole dominion and control of Agent, and no Borrower or other Person shall have any right to any Cash Collateral, until the Full Payment of all Obligations.

6.3 Real Estate Collateral.

The Obligations shall be secured by Mortgages upon the Real Estate located at 267 Columbia Avenue, Chapin, South Carolina and 786 Wilson Road, Newberry, South Carolina. The Mortgages shall be duly recorded, at Borrowers' expense, in each office where such recording is required to constitute a fully perfected Lien on the Real Estate covered thereby. If any Borrower acquires Real Estate having a fair market value in excess of \$500,000 hereafter, Borrowers shall, within ninety (90) days (or such longer period as the Agent shall approve in its sole discretion), execute, deliver and record a Mortgage sufficient to create (i) prior to the Payment in Full of the First Priority Debt, a second priority (subject to Permitted Liens) Lien in favor of Agent on such Real Estate, and (ii) after the Payment in Full of the First Priority Debt, a first priority (subject to Permitted Liens) Lien in favor of Agent on such Real Estate, and in each case shall deliver all Related Real Estate Documents to Agent; provided, that with respect to any Real Estate having a fair market value less than \$1,000,000 but greater than \$500,000, such actions shall only be required at the request of Agent.

6.4 Other Collateral.

6.4.1 In addition to the items of Property referred to in this **Section 6**, the Obligations shall also be secured by all of the other items of Property from time to time described in any of the Security Documents as security for any of the Obligations.

6.4.2 Borrowers shall promptly notify Agent in writing if, after the Closing Date, any Borrower obtains any interest in any Collateral consisting of material Chattel Paper, Documents, Instruments, Intellectual Property, Investment Property or Letter-of-Credit Rights and, upon Agent's request, shall promptly take such actions as Agent deems appropriate to effect Agent's duly perfected Lien upon such Collateral, including obtaining any appropriate possession, control agreement or Landlord Agreement; provided that if such interest is acquired (i) prior to the Payment in Full of the First Priority Debt, such Lien shall be a second priority Lien and, (ii) after the Payment in Full of the First Priority Debt, such Lien shall be a first priority Lien. If any Collateral is in the possession of a third party, at Agent's request, Borrowers shall use commercially reasonable efforts to obtain an acknowledgment that such third party holds the Collateral for the benefit of Agent; provided, further, that until Payment in Full of the First Priority Debt, the Agent shall not require, and Borrowers shall not deliver to Agent, possessory collateral.

6.5 No Assumption of Liability.

The security interest granted pursuant to this Agreement is granted as security only and shall not subject Agent or any Lender to, or in any way alter or modify, any obligation or liability of a Borrower with respect to or arising out of the Collateral.

6.6 Lien Perfection; Further Assurances.

Promptly, but in any event within ten (10) Business Days after receipt of Agent's written request therefor, Borrowers shall execute or cause to be executed and deliver to Agent such instruments, assignments, title certificates or other documents as are necessary under the UCC or other Applicable Law (including any motor vehicle certificates of title act) to perfect (or continue the perfection of) Agent's Lien upon the Collateral, and shall take such other action as may be requested by Agent to give effect to or carry out the intent and purposes of this Agreement. Borrower shall give Agent prompt written notice at any time it commences a material Commercial Tort Claim against any Person and shall promptly amend **Schedule 8.1.19** to include such claim, and shall execute such documents as are necessary under the UCC to grant to Agent and perfect Agent's Lien in such Commercial Tort Claim. Unless prohibited by Applicable Law, each Borrower hereby irrevocably authorizes Agent to execute and file in any jurisdiction any financing statement or amendment thereto on such Borrower's behalf, including financing statements that indicate the Collateral (i) as all assets or all personal property of Borrower or words to similar effect or (ii) as being of an equal or lesser scope, or with greater or lesser detail, than as set forth in this **Section 6**. Each Borrower also hereby ratifies its authorization for Agent to have filed in any jurisdiction any like financing statements or amendments thereto if filed prior to the date hereof. The parties agree that a carbon, photographic or other reproduction of this Agreement shall be sufficient as a financing statement and may be filed in any appropriate office in lieu thereof.

6.7 Foreign Subsidiary Stock.

Notwithstanding anything to the contrary set forth in **Section 6.1** above, the types or items of Collateral described in such Section shall include (i) only 65% of the voting stock of any Foreign Subsidiary to the extent that a pledge of more than 65% of the voting Equity Interests of such Foreign Subsidiary could result in material incremental income tax liability as a result of the application of Section 956 of the Code, taking into account actual or anticipated repatriation of funds, foreign tax credits and other relevant factors, and (ii) 100% of the non-voting stock of any Foreign Subsidiary.

SECTION 7. COLLATERAL ADMINISTRATION

7.1 Reserved.

7.1.1 Reserved.

7.1.2 Insurance of Collateral; Condemnation Proceeds.

(i) Borrowers shall maintain and pay for insurance upon all Collateral, wherever located, covering (i) casualty and hazard risks with respect to its Inventory and Equipment in such amounts and with such insurance companies as are reasonably satisfactory to Agent, and (ii) casualty and hazard insurance with respect to all of its Properties other than the Inventory and Equipment and theft, malicious mischief, and such other risks in such amounts and with such insurance companies as are consistent and in accordance with industry practice for

companies in the same or similar industry and of the size and owning Properties comparable to Borrowers; provided, however, that notwithstanding any industry standard, any amount of self-insurance must be reasonably satisfactory to Agent. **Schedule 7.1.2** describes all insurance of such Borrower in effect on the date hereof. All proceeds payable under each such policy shall be paid in accordance with **Section 4.3.8**. Each Borrower shall deliver the originals or certified copies of such policies to Agent with satisfactory lender's loss payable endorsements reasonably satisfactory to Agent naming Agent as sole loss payee, assignee or additional insured, as appropriate. Each policy of insurance or endorsement shall contain a clause requiring the insurer to give not less than thirty (30) days prior written notice to Agent in the event of cancellation of the policy for any reason whatsoever and a clause specifying that the interest of Agent shall not be impaired or invalidated by any act or neglect of a Borrower or the owner of the Property or by the occupation of the premises for purposes more hazardous than are permitted by said policy. If a Borrower fails to provide and pay for such insurance, Agent may, at its option, but shall not be required to, procure the same and charge Borrowers therefor. Each Borrower agrees to deliver to Agent, promptly as rendered, true copies of all reports made in any reporting forms to insurance companies. For so long as no Event of Default exists, each Borrower shall have the right to settle, adjust and compromise any claim with respect to any insurance maintained by such Borrower; provided, however, that all proceeds thereof are applied in the manner specified in this Agreement, and Agent agrees promptly to provide any necessary endorsement to any checks or drafts issued in payment of any such claim. Subject to the Subordination Agreement, at any time that an Event of Default exists, only Agent shall be authorized to settle, adjust and compromise such claims, and Agent shall have all rights and remedies with respect to such policies of insurance as are provided for in this Agreement and the other Loan Documents.

(ii) Any proceeds of insurance referred to in this **Section 7.1.2** and any condemnation awards that are paid to Lenders in connection with a condemnation of any of the Collateral shall be applied first to the payment of the Term Loans and then to any other Obligations outstanding.

7.1.3 Protection of Collateral. All expenses of protecting, storing, warehousing, insuring, handling, maintaining and shipping any Collateral, all Taxes imposed under any Applicable Law on any of the Collateral or in respect of the sale thereof, and all other payments required to be made by Agent to any Person to realize upon any Collateral shall be borne and paid by Borrowers. Agent shall not be liable or responsible in any way for the safekeeping of any of the Collateral or for any loss or damage thereto (except for reasonable care in the custody thereof while any Collateral is in Agent's actual possession) or for any diminution in the value thereof, or for any act or default of any warehouseman, carrier, forwarding agency, or other Person whomsoever, but the same shall be at Borrowers' sole risk. If any Tax, assessments or other charges by any Governmental Authority is or may be imposed, or if any claim shall be made which, in Agent's or any Lender's reasonable judgment, may possibly create a valid Lien on the Collateral, Agent or any Lender may without notice to Borrowers pay such

Taxes, assessments or other charges, and each Borrower hereby indemnifies and holds Agent and each Lender harmless in respect thereof. Agent or Lender will not pay any Taxes, assessments or charges to the extent that any applicable Borrower has Properly Contested such Taxes, assessments or charges. The amount of any payment by Agent or Lender under this **Section 7.1.3** shall be paid in cash on demand.

7.1.4 **Defense of Title to Collateral.** Each Borrower shall at all times defend such Borrower's title to the Collateral and Agent's Liens therein against all Persons and all claims and demands whatsoever other than Permitted Liens.

7.2 **Reserved.**

7.3 **Reserved.**

7.4 **Account Verification.** After Payment in Full of the First Priority Debt, and whether or not a Default or an Event of Default exists, Agent shall have the right at any time, in the name of Agent, any designee of Agent, or a Borrower to verify the validity, amount or any other matter relating to any Accounts of such Borrower by mail, telephone, telegraph or otherwise. Each Borrower shall cooperate fully with Agent in an effort to facilitate and promptly conclude any such verification process.

7.5 **Reserved.**

7.6 **Administration of Deposit Accounts.**

Schedule 7.6 sets forth all Deposit Accounts maintained by Borrowers, including all Dominion Accounts. Each Borrower shall take all actions necessary to establish Agent's control of each such Deposit Account (other than an account exclusively used for payroll, payroll taxes or employee benefits, or an account containing not more than \$200,000 at any time; provided, however, that amounts on deposit in all such accounts do not exceed \$500,000 in the aggregate at any time and provided further that Office Accounts may contain amounts on deposit up to \$1,000,000 in the aggregate for a period of up to three (3) consecutive Business Days, so long as all amounts contained in Office Accounts that exceed \$200,000 in the aggregate are used to repay Revolver Loans (as defined in the First Priority Loan Agreement) at the end of such period). Each Borrower shall be the sole account holder of each Deposit Account and shall not allow any other Person (other than Agent and, prior to Full Payment of the First Priority Debt, First Priority Agent) to have control over a Deposit Account or any Property deposited therein. Each Borrower shall promptly notify Agent of any opening or closing of a Deposit Account and, with the consent of Agent, will amend **Schedule 7.6** to reflect same.

SECTION 8. REPRESENTATIONS AND WARRANTIES

8.1 General Representations and Warranties.

To induce Agent and Lenders to enter into this Agreement and to make the Term Loans, each Borrower warrants and represents to Agent and Lenders that:

8.1.1 Organization and Qualification. Each Borrower and its Subsidiaries is an entity duly organized, validly existing and in good standing under the laws of the jurisdiction of its organization. Each Borrower and its Subsidiaries is duly qualified and is authorized to do business and is in good standing as a foreign corporation in each state or jurisdiction listed on **Schedule 8.1.1** hereto and in all other states and jurisdictions where the character of its Properties or the nature of its activities make such qualification necessary, except where failure to be so qualified would not have a Material Adverse Effect.

8.1.2 Power and Authority. Each Borrower and its Subsidiaries is duly authorized and empowered to enter into, execute, deliver and perform this Agreement and each of the other Loan Documents to which it is a party. The execution, delivery and performance of this Agreement and each of the other Loan Documents have been duly authorized by all necessary action and do not and will not (i) require any consent or approval of any of the holders of the Equity Interests of such Borrower or any Subsidiary; (ii) contravene such Borrower's or any Subsidiary's Organization Documents; (iii) violate, or cause such Borrower or any Subsidiary to be in default under, any provision of any Applicable Law, order, writ, judgment, injunction, decree, determination or award in effect having applicability to such Borrower or any Subsidiary; (iv) result in a breach of or constitute a default under any indenture or loan or credit agreement or any other Material Contract to which such Borrower or any Subsidiary is a party or by which it or its Properties may be bound or affected; or (v) result in, or require, the creation or imposition of any Lien (other than Permitted Liens) upon or with respect to any of the Properties now owned or hereafter acquired by such Borrower or any Subsidiary.

8.1.3 Legally Enforceable Agreement. This Agreement is, and each of the other Loan Documents when delivered under this Agreement will be, a legal, valid and binding obligation of each Borrower and its Subsidiaries signatories thereto enforceable against each of them in accordance with the respective terms of such Loan Documents, except as the enforceability thereof may be limited by bankruptcy, insolvency or other similar laws of general application affecting the enforcement of creditors' rights or general equitable principals, whether applied in law or equity.

8.1.4 Capital Structure. As of the date hereof, **Schedule 8.1.4** hereto states (i) the correct name of each Subsidiary, its jurisdiction of incorporation and the percentage of its Equity Interests having voting powers owned by each Person, (ii) the name of each Borrower's corporate Affiliates and the nature of the affiliation and (iii) the number of authorized and issued Equity Interests (and treasury shares) of such Borrower and each Subsidiary. Each Borrower has good title to all of the shares it purports to own of the Equity Interests of each of its Subsidiaries, free and clear in each case of any Lien other than Permitted Liens. All such Equity Interests have been duly issued and are fully paid and non-assessable. Except as set forth on **Schedule 8.1.4**, no Borrower has made, or obligated itself to make, any Distribution. Except as set forth on **Schedule 8.1.4**, no Borrower has issued any options to purchase, or any rights or warrants to subscribe for, or any commitments or agreements to issue or sell, or any Equity Interests or obligations convertible into, or any powers of attorney relating to, shares of the capital stock of such Borrower or any of its Subsidiaries. Except as set forth on **Schedule 8.1.4** hereto, there are no outstanding agreements or instruments binding upon the holders of a Borrower's Equity

Interests relating to the ownership of its Equity Interests. No Lender is an Affiliate of a Borrower.

8.1.5 Corporate Names. During the 5-year period preceding the date of this Agreement and as of the Closing Date, no Borrower nor any Subsidiary has been known as or used any corporate, fictitious or trade names except those listed on **Schedule 8.1.5** hereto. Except as set forth on **Schedule 8.1.5**, neither Borrowers nor any Subsidiary since 2007 has been the surviving corporation of a merger or consolidation or acquired all or substantially all of the assets of any Person.

8.1.6 Business Locations; Agent for Process. As of the date hereof, the chief executive office and other places of business of each Borrower and each Subsidiary are as listed on **Schedule 7.1.1** hereto. During the 5-year period preceding the date of this Agreement, neither of Borrowers nor any Subsidiary has had an office, place of business or agent for service of process other than as listed on **Schedule 7.1.1**. Except as shown on **Schedule 7.1.1** on the date hereof, no Inventory of a Borrower or any Subsidiary is stored with a bailee, warehouseman or similar Person, nor is any Inventory consigned to any Person.

8.1.7 Title to Properties; Priority of Liens. Each Borrower and each of its Subsidiaries has good and marketable title to and fee simple ownership of, or valid and subsisting leasehold interests in, all of its Real Estate, and good title to all of its personal Property, including all Property reflected in the financial statements referred to in **Section 8.1.9** or delivered pursuant to **Section 9.1.3**, in each case free and clear of all Liens except Permitted Liens. Each Borrower has paid or discharged, and has caused each Subsidiary to pay and discharge, all lawful claims which, if unpaid, could reasonably be expected to become a Lien against any Properties of such Borrower or such Subsidiary that is not a Permitted Lien, except to the extent such claim is being Properly Contested. The Liens granted to Agent pursuant to this Agreement and the other Security Documents are second priority Liens, subject only to those Permitted Liens which are expressly permitted by the terms of this Agreement to have priority over the Liens of Agent.

8.1.8 Reserved.

8.1.9 Financial Statements.

(i) The audited Consolidated balance sheets of Borrowers and such other Persons described therein (including the accounts of all Subsidiaries of Borrowers for the respective periods during which a Subsidiary relationship existed) as of December 31, 2011 and the unaudited interim balance sheets of Borrowers and such other Persons described therein (including the accounts of all Subsidiaries of Borrowers for the respective periods during which a Subsidiary relationship existed) as of August 31, 2012, and the related statements of income, changes in stockholder's equity, and changes in financial position for the periods ended on such date, have been prepared in accordance with GAAP, and present fairly the financial positions of Borrowers and such Persons at such dates and the results of Borrowers' operations for such period.

(ii) Since December 31, 2011, there has been no material adverse change in the condition, financial or otherwise, of EB and its Consolidated Subsidiaries and no material change in the aggregate value of Equipment and Real Estate owned by EB and its Consolidated Subsidiaries.

8.1.10 Full Disclosure. Neither this Agreement nor any other written statement furnished by a Borrower to Agent or any Lender for purposes of or in connection with this Agreement or the other Loan Documents contains or omits any material fact necessary to make the statements contained herein or therein not materially misleading as of the date as of which such information is dated in light of the circumstances under which such information was provided. There is no fact or circumstance in existence on the date hereof which Borrowers have failed to disclose to Agent in writing that could reasonably be expected to have a Material Adverse Effect.

8.1.11 Solvent Financial Condition. Each Borrower and each of its Subsidiaries is now Solvent and, after giving effect to the Term Loans to be made hereunder, the First Priority Debt to be borrowed on the date hereof and the consummation of the Transactions, each Borrower and each of its Subsidiaries will be Solvent.

8.1.12 Surety Obligations. Except as set forth on **Schedule 8.1.12**, no Borrower nor any of their Subsidiaries are obligated as surety or indemnitor under any surety or similar bond or other contract issued or entered into any agreement to assure payment, performance or completion of performance of any undertaking or obligation of any Person.

8.1.13 Taxes. The FEIN of each Borrower and each of its Subsidiaries is as shown on **Schedule 8.1.13** hereto. Each Borrower and each of its Subsidiaries has filed all federal, state and other material tax returns and other reports it is required by law to file and, to the knowledge of Borrowers, has paid, or made provision for the payment of, all Taxes upon it, its income and Properties as and when such Taxes are due and payable, except to the extent being Properly Contested. To the knowledge of each Borrower, the provision for Taxes on the books of such Borrower and each of its Subsidiaries are adequate for all years not closed by applicable statutes, and for its current Fiscal Year.

8.1.14 Brokers. There are no claims against a Borrower or amounts owing or to be owed by a Borrower for brokerage commissions, finder's fees or investment banking fees in connection with the transactions contemplated by this Agreement or any of the other Loan Documents.

8.1.15 Intellectual Property. Each Borrower and each of its Subsidiaries each owns or has the lawful right to use all Intellectual Property necessary for the present and planned future conduct of its business without, to its knowledge, any conflict with the rights of others; except as set forth on **Schedule 8.1.15**, there is no objection to, or pending or threatened Intellectual Property Claim with respect to, such Borrower's or any of its Subsidiary's right to use any such Intellectual Property and such Borrower is not aware of any grounds for challenge or objection thereto; and, except as may be disclosed on **Schedule 8.1.15**, neither Borrower nor any of its Subsidiaries pays any royalty or other compensation to any Person for the right to use any Intellectual Property (other than with respect to off-the-shelf or prepackaged software). All

such patents, trademarks, service marks, tradenames, copyrights, licenses and other similar rights are listed on **Schedule 8.1.15** hereto, to the extent they are registered under any Applicable Law or are otherwise material to a Borrower's or any of its Subsidiaries' business.

8.1.16 Governmental Approvals. Each Borrower and each of its Subsidiaries has, and is in good standing with respect to, all Governmental Approvals necessary to continue to conduct its business as heretofore or proposed to be conducted by it and to own or lease and operate its Properties as now owned or leased by it.

8.1.17 Compliance with Laws. Each Borrower and each of its Subsidiaries is and its Properties, business operations and leaseholds are in compliance in all material respects with, the provisions of all Applicable Laws (including Anti-Terrorism Laws) and there have been no citations, notices or orders of noncompliance issued to such Borrower or any of the Subsidiaries under any such law, rule or regulation. Each Borrower is in compliance in all material respects with all Environmental Laws applicable to it and Properties owned by it. No Borrower or Subsidiary has received any material Environmental Notice. No Borrower or Subsidiary has any liability with respect to any Environmental Release, environmental pollution or hazardous material on any Real Estate now (or to the knowledge of the Borrower any previously) owned, leased or operated by it that could reasonably be expected to have a Material Adverse Effect. Each Borrower has established and maintains an adequate monitoring system to insure that it remains in compliance with all Applicable Laws.

8.1.18 Burdensome Contracts. Neither Borrower nor any of its Subsidiaries is a party or subject to any contract, agreement, or charter or other corporate restriction, which has or could be reasonably expected to have a Material Adverse Effect. Neither Borrower nor any of its Subsidiaries is a party or subject to any Restrictive Agreements, except as set forth on **Schedule 8.1.18**. No such Restrictive Agreement prohibits the execution, delivery or performance of any Loan Document by an Obligor.

8.1.19 Litigation. Except as set forth on **Schedule 8.1.19** hereto, there are no actions, suits, proceedings or investigations pending or, to the knowledge of a Borrower, threatened on the date hereof against or affecting such Borrower or any of the Subsidiaries, or the business, operations, Properties, prospects, profits or condition of such Borrower or any of the Subsidiaries. Except as shown on such Schedule, neither Borrower nor any of its Subsidiaries has any interest in a Commercial Tort Claim (other than, as long as no Default or Event of Default exists, a Commercial Tort Claim for less than \$115,000). Neither such Borrower nor any of its Subsidiaries is in default on the date hereof with respect to any order, writ, injunction, judgment, decree or rule of any court, Governmental Authority or arbitration board or tribunal.

8.1.20 No Defaults. No event has occurred and no condition exists which would, upon or after the execution and delivery of this Agreement or such Borrower's performance hereunder, constitute a Default or an Event of Default. Neither Borrower nor any of its Subsidiaries is in default, and no event has occurred and no condition exists which constitutes or which with the passage of time or the giving of notice or both would constitute a default, under any Material Contract or in the payment of any Debt of such Borrower or a Subsidiary to any Person for Money Borrowed.

8.1.21 Leases. **Schedule 8.1.21** hereto is a complete listing of each capitalized and operating lease of each Borrower and its Subsidiaries on the date hereof. Each Borrower and each of its Subsidiaries is in substantial compliance with all of the terms of each of its respective capitalized and operating leases and there is no current basis upon which the lessors under any such leases could terminate same prior to the scheduled maturity or stated termination date thereof or declare such Borrower or any of its Subsidiaries in default thereunder.

8.1.22 Pension Plans. Except as disclosed on **Schedule 8.1.22** hereto, neither any Obligor nor any of its Subsidiaries maintains, sponsors, contributes to, is required to maintain or contribute to or has any liability, whether contingent or otherwise, with respect to any Plan. Each Obligor and each of its Subsidiaries are in compliance with the requirements of ERISA and the regulations promulgated thereunder with respect to each Plan in all material respects. Each Plan that is intended to qualify under Section 401(a) of the Code has received a favorable determination letter from the IRS or an application for such a letter is currently being processed by the IRS with respect thereto and, to the knowledge of the Obligors, nothing has occurred which would prevent, or cause the loss of, such qualification. No fact or situation that is reasonably likely to result in a material adverse change in the financial condition of an Obligor or any of the Subsidiaries exists in connection with any Plan. No Obligor nor any of its respective Subsidiaries has any withdrawal liability in connection with a Multiemployer Plan. No employee benefit plan (as defined in Section 3(3) of ERISA) maintained by an Obligor or a Subsidiary provides health or medical coverage, life insurance coverage, disability benefit coverage or coverage for any other welfare benefit to any former employee, officer, director or independent contractor of any Obligor or ERISA Affiliate, except for continuation coverage required by Section 4980B of the Code, Sections 601 to 608 of ERISA or any similar Applicable Law. Except as could not reasonably be expected to have a Material Adverse Effect, (i) no ERISA Event has occurred or is reasonably expected to occur; (ii) each Obligor and each ERISA Affiliate has met all applicable requirements under the Pension Funding Rules in respect of each Pension Plan, and no waiver of the minimum funding standards under the Pension Funding Rules has been applied for or obtained; (iii) as of the most recent valuation date for any Pension Plan, the funding target attainment percentage (as defined in Section 430(d)(2) of the Code) is 80% or higher and neither any Obligor nor any ERISA Affiliate knows of any facts or circumstances that could reasonably be expected to cause the funding target attainment percentage for any such plan to drop below 80% as of the most recent valuation date; (iv) neither any Obligor nor any ERISA Affiliate has incurred any liability to the PBGC other than for the payment of premiums, and there are no premium payments which have become due that are unpaid; (v) no Obligor or ERISA Affiliate has incurred, or reasonably expects to incur, any liability under Title IV of ERISA with respect to any Pension Plan (other than premiums due and not delinquent under Section 4007 of ERISA); (vi) no Obligor or ERISA Affiliate has incurred, or reasonably expects to incur, any liability (and no event has occurred which, with the giving of notice under Section 4219 of ERISA, would result in such liability) under Section 4201 or 4243 of ERISA with respect to a Multiemployer Plan; and (vii) no Obligor or ERISA Affiliate has engaged in a transaction that could be subject to Section 4069 or 4212(c) of ERISA.

8.1.23 Trade Relations. There exists no actual or threatened termination, cancellation or limitation of, or any materially adverse modification or change in, the business

relationship between a Borrower and any customer or any group of customers whose purchases individually or in the aggregate are material to the business of such Borrower, or with any material supplier or group of suppliers, and there exists no condition or state of facts or circumstances which is reasonably likely to have a Material Adverse Effect or prevent such Borrower from conducting such business after the consummation of the transactions contemplated by this Agreement in the same manner as it has heretofore been conducted.

8.1.24 Labor Relations. Except as described on **Schedule 8.1.24** hereto, neither Borrower nor any of its Subsidiaries is a party to any collective bargaining agreement on the date hereof. On the date hereof, there are no material grievances, disputes or controversies with any union or any other organization of such Borrower's or any of its Subsidiary's employees, or any threats of strikes, work stoppages or any asserted pending demands for collective bargaining by any union or organization.

8.1.25 Not a Regulated Entity. No Obligor is (i) an "investment company" or a "person directly or indirectly controlled by or acting on behalf of an investment company" within the meaning of the Investment Company Act of 1940 or (ii) subject to regulation under any other Applicable Law regarding its authority to incur Debt.

8.1.26 Margin Stock. No Borrower nor any of its Subsidiaries is engaged, principally or as one of its important activities, in the business of extending credit for the purpose of purchasing or carrying any Margin Stock.

8.1.27 Projections. All financial and business projections heretofore delivered to Agent and Lenders by Borrowers have been prepared by Borrowers in good faith and are based on reasonable assumptions.

8.1.28 Disregarded Subsidiaries. As of the Closing Date, each Subsidiary listed on **Schedule 8.1.28** is a Disregarded Subsidiary.

8.2 Survival of Representations and Warranties.

All representations and warranties of each Borrower contained in this Agreement or any of the other Loan Documents shall survive the execution, delivery and acceptance thereof by Agent, Lenders and the parties thereto and the closing of the transactions described therein or related thereto.

SECTION 9. COVENANTS AND CONTINUING AGREEMENTS

9.1 Affirmative Covenants.

Until Full Payment of the Obligations, each Borrower covenants that, unless the Required Lenders have otherwise consented in writing, it shall and shall cause each Subsidiary to:

9.1.1 Visits and Inspections. Permit representatives of Agent and Prospect and Summit, as long as either shall be an Original Lender, from time to time, as often as may be reasonably requested, but only during normal business hours and (except when a Default or an Event of Default exists) upon reasonable prior notice to such Borrower, to visit and inspect the

Properties of such Borrower and each Subsidiary, conduct appraisals of a Borrower's Properties, inspect, audit and make extracts from each Borrower's and each of its respective Subsidiary's books and records, and discuss with its officers, its employees and its independent accountants, Borrower's and each Subsidiary's business, financial condition, business prospects and results of operations. Representatives of Borrowers (including Borrowers' accountants) shall be authorized to accompany Agent on any such visit or inspection, but such authorization shall in no manner be deemed to be a requirement or condition of Agent's visits or inspections, and to the extent any of Borrowers' representatives accompany Agent on any visit or audit, such Persons shall in no manner hinder or delay the audits or inspections of Agent. Representatives of each Lender shall be authorized to accompany Agent on each such visit and inspection and to participate with Agent therein, but at their own expense, unless a Default or Event of Default exists. Neither Agent nor any Lender shall have any duty to make any such inspection and shall not incur any liability by reason of its failure to conduct or delay in conducting any such inspection.

9.1.2 Notices. Notify Agent and Lenders in writing, promptly after Borrower's obtaining knowledge thereof: (i) of the commencement of any litigation or Intellectual Property Claim affecting any Obligor or any of its Properties, whether or not the claims asserted in such litigation or Intellectual Property Claim are considered by such Borrower to be covered by insurance, and of the institution of any administrative proceeding; (ii) of any labor dispute to which any Obligor may become a party, any strikes or walkouts relating to any of its plants or other facilities, and the expiration of any labor contract to which it is a party or by which it is bound; (iii) of any default by any Obligor under, or termination of, any Material Contract or any note, indenture, loan agreement, mortgage, lease, deed, guaranty or other similar agreement relating to any Debt of such Obligor exceeding \$1,150,000; (iv) of the existence of any Default or Event of Default; (v) of any judgment against any Obligor in an amount exceeding \$862,500; (vi) of any violation or asserted violation by such Borrower of any Applicable Law (including ERISA, OSHA, FLSA, Anti-Terrorism Laws or any Environmental Laws), the adverse resolution of which could reasonably be expected to have a Material Adverse Effect or result in liability of such Borrower in an amount in excess of \$1,150,000 or result in the loss of any federal firearms license; (vii) of any Environmental Release or receipt of any Environmental Notice by an Obligor or on any Property owned or occupied by an Obligor if such Environmental Release or matters disclosed in such Environmental Notice could reasonably be expected to have a Material Adverse Effect or result in liability of such Borrower in an amount in excess of \$1,000,000; (viii) of the discharge of Borrower's independent accountants or any withdrawal or resignation by such independent accountants from their acting in such capacity; and (ix) the occurrence of any ERISA Event which could reasonably be expected to have a Material Adverse Effect or result in liability of such Borrower in an amount in excess of \$1,150,000. In addition, each Borrower shall give Agent at least ten (10) Business Days' prior written notice of any Obligor's opening of any new office or place of business.

9.1.3 Financial and Other Information. Keep adequate records and books of account with respect to its business activities in which proper entries are made in accordance with GAAP reflecting all its financial transactions; and cause to be prepared and to be furnished to Agent and Lenders the following (all to be prepared in accordance with GAAP applied on a consistent basis, unless Borrower's certified public accountants concur in any change therein,

such change is disclosed to Agent and is consistent with GAAP and, if required by Lenders, the financial covenants set forth in **Section 9.3** are amended in a manner requested by Lenders to take into account the effects of such change):

(i) as soon as available, and in any event within ninety (90) days after the close of each Fiscal Year, the unqualified audited balance sheet of Borrowers and their Subsidiaries as of the end of such Fiscal Year and the related statements of income, shareholders' equity and cash flow, on a Consolidated (and certified without material qualification) basis, by a firm of independent certified public accountants of recognized national standing selected by Borrowers but reasonably acceptable to Agent (except for a qualification for a change in accounting principles with which the accountant concurs), and setting forth in each case in comparative form the corresponding Consolidated figures for the preceding Fiscal Year and the corresponding budgeted figures for such Fiscal Year as set forth in the budget most recently delivered pursuant to **Section 9.1.5**;

(ii) as soon as available, and in any event within thirty (30) days after the end of each Fiscal Quarter, unaudited balance sheet of Borrowers and their Subsidiaries as of the end of such Fiscal Quarter and the related unaudited statements of income and cash flow for such Fiscal Quarter and for the portion of Borrowers' Fiscal Year then elapsed, on a Consolidated basis, setting forth in each case in comparative form the corresponding figures for the preceding Fiscal Year and the corresponding budgeted figures for such Fiscal Year as set forth in the budget most recently delivered pursuant to **Section 9.1.5** and certified by the principal financial officer of Borrowers as prepared in accordance with GAAP and fairly presenting the Consolidated financial position and results of operations of Borrowers and their Subsidiaries for such Fiscal Quarter and period subject only to changes from audit and year-end adjustments and except that such statements need not contain notes; and

(iii) as soon as available, and in any event within thirty (30) days after the end of each month, the unaudited balance sheet of Borrowers and their Subsidiaries as of the end of such month and the related unaudited statements of income and cash flow for such month and for the portion of Borrowers' Fiscal Year then elapsed, on a Consolidated basis, setting forth in each case in comparative form the corresponding figures for the preceding Fiscal Year and the corresponding budgeted figures for such Fiscal Year as set forth in the budget most recently delivered pursuant to **Section 9.1.5** and certified by the principal financial officer of Borrowers as prepared in accordance with GAAP and fairly presenting the Consolidated financial position and results of operations of Borrowers and their Subsidiaries for such month and period subject only to changes from audit and year-end adjustments and except that such statements need not contain notes.

Concurrently with the delivery of the financial statements described in clauses (i) and (ii) of this **Section 9.1.3**, or more frequently if requested by Agent or any Lender during any period that a Default or Event of Default exists, each Borrower shall cause to be prepared and furnished

to Agent and Lenders a Compliance Certificate executed by the chief financial officer of such Borrower, which Compliance Certificate shall include a schedule of the calculations used in determining, as of the immediately preceding Fiscal Quarter end, the calculation of Consolidated Fixed Charge Coverage Ratio and Consolidated Total Leverage Ratio for such Fiscal Quarter.

Promptly after the sending, receipt or filing thereof, each Borrower shall also provide to Agent copies of any annual report to be filed in accordance with ERISA in connection with each Plan and copies of any correspondence between such Borrower and any Governmental Authority regarding any Pension Plan or Multiemployer Plan, and such other data and information (financial and otherwise) as Agent, from time to time, may reasonably request, bearing upon or related to the Collateral or such Borrower's and each of its Subsidiaries' financial condition or results of operations including, without limitation, the most recent Borrowing Base Certificate delivered to First Priority Agent, to be provided to Lenders within ten (10) Business Days of Agent's or an Original Lender's request therefore.

9.1.4 Landlord and Storage Agreements. Provide Agent with copies of all existing agreements, and promptly after execution thereof provide Agent with copies of all agreements entered into after the Closing Date, between such Borrower and any landlord, warehouseman or bailee which owns any premises at which any Collateral may, from time to time, be kept.

9.1.5 Projections. No later than January 31 of each Fiscal Year of Borrowers, deliver to each Lender the Projections of Borrowers for the forthcoming Fiscal Year, on a month by month basis.

9.1.6 Taxes. Pay and discharge all Taxes prior to the date on which such Taxes become delinquent or penalties attach thereto, except and to the extent only that such Taxes are being Properly Contested.

9.1.7 Compliance with Laws. Comply in all material respects with all Applicable Law, including ERISA, all Environmental Laws, FLSA, OSHA, Anti-Terrorism Laws and all laws, statutes, regulations and ordinances regarding the collection, payment and deposit of Taxes, and obtain and keep in force any and all Governmental Approvals necessary to the ownership of its Properties or to the conduct of its business. Without limiting the generality of the foregoing, Borrowers and their Subsidiaries shall comply in all material respects with all Environmental Laws applicable to the ownership, lease or use of its Property now or hereafter owned, leased or operated by a Borrower or any of its Subsidiaries, will promptly pay or cause to be paid all costs and expenses incurred in connection with such compliance, and will keep or cause to be kept all such Property free and clear of any Liens imposed pursuant to such Environmental Laws. Neither Borrower nor any of its Subsidiaries will generate, use, treat, store, release or dispose of, or permit the generation, use, treatment, storage, release or disposal of Hazardous Materials on any Real Estate now or hereafter owned, leased or operated by such Borrower or any of its Subsidiaries, or transport or permit the transportation of Hazardous Materials to or from any such Real Estate, except in each case for Hazardous Materials generated, used, treated, stored, released or disposed of at any such Real Estate in compliance with all applicable Environmental Laws and reasonably required in connection with the

operation, use and maintenance of the business or operations of such Borrower or its Subsidiaries.

9.1.8 Insurance. In addition to the insurance required herein with respect to the Collateral, maintain with financially sound and reputable insurers, insurance with respect to its Properties and business against such casualties and contingencies of such type (including product liability, workers' compensation, larceny, embezzlement, or other criminal misappropriation insurance) and in such amounts as is customary in the business of such Borrower or such Subsidiary.

9.1.9 Intellectual Property. (i) Promptly after applying for or otherwise acquiring any material Intellectual Property (other than off-the-shelf or prepackaged software), deliver to Lender, in form and substance acceptable to Lender and in recordable form, all documents necessary for Lender to perfect its Lien on such material Intellectual Property; (ii) keep each License (other than any such License that failure to so keep could not reasonably be expected to have a Material Adverse Effect) affecting any Collateral (including the manufacture, distribution or disposition of Inventory) or any other material Property of Borrowers and Subsidiaries in full force and effect; pay all Royalties when due; and notify Agent of any default or breach asserted by any Person to have occurred under any License; and (iii) preserve or renew all of its Intellectual Property, the non-preservation of which could reasonably be expected to have a Material Adverse Effect.

9.1.10 Board Information Rights. Permit each Original Lender to appoint by written notice to the Borrowers one individual from time to time (the "Observer") to represent such Lender and attend all meetings of the Governing Body of EB and SportCo, through which EB or SportCo shall transact, or cause to be transacted, all of the business of EB or SportCo. The Observer shall not have the right to vote on any matter presented to the Governing Body of any Obligor or any committee thereof. Each Obligor shall give the Observer written notice of each meeting thereof at the same time and in the same manner as it notifies the members of its Governing Body of such meetings as set forth in the Organization Documents of such Obligor, and each such Obligor shall permit the Observer to attend as an observer all meetings thereof. Each Obligor shall deliver, or cause to be delivered, to the Observer all materials and other information given to the members of its Governing Body in connection with such meetings at the same time such materials and information are given to such members. The Obligors shall pay the reasonable costs and expenses of the Observer incurred in connection with attending such meetings. Any action to be taken by the Obligors in connection with this Agreement or any other Loan Document shall be taken by the Governing Body in accordance with the terms of its Organization Documents and this Agreement. If a matter is to be discussed or otherwise arises at any meeting of a Governing Body which, in the reasonable good faith judgment of such Governing Body, is not appropriate to be discussed in the presence of any Observer in order to preserve an attorney-client privilege, then such matter may be discussed without any Observer being present, so long as each Observer is given notice of the occurrence of such judgment by such Governing Body and that each Observer is being excused.

9.1.11 Treasury Management. Maintain all treasury management services with Bank of America or other financial institutions reasonably acceptable to Agent, including but not limited to services for the maintenance of all operating and Deposit Accounts (other than

the Excluded Accounts), lockbox administration, funds transfer and information reporting services, each in form and substance reasonably satisfactory to Agent.

9.1.12 Future Loan Parties.

(i) Promptly notify Agent and each Lender if any Disregarded Subsidiary acquires assets in excess of \$100,000, and cause such Disregarded Subsidiary to either become a party to this agreement as a Borrower or to guaranty the Obligations in a manner reasonably satisfactory to Agent, and to execute and deliver such documents, instruments and agreements and to take such other actions as Agent shall reasonably require to evidence and perfect a Lien in favor of Agent (for the benefit of Secured Parties) on all assets (other than Real Estate for which a Mortgage is not required pursuant to **Section 6.3**) of such Disregarded Subsidiary that would be required to be pledged as Collateral, including delivery of such legal opinions, in form and substance reasonably satisfactory to Agent, as it shall deem appropriate.

(ii) Promptly notify Agent upon any Person becoming a Subsidiary and, if such Person (i) is not a Foreign Subsidiary and (ii) is not a Disregarded Subsidiary, cause it to either become a party to this agreement as a Borrower or to guaranty the Obligations in a manner reasonably satisfactory to Agent, and to execute and deliver such documents, instruments and agreements and to take such other actions as Agent shall require to evidence and perfect a Lien in favor of Agent (for the benefit of Secured Parties) on all assets (other than Real Estate having a fair market value of less than \$500,000) of such Person that would be required to be pledged as Collateral, including delivery of such legal opinions, in form and substance reasonably satisfactory to Agent, as it shall deem appropriate.

9.1.13 Maintenance of Existence, etc. (i) Preserve, renew and maintain in full force and effect its legal existence and good standing under the Applicable Laws of the jurisdiction of its organization, except in a transaction permitted by **Section 9.2.1** or **9.2.10** and (ii) take all reasonable action to maintain all rights, privileges, permits, and franchises necessary or desirable in the normal conduct of its business, except to the extent that failure to do so could not reasonably be expected to have a Material Adverse Effect.

9.1.14 Post-Closing Matters. Execute and deliver the documents and complete the tasks set forth on **Schedule 9.1.14**, in each case within the time limits specified on such schedule, as may be extended by the Agent in its sole discretion.

9.2 Negative Covenants.

Until Full Payment of all Obligations, each Obligor covenants that unless the Required Lenders have otherwise consented in writing, it shall not and shall not permit any Subsidiary to:

9.2.1 Fundamental Changes. (i) Merge, reorganize, consolidate or amalgamate with any Person, or liquidate, wind up its affairs or dissolve itself, except for (a) mergers or consolidations of any Obligor into an Obligor, any Subsidiary into an Obligor

(with such Obligor being the survivor thereof) or any Disregarded Subsidiary into another Disregarded Subsidiary; provided, however, that the survivor of any merger or consolidation involving a Borrower shall be a Borrower and (b) dissolutions of any Disregarded Subsidiary so long as the assets thereof are contributed to a Borrower; (ii) change any Borrower's name or conduct business under any new fictitious name; or (iii) change any Borrower's state of incorporation or formation, FEIN or organizational identification number.

9.2.2 Loans. Make any loans or other advances of money to any Person other than (i) loans or other advances to an officer or employee of such Borrower, a Subsidiary or an Affiliate; provided, that the aggregate amount of all such loans and advances under this clause (i) shall not exceed \$230,000 at any time outstanding, (ii) loans or other advances to an officer or employee of such Borrower or a Subsidiary for salary, travel advances, advances against commissions and other similar advances in the Ordinary Course of Business and (iii) so long as no Default or Event of Default exists, loans from a Borrower to another Borrower pursuant to an intercompany note that is pledged to the Agent or, prior to Payment in Full of the First Priority Debt, the First Priority Agent.

9.2.3 Permitted Debt. Create, incur, assume, guarantee or suffer to exist any Debt, except:

(i) the Obligations;

(ii) accounts payable by such Borrower or a Subsidiary to trade creditors incurred in the Ordinary Course of Business and paid when due, unless the same are being Properly Contested;

(iii) obligations to pay Rentals permitted by **Section 9.2.14**;

(iv) Purchase Money Debt owing by a Borrower; provided, however, that the aggregate amount of all such Purchase Money Debt owing by Borrowers on any date does not exceed \$4,600,000;

(v) Debt for accrued payroll, Taxes and other operating expenses (other than for Money Borrowed) incurred in the Ordinary Course of Business of such Borrower or such Subsidiary, including Cash Management Obligations (as defined in the First Priority Loan Agreement on the date hereof), in each case so long as payment thereof is not past due and payable unless such Debt (other than Debt for accrued payroll) is being Properly Contested;

(vi) Debt for Money Borrowed by such Borrower (other than the Obligations), but only to the extent that such Debt is (a) outstanding on the date of this Agreement, (b) identified on **Schedule 9.2.3** and (c) not to be satisfied on the Closing Date from the proceeds of the Term Loans;

(vii) Permitted Contingent Obligations;

(viii) Debt owing by such Borrower to the other Borrower;

(ix) the First Priority Debt; provided, however, that (a) such Debt shall at all times be subject to the terms of the Subordination Agreement, and (b) no First Priority Debt may be held by any Obligor, Wellspring, or any of their respective Affiliates;

(x) Debt that is not included in any of the preceding paragraphs of this **Section 9.2.3**, is not secured by a Lien (unless such Lien is a Permitted Lien) and does not exceed at any time, in the aggregate, the sum of \$8,000,000 as to all Borrowers and their Subsidiaries.

Notwithstanding the foregoing, no Obligor shall, nor shall it permit any other Obligor or any Subsidiary to, at any time, (x) create or incur any Debt that, pursuant the terms of the documentation governing such Debt (including any intercreditor arrangement), is subordinated in any manner (including, in right of payment or as a result of lien subordination) to any other Debt of any Obligor unless such Debt is also contractually subordinated in right of payment to the Obligations or (y) enter into any arrangements (or agreements or waivers, amendments or modifications thereof) or take any other action (or permit such action to be taken) or cooperate with any other party in taking any action which would or would purport to subordinate in right of payment any Debt of any Obligor to any Debt of any other Obligor including, for this purpose, the granting of subordinated participations in any such Debt unless such subordinated participation is also subordinated in right of payment to the Obligations. Notwithstanding anything herein to the contrary, the First Priority Debt shall be deemed to be incurred pursuant to clause (ix) above.

9.2.4 Affiliate Transactions. Enter into, or be a party to any transaction with any Affiliate, except: (i) the transactions contemplated by the Loan Documents; (ii) payment of reasonable compensation to officers and employees for services actually rendered to such Borrower or its Subsidiaries, and loans and advances permitted by **Section 9.2.2**; (iii) payments to Wellspring of fees and expenses in accordance with the Expense Reimbursement Agreement as in effect on the Closing Date; provided, however, that (a) both before and after giving effect to such payments, no Default or Event of Default shall have occurred and be continuing, and (b) such payments shall not exceed \$862,500 per annum plus any amount of such payments that were prohibited from being paid pursuant to the preceding subsection (a); (iv) payment of customary directors' fees and indemnities; (v) transactions with Affiliates in the Ordinary Course of Business and pursuant to the reasonable requirements of a Borrower's or its Subsidiary's business and upon fair and reasonable terms that are no less favorable to such Borrower or such Subsidiary than such Borrower or such Subsidiary would obtain in a comparable arm's length transaction with a Person not an Affiliate or stockholder of such Borrower or such Subsidiary provided, that any such transaction in an amount equal to or greater than \$2,000,000 that involves an Affiliate (other than Bullseye Holding Company LLC and its Subsidiaries) shall require a fairness opinion from an independent third party valuation firm reasonably acceptable to the Agent and the Required Lenders; and (vi) the Transactions.

9.2.5 Limitation on Liens. Create or suffer to exist any Lien upon any of its Property, income or profits, whether now owned or hereafter acquired, except the following (collectively, "Permitted Liens"):

- (i) Liens at any time granted in favor of Agent;
- (ii) Liens for Taxes (excluding any Lien imposed pursuant to any of the provisions of ERISA) not yet due or being Properly Contested;
- (iii) statutory Liens (excluding any Lien imposed pursuant to any of the provisions of ERISA) arising in the Ordinary Course of Business of such Borrower or a Subsidiary, but only if and for so long as (x) payment in respect of any such Lien is not at the time required or the Debt secured by any such Liens is being Properly Contested and (y) such Liens do not materially detract from the value of the Property of such Borrower or such Subsidiary and do not materially impair the use thereof in the operation of Borrower's or such Subsidiary's business;
- (iv) Purchase Money Liens to secure any Purchase Money Debt to the extent the Debt secured by such Liens is permitted pursuant to **Section 9.2.3(iv)** hereof;
- (v) Liens securing Debt of a Subsidiary of such Borrower that is owing to such Borrower or to another Subsidiary of such Borrower;
- (vi) Liens arising by virtue of the rendition, entry or issuance against such Borrower or any Subsidiary, or any Property of such Borrower or any Subsidiary, of any judgment, writ, order, or decree so long as each such Lien (a) is in existence for less than twenty (20) consecutive days after it first arises or is being Properly Contested and (b) is at all times junior in priority to any Liens in favor of Agent;
- (vii) Liens incurred or deposits made in the Ordinary Course of Business to secure the performance of tenders, bids, leases, contracts (other than for the repayment of Money Borrowed), statutory obligations and other similar obligations or arising as a result of progress payments under government contracts; provided, however, that, to the extent any such Liens attach to any of the Collateral, such Liens are at all times subordinate and junior to the Liens upon the Collateral in favor of Agent on terms acceptable to Agent in its sole discretion;
- (viii) easements, rights-of-way, restrictions, covenants or other agreements of record and other similar charges or encumbrances on Real Estate of such Borrower or a Subsidiary that do not secure any monetary obligation and do not interfere in any material respect with the ordinary conduct of the business of such Borrower or such Subsidiary;
- (ix) normal and customary rights of setoff upon deposits of cash in favor of banks and other depository institutions and Liens of a collection bank arising under the UCC on Payment Items in the course of collection;

(x) Liens in existence immediately prior to the Closing Date that are satisfied in full and released on the Closing Date as a result of the application of Borrower's cash on hand at the Closing Date or the proceeds of Term Loans to be made on the Closing Date;

(xi) such other Liens as appear on **Schedule 9.2.5** hereto, to the extent provided therein;

(xii) such other Liens as Agent and Lenders in their sole discretion may hereafter approve in writing;

(xiii) Leases and subleases granted by a Borrower to other Persons not materially interfering with the conduct of such Borrower's business or affecting adversely any Liens granted to Agent;

(xiv) statutory and common law landlords' liens under leases to which such Borrower or any of its Subsidiaries is a party and for which Agent has received a Landlord Agreement;

(xv) subject to the terms of the Subordination Agreement, Liens on the Collateral in favor of the First Priority Agent securing the First Priority Debt until Full Payment of the First Priority Debt.

The foregoing negative pledge shall not apply to any Margin Stock to the extent that the application of such negative pledge to such Margin Stock would require filings or other actions by Agent or any Lender under such regulations or otherwise result in a violation of such regulations.

9.2.6 Restrictions on Payment of Certain Debt. Make any payments (whether voluntary or mandatory, or a prepayment, redemption, retirement, defeasance or acquisition) with respect to any (i) Subordinated Debt; and (ii) Money Borrowed (other than the Obligations and the First Priority Debt) prior to its due date under the agreements evidencing such Debt as in effect on the Closing Date (or as amended thereafter with the consent of Agent).

9.2.7 Distributions. Declare or make any Distributions, or set apart assets for a sinking or other analogous fund for the purpose of making Distributions, except for (i) Upstream Payments, (ii) the payment by EB to each of its members of income taxes then being assessed against such member on items of ordinary income and expense and net capital gain allocated to such member by EB in accordance with the terms of the operating agreement of EB, and (iii) the Closing Date Distribution and the Distribution to Holdings (for further Distribution to SportCo) to repay the Wellspring Debt in full on the Closing Date, which Distributions under this subclause (iii) shall be excluded from all calculations of Consolidated Fixed Charge Coverage Ratio.

9.2.8 Upstream Payments. Create or suffer to exist any encumbrance or restriction on the ability of a Subsidiary to make any Upstream Payment, except for encumbrances or restrictions (i) pursuant to the Loan Documents and the First Priority Debt

Documents, (ii) existing under Applicable Law and (iii) identified and fully disclosed in **Schedule 9.2.8**.

9.2.9 Holding Companies.

(i) SportCo. Borrowers shall cause SportCo to refrain from any business or activity other than (a) the ownership of all outstanding Equity Interests in Holdings, (b) maintaining its corporate existence, (c) participating in tax, accounting and other administrative activities as the parent of Holdings, (d) the execution and delivery of the Loan Documents to which it is a party and the performance of its obligations thereunder, (e) providing a guaranty of the First Priority Debt, and (f) activities incidental to the businesses or activities described in clauses (a) through (e) of this Section.

(ii) Holdings. Borrowers shall cause Holdings to refrain from any business or activity other than (a) the ownership of all outstanding Equity Interests in EB, (b) maintaining its corporate existence, (c) participating in tax, accounting and other administrative activities as the parent of EB, (d) the execution and delivery of the Loan Documents to which it is a party and the performance of its obligations thereunder, (e) providing a guaranty of the First Priority Debt, and (f) activities incidental to the businesses or activities described in clauses (a) through (e) of this Section.

9.2.10 Disposition of Assets. Sell, assign, lease, consign or otherwise dispose of any of its Properties or any interest therein, to or in favor of any Person, except (i) sales or leases of Properties consisting of Real Estate owned by Borrowers or their Subsidiaries, (ii) sales of Inventory in the Ordinary Course of Business, (iii) sales or leases of Properties (other than Real Estate and Accounts) not to exceed \$1,000,000 in the aggregate in any Fiscal Year of EB, (iv) sale and leaseback transactions of Properties owned by Borrowers or their Subsidiaries (other than sale and leaseback transactions involving Affiliates of Borrowers or their Subsidiaries as purchasers or lessors) and (v) other dispositions expressly authorized by other provisions of the Loan Documents.

9.2.11 Subsidiaries. Form or acquire any Subsidiary after the Closing Date or permit any existing Subsidiary to issue any additional Equity Interests, unless otherwise in compliance with **Section 9.1.12**.

9.2.12 Bill-and-Hold Sales and Consignments. Make a sale to any customer on a bill-and-hold, guaranteed sale, sale and return, sale on approval or consignment basis, or any sale on a repurchase or return basis.

9.2.13 Restricted Investments. Make or maintain any Restricted Investment.

9.2.14 Leases. Other than pursuant to (x) a sale and leaseback transaction permitted in **Section 9.2.10**, and (y) those certain leases set forth on **Schedule 9.2.14**, become a lessee under (i) any operating lease (other than an operating lease under which a Borrower or any of the Subsidiaries is lessor) of Property if, as to Borrowers and all of their Subsidiaries, the

aggregate Rentals payable during any current or future period of 12 consecutive months under the operating lease in question and all other operating leases under which Borrowers or any of their Subsidiaries are then a lessee would exceed \$1,725,000 or (ii) any capitalized lease (other than a capitalized lease under which a Borrower or any of the Subsidiaries is lessor) of Property if, as to Borrowers and all of their Subsidiaries, the aggregate value of capitalized leases (as stated on the Consolidated balance sheet of Borrowers) under which Borrowers or any of their Subsidiaries are then a lessee would exceed \$862,500.

9.2.15 Tax Consolidation. File or consent to the filing of any consolidated income tax return with any Person other than Holdings or SportCo.

9.2.16 Accounting Changes. Make any significant change in accounting treatment or reporting practices, except as may be required by GAAP, or establish a fiscal year different from the Fiscal Year.

9.2.17 Organization Documents. Amend, modify or otherwise change any of the terms or provisions in any of its Organization Documents as in effect on the date hereof, except for changes that do not affect in any way Borrower's or such Subsidiary's rights and obligations to enter into and perform the Loan Documents to which it is a party and to pay all of the Obligations and that do not otherwise have a Material Adverse Effect.

9.2.18 Restrictive Agreements. Enter into or become a party to any Restrictive Agreement; provided, however, that (i) the foregoing shall not apply to Restrictive Agreements existing on the date hereof and identified on **Schedule 8.1.18** (but shall apply to any amendment or modification expanding the scope of any restriction or condition contained in any such Restrictive Agreement), (ii) the foregoing shall not apply to liens, restrictions or conditions imposed by any Restrictive Agreement relating to secured Debt permitted by this Agreement if such liens, restrictions or conditions apply only to the Properties securing such Debt and (iii) the foregoing shall not apply to customary provisions in leases and other contracts restricting the assignment thereof.

9.2.19 Hedging Agreements. Enter into any Hedging Agreement, other than Hedging Agreements entered into to hedge or mitigate risks to which such Borrower or any of its Subsidiaries is exposed in the conduct of its business or the management of its liabilities and not for any speculative purpose.

9.2.20 Conduct of Business. Engage in any business other than the business engaged in by it on the Closing Date and any business or activities which are substantially similar, related or incidental thereto.

9.2.21 Amendments to First Priority Loan Documents. Amend, supplement or otherwise modify the First Priority Loan Documents to the extent expressly prohibited by the Subordination Agreement.

9.2.22 Pension Plans and Retirement Medical Plans. (a) Create or allow to be created (a) any new Pension Plan or (b) any employee benefit plan as defined in Section 3(3) of ERISA) which provides health or medical coverage, life insurance coverage, disability benefit

coverage or coverage for any other welfare benefit to any former employee, officer, director or independent contractor of any Obligor or ERISA Affiliate, except for continuation coverage required by Section 4980B of the Code, Section 601 to 608 of ERISA or any Applicable Law.

9.3 Financial Covenants.

9.3.1 Fixed Charge Coverage Ratio. Until Full Payment of all Obligations, Borrowers shall maintain a Consolidated Fixed Charge Coverage Ratio of not less than 1.00 to 1.00, in each case as tested at the end of each Fiscal Quarter for the immediately preceding four Fiscal Quarters.

9.3.2 Total Leverage Ratio. Until Full Payment of all Obligations, Borrowers shall maintain a Consolidated Total Leverage Ratio of not greater than 6.75 to 1.00, in each case as tested at the end of each Fiscal Quarter for the immediately preceding four Fiscal Quarters.

9.3.3 Cure Rights. Notwithstanding anything to the contrary contained herein, in the event that the Borrowers fail to comply with the financial covenants set forth in **Section 9.3.1** or **9.3.2**, as the case may be, for any Fiscal Quarter, until the date that is fifteen (15) Business Days after the date on which a Compliance Certificate for such Fiscal Quarter is required to be delivered pursuant to **Section 9.1.3(ii)**, EB shall have the right to cure such failure by issuing Capital Stock (other than Disqualified Capital Stock) to its equity holders for cash (the “Cure Right” and the proceeds of any exercise of the Cure Right, the “Cure Proceeds”), pursuant to an irrevocable written notice delivered to the Agent, and, upon receipt by the Borrowers of such Cure Proceeds within such fifteen (15) Business Day period, the financial covenants set forth in **Section 9.3.1** or **9.3.2**, as the case may be, shall be recalculated giving effect to the following pro forma adjustment:

(i) Adjusted EBITDA shall be increased, solely for the purpose of calculating the financial covenants set forth in **Section 9.3.1** or **9.3.2**, as the case may be, and not for any other purpose under this Agreement, by an amount equal to one hundred percent (100%) of the amount of the Cure Proceeds for the Fiscal Quarter with respect to which the Cure Right is exercised and each of the following three (3) Fiscal Quarters; and

(ii) If, after giving effect to the foregoing recalculations, the Obligors shall then be in compliance with the financial covenants set forth in **Section 9.3.1** or **9.3.2**, as the case may be, the Obligors shall be deemed to have complied with such financial covenants, as of the relevant date of determination with the same effect as though there had been no failure to comply therewith at such date, and any Event of Default arising from such failure of the Borrowers to comply with the financial covenants set forth in **Section 9.3.1** or **9.3.2**, as the case may be, without any further action by any party hereto, be cured and deemed not to have occurred or be continuing hereunder.

Notwithstanding anything herein to the contrary, (A) the Cure Right may not be exercised in any consecutive Fiscal Quarters; (B) the Cure Right may be exercised no more than two (2)

times during any Fiscal Year and no more than five (5) times during the term of this Agreement; (C) the aggregate amount of Cure Proceeds shall be no greater than the amount required for purposes of complying with the financial covenant that is not being met in **Section 9.3.1** or **9.3.2**, as the case may be, (D) (x) prior to the Full Payment of the First Priority Debt, one hundred percent (100%) of Cure Proceeds shall be applied by the Borrower to pay the First Priority Debt, and thereafter, one hundred percent (100%) of the Cure Proceeds shall be applied by the Borrower to pay to each Lender its Pro Rata share, as and when received by such Borrower and as a mandatory prepayment of the Term Loans (and no Prepayment Premium shall be payable in respect thereof); provided, that the Consolidated Funded Debt of the Obligors shall not be reduced by the amount of such prepayment for either the Fiscal Quarter with respect to which the Cure Right is exercised or the following three (3) Fiscal Quarters for any purpose under this Agreement; and (E) upon the Agent's receipt of a notice from Holdings or the Borrower that it intends to exercise the Cure Right, neither the Agent nor any Lender shall exercise the right to accelerate the Loans and neither the Agent nor any Lender shall exercise any right to foreclose on or take possession of the Collateral solely on the basis of an Event of Default having occurred and being continuing on account of a failure to comply with the financial covenants set forth in **Section 9.3.1** or **9.3.2**, as the case may be, until the expiration of the fifteen (15) Business Day period referred to in the first sentence of this **Section 9.3.3** (unless prior to the expiration thereof, (x) the application of the Cure Right cured such Event of Default in accordance with the foregoing provision, or (y) any Obligor notifies the Agent or the Lenders that the Obligors do not intend to exercise such right).

SECTION 10. CONDITIONS PRECEDENT

10.1 Conditions Precedent to Initial Credit Extension.

Lenders shall not be required to fund the Term Loans, or otherwise extend credit to Borrowers, unless each of the following conditions has been satisfied:

10.1.1 Loan Documents. Each of the Loan Documents (other than the Loan Documents delivered prior to the date hereof) shall have been duly executed and delivered to Agent and the Lenders by each of the signatories thereto and accepted by Agent and Lenders and each Obligor shall be in compliance with all of the terms thereof (including all representations and warranties).

10.1.2 Minimum EBITDA; Senior Leverage Ratio; Total Leverage Ratio. The Agent and the Lenders shall have received satisfactory evidence, including a certificate of a Senior Officer of the Borrowers, that (a) the Adjusted EBITDA of the Obligors for the twelve (12) Fiscal Month period ended August 31, 2012, is not less than \$53,000,000; (b) the Consolidated Senior Leverage Ratio as of the Closing Date (calculated on a pro forma basis) for the twelve (12) Fiscal Month period ending on August 31, 2012, is not greater than 2.25 to 1.00; and (c) the Consolidated Total Leverage Ratio as of the Closing Date (calculated on a pro forma basis) for the twelve (12) month period ending on August 31, 2012, is not greater than 5.25 to 1.00.

10.1.3 UCC Financing Statements and Lien Searches. Agent and the Lenders shall have received copies of all filings to be made to perfect the Liens of Agent in the Collateral,

as well as UCC and Lien searches and other evidence in form and substance satisfactory to Agent and Lenders that there are no other Liens upon any Collateral except for Permitted Liens.

10.1.4 Organization Documents. Agent and the Lenders shall have received copies of the Organization Documents of each Obligor, and all amendments thereto, certified by the Secretary of State or other appropriate officials of the jurisdiction of Borrower's and each Obligor's states of organization; provided, however, that to the extent governmental certification is not available for any such Organization Document, such Organization Document shall be certified as true, completed and correct by a Senior Officer.

10.1.5 Certificates of Existence. Agent and the Lenders shall have received certificates of existence for each Obligor, issued by the Secretary of State or other appropriate official of such Obligor's jurisdiction of organization and each jurisdiction where the conduct of such Obligor's business activities or ownership of its Property necessitates qualification.

10.1.6 Opinion Letters. Agent and the Lenders shall have received a favorable, written opinion of (i) Paul, Weiss, Rifkind, Wharton & Garrison LLP, as special counsel to Obligors and (ii) Nelson Mullins Riley & Scarborough LLP, local counsel to Borrowers organized in South Carolina, each in form and substance satisfactory to Agent.

10.1.7 Insurance. Agent and the Lenders shall have received certified copies of the property and casualty insurance policies of Borrowers with respect to the Collateral, or certificates of insurance with respect to such policies in form acceptable to Agent, and loss payable endorsements, in form reasonably satisfactory to Agent, naming Agent as loss payee with respect to each such policy and certified copies of Borrower's liability insurance policies, including product liability policies, together with endorsements naming Agent as an additional insured, all as required by the Loan Documents.

10.1.8 Dominion and Concentration Accounts. Agent and the Lenders shall be satisfied with the cash management system established by Borrowers and, subject to **Section 9.1.14**, shall have received the duly executed agreements with respect to each Dominion Account, with Borrowers' existing financial institutions for the collection or servicing of the Accounts.

10.1.9 Landlord Agreements. Subject to grace periods set forth on **Schedule 9.1.14**, Borrowers shall use commercially reasonable efforts to deliver to Agent the Landlord Agreements to be delivered pursuant to **Section 9.1.14** hereof.

10.1.10 Solvency. Agent and Lenders shall have received evidence satisfactory to them from one or more knowledgeable Senior Officers of each Borrower that, after giving effect to the financing under this Agreement and the other Transactions, each Borrower is Solvent.

10.1.11 Compliance with Laws and Other Agreements. Agent and the Lenders shall have determined or received assurances satisfactory to it that none of the Loan Documents or any of the transactions contemplated thereby violate any Applicable Law (including Environmental Laws), court order or agreement binding upon any Obligor.

10.1.12 No Material Adverse Change. No material adverse change, in the opinion of Lenders, in the business, assets, properties, liabilities (actual or contingent), operations, condition (financial or otherwise) or prospects of any Borrower or any other Obligor shall have occurred since December 31, 2011.

10.1.13 Governmental Approval. Borrowers shall have obtained all material Governmental Approvals and third party approvals and consents necessary to effect the Transactions and the other transactions contemplated hereby.

10.1.14 Payment of Fees. Borrowers shall have paid, or made provision for the payment on the Closing Date of, all fees and expenses to be paid hereunder to Agent and Lenders on the Closing Date.

10.1.15 Satisfaction of Existing Debt. Agent and the Lenders shall have received evidence satisfactory to it that the Wellspring Debt (including any accrued interest and premiums, if any) has been terminated and paid in full and all documents executed or delivered in connection therewith have been terminated substantially simultaneously with the initial closing of the transactions hereunder.

10.1.16 Financial Statements. Agent and the Lenders shall have received (i) a pro forma balance sheet of Borrowers dated as of August 31, 2012 and giving effect to the Transactions, (ii) Projections of Borrowers through calendar year 2013 and annually thereafter through 2016, giving effect to the Transactions and evidencing Borrowers' ability to comply with **Section 9.3** hereof and (iii) interim financial statements for Borrowers as of August 31, 2012.

10.1.17 Subordination Agreement. Agent and the Lenders shall have received true and correct copies of the First Priority Debt Documents, in form and substance reasonably satisfactory to Agent and Lenders. Agent, on behalf of the Secured Parties, First Priority Agent and the lenders with respect to the First Priority Debt shall have executed and delivered the Subordination Agreement, in form and substance satisfactory to Agent and First Priority Agent.

10.1.18 Pledge and Security Agreement and Guaranties. Agent and the Lenders shall have received true and correct copies of the Pledge and Security Agreement and the Guaranties, each in form and substance satisfactory to Agent and the Lenders.

10.1.19 No Litigation. No action, suit, investigation, litigation or proceeding pending or threatened in any court or before any arbitrator or governmental instrumentality that in Lenders' judgment (i) could reasonably be expected to have a Material Adverse Effect upon Borrowers' business, assets, Properties, liabilities, operations, condition or prospects, or could impair Borrowers' ability to perform satisfactorily under this Agreement or any of the other Loan Documents or (ii) could reasonably be expected to materially and adversely affect this Agreement or any of the other Loan Documents or the transactions contemplated hereby or thereby.

10.1.20 Officer's Certificates. Agent and the Lenders shall have received certificates, in form and substance satisfactory to it, from a knowledgeable Senior Officer of each

Borrower certifying that, after giving effect to the Term Loans and transactions hereunder, (i) such Borrower is Solvent; (ii) no Default or Event of Default exists; (iii) the representations and warranties set forth in **Section 8** are true and correct in all material respects; provided, however, that any representation or warranty that is qualified as to “materiality”, “Material Adverse Effect” or similar language shall be true and correct (after giving effect to any qualification therein) in all respects; and (iv) such Borrower has complied with all agreements and conditions to be satisfied by it under the Loan Documents.

10.2 Inapplicability of Conditions.

None of the conditions precedent set forth in **Section 10.1** shall be a condition to the obligation of each Lender to pay any amount payable to Agent or any other Lender pursuant to this Agreement.

SECTION 11. EVENTS OF DEFAULT; RIGHTS AND REMEDIES ON DEFAULT

11.1 Events of Default.

The occurrence or existence of any one or more of the following events or conditions shall constitute an “Event of Default” (each of which Events of Default shall be deemed to exist unless and until waived by Agent and Lenders in accordance with the provisions of **Section 12.9** hereof):

11.1.1 Payment of Obligations. Borrowers shall fail to pay any of the Obligations on the due date thereof (whether due at stated maturity, on demand, upon acceleration or otherwise).

11.1.2 Misrepresentations. Any representation, warranty or other written statement to Agent or any Lender by or on behalf of any Obligor, whether made in or furnished in compliance with or in reference to any of the Loan Documents, proves to have been false or misleading in any material respect when made or furnished or when reaffirmed pursuant to **Section 8.2** hereof.

11.1.3 Breach of Specific Covenants. Borrowers shall fail or neglect to perform, keep or observe any covenant contained in **Sections 6.6, 9.1.1, 9.1.2(iv), 9.1.3, 9.1.5, 9.1.6, 9.1.8, 9.1.13, 9.2 or 9.3** hereof on the date that Borrowers are required to perform, keep or observe such covenant.

11.1.4 Breach of Other Covenants. A Borrower shall fail or neglect to perform, keep or observe any covenant contained in this Agreement (other than a covenant which is dealt with specifically elsewhere in **Section 11.1** hereof) and the breach of such other covenant is not cured to Agent’s and Required Lenders’ satisfaction within thirty (30) days after the sooner to occur of any Senior Officer’s receipt of notice of such breach from Agent or the date on which such failure or neglect first becomes actually known to any Senior Officer; provided, however, that such notice and opportunity to cure shall not apply in the case of any failure to perform, keep or observe any covenant which is not capable of being cured at all or within such 30-day period or which is a willful and knowing breach by such Borrower.

11.1.5 Default Under Security Documents/Other Agreements. A Borrower or any other Obligor shall default in the due and punctual observance or performance (taking into account any applicable grace periods) of any liability or obligation to be observed or performed by it under any of the Other Agreements or Security Documents.

11.1.6 Other Defaults. (i) The failure to pay, on the part of any Obligor, (a) the stated principal amount of the First Priority Debt at the final stated maturity beyond any applicable cure or grace period, or (b) any other Debt of any Obligor (other than the Obligations), or (ii) the acceleration of the final stated maturity of any such Debt (which acceleration is not rescinded, annulled or otherwise cured within 30 Business Days of receipt by any Obligor of notice of any such acceleration) if, in each case in clauses (i) and (ii), the aggregate principal amount of such Debt is in excess of \$1,150,000.

11.1.7 Uninsured Losses. Any loss (other than a loss relating to an Account), theft, damage or destruction of any of the Collateral not fully covered (subject to such deductibles as Agent shall have permitted) by insurance if the aggregate amount not covered by insurance exceeds \$1,150,000 in any Fiscal Year.

11.1.8 Invalidity of Subordination Provisions, etc. Any subordination provision in any document or instrument governing Subordinated Debt, or any subordination provision in any guaranty by any Obligor of any Subordinated Debt, shall cease to be in full force and effect, or any Obligor or any other Person (including the holder of any applicable Subordinated Debt) shall contest in any manner the validity, binding nature or enforceability of any such provision.

11.1.9 Solvency. Any Obligor shall cease to be Solvent.

11.1.10 Insolvency Proceedings. Any Insolvency Proceeding shall be commenced by any Obligor; an Insolvency Proceeding is commenced against any Obligor and any of the following events occur: such Obligor consents to the institution of the Insolvency Proceeding against it, the petition commencing the Insolvency Proceeding is not timely contested by such Obligor, the petition commencing the Insolvency Proceeding is not dismissed within thirty (30) days after the date of the filing thereof, an interim trustee is appointed to take possession all or a substantial portion of the Properties of such Obligor or to operate all or any substantial portion of the business of such Obligor or an order for relief shall have been issued or entered in connection with such Insolvency Proceeding; or any Obligor shall make an offer of settlement extension or composition to its unsecured creditors generally.

11.1.11 Business Disruption; Condemnation. There shall occur a cessation of a substantial part of the business of any Obligor for a period which may be reasonably expected to have a Material Adverse Effect; or any Obligor shall suffer the loss or revocation of any Governmental Approvals now held or hereafter acquired by such Obligor which is material to the operations of such Borrower or necessary to the continued or lawful operation of its business; or any Obligor shall be enjoined, restrained or in any way prevented by court, governmental or administrative order from conducting all or any material part of its business affairs; or any material lease or agreement pursuant to which any Obligor leases or occupies any premises on which any Collateral is located shall be canceled or terminated prior to the expiration of its stated

term and such cancellation or termination has a Material Adverse Effect; or any material part of the Collateral shall be taken through condemnation or the value of such Property shall be materially impaired through condemnation.

11.1.12 Change of Control. There shall occur any Change of Control.

11.1.13 ERISA. An ERISA Event occurs with respect to a Pension Plan or Multiemployer Plan which could reasonably be expected to have a Material Adverse Effect or that has resulted or could reasonably be expected to result in liability of an Obligor to a Pension Plan, Multiemployer Plan or PBGC in an amount in excess of \$1,150,000, or that constitutes grounds for appointment of a trustee for or termination by the PBGC of any Pension Plan or Multiemployer Plan; or an Obligor or ERISA Affiliate fails to pay when due any installment payment with respect to its withdrawal liability under Section 4201 of ERISA under a Multiemployer Plan.

11.1.14 Challenge to Loan Documents. Any Obligor or any of its Affiliates shall challenge or contest in any action, suit or proceeding the validity or enforceability of any of the Loan Documents, the legality or enforceability of any of the Obligations or the perfection or priority of any Lien granted to Agent, or any of the Loan Documents ceases to be in full force or effect for any reason other than a full or partial waiver or release by Agent and Lenders in accordance with the terms thereof.

11.1.15 Judgment. One or more judgments or orders for the payment of money in an amount that exceeds, individually or in the aggregate, \$1,150,000 shall be entered against a Borrower or any other Obligor and either (i) enforcement proceedings shall have been commenced by any creditor upon such judgment or order or (ii) there shall be any period of thirty (30) consecutive days during which a stay of enforcement of such judgment or order, by reason of a pending appeal or otherwise, shall not be in effect.

11.1.16 Criminal Forfeiture. Any Obligor shall be convicted under any criminal law that could lead to a forfeiture of any Property of such Obligor.

11.2 Acceleration of Obligations.

Without in any way limiting the right of Agent to demand payment of any portion of the Obligations payable on demand in accordance with this Agreement:

11.2.1 Upon or at any time after the occurrence of an Event of Default (other than pursuant to **Section 11.1.10** hereof) and for so long as such Event of Default shall exist, Agent may in its discretion (and, upon receipt of written instructions to do so from the Required Lenders, shall) declare the principal of and any accrued interest on the Term Loans and all other Obligations owing under any of the Loan Documents to be, whereupon the same shall become without further notice or demand (all of which notice and demand Borrowers expressly waives), forthwith due and payable and Borrowers shall forthwith pay to each Lender its Pro Rata share of the entire principal of and accrued and unpaid interest on the Term Loans and other Obligations plus reasonable attorneys' fees and expenses if such principal and interest are collected by or through an attorney-at-law.

11.2.2 Upon the occurrence of an Event of Default specified in **Section 11.1.10** hereof, all of the Obligations shall become automatically due and payable without declaration, notice or demand by Agent to or upon Borrowers.

11.3 Other Remedies.

Upon and after the occurrence of an Event of Default and for so long as such Event of Default shall exist, Agent may in its discretion (and, upon receipt of written direction of Lenders, shall) exercise from time to time the following rights and remedies (without prejudice to the rights of Agent or any Lender to enforce its claim against any or all Obligor(s)):

11.3.1 All of the rights and remedies of a secured party under the UCC or under other Applicable Law, and all other legal and equitable rights to which Agent may be entitled under any of the Loan Documents, all of which rights and remedies shall be cumulative and shall be in addition to any other rights or remedies contained in this Agreement or any of the other Loan Documents, and none of which shall be exclusive.

11.3.2 The right to collect all amounts at any time payable to a Borrower from any Account Debtor or other Person at any time indebted to a Borrower.

11.3.3 The right to take immediate possession of any of the Collateral, and to (i) require Borrowers to assemble the Collateral, at Borrower's expense, and make it available to Agent at a place designated by Agent which is reasonably convenient to both parties, and (ii) enter any premises where any of the Collateral shall be located and to keep and store the Collateral on said premises until sold (and if said premises be the Property of a Borrower, then such Borrower agrees not to charge Agent or any Lender for storage thereof).

11.3.4 The right to sell or otherwise dispose of all or any Collateral in its then condition, or after any further manufacturing or processing thereof, at public or private sale or sales, with such notice as may be required by Applicable Law, in lots or in bulk, for cash or on credit, all as Agent, in its sole discretion, may deem advisable. Each Borrower agrees that any requirement of notice to such Borrower or any other Obligor of any proposed public or private sale or other disposition of Collateral by Agent shall be deemed reasonable notice thereof if given at least ten (10) days prior thereto, and such sale may be at such locations as Agent may designate in said notice. Agent shall have the right to conduct such sales on Borrower's or any other Obligor's premises, without charge therefor, and such sales may be adjourned from time to time in accordance with Applicable Law. Agent shall have the right to sell, lease or otherwise dispose of the Collateral, or any part thereof, for cash, credit or any combination thereof, and Agent may purchase all or any part of the Collateral at public or, if permitted by law, private sale and, in lieu of actual payment of such purchase price, may set off the amount of such price against the Obligations. The proceeds realized from the sale or other disposition of any Collateral may be applied, after allowing two (2) Business Days for collection, first to any Extraordinary Expenses incurred by Agent, second to interest accrued with respect to any of the Obligations; and third, to the principal balance of the Obligations. If any deficiency shall arise, Obligor(s) shall remain jointly and severally liable to Agent and Lenders therefor.

11.3.5 The right to the appointment of a receiver, without notice of any kind whatsoever, to take possession of all or any portion of the Collateral and to exercise such rights and powers as the court appointing such receiver shall confer upon such receiver.

To the fullest extent assignable by Borrowers, Agent is hereby granted an irrevocable, non-exclusive license or other right to use, license or sub-license (exercisable without payment of royalty or other compensation to any Obligor or any other Person) any or all of Borrower's Intellectual Property and all of Borrower's computer hardware and software trade secrets, brochures, customer lists, promotional and advertising materials, labels, and packaging materials, and any Property of a similar nature, in advertising for sale, marketing, selling and collecting and in completing the manufacturing of any Collateral, and Borrower's rights under all licenses and all franchise agreements shall inure to Agent's benefit.

11.4 Setoff.

Subject to the Subordination Agreement, and in addition to any Liens granted under any of the Loan Documents and any rights now or hereafter available under Applicable Law, Agent, each Lender (and each of their respective Affiliates) is hereby authorized by each Borrower at any time that an Event of Default exists, without notice to Borrowers or any other Person (any such notice being hereby expressly waived) to set off and to appropriate and to apply any and all deposits, general or special (including Debt evidenced by certificates of deposit whether matured or unmatured (but not including trust accounts)) and any other Debt at any time held or owing by Agent, such Lender or any of their Affiliates to or for the credit or the account of Borrowers against and on account of the Obligations of Borrowers arising under the Loan Documents to Agent, such Lender or any of their Affiliates including all claims of any nature or description arising out of or in connection with this Agreement, irrespective of whether or not (i) Agent or such Lender shall have made any demand hereunder, (ii) Agent, at the request or with the consent of Lenders, shall have declared the principal of and interest on the Term Loans and other amounts due hereunder to be due and payable as permitted by this Agreement and even though such Obligations may be contingent or unmatured or (iii) the Collateral for the Obligations is adequate. Notwithstanding the foregoing, each of Agent and Lenders agree with each other that it shall not, without the express consent of Lenders, and that it shall (to the extent that (x) it is lawfully entitled to do so and (y) the accounts are not subject to Permitted Liens in favor of Agent or such Lender as set forth in **Section 9.2.5(ix)**) upon the request of Lenders, exercise its setoff rights hereunder against any accounts of Borrowers now or hereafter maintained with Agent such Lender or any Affiliate of any of them, but Borrowers shall have no claim or cause of action against Agent or any Lender for any setoff made without the consent of Lenders and the validity of any such setoff shall not be impaired by the absence of such consent. If any party (or its Affiliate) exercises the right of setoff provided for hereunder, such party shall be obligated to share any such setoff in the manner and to the extent required by **Section 12.5**.

11.5 Remedies Cumulative; No Waiver.

11.5.1 All covenants, conditions, provisions, warranties, guaranties, indemnities, and other undertakings of Borrowers contained in this Agreement and the other Loan Documents, or in any document referred to herein or contained in any agreement supplementary hereto or in any schedule or contained in any other agreement between Agent or

any Lender and Borrowers, heretofore, concurrently, or hereafter entered into, shall be deemed cumulative to and not in derogation or substitution of any of the terms, covenants, conditions, or agreements of Borrowers herein contained. The rights and remedies of Agent and Lenders under this Agreement and the other Loan Documents shall be cumulative and not exclusive of any rights or remedies that Agent or any Lender would otherwise have. All such rights and remedies shall continue in full force and effect until full payment of all Obligations.

11.5.2 No waiver or course of dealing shall be established by (i) the failure or delay of Agent or any Lender to require strict performance by Borrowers with any terms of the Loan Documents, or to exercise any rights or remedies with respect to Collateral or otherwise; or (ii) acceptance by Agent or any Lender of any payment or performance by an Obligor under any Loan Documents in a manner other than that specified therein. It is expressly acknowledged by Borrowers that any failure to satisfy a financial covenant on a measurement date shall not be cured or remedied by satisfaction of such covenant on a subsequent date.

11.5.3 If Agent or any Lender shall accept performance by Borrowers, in whole or in part, of any obligation that Borrowers are required by any of the Loan Documents to perform only when a Default or Event of Default exists, or if Agent or any Lender shall exercise any right or remedy under any of the Loan Documents that may not be exercised other than when a Default or Event of Default exists, Agent's or Lender's acceptance of such performance by Borrowers or Agent's or Lender's exercise of any such right or remedy shall not operate to waive any such Event of Default or to preclude the exercise by Agent or any Lender of any other right or remedy, unless otherwise expressly agreed in writing by Agent or such Lender, as the case may be.

SECTION 12. AGENT

12.1 Appointment, Authority and Duties of Agent.

12.1.1 Appointment and Authority. Each Secured Party hereby irrevocably appoints and designates Prospect Capital Corporation as Agent under all the Loan Documents. Agent may, and each Secured Party by its acceptance of a Term Loan shall be deemed irrevocably to have authorized Agent to, enter into all Loan Documents to which Agent is or is intended to be a party and all amendments hereto and all Security Documents at any time executed by Borrowers, for the benefit of the Secured Parties, except as otherwise provided in this **Section 12**, to exercise such rights and powers under this Agreement and the other Loan Documents as are specifically delegated to Agent by the terms hereof and thereof, together with such other rights and powers as are reasonably incidental thereto. Each Secured Party agrees that any action taken by Agent or Lenders in accordance with the provisions of this Agreement or the other Loan Documents, and the exercise by Agent or Lenders of any of the powers set forth herein or therein, together with such other powers as are reasonably incidental thereto, shall be authorized and binding upon all Lenders. Without limiting the generality of the foregoing, Agent shall have the sole and exclusive right and authority to (i) execute and deliver as Agent each Loan Document and accept delivery of each such agreement delivered by Borrowers or any other Obligor; (ii) act as collateral agent for Secured Parties for purposes of the perfection of all security interests and Liens created by this Agreement or the Security Documents with respect to all material items of the Collateral and, subject to the direction of Required Lenders or other

Secured Parties, for all other purposes stated therein; provided, however, that Agent hereby appoints, authorizes and directs each Secured Party to act as a collateral sub-agent for Agent and the other Lenders for purposes of the perfection of all security interests and Liens with respect to Borrower's Deposit Accounts maintained with, and all cash and Cash Equivalents held by, such Secured Party; (iii) subject to the direction of Required Lenders or other Secured Parties, manage, supervise or otherwise deal with the Collateral; and (iv) except as may be otherwise specifically restricted by the terms of this Agreement and subject to the direction of Required Lenders or other Secured Parties, exercise all remedies given to Agent with respect to any of the Collateral under the Loan Documents relating thereto, Applicable Law or otherwise. The duties of Agent shall be ministerial and administrative in nature, and Agent shall not have by reason of this Agreement or any other Loan Document a fiduciary relationship with any Secured Party (or any Lender's participants).

12.1.2 Duties. Agent (which term, as used in this sentence, shall include reference to Agent's officers, directors, employees, attorneys, agents and Affiliates and to the officers, directors, employees, attorneys and agents of Agent's Affiliates) shall not: (i) have any duties or responsibilities except those expressly set forth in this Agreement and the other Loan Documents or (ii) be required to take, initiate or conduct any litigation, foreclosure or collection proceedings hereunder or under any of the other Loan Documents except to the extent directed to do so by Lenders during the continuance of any Event of Default. The conferral upon Agent of any right hereunder shall not imply a duty on Agent's part to exercise any such right unless instructed to do so by Lenders in accordance with this Agreement.

12.1.3 Agent Professionals. Agent may perform any of its duties by or through its agents and employees and may employ one or more Agent Professionals and shall not be responsible for the negligence or misconduct of any such Agent Professionals selected by it with reasonable care. Borrowers shall promptly (and in any event, **on demand**) reimburse Agent for all reasonable expenses (including all Extraordinary Expenses) incurred by Agent pursuant to any of the provisions hereof or of any of the other Loan Documents or in the execution of any of Agent's duties hereby or thereby created or in the exercise of any right or power herein or therein imposed or conferred upon it or Lenders (excluding, however, general overhead expenses), and each Lender agrees promptly to pay to Agent, **on demand**, such Lender's Pro Rata share of any such reimbursement for expenses (including Extraordinary Expenses) that is not timely made by Borrowers to Agent.

12.1.4 Instructions of Required Lenders. The rights, remedies, powers and privileges conferred upon Agent hereunder and under the other Loan Documents may be exercised by Agent without the necessity of the joinder of any other parties unless otherwise required by Applicable Law. Agent may request instructions from the Required Lenders or other Secured Parties with respect to any act or action (including the failure to act) in connection with any Loan Documents or Collateral, and may seek assurances to its satisfaction from Secured Parties of their indemnification obligations against Claims that could be incurred by Agent. Agent may refrain from any act until it has received such instructions or assurances and shall not incur liability to any Person by reason of so refraining. Instructions of Required Lenders shall be binding upon all Secured Parties, and no Secured Party shall have any right of action whatsoever against Agent as a result of Agent acting or refraining from acting pursuant to instructions of

Required Lenders. Without limiting the foregoing, no Secured Party shall have any right of action whatsoever against Agent as a result of Agent acting or refraining from acting hereunder or under any of the Loan Documents pursuant to or in accordance with the instructions of Required Lenders except for Agent's own gross negligence or willful misconduct in connection with any action taken by it. Notwithstanding anything to the contrary contained in this Agreement, Agent shall not be required to take any action that is in its opinion contrary to Applicable Law or the terms of any of the Loan Documents or that would in its reasonable opinion subject it or any of its officers, employees or directors to personal liability; provided, however, that if Agent shall fail or refuse to take action that is not contrary to Applicable Law or to any of the terms of any of the Loan Documents even if such action in Agent's opinion would subject it to potential liability, Lenders may remove Agent and appoint a successor Agent in the same manner and with the same effects as is provided in this Agreement with respect to Agent's resignation.

12.2 Agreements Regarding Collateral.

Secured Parties hereby irrevocably authorize Agent, at its option and in its discretion, to release any Lien upon any Collateral (i) upon payment or satisfaction of all of the Obligations, (ii) constituting Equipment or Inventory sold or disposed of in accordance with the terms of **Section 7.4.2** of this Agreement if a Borrower certifies to Agent that the disposition is made in compliance with the terms **Section 7.4.2** of this Agreement (and Agent may rely conclusively on any such certificate, without further inquiry), or (iii) subject to **Section 12.9**, if approved or ratified by Lenders; provided, however, that Agent (without the consent of any Secured Party) shall be authorized to release any Lien upon any Collateral having a Net Book Value of less than \$500,000 in the aggregate during any 12-month period. Agent shall have no obligation whatsoever to any of Secured Parties to assure that any of the Collateral exists or is owned by a Borrower or is cared for, protected or insured or has been encumbered, or that Agent's Liens have been properly or sufficiently or lawfully created, perfected, protected or enforced or entitled to any particular priority or to exercise any duty of care with respect to any of the Collateral.

12.3 Reliance By Agent.

Agent shall be entitled to rely, and shall be fully protected in so relying, upon any certification, notice or other communication (including any thereof by telephone, telex, telegram, telecopier message or cable) believed by it to be genuine and correct and to have been signed, sent or made by or on behalf of the proper Person or Persons, and upon advice and statements of Agent Professionals selected by Agent. As to any matters not expressly provided for by this Agreement or any of the other Loan Documents, Agent shall in all cases be fully protected in acting or refraining from acting hereunder and thereunder in accordance with the instructions of Lenders, and such instructions of Lenders and any action taken or failure to act pursuant thereto shall be binding upon Lenders. Agent shall have a reasonable and practicable amount of time to act upon any instruction, notice or other communication under any Loan Document, and shall not be liable for any delay in acting.

12.4 Action Upon Default.

Agent shall not be deemed to have knowledge of the occurrence of a Default or an Event of Default or of any failure to satisfy any condition in **Section 10**, unless it has received written notice from Lenders or Borrowers specifying the occurrence and nature of such Default or Event of Default or failure of such condition. If Agent shall receive such a notice of a Default or an Event of Default or shall otherwise acquire actual knowledge of any Default or Event of Default, Agent shall promptly notify Lenders in writing and Agent shall take such action and assert such rights under this Agreement and the other Loan Documents, or shall refrain from taking such action and asserting such rights, as Lenders shall direct from time to time. If any Lender shall receive a notice of a Default or an Event of Default or shall otherwise acquire actual knowledge of any Default or Event of Default, such Lender shall promptly notify Agent and the other Lenders in writing. As provided in **Section 12.3** hereof, Agent shall not be subject to any liability by reason of acting or refraining to act pursuant to any request of Lenders except for its own willful misconduct or gross negligence in connection with any action taken by it. Each Secured Party agrees that, except as otherwise provided in any of the Loan Documents and without the prior written consent of Lenders, it will not take any legal action or institute any action or proceeding against any Obligor with respect to any of the Obligations or Collateral or accelerate or otherwise enforce its portion of the Obligations. Without limiting the generality of the foregoing, no Secured Party may exercise any right that it might otherwise have under Applicable Law to credit bid at foreclosure sales, UCC sales or other similar sales or dispositions of any of the Collateral except as authorized by Lenders. Notwithstanding anything to the contrary set forth in this **Section 12.4** or elsewhere in this Agreement, each Lender shall be authorized to take such action to preserve or enforce its rights against any Obligor where a deadline or limitation period is otherwise applicable and would, absent the taken of specified action, bar the enforcement of Obligations held by such Lender against such Obligor, including the filing of proofs of claim in any Insolvency Proceeding.

12.5 Ratable Sharing.

If any Lender shall obtain any payment or reduction (including any amounts received as adequate protection of a bank account deposit treated as cash collateral under the Bankruptcy Code) of any Obligation of Borrowers hereunder (whether voluntary, involuntary, through the exercise of any right of set-off or otherwise) in excess of its Pro Rata share of payments or reductions on account of such Obligations obtained by all of Lenders, such Lender shall forthwith (i) notify the other Lenders and Agent of such receipt and (ii) purchase from the other Lenders such participations in the affected Obligations as shall be necessary to cause such purchasing Lender to share the excess payment or reduction, net of costs incurred in connection therewith, on a Pro Rata basis; provided, however, that if all or any portion of such excess payment or reduction is thereafter recovered from such purchasing Lender or additional costs are incurred, the purchase shall be rescinded and the purchase price restored to the extent of such recovery or such additional costs, but without interest. Each Borrower agrees that any Lender so purchasing a participation from another Lender pursuant to this **Section 12.5** may, to the fullest extent permitted by Applicable Law, exercise all of its rights of payment (including the right of set-off) with respect to such participation as fully as if such Lender were the direct creditor of such Borrower in the amount of such participation.

12.6 Indemnification of Agent Indemnitees.

12.6.1 Each Lender agrees to indemnify and defend the Agent Indemnitees (to the extent not reimbursed by Borrowers under this Agreement, but without limiting the indemnification obligation of Borrowers under this Agreement), on a Pro Rata basis, and to hold each of the Agent Indemnitees harmless from and against, any and all Claims which may be imposed on, incurred by or asserted against any of the Agent Indemnitees in any way related to or arising out of this Agreement or any of the other Loan Documents or any other document contemplated by or referred to herein or therein or the transactions contemplated hereby or thereby (including the costs and expenses which Borrowers are obligated to pay under **Section 14.2** hereof) or the enforcement of any of the terms hereof or thereof or of any such other documents; provided, however, that no Lender shall be liable to any Agent Indemnitee for any of the foregoing to the extent that they result solely from the willful misconduct or gross negligence of such Agent Indemnitee.

12.6.2 Without limiting the generality of the foregoing provisions of this **Section 12.6**, if Agent should be sued by any receiver, trustee in bankruptcy, debtor-in-possession or other Person on account of any alleged preference or fraudulent transfer received or alleged to have been received from a Borrower or any other Obligor as the result of any transaction under the Loan Documents, then in such event any monies paid by Agent in settlement or satisfaction of such suit, together with all Extraordinary Expenses incurred by Agent in the defense of same, shall be promptly reimbursed to Agent by Lenders to the extent of each Lender's Pro Rata share.

12.6.3 Without limiting the generality of the foregoing provisions of this **Section 12.6**, if at any time (whether prior to or after the Commitment Termination Date) any action or proceeding shall be brought against any of the Agent Indemnitees by an Obligor or by any other Person claiming by, through or under an Obligor, to recover damages for any act taken or omitted by Agent under any of the Loan Documents or in the performance of any rights, powers or remedies of Agent against any Obligor, any Account Debtor, the Collateral or with respect to any Term Loans, or to obtain any other relief of any kind on account of any transaction involving any Agent Indemnitees under or in relation to any of the Loan Documents, each Lender agrees to indemnify, defend and hold the Agent Indemnitees harmless with respect thereto and to pay to the Agent Indemnitees such Lender's Pro Rata share of such amount as any of the Agent Indemnitees shall be required to pay by reason of a judgment, decree, or other order entered in such action or proceeding or by reason of any compromise or settlement agreed to by the Agent Indemnitees, including all interest and costs assessed against any of the Agent Indemnitees in defending or compromising such action, together with attorneys' fees and other legal expenses paid or incurred by the Agent Indemnitees in connection therewith; provided, however, that no Lender shall be liable to any Agent Indemnitee for any of the foregoing to the extent that they arise solely from the willful misconduct or gross negligence of such Agent Indemnitee. In Agent's discretion, Agent may also reserve for or satisfy any such judgment, decree or order from proceeds of Collateral prior to any distributions therefrom to or for the account of Lenders.

12.7 Limitation on Responsibilities of Agent.

Agent shall in all cases be fully justified in failing or refusing to act hereunder unless it shall have received further assurances to its satisfaction from Lenders of their indemnification

obligations under **Section 12.6** hereof against any and all Claims which may be incurred by Agent by reason of taking or continuing to take any such action. Agent shall not be liable to any Secured Party (or any Lender's participants) for any action taken or omitted to be taken under or in connection with this Agreement or the other Loan Documents except as a result of actual gross negligence or willful misconduct on the part of Agent. Agent does not assume any responsibility for any failure or delay in performance or breach by any Obligor, any Lender or other Secured Party of its obligations under this Agreement or any of the other Loan Documents. Agent does not make to Lenders or other Secured Parties, and no Lender makes to Agent or the other Lenders or Secured Parties, any express or implied warranty, representation or guarantee with respect to the Term Loans, the Collateral, the Loan Documents or any Obligor. Neither Agent nor any of its officers, directors, employees, attorneys or agents shall be responsible to Secured Parties, and no Secured Party nor any of its agents, attorneys or employees shall be responsible to Agent or the other Secured Parties, for: (i) any recitals, statements, information, representations or warranties contained in any of the Loan Documents or in any certificate or other document furnished pursuant to the terms hereof; (ii) the execution, validity, genuineness, effectiveness or enforceability of any of the Loan Documents; (iii) the validity, genuineness, enforceability, collectability, value, sufficiency or existence of any Collateral, or the perfection or priority of any Lien therein; or (iv) the assets, liabilities, financial condition, results of operations, business, creditworthiness or legal status of any Obligor or any Account Debtor. Neither Agent nor any of its officers, directors, employees, attorneys or agents shall have any obligation to any Secured Party to ascertain or inquire into the existence of any Default or Event of Default, the observance or performance by any Obligor of any of the duties or agreements of such Obligor under any of the Loan Documents or the satisfaction of any conditions precedent contained in any of the Loan Documents. Agent may consult with and employ legal counsel, accountants and other experts and shall be entitled to act upon, and shall be fully protected in any action taken in good faith reliance upon, any advice given by such experts.

12.8 Successor Agent and Co-Agents.

12.8.1 Subject to the appointment and acceptance of a successor Agent as provided below, Prospect Capital Corporation may resign as Agent at any time by giving at least thirty (30) days written notice thereof to each Lender and Borrowers. Upon receipt of any notice of such resignation, Required Lenders shall have the right to appoint a successor Agent which shall be (i) a Lender, (ii) a United States based affiliate of a Lender, or (iii) a commercial bank that is organized under the laws of the United States or of any State thereof and has a combined capital surplus of at least \$200,000,000 and, provided no Default or Event of Default then exists, is reasonably acceptable to Borrowers (and for purposes hereof, any successor to Prospect Capital Corporation shall be deemed acceptable to Borrowers). Upon the acceptance by a successor Agent of an appointment to serve as an Agent hereunder, such successor Agent shall thereupon succeed to and become vested with all the rights, powers, privileges and duties of the retiring Agent without further act, deed or conveyance, and the retiring Agent shall be discharged from its duties and obligations hereunder. After any retiring Agent's resignation hereunder as Agent, the provisions of this **Section 12** (including the provisions of **Section 12.6** hereof) shall continue in effect for its benefit in respect of any actions taken or omitted to be taken by it while it was acting as Agent. Notwithstanding anything to the contrary contained in this Agreement, any successor by merger or acquisition of the stock or assets of Prospect Capital Corporation

shall continue to be Agent hereunder unless such successor shall resign in accordance with the provisions hereof.

12.8.2 It is the purpose of this Agreement that there shall be no violation of any Applicable Law denying or restricting the right of financial institutions to transact business as agent or otherwise in any jurisdiction. It is recognized that, in case of litigation under any of the Loan Documents, or in case Agent deems that by reason of present or future laws of any jurisdiction Agent might be prohibited from exercising any of the powers, rights or remedies granted to Agent or Lenders hereunder or under any of the Loan Documents or from holding title to or a Lien upon any Collateral or from taking any other action which may be necessary hereunder or under any of the Loan Documents, Agent may appoint an additional Person as a separate collateral agent or co-collateral agent which is not so prohibited from taking any of such actions or exercising any of such powers, rights or remedies. If Agent shall appoint an additional Person as a separate collateral agent or co-collateral agent as provided above, each and every remedy, power, right, claim, demand or cause of action intended by any of the Loan Documents to be exercised by or vested in or conveyed to Agent with respect thereto shall be exercisable by and vested in such separate collateral agent or co-collateral agent, but only to the extent necessary to enable such separate collateral agent or co-collateral agent to exercise such powers, rights and remedies, and every covenant and obligation necessary to the exercise thereof by such separate collateral agent or co-collateral agent shall run to and be enforceable by either of them. Should any instrument from Lenders be required by the separate collateral agent or co-collateral agent so appointed by Agent in order more fully and certainly to vest in and confirm to him or it such rights, powers, duties and obligations, any and all of such instruments shall, on request, be executed, acknowledged and delivered by Lenders whether or not a Default or Event of Default then exists. In case any separate collateral agent or co-collateral agent, or a successor to either, shall die, become incapable of acting, resign or be removed, all the estates, properties, rights, powers, duties and obligations of such separate collateral agent or co-collateral agent, so far as permitted by Applicable Law, shall vest in and be exercised by Agent until the appointment of a new collateral agent or successor to such separate collateral agent or co-collateral agent.

12.9 Consents, Amendments and Waivers.

12.9.1 No amendment or modification of any provision of this Agreement shall be effective without the prior written agreement of Required Lenders and Borrowers, and no waiver of any Default or Event of Default shall be effective without the prior written consent of Required Lenders; provided, however, that (i) without the prior written consent of Agent, no amendment or waiver shall be effective with respect to any provision in any of the Loan Documents (including this **Section 12**) to the extent such provision relates to the rights, duties or immunities of Agent; (ii) without the prior written consent of each affected Lender, no modification shall be effective that would reduce the amount of, or waive or delay payment of, any principal (excluding mandatory prepayments (other than at the Maturity Date)), interest, fees, Yield Maintenance Premium or other amounts payable to such Lender hereunder or under any other Loan Document; and (iii) without the prior written consent of all Lenders, no modification shall be effective that would (a) extend the Maturity Date; (b) alter **Sections 4.6, 6.1** (except to add Collateral), **12.5** or **12.9**; (c) amend the definitions of Pro Rata or Required Lenders; (d) release Collateral with a book value greater than \$1,500,000 during any calendar

year, except as currently contemplated by the Loan Documents; (e) release any Obligor from liability for any Obligations, if such Obligor is Solvent at the time of the release; (f) increase the amount of the Term Loans or any Lender's Commitment Percentage; (g) subordinate all or any portion of the Term Loans to any Debt (other than the First Priority Debt in accordance with the Subordination Agreement), or (h) permit any Obligor to assign or transfer any of its rights or obligations under any of the Loan Documents other than in connection with a transaction permitted hereunder. Any waiver or consent granted by Lenders hereunder shall be effective only if in writing and then only in the specific instance and for the specific purpose for which it was given.

12.9.2 In connection with any proposed amendment to any of the Loan Documents or waiver of any of the terms thereof or any Default or Event of Default thereunder, Borrowers shall not solicit, request or negotiate for or with respect to any such proposed amendment or waiver of any of the provisions of this Agreement or any of the other Loan Documents unless each Lender shall be informed thereof by Borrowers or Agent (to the extent known by Agent) and shall be afforded an opportunity of considering the same and supplied by Borrowers with sufficient information to enable it to make an informed decision with respect thereto. Borrowers will not, directly or indirectly, pay or cause to be paid any remuneration or other thing of value, whether by way of supplemental or additional interest, fee or otherwise, to any Lender (in its capacity as a Lender hereunder) as consideration for or as an inducement to the consent to or agreement by such Lender with any waiver or amendment of any of the terms and provisions of this Agreement or any of the other Loan Documents unless such remuneration or thing of value is concurrently paid, on the same terms, on a Pro Rata basis to all Lenders.

12.10 Due Diligence and Non-Reliance.

Each Lender hereby acknowledges and represents that it has, independently and without reliance upon Agent or the other Lenders, and based upon such documents, information and analyses as it has deemed appropriate, made its own credit analysis of each Obligor and its own decision to enter into this Agreement and to fund the Term Loans to be made by it hereunder and each Secured Party has made such inquiries as it feels necessary concerning the Loan Documents, the Collateral and each Obligor. Each Secured Party hereby further acknowledges and represents that the other Secured Parties have not made any representations or warranties to it concerning any Obligor, any of the Collateral or the legality, validity, sufficiency or enforceability of any of the Loan Documents. Each Secured Party also hereby acknowledges that it will, independently and without reliance upon the other Secured Party, and based upon such financial statements, documents and information as it deems appropriate at the time, continue to make and rely upon its own credit decisions in making the Term Loans and in taking or refraining to take any other action under this Agreement or any of the other Loan Documents. Except for notices, reports and other information expressly required to be furnished to any Secured Party by Agent hereunder, Agent shall not have any duty or responsibility to provide any Secured Party with any notices, reports or certificates furnished to Agent by any Obligor or any credit or other information concerning the affairs, financial condition, business or Properties of any Obligor (or any of its Affiliates) which may come into possession of Agent or any of its Affiliates.

12.11 Representations and Warranties of Lenders.

By its execution of this Agreement, each Lender hereby represents and warrants to Borrowers and the other Lenders that it has the power to enter into and perform its obligations under this Agreement and the other Loan Documents, and that it has taken all necessary and appropriate action to authorize its execution and performance of this Agreement and the other Loan Documents to which it is a party, each of which will be binding upon it and the obligations imposed upon it herein or therein will be enforceable against it in accordance with the respective terms of such documents.

12.12 Several Obligations.

The obligations and commitments of each Lender under this Agreement and the other Loan Documents are several and neither Agent nor any Lender shall be responsible for the performance by the other Lenders of its obligations or commitments hereunder or thereunder. Notwithstanding any liability of Lenders stated to be joint and several to third Persons under any of the Loan Documents, such liability shall be shared, as among Lenders, Pro Rata.

12.13 Individual Capacities.

With respect to its obligation to lend under this Agreement and each Term Loan issued to it, Agent shall have the same rights and powers hereunder and under the other Loan Documents as any other Lender or holder of a Term Loan and may exercise the same as though it were not performing the duties specified herein; and the terms “Lenders,” “Required Lender” or any similar term shall, unless the context clearly otherwise indicates, include Agent in its capacity as a Lender.

12.14 No Third Party Beneficiaries.

This **Section 12** is not intended to confer any rights or benefits upon Borrowers or any other Person except Secured Parties and Agent, and no Person (including Borrowers) other than Secured Parties and Agent shall have any right to enforce any of the provisions of this **Section 12** except as expressly provided in **Section 12.16** hereof. As between Borrowers and Agent, any action that Agent may take or purport to take on behalf of Secured Parties under any of the Loan Documents shall be conclusively presumed to have been authorized and approved by Secured Parties as herein provided.

12.15 Notice of Transfer.

Agent may deem and treat a Lender party to this Agreement as the owner of such Lender’s portion of the Term Loans for all purposes, unless and until a written notice of the assignment or transfer thereof executed by such Lender has been received by Agent.

12.16 Remittance of Payments and Collections.

12.16.1 All payments by any Lender to Agent shall be made not later than the time set forth elsewhere in this Agreement on the Business Day such payment is due; provided, however, that if such payment is due on demand by Agent and such demand is made on the paying Lender after 11:00 a.m. on such Business Day, then payment shall be made by 11:00 a.m.

on the next Business Day. Payment by Agent to any Lender shall be made by wire transfer, promptly following Agent's receipt of funds for the account of such Lender and in the type of funds received by Agent; provided, however, that if Agent receives such funds at or prior to 12:00 noon, Agent shall pay such funds to such Lender by 2:00 p.m. on such Business Day, but if Agent receives such funds after 12:00 noon, Agent shall pay such funds to such Lender by 2:00 p.m. on the next Business Day.

12.16.2 With respect to the payment of any funds from Agent to a Lender or from a Lender to Agent, the party failing to make full payment when due pursuant to the terms hereof shall, on demand by the other party, pay such amount together with interest thereon at the Federal Funds Rate. In no event shall Borrowers be entitled to receive any credit for any interest paid by a Lender to Agent, nor shall any Defaulting Lender be entitled to interest on any amounts held by Agent pursuant to **Section 3.2**.

12.16.3 If Agent pays any amount to a Lender in the belief or expectation that a related payment has been or will be received by Agent from an Obligor and such related payment is not received by Agent, then Agent shall be entitled to recover such amount from each Lender that receives such amount. If Agent determines at any time that any amount received by it under this Agreement or any of the other Loan Documents must be returned to an Obligor or paid to any other Person pursuant to any Applicable Law, court order or otherwise, then, notwithstanding any other term or condition of this Agreement or any of the other Loan Documents, Agent shall not be required to distribute such amount to any Lender.

12.17 Subordination Agreement.

12.17.1 Each Lender hereby agrees to be bound by the terms of the Subordination Agreement.

12.17.2 Each Lender (and each person that becomes a Lender hereunder pursuant to **Section 13.3**) agrees that Agent may take such actions on its behalf as is contemplated by the terms of the Subordination Agreement.

12.17.3 Notwithstanding anything contained herein to the contrary, the Liens granted to Agent, for the benefit of the Secured Parties, pursuant to this Agreement and the other Loan Documents, and the exercise of any right or remedy by Agent, for the benefit of the Secured Parties, under this Agreement and the other Loan Documents (other than the Subordination Agreement), are subject to the provisions of the Subordination Agreement. In the event of any conflict between the terms of the Subordination Agreement and this Agreement and the other Loan Documents (other than the Subordination Agreement), the terms of the Subordination Agreement shall govern and control.

SECTION 13. BENEFIT OF AGREEMENT; ASSIGNMENTS AND PARTICIPATIONS

13.1 Successors and Assigns.

This Agreement shall be binding upon and inure to the benefit of Borrowers, Agent, Secured Parties, and their respective successors and permitted assigns, except that (i) no Borrower shall have the right to assign its rights or delegate its obligations under any Loan Documents; and (ii) any assignment by a Lender must be made in compliance with **Section 13.3**. Agent may treat the Person which made any Term Loans as the owner thereof for all purposes until such Person makes an assignment in accordance with **Section 13.3**. Any authorization or consent of a Lender shall be conclusive and binding on any subsequent transferee or assignee of such Lender.

13.2 Participations.

13.2.1 Permitted Participants; Effect. Subject to **Section 13.2.3**, any Lender may sell to a financial institution ("Participant") a participating interest in the rights and obligations of such Lender under any Loan Documents. Despite any sale by a Lender of participating interests to a Participant, such Lender's obligations under the Loan Documents shall remain unchanged, it shall remain solely responsible to the other parties hereto for performance of such obligations, it shall remain the holder of its Term Loans for all purposes, all amounts payable by Borrowers shall be determined as if it had not sold such participating interests, and Borrowers and Agent shall continue to deal solely and directly with such Lender in connection with the Loan Documents. Each Lender shall be solely responsible for notifying its Participants of any matters under the Loan Documents, and Agent and the other Lenders shall not have any obligation or liability to any such Participant. A Participant that would be a Foreign Lender if it were a Lender shall be entitled to the benefits of **Section 4.9** if such Participant has complied with the requirements of **Section 4.10** as if it were a Lender, it being understood that the documentation described in **Section 4.10** shall be delivered by the Participant to the Lender granting the participation) with respect to its participation in the Term Loan outstanding from time to time; provided, that such Participant agrees to be subject to the provisions of **Section 2.8** as if it were an assignee under **Section 13.3.1**; provided, further that no Participant shall be entitled to receive any greater amount pursuant to such Section than the transferor Lender would have been entitled to receive in respect of the amount of the participation transferred by such transferor Lender to such Participant had no such transfer occurred. Each Lender that sells a participating interest shall, acting solely for this purpose as an agent of the Borrowers, maintain a register on which it enters the name and address of each Participant and the principal amounts (and stated interest) of each Participant's interest in the Loan Documents or other obligations under this Agreement (the "Participant Register"); provided, however, that no Lender shall have any obligation to disclose all or any portion of the Participant Register to any Person (including the identity of any Participant or any information relating to a Participant's interest in any commitments, loans, letters of credit or its other obligations under any Loan Document) except to the extent that such disclosure is necessary to establish that such commitment, loan letter of credit or other obligation is in "registered form" under Section 5f.103-1(c) of the United States Treasury Regulations. The entries in the Participant Register shall be conclusive absent manifest error, and such Lender shall treat each Person whose name is recorded in the Participant Register as the owner of such participation for all purposes of this Agreement notwithstanding any notice to the contrary.

13.2.2 Voting Rights. Each Lender shall retain the sole right to approve, without the consent of any Participant, any amendment, waiver or other modification of any Loan Document other than that which (i) forgives principal, interest or fees, reduces the stated interest rate or fees payable with respect to any Term Loans in which such Participant has an interest, (ii) postpones the Maturity Date or any date fixed for any regularly scheduled payment of principal, interest or fees on the Term Loans, or (iii) releases any Borrower, Obligor or substantially all of the Collateral.

13.2.3 Benefit of Set-Off. Borrowers agree that each Participant shall have a right of set-off in respect of its participating interest to the same extent as if such interest were owing directly to a Lender, and each Lender shall also retain the right of set-off with respect to any participating interests sold by it. By exercising any right of set-off, a Participant agrees to share with Lenders all amounts received through its set-off, in accordance with **Section 12.5** as if such Participant were a Lender.

13.3 Assignments.

13.3.1 Permitted Assignments. A Lender may assign to an Eligible Assignee any of its rights and obligations under the Loan Documents, as long as (i) each assignment (other than an assignment to a Lender or an Affiliate of a Lender) is in a minimum principal amount of \$5,000,000 (or, if less, the entire amount of such Lender's portion of the Term Loans) the parties to each such assignment shall execute and deliver to EB an Assignment and Acceptance. Nothing herein shall limit the right of a Lender to pledge or assign any rights under the Loan Documents to secure obligations of such Lender, including a pledge or assignment to a Federal Reserve Bank; provided, however, that no such pledge or assignment shall release such Lender from its obligations hereunder or substitute the pledge or assignee for such Lender as a party hereto. Notwithstanding anything in the Loan Documents to the contrary, (i) no Lender nor any of its Affiliates shall be required to execute or deliver an Assignment and Acceptance in connection with any transaction involving such Lender and any of its Affiliates, or the lenders or funding or financing sources of such Lender or any of its Affiliates, (ii) subject to the provisions at the end of this paragraph, no lender to, funding or financing source of such Lender or any of its Affiliates shall be considered a Transferee, and (iii) there shall be no limitation or restriction on (A) the ability of such Lender or any of its Affiliates to assign or otherwise transfer any Loan Document, or any commitment or obligation thereunder, to any such Affiliate or lender or funding or financing source or (B) any such lender's or funding or financing source's ability, or the ability of any agent in respect thereof, to assign or otherwise transfer any Loan Document, or any commitment or obligation thereunder; provided that such Lender shall continue to be liable as a "Lender" under the Loan Documents unless such Affiliate, lender, funding or financing source or assignee, as the case may be, executes and delivers an Assignment and Acceptance and thereby becomes a "Lender" in accordance with the terms of this Agreement. The Agent, acting for this purpose as an agent of the Borrowers, shall maintain at one of its offices a copy of each Assignment and Acceptance delivered to it and a register for the recordation of the names and address of the Lenders, and the respective principal amounts (and stated interest on) owing to, each Lender pursuant to the terms hereof from time to time (the "Register"). The entries in the Register shall be conclusive absent manifest error, and the Borrowers, the Agent and the Lenders may treat each Person whose name is recorded in the Register pursuant to the terms hereof as a

Lender hereunder for all purposes of this Agreement, notwithstanding notice to the contrary. The Register shall be available for inspection by any Borrower and any Lender, at any reasonable time and from time to time upon reasonable prior notice. No assignment shall be effective for purposes of this Agreement unless it has been recorded in the Register as provided in this **Section 13.3.1**.

13.3.2 Effect; Effective Date. Upon delivery to Agent of an assignment notice in the form of **Exhibit D** and a processing fee of \$3,500 (unless otherwise agreed by Agent in its discretion), the assignment shall become effective as specified in the notice, if it complies with this **Section 13.3**. From such effective date, the Eligible Assignee shall for all purposes be a Lender under the Loan Documents, and shall have all rights and obligations of a Lender thereunder. Upon consummation of an assignment, the transferor Lender, Agent and Borrowers shall make appropriate arrangements for issuance of replacement and/or new Notes, as applicable. The transferee Lender shall comply with **Section 4.10** and deliver, upon request, an administrative questionnaire satisfactory to Agent.

13.3.3 Dissemination of Information. Each Borrower authorizes each Lender and Agent to disclose to any Participant, any Eligible Assignee or any other Person acquiring an interest in the Loan Documents by operation of law (each a “Transferee”), and any prospective Transferee, any and all information in Agent’s or such Lender’s possession concerning such Borrower, its Subsidiaries or the Collateral, subject to appropriate confidentiality undertakings on the part of such Transferee.

13.3.4 Certain Assignees. No assignment or participation may be made to a Borrower, Affiliate of a Borrower or a natural person.

SECTION 14. MISCELLANEOUS

14.1 Power of Attorney.

Each Borrower hereby irrevocably designates, makes, constitutes and appoints Agent (and all Persons designated by Agent) as such Borrower’s true and lawful attorney (and agent-in-fact) and Agent, or Agent’s designee, may, without notice to such Borrower and in either such Borrower’s or Agent’s name, but at the cost and expense of Borrowers:

14.1.1 At such time or times as Agent or said designee, in its sole discretion, may determine, endorse Borrower’s name on any Payment Item or proceeds of the Collateral which come into the possession of Agent or under Agent’s control.

14.1.2 At any time that an Event of Default exists: (i) demand payment of the Accounts from the Account Debtors, enforce payment of the Accounts by legal proceedings or otherwise, and generally exercise all of a Borrower’s rights and remedies with respect to the collection of the Accounts; (ii) settle, adjust, compromise, discharge or release any of the Accounts or other Collateral or any legal proceedings brought to collect any of the Accounts or other Collateral; (iii) sell or assign any of the Accounts and other Collateral upon such terms, for such amounts and at such time or times as Agent deems advisable; (iv) take control, in any manner, of any item of payment or proceeds relating to any Collateral; (v) prepare, file and sign

Borrower's name to a proof of claim in bankruptcy or similar document against any Account Debtor or to any notice of Lien, assignment or satisfaction of Lien or similar document in connection with any of the Collateral; (vi) receive, open and dispose of all mail addressed to such Borrower and to notify postal authorities to change the address for delivery thereof to such address as Agent may designate; (vii) endorse the name of such Borrower upon any of the items of payment or proceeds relating to any Collateral and deposit the same to the account of Agent on account of the Obligations; (viii) endorse the name of such Borrower upon any chattel paper, document, instrument, invoice, freight bill, bill of lading or similar document or agreement relating to any Accounts or Inventory of any Obligor and any other Collateral; (ix) use such Borrower's stationery and sign the name of such Borrower to verifications of the Accounts and notices thereof to Account Debtors; (x) use the information recorded on or contained in any data processing equipment and computer hardware and software relating to the Accounts, Inventory, Equipment or any other Collateral; (xi) make and adjust claims under policies of insurance; (xii) sign the name of such Borrower on any proof of claim in bankruptcy against Account Debtors and on notices of Liens, claims of mechanic's Liens or assignments or releases of mechanic's Liens securing any Accounts; (xiii) take all action as may be necessary to obtain the payment of any letter of credit or banker's acceptance of which such Borrower is a beneficiary; and (xiv) do all other acts and things necessary, in Agent's determination, to fulfill such Borrower's obligations under this Agreement.

14.2 General Indemnity.

Each Borrower hereby agrees to indemnify and defend the Indemnitees and to hold the Indemnitees harmless from and against any Claim ever suffered or incurred by any of the Indemnitees arising out of or related to this Agreement or any of the other Loan Documents, the performance by Agent or Lenders of their duties or the exercise of any of their rights or remedies under this Agreement or any of the other Loan Documents, or as a result of such Borrower's failure to observe, perform or discharge any of such Borrower's duties hereunder. Each Borrower shall also indemnify and defend the Indemnitees against and save the Indemnitees harmless from all Claims of any Person arising out of, related to, or with respect to any transactions entered into pursuant to this Agreement or Agent's Lien upon the Collateral. Without limiting the generality of the foregoing, this indemnity shall extend to any Claims asserted against or incurred by any of the Indemnitees by any Person under any Environmental Laws or similar laws by reason of such Borrower's or any other Person's failure to comply with, or liability pursuant to, Environmental Law, or by reason of the release of or exposure of any Person to any Hazardous Material at any Real Estate currently or formerly owned, leased or operated by any Borrower. Additionally, if any Taxes (excluding Taxes imposed upon or measured solely by the net income of Agent and Lenders, but including any intangibles tax, stamp tax, recording tax or franchise tax) shall be payable by Agent or any Obligor on account of the execution or delivery of this Agreement, or the execution, delivery, issuance or recording of any of the other Loan Documents, or the creation or repayment of any of the Obligations hereunder, by reason of any Applicable Law now or hereafter in effect, Borrowers will pay (or will promptly reimburse Agent and Lenders for the payment of) all such Taxes, including any interest and penalties thereon, and will indemnify and hold Indemnitees harmless from and against all liability in connection therewith. The foregoing indemnities shall not apply to Claims incurred by any of the Indemnitees to the extent incurred as a direct result of their own gross

negligence or willful misconduct or that arise out of any disputes arising solely out of the relationship between Agent and any Lender.

Each Indemnitee will promptly notify Borrowers of any investigation, litigation or proceeding asserted or threatened in writing or instituted against it that may give rise to a claim under **Section 14.2**; provided, however, that the failure to so notify Borrowers shall in no way impair Borrowers' obligations under this **Section 14.2**. Borrowers, at the request of any Indemnitee, shall have the obligation to defend such Indemnitee against any such investigation, litigation or proceeding and shall promptly do so with representation by legal counsel reasonably satisfactory to such Indemnitee, and the Indemnitee shall use its reasonable efforts to cooperate in such defense. In all events, such Indemnitee shall have the right to have legal counsel of its choice participate in such defense; provided, however, that if Borrowers are defending such Indemnitee at such Indemnitee's request, the legal fees associated with Indemnitee's counsel participating in such defense, if any, shall be paid by such Indemnitee. If such obligation to defend is not requested by an Indemnitee, Borrowers' may participate in the defense thereof and any settlement negotiations, at Borrowers' expense, with legal counsel of Borrowers' choice (which counsel shall be reasonably satisfactory to such Indemnitee). No action taken by legal counsel chosen by such Indemnitee in defending against any such investigation, litigation or proceeding, shall vitiate or in any way impair Borrowers' obligation and duty hereunder to indemnify and hold harmless such Indemnitee.

14.3 Survival of All Indemnities.

Notwithstanding anything to the contrary in this Agreement or any of the other Loan Documents, the obligation of each Borrower and each Lender with respect to each indemnity given by it in this Agreement, whether given by a Borrower to Agent Indemnitees or Lender Indemnitees, or by any Lender to any Agent Indemnitees shall survive the Full Payment of all Obligations.

14.4 Modification of Agreement.

Subject to **Section 12.9** hereof, no term or provision of this Agreement may be modified, altered, amended or waived, except by an agreement in writing signed by Borrowers, Agent and Lenders; provided, however, that no consent, written or otherwise, of Borrowers shall be necessary or required in connection with any amendment of any of the provisions of **Sections 4.5** or **12** so long as such amendment imposes no additional obligations on Borrowers, or any other provision of this Agreement that affects only the rights, duties and responsibilities of Lenders and Agent as among themselves so long as no such amendment imposes any additional obligations on Borrowers. Any modification, amendment or waiver that Prospect Capital Corporation is a required signatory thereto, whether in its capacity as an Agent or a Lender, must be signed by either John F. Barry III as Chief Executive Officer or M. Grier Eliasek as Chief Operating Officer, or the successor of either or such other person notified to the Borrowers and the Agent for such purpose.

14.5 Severability.

All provisions of this Agreement are severable, and the unenforceability or invalidity of any of the provisions of this Agreement shall not affect the validity or enforceability of the remaining provisions of this Agreement. Should any part of this Agreement be held invalid or unenforceable in any jurisdiction, the invalid or unenforceable portion or portions shall be removed (and no more) only in that jurisdiction, and the remainder shall be enforced as fully as possible (removing the minimum amount possible) in that jurisdiction.

14.6 Cumulative Effect; Conflict of Terms.

The provisions of the Other Agreements and the Security Documents are hereby made cumulative with the provisions of this Agreement. Without limiting the generality of the foregoing, the parties acknowledge that this Agreement and the other Loan Documents may use several different limitations, tests or measurements to regulate the same or similar matters and that such limitations, tests and measures are cumulative and each must be performed, except as may be expressly stated to the contrary in this Agreement. Except as otherwise provided in any of the other Loan Documents by specific reference to the applicable provision of this Agreement, if any provision contained in this Agreement is in direct conflict with, or inconsistent with, any provision in any of the other Loan Documents, the provision contained in this Agreement shall govern and control.

14.7 Execution in Counterparts.

This Agreement and any amendments hereto may be executed in any number of counterparts, including facsimiles, and by different parties hereto in separate counterparts, each of which when so executed and delivered shall be deemed to be an original and all of which counterparts taken together shall constitute but one and the same instrument.

14.8 Consent.

Whenever Agent's or Lenders' consent is required to be obtained under this Agreement or any of the other Loan Documents as a condition to any action, inaction, condition or event, Agent and each Lender shall be authorized to give or withhold its consent in its sole and absolute discretion and to condition its consent upon the giving of additional collateral security for the Obligations, the payment of money or any other matter.

14.9 Notices.

All notices, requests and demands to or upon a party hereto shall be in writing and shall be sent either by hand, by overnight courier service, by certified or registered mail, by telefacsimile or by email (in portable document format ("pdf") or tagged image file format ("TIFF")), and shall be deemed to have been validly served, given or delivered (i) in the case of notices and other communications delivered by hand or overnight courier service, upon actual receipt thereof, (ii) in the case of notices and other communications delivered by certified or registered mail, upon the earlier of actual delivery and the third Business Day after the date deposited in the U.S. mail with postage prepaid and properly addressed, provided, that no notice or communication to Agent or to Prospect in its capacity as a Lender shall be effective until actually received by the Administrative Agent or Prospect, as applicable, (iii) in the case of

notices and other communications delivered by telefacsimile, upon receipt by the sender of an acknowledgment or transmission report generated by the machine from which the telefacsimile was sent indicating that the telefacsimile was sent in its entirety to the recipient's telefacsimile number and (iv) in the case of notices and other communications delivered by email, upon receipt by the sender of an acknowledgement from the intended recipient (such as by the "return receipt requested" function, a return email or other written acknowledgement), provided, that no notice or communication to the Agent or to Prospect in its capacity as a Lender shall be effective until receipt by the sender of written confirmation of receipt affirmatively initiated by the Agent or Prospect, as applicable, and further provided, in each case, that if a notice or other communication would be deemed to have been given in accordance with the foregoing at any time other than during the recipient's normal business hours on a Business Day for such recipient, such notice or other communication shall be deemed given on the next succeeding Business Day for such recipient, and provided, further, that no notice to Prospect shall be effective until delivered by at least two, not one, of the methods described in clauses (i) through (iv) above, in each case addressed to the noticed party at the address shown for such party on the signature page hereof or, in the case of a Person who becomes a Lender after the date hereof, at the address shown on the Assignment and Acceptance by which such Person became a Lender. Notwithstanding the foregoing, no notice to or upon any Borrower pursuant to **Section 11.1.4** shall be effective until such notice is actually delivered to such Borrower at its address for notices. Any written notice, request or demand that is not sent in conformity with the provisions hereof shall nevertheless be effective on the date that such notice, request or demand is actually received by the individual to whose attention at the noticed party such notice, request or demand is required to be sent. Agent and Lenders make no assurances as to the privacy and security of electronic communications. Voice mail may not be used as effective notice under the Loan Documents. Agent and Lenders may rely upon any notices purportedly given by or on behalf of any Borrower even if such notices were not made in a manner specified herein, were incomplete or were not confirmed, or if the terms thereof, as understood by the recipient, varied from a later confirmation. Each Borrower shall indemnify and hold harmless each Indemnitee from any liabilities, losses, costs and expenses arising from any telephonic communication purportedly given by or on behalf of a Borrower. Each Borrower and each Lender acknowledges and agrees that the use of electronic transmission in general, and email in particular, is not necessarily secure and that there are risks associated with the use thereof, including risks of interception, disclosure and abuse, and each indicates it assumes and accepts such risks by hereby authorizing the use of electronic transmission. Any party hereto may change its address, facsimile number or email address for notices and other communications hereunder by notice to all of the other parties hereto in accordance with the foregoing.

14.10 Performance of Borrowers' Obligations.

If a Borrower shall fail to discharge any covenant, duty or obligation hereunder or under any of the other Loan Documents, Agent may, in its sole discretion at any time or from time to time, for such Borrower's account and at Borrowers' expense, pay any amount or do any act required of a Borrower hereunder or under any of the Loan Documents or otherwise lawfully requested by Agent to enforce any of the Loan Documents or Obligations, preserve, protect, insure or maintain any of the Collateral, or preserve, defend, protect or maintain the validity or priority of Agent's Liens in any of the Collateral, including the payment of any judgment against

a Borrower, any insurance premium, any warehouse charge, any finishing or processing charge, any landlord claim, any other Lien upon or with respect to any of the Collateral. All payments that Agent may make under this Section and all out-of-pocket costs and expenses (including Extraordinary Expenses) that Agent pays or incurs in connection with any action taken by it hereunder shall be reimbursed to Agent by Borrowers **on demand**, with interest from the date such payment is made or such costs or expenses are incurred until paid in full at the Default Rate. Any payment made or other action taken by Agent under this Section shall be without prejudice to any right to assert, and without waiver of, an Event of Default hereunder and to proceed thereafter as provided herein or in any of the other Loan Documents.

14.11 Credit Inquiries.

Each Borrower hereby authorizes and permits Agent and Lenders (but Agent and Lenders shall have no obligation) to respond to usual and customary credit inquiries from third parties concerning such Borrower or any of its Subsidiaries.

14.12 Time of Essence.

Time is of the essence with respect to this Agreement, the Other Agreements, the Security Documents and all Obligations.

14.13 Indulgences Not Waivers.

Agent's or any Lender's failure at any time or times hereafter, to require strict performance by each Borrower of any provision of this Agreement shall not waive, affect or diminish any right of Agent or any Lender thereafter to demand strict compliance and performance therewith. A waiver or consent, express or implied, of or to any breach or default by any party in the performance by that party of its obligations with respect to the agreement is not a waiver or consent of or to any other breach or default in the performance by that party of the same or any other obligations of that party.

14.14 Entire Agreement; Appendix A, Exhibits and Schedules.

This Agreement and the other Loan Documents, together with all other instruments, agreements and certificates executed by the parties in connection therewith or with reference thereto, embody the entire understanding and agreement between the parties hereto and thereto with respect to the subject matter hereof and thereof and supersede all prior agreements, understandings and inducements, whether express or implied, oral or written. Appendix A, each of the Exhibits and each of the Schedules attached hereto are incorporated into this Agreement and by this reference made a part hereof.

14.15 Interpretation.

No provision of this Agreement or any of the other Loan Documents shall be construed against or interpreted to the disadvantage of any party hereto by any court or other governmental or judicial authority by reason of such party having, or being deemed to have, structured, drafted or dictated such provision.

14.16 Obligations of Lenders Several.

The obligations of each Lender hereunder are several, and no Lender shall be responsible for the obligations of any other Lender. Nothing contained in this Agreement and no action taken by Lenders pursuant hereto shall be deemed to constitute Lenders to be a partnership, association, joint venture or any other kind of entity, nor to constitute control of any Borrower. The amounts payable at any time hereunder to each Lender shall be a separate and independent debt. It shall not be necessary for Agent or any other Lender to be joined as an additional party in any proceeding for such purpose.

14.17 Advertising and Publicity.

With the prior consent of Borrowers (which shall not be unreasonably withheld or delayed), Agent, on behalf of Lenders, may issue and disseminate to the public (by advertisement or otherwise) information describing the credit accommodations made available by Lenders pursuant to this Agreement, including the name and address of Borrowers, the amount and security for the credit accommodations and the general nature of Borrowers' business; provided, however, that detail regarding terms (such as interest rate) may be provided only to industry publications, such as the "LPC Gold Sheets."

14.18 Confidentiality.

Agent and Lenders each agrees to exercise reasonable efforts (and, in any event, with at least the same degree of care as it ordinarily exercises with respect to confidential information of its other customers) to keep any confidential information that is delivered or made available by Borrowers to it and that is marked confidential, including information made available to Agent or any Lender in connection with a visit or investigation by any Person contemplated in **Section 9.1.1** hereof, confidential from any Person other than their respective Affiliates, general and limited partners, investors and individuals employed or retained by Agent or such Lender who are or are expected to become engaged in evaluating, approving, structuring, administering or otherwise giving professional advice with respect to the Term Loans or Collateral, including any of their respective legal counsel, auditors or other professional advisors; provided, however, that nothing herein shall prevent Agent or any Lender from disclosing such confidential information (i) to any party to this Agreement from time to time or any Participant, (ii) pursuant the order of any court or administrative agency, (iii) upon the request or demand of any regulatory agency or self-regulatory authority purporting to have jurisdiction over it or its Affiliates, (iv) which has been publicly disclosed other than by an act or omission of Agent or any Lender except as permitted herein or which becomes available to Agent or any Lender on a non-confidential basis from a source other than Obligor, (v) to the extent reasonably required in connection with any litigation (with respect to any of the Loan Documents or any of the transactions contemplated thereby) to which Agent, any Lender or their respective Affiliates may be a party (and, to the extent reasonably practicable, prior notice of such required disclosure shall be provided to Borrowers), (vi) in connection with any action or proceeding, or other exercise of rights or remedies, relating to any Loan Documents or Obligations, (vii) to any actual or proposed Participant, Assignee, counterparty or advisors to any Transferee of all or part of a Lender's rights hereunder so long as such Transferee has agreed in writing to be bound by the provisions of this Section, (viii) to the National Association of Insurance Commissioners or any similar

organization or to any nationally recognized rating agency that requires access to information about a Lender's portfolio in connection with ratings issued with respect to such Lender, (ix) to the extent reasonably required by Applicable Law or (x) with the consent of Borrowers.

14.19 Patriot Act Notice.

Agent and Lenders hereby notify Borrowers that pursuant to the requirements of the Patriot Act, Agent and Lenders are required to obtain, verify and record information that identifies each Borrower, including its legal name, address, tax ID number and other information that will allow Agent and Lenders to identify it in accordance with the Patriot Act. Agent and Lenders will also require information regarding each personal guarantor, if any, and may require information regarding Borrowers' management and owners, such as legal name, address, social security number and date of birth.

14.20 Governing Law; Consent to Forum.

This Agreement shall be governed by and construed in accordance with the laws of the State of New York; provided, however, that if any of the Collateral shall be located in any jurisdiction other than New York, the laws of such jurisdiction shall govern the method, manner and procedure for foreclosure of Agent's Lien upon such Collateral and the enforcement of Agent's other remedies in respect of such Collateral to the extent that the laws of such jurisdiction are different from or inconsistent with the laws of the State of New York. As part of the consideration for new value received, and regardless of any present or future domicile or principal place of business of Borrowers, any Lender or Agent, each Borrower hereby consents and agrees that the state courts for the State of New York, or, at Agent's option, the United States District Court for the Southern District of New York, shall have jurisdiction to hear and determine any claims or disputes among Borrowers, Agent and Lenders pertaining to this Agreement or to any matter arising out of or related to this Agreement. Each Borrower expressly submits and consents in advance to such jurisdiction in any action or suit commenced in any such Court, and each Borrower hereby waives any objection that such Borrower may have based upon lack of personal jurisdiction, improper venue or forum non conveniens and hereby consents to the granting of such legal or equitable relief as is deemed appropriate by such Court. Each Borrower hereby waives personal service of the summons, complaint and other process issued in any such action or suit and agrees that service of such summons, complaint and other process may be made by certified mail addressed to such Borrower at the address set forth in this Agreement and that service so made shall be deemed completed upon the earlier of such Borrower's actual receipt thereof or three (3) days after deposit in the U.S. mails, proper postage prepaid. Nothing in this Agreement shall be deemed or operate to affect the right of Agent to serve legal process in any other manner permitted by law, or to preclude the enforcement by Agent of any judgment or order obtained in such forum or the taking of any action under this Agreement to enforce same in any other appropriate forum or jurisdiction.

14.21 Waivers by Borrowers.

To the fullest extent permitted by Applicable Law, each Borrower waives (i) the right to trial by jury (which Agent and each Lender hereby also waives) in any action, suit, proceeding or counterclaim of any kind arising out of or related to any of the Loan Documents, the Obligations or the Collateral; (ii) presentment, demand and protest and notice of presentment, protest, default, non payment, maturity, release, compromise, settlement, extension or renewal of any or all commercial paper, accounts, contract rights, documents, instruments, chattel paper and guaranties at any time held by Agent on which such Borrower may in any way be liable and hereby ratifies and confirms whatever Agent may do in this regard; (iii) notice prior to taking possession or control of the Collateral or any bond or security which might be required by any court prior to allowing Agent to exercise any of Agent's remedies; (iv) the benefit of all valuation, appraisal and exemption laws; (v) any claim against Agent or any Lender, on any theory of liability, for special, indirect, consequential, or punitive damages (as opposed to direct or actual damages) arising out of, in connection with, or as a result of, any of the Loan Documents, any transaction thereunder or the use of the proceeds of any Term Loans; and (vi) notice of acceptance hereof. Each Borrower acknowledges that the foregoing waivers are a material inducement to Agent's and Lender's entering into this Agreement and that Agent and Lenders are relying upon the foregoing waivers in its future dealings with Borrowers. Each Borrower warrants and represents that it has reviewed the foregoing waivers with its legal counsel and has knowingly and voluntarily waived its jury trial rights following consultation with legal counsel. In the event of litigation, this Agreement may be filed as a written consent to a trial by the Court.

14.22 Binding Effect; Further Assurances.

This Agreement shall become effective at such time, on or after the Closing Date, that the conditions precedent set forth in **Section 10.1** have been satisfied and when it shall have been executed by Borrowers and Agent, and Agent shall receive copies hereof (telecopied or otherwise) which, when taken together, bear the signatures of each Lender and thereafter this Agreement shall be binding upon and inure to the benefit of each Borrower, each Lender and Agent, together with their respective successors and assigns. Each Borrower agrees, upon the request of Agent and/or the Required Lenders, to promptly take such actions, as reasonably requested, as are appropriate to carry out the intent of this Agreement and the other Loan Documents, including, but not limited to, such actions as are reasonably necessary to ensure that Agent, for its own benefit and the ratable benefit of Lenders, have a perfected security interest in all collateral securing the Obligations, subject to no Liens other than Permitted Liens.

14.23 Obligations Subject to Subordination Agreement.

This instrument and the rights and Obligations evidenced hereby are subordinate, in the manner and to the extent set forth in that certain Intercreditor and Subordination Agreement (the "Subordination Agreement") dated as of September 28, 2012 between the Agent, as second priority agent for the Lenders and Bank of America, N.A., as First Priority Agent for the First Priority Lenders, to the indebtedness (including interest) owed by Ellett Brothers, LLC ("Ellett"), the other borrowers from time to time party thereto (together with Ellett, individually a "Borrower" and collectively the "Borrowers"), pursuant to that certain Third Amended and Restated Loan and Security Agreement, dated as of September 28, 2012, by and among the

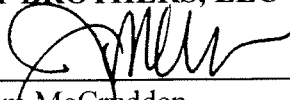
Borrowers, the lenders from time to time party thereto and Bank of America, N.A., as agent, and the indebtedness owed by any guarantors under guaranties with respect thereto, as such agreements have been and hereafter may be amended, restated, supplemented, extended, renewed, refinanced, replaced or otherwise modified and to any indebtedness refinancing the indebtedness under such agreements as contemplated by the Subordination Agreement; and each holder of this instrument, by its acceptance hereof, irrevocably agrees to be bound by the provisions of the Subordination Agreement.

*[Remainder of the page intentionally left blank;
signatures commence on the following page]*

IN WITNESS WHEREOF, this Agreement has been duly executed on the day and year specified at the beginning of this Agreement.

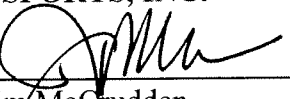
BORROWERS:

ELLETT BROTHERS, LLC

By: 
Name: Jim McCrudden
Title: Vice President - Finance, Secretary and
Chief Financial Officer

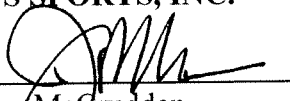
Address: Ellett Brothers
267 Columbia Avenue
Chapin, SC 29036
Attention: Jim McCrudden
Telecopy No.: 803-932-1500

EVANS SPORTS, INC.

By: 
Name: Jim McCrudden
Title: Vice President - Finance and Secretary

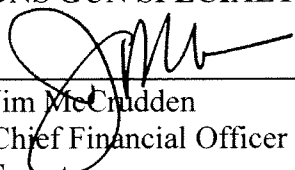
Address: Ellett Brothers
267 Columbia Avenue
Chapin, SC 29036
Attention: Jim McCrudden
Telecopy No.: 803-932-1500

JERRY'S SPORTS, INC.

By: 
Name: Jim McCrudden
Title: Chief Financial Officer, Chief Operating
Officer and Assistant Secretary

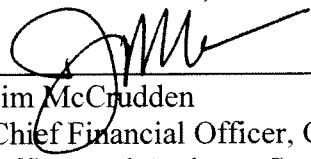
Address: Ellett Brothers
267 Columbia Avenue
Chapin, SC 29036
Attention: Jim McCrudden
Telecopy No.: 803-932-1500

SIMMONS GUN SPECIALTIES, INC.

By: 
Name: Jim McCrudden
Title: Chief Financial Officer and Assistant Secretary

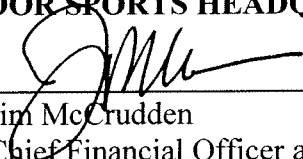
Address: Ellett Brothers
267 Columbia Avenue
Chapin, SC 29036
Attention: Jim McCrudden
Telecopy No.: 803-932-1500

BONITZ BROTHERS, INC.

By: 
Name: Jim McCrudden
Title: Chief Financial Officer, Chief Operating Officer and Assistant Secretary

Address: Ellett Brothers
267 Columbia Avenue
Chapin, SC 29036
Attention: Jim McCrudden
Telecopy No.: 803-932-1500

OUTDOOR SPORTS HEADQUARTERS, INC.

By: 
Name: Jim McCrudden
Title: Chief Financial Officer and Assistant Secretary

Address: Ellett Brothers
267 Columbia Avenue
Chapin, SC 29036
Attention: Jim McCrudden
Telecopy No.: 803-932-1500

AGENT:

PROSPECT CAPITAL CORPORATION

By: *M. David Elisek*
Name: *M. DAVID ELISEK*
Title: *PRESIDENT*

LENDER:

PROSPECT CAPITAL CORPORATION

By: 
Name: M. Grier Eliasek
Title: President

Address for Notice:

Prospect Capital Corporation
10 East 40th Street, 44th Floor
New York, New York 10016
Attention: General Counsel and Geoffrey Chang
Facsimile No.: 212-448-9652
Email: fax@prospectstreet.com
pl@prospectstreet.com
gchang@prospectstreet.com
grier@prospectstreet.com
jbarry@prospectstreet.com

LENDER:

SUMMIT PARTNERS CREDIT FUND, L.P.

By: Summit Partners Credit GP, L.P.

Its: General Partner

By: Summit Partners Credit GP, LLC

Its: General Partner

By: 

Name: Martin Mannion

Title: Authorized Signatory

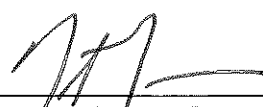
**SUMMIT PARTNERS CREDIT FUND A-1,
L.P.**

By: Summit Partners Credit GP A-1, L.P.

Its: General Partner

By: Summit Partners Credit GP A-1, LLC

Its: General Partner

By: 

Name: Martin Mannion

Title: Authorized Signatory

Address for Notice:

c/o Summit Partners, L.P.

222 Berkeley Street, 18th Floor

Boston, MA 02116

Fax: 617.498.4901

Attn: Todd Hearle

LENDER:

SUMMIT INVESTORS I, LLC

By: Summit Investors Management, LLC
Its: Manager

By: Summit Partners, L.P.
Its: Manager

By: Summit Master Company, LLC
Its: General Partner

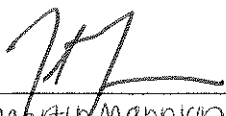
By: 
Name: Martin Mannion
Title: Authorized Signatory

SUMMIT INVESTORS I (UK), LP

By: Summit Investors Management, LLC
Its: Manager

By: Summit Partners, L.P.
Its: Manager

By: Summit Master Company, LLC
Its: General Partner

By: 
Name: Martin Mannion
Title: Authorized Signatory

Address for Notice:
c/o Summit Partners, L.P.
222 Berkeley Street, 18th Floor
Boston, MA 02116
Fax: 617.498.4901
Attn: Todd Hearle

APPENDIX A

GENERAL DEFINITIONS

When used in the Second Lien Loan and Security Agreement dated September 28, 2012 (as at any time amended, the “Agreement”), by and among **ELLETT BROTHERS, LLC** (“EB”), a South Carolina limited liability company, **EVANS SPORTS, INC.** (“Evans”), a South Carolina corporation, **JERRY’S SPORTS, INC.** (“Jerry”), a Delaware corporation, **SIMMONS GUN SPECIALTIES, INC.** (“Simmons”), a Delaware corporation, **BONITZ BROTHERS, INC.** (“Bonitz”), a Delaware corporation, **OUTDOOR SPORTS HEADQUARTERS, INC.** (“Outdoor”), a Delaware corporation, each with its chief executive office and principal place of business at 267 Columbia Avenue, Chapin, South Carolina (EB, Evans, Jerry, Simmons, Bonitz and Outdoor being referred to collectively as “Borrowers,” and individually as a “Borrower”), each financial institution listed on the signature pages attached thereto and its successors and assigns, which become “Lenders” as provided therein (each such financial institution and its successors and assigns referred to collectively herein as “Lenders” and individually as “Lender”), and **PROSPECT CAPITAL CORPORATION** (“Agent”), in its capacity as collateral and administrative agent for itself and Lenders, the following terms shall have the following meanings (terms defined in the singular to have the same meaning when used in the plural and vice versa):

Account - shall have the meaning ascribed to “account” in the UCC and shall include any and all rights of a Borrower to payment for goods sold or leased or for services rendered that are not evidenced by an Instrument or Chattel Paper, whether or not they have been earned by performance.

Account Debtor - any Person who is or may become obligated under or on account of an Account.

Adjusted EBITDA -- for any fiscal period of an Obligor, an amount equal to the sum for such fiscal period of (i) Adjusted Net Earnings, plus (ii) provision for taxes based on income for such period, to the extent deducted in the calculation of Adjusted Net Earnings, plus (iii) Interest Expense for such period, to the extent deducted in the calculation of Adjusted Net Earnings, plus (iv) depreciation and amortization expense for such period, to the extent deducted in the calculation of Adjusted Net Earnings, plus (v) extraordinary and non-recurring non-cash losses for such period, to the extent deducted in the calculation of Adjusted Net Earnings, plus (vi) non-recurring fees, expenses or charges (whether or not paid in cash), including severance expenses and related legal fees, and directors’ fees and non-recurring consulting fees in an aggregate amount equal to (x) up to \$3,000,000 in any trailing twelve Fiscal Month period, plus (y) amounts in excess of \$3,000,000 during such period subject to the consent of the Required Lenders (such consent not to be unreasonably withheld); plus (vii) management fees and out-of-pocket expenses pursuant to the Expense Reimbursement Agreement; plus (viii) fees and expenses incurred in connection with (A) the negotiation, execution and delivery of the Loan Documents and the Second Priority Loan Documents, including amendments and other modifications thereof from time to time, and (B) the consummation of the Transactions; plus

(ix) proceeds of business interruption insurance received in cash during such period and expenses incurred in connection with extraordinary casualty events to the extent such expenses are reimbursed in cash by insurance during such period; minus (x) extraordinary and non-recurring non-cash gains for such period, to the extent added in the calculation of Adjusted Net Earnings.

Adjusted Net Earnings - with respect to any period, means the net earnings (or loss) for such period of Borrowers, all as reflected on the financial statement of Borrowers supplied to Lender pursuant to **Section 9.1.3** hereof, but excluding: (i) any gain (or loss) arising from any write-up (or write-down) of assets during such period; (ii) earnings of any Subsidiary accrued prior to the date it became a Subsidiary; (iii) earnings of any Person, substantially all the assets of which have been acquired in any manner by a Borrower, realized by such Person prior to the date of such acquisition; (iv) net earnings of any entity (other than a Subsidiary of a Borrower) in which a Borrower has an ownership interest unless such net earnings have actually been received by a Borrower in the form of cash Distributions; (v) any portion of the net earnings of any Subsidiary which for any reason is unavailable for payment of Distributions to a Borrower; (vi) the earnings of any Person to which any assets of Borrower shall have been sold, transferred or disposed of, or into which a Borrower shall have merged, or been a party to any consolidation or other form of reorganization, prior to the date of such transaction; and (vii) any gain (or loss) arising from extraordinary or non-recurring items, all as determined in accordance with GAAP.

Affiliate - with respect to any Person, another Person that directly, or indirectly through one or more intermediaries, Controls or is Controlled by or is under common Control with the Person specified. “Control” means the possession, directly or indirectly, of the power to vote ten percent (10%) or more of the securities having ordinary voting power for the election of the directors or managers (or similar governing body) or to direct or cause the direction of the management or policies of a Person, whether through the ability to exercise voting power, by contract or otherwise. “Controlling” and “Controlled” have correlative meanings.

Agent – as defined in the introductory paragraph.

Agent Indemnitees - Agent in its capacity as collateral and administrative agent for Lenders under the Loan Documents and all of Agent’s present and future officers, directors, agents and attorneys.

Agent Professionals - attorneys, accountants, appraisers, consultants, business valuation experts, environmental engineers or consultants, turnaround specialists and other professionals or experts retained by Agent.

Agreement - the Loan and Security Agreement referred to in the first sentence of this Appendix A, all Exhibits and Schedules thereto and this Appendix A.

Allocable Amount – as defined in **Section 4.11.3**.

Anti-Terrorism Laws - any laws relating to terrorism or money laundering, including the Patriot Act.

Applicable Law - all laws, rules and regulations applicable to the Person, conduct, transaction, covenant, Loan Document or Material Contract in question, including all applicable common law and equitable principles; all provisions of all applicable state, federal and foreign constitutions, statutes, rules, regulations and orders of governmental bodies; and all orders, judgments and decrees of all courts and arbitrators, including, without limitation, the Federal Gun Control Act, the National Firearms Act, the Arms Export Control Act, and the implementing regulations of the Bureau of Alcohol, Tobacco, Firearms and Explosives.

Approved Fund - any Person (other than a natural person) that is engaged in making, purchasing, holding or otherwise investing in commercial loans and similar extensions of credit in its ordinary course of activities, and is administered or managed by a Lender, an entity that administers or manages a Lender, or an Affiliate of either.

Assignment and Acceptance - an assignment and acceptance entered into by a Lender and an assignee of such Lender's Term Loans, in the form of **Exhibit C**.

Bank of America - Bank of America, N.A., a national banking association.

Bankruptcy Code - title 11 of the United States Code.

Board of Governors - the Board of Governors of the Federal Reserve System.

Bonitz - as defined in the introductory paragraph.

Borrowers - EB, Evans, Jerry, Simmons, Bonitz, Outdoor and each other Person that becomes a Borrower pursuant to **Section 9.1.12**.

Business Day - any day excluding Saturday, Sunday and any other day that is a legal holiday under the laws of the State of New York, the State of North Carolina, or is a day on which banking institutions located in such state are closed.

Business Interruption Insurance Assignment - the Collateral Assignment of Business Interruption Insurance to be executed by Borrowers on or after the Closing Date in favor of Agent, in form and substance satisfactory to Lender, as security for the payment of the Obligations.

Capital Expenditures - expenditures made or liabilities incurred for the acquisition of any fixed assets or improvements, replacements, substitutions or additions thereto which have a useful life of more than one year.

Capital Stock - (i) in the case of a corporation, capital stock, (ii) in the case of an association or business entity, any and all shares, interests, participations, rights or other equivalents (however designated) of capital stock, (iii) in the case of a partnership, partnership interests (whether general or limited), (iv) in the case of a limited liability company, membership interests and (v) any other equity interest or equity participation that confers on a Person the right to receive a share of the profits and losses of, or distributions of assets of, the issuing Person.

Capitalized Lease Obligation - any Debt represented by obligations under a lease that is required to be capitalized for financial reporting purposes in accordance with GAAP.

Cash Collateral - cash or Cash Equivalents, and any interest earned thereon, that is deposited with Agent or First Priority Agent in accordance with this Agreement or the First Priority Loan Agreement, as applicable, for the Pro Rata benefit of Lenders as security for the Obligations.

Cash Equivalents - (i) marketable direct obligations issued or unconditionally guaranteed by the United States government and backed by the full faith and credit of the United States government having maturities of not more than 12 months from the date of acquisition; (ii) domestic certificates of deposit and time deposits having maturities of not more than 12 months from the date of acquisition, bankers' acceptances having maturities of not more than 12 months from the date of acquisition and overnight bank deposits, in each case issued by any commercial bank organized under the laws of the United States, any state thereof or the District of Columbia, which at the time of acquisition are rated A-1 (or better) by S&P or P-1 (or better) by Moody's, and (unless issued by a Lender) not subject to offset rights in favor of such bank arising from any banking relationship with such bank; (iii) repurchase obligations with a term of not more than thirty (30) days for underlying securities of the types described in clauses (i) and (ii) entered into with any financial institution meeting the qualifications specified in clause (ii) above; and (iv) commercial paper having at the time of investment therein or a contractual commitment to invest therein a rating of A-1 (or better) by S&P or P-1 (or better) by Moody's, and having a maturity within 9 months after the date of acquisition thereof.

Cash Management Services - any services provided from time to time by a Lender or any of its Affiliates to any Borrower or Subsidiary in connection with operating, collections, payroll, trust, or other depository or disbursement accounts, including automated clearinghouse, e-payable, electronic funds transfer, wire transfer, controlled disbursement, overdraft, depository, information reporting, lockbox and stop payment services.

CERCLA - the Comprehensive Environmental Response Compensation and Liability Act, 42 U.S.C. ' 9601 et seq. and its implementing regulations.

Change in Law - the occurrence, after the date hereof, of (i) the adoption, taking effect or phasing in of any law, rule, regulation or treaty; (ii) any change in any law, rule, regulation or treaty or in the administration, interpretation or application thereof; or (iii) the making, issuance or application of any request, guideline, requirement or directive (whether or not having the force of law) by any Governmental Authority; provided, however, that "Change in Law" shall include, regardless of the date enacted, adopted or issued, all requests, guidelines, requirements or directives (a) under or relating to the Dodd-Frank Wall Street Reform and Consumer Protection Act, or (b) promulgated pursuant to Basel III by the Bank of International Settlements, the Basel Committee on Banking Supervision (or any similar authority) or any other Governmental Authority.

Change of Control - the occurrence of any of the following events after the Closing Date: (i) Wellspring shall fail to own and control, directly or indirectly, or have control over, more than 50% of the Capital Stock of SportCo, or (ii) SportCo shall fail to own, directly or indirectly, or

have control over, all of the Capital Stock of Holdings, or (iii) Holdings shall fail to own, directly or indirectly, or have control over, all of the Capital Stock of Borrowers or (iv) during any period of up to 24 consecutive months, commencing after the Closing Date, individuals who at the beginning of such 24 month period were directors of EB (together with any new director whose election by EB's Board of Directors or whose nomination for election by EB's shareholders was approved by a vote of at least two-thirds of the directors then still in office who either were directors at the beginning of such period or whose election or nomination for election was previously so approved) cease for any reason to constitute a majority of the directors of EB then in office.

Chattel Paper - shall have the meaning given to "chattel paper" in the UCC.

Claims - any and all claims, demands, liabilities, obligations, losses, damages, penalties, actions, judgments, suits, awards, remedial response costs, expenses or disbursements of any kind or nature whatsoever (including reasonable attorneys', accountants', consultants' or paralegals' fees and expenses), whether arising under or in connection with the Loan Documents, any Applicable Law (including any Environmental Laws) or otherwise, that may now or hereafter be suffered or incurred by a Person and whether suffered or incurred in or as a result of any investigation, litigation, arbitration or other judicial or non-judicial proceeding or any appeals related thereto.

Closing Date - the date on which all of the conditions precedent in **Section 10** of the Agreement are satisfied and the Term Loans are made under the Agreement.

Closing Date Distribution - the one-time cash Distribution by Borrowers to Holdings (for further distribution to SportCo and Wellspring and the other shareholders of SportCo) on the Closing Date in an amount up to \$134,500,000, which Distribution shall be excluded from all calculations of the Consolidated Fixed Charge Coverage Ratio.

Code - the Internal Revenue Code of 1986.

Collateral - all of the Property and interests in Property described in **Section 6** of the Agreement; all Property described in any of the Security Documents as security for the payment or performance of any of the Obligations; and all other Property and interests in Property that now or hereafter secure (or are intended to secure) the payment and performance of any of the Obligations.

Commercial Tort Claim - shall have the meaning ascribed to "commercial tort claim" in the UCC.

Commitment Percentage - shall mean, for any Lender, the percentage identified as its Commitment Percentage on Schedule 2, as such percentage may be modified in connection with any assignment made in accordance with the provisions of **Section 13.3**.

Compliance Certificate - a Compliance Certificate to be provided by Borrowers to Agent in accordance with, and in the form annexed as **Exhibit B** to, the Agreement, and the supporting schedules to be annexed thereto.

Consolidated - the consolidation in accordance with GAAP of the accounts or other items as to which such term applies.

Consolidated Capital Expenditures – for any applicable period of computation, Capital Expenditures of the Obligors on a Consolidated basis other than Capital Expenditures that are financed with Money Borrowed if (i) such Money Borrowed does not consist of Revolver Loans (as defined in the First Priority Loan Agreement), and (ii) such Money Borrowed is secured solely by the assets that are being financed.

Consolidated Fixed Charge Coverage Ratio – the ratio, for any applicable period of computation, of (i) Adjusted EBITDA for such period minus cash income taxes and Distributions paid for such period minus Consolidated Capital Expenditures for such period to (ii) Fixed Charges for such period.

Consolidated Funded Debt - for any applicable period of computation, Funded Debt of the Obligors on a Consolidated basis.

Consolidated Interest Expense - for any applicable period of computation, the sum of (a) total interest expense of the Obligors for such period with respect to all outstanding Indebtedness of the Obligors, plus (b) all dividends (other than dividends payable solely in Capital Stock (other than Disqualified Capital Stock)) made on account of preferred Capital Stock of any Obligor for such period. For the avoidance of doubt, when calculating Consolidated Interest Expense, cash interest income earned in any period will not be net against Consolidated Interest Expense.

Consolidated Scheduled Debt Payments - for any applicable period of computation, the sum of all scheduled payments of principal of Consolidated Funded Debt for such period (including the principal component of payments due on capital leases for such period), whether paid under the First Priority Loan Documents or the Second Priority Loan Documents, and together with any applicable Prepayment Premiums.

Consolidated Senior Debt – for any applicable period of computation, the outstanding principal amount of all Consolidated Funded Debt of the Obligors minus the outstanding principal amount of the Subordinated Debt of the Obligors.

Consolidated Senior Leverage Ratio - the ratio, for any applicable period of computation, of (a) Consolidated Senior Debt to (b) Adjusted EBITDA for such period.

Consolidated Total Leverage Ratio - the ratio, for any applicable period of computation, of (a) Consolidated Funded Debt to (b) Adjusted EBITDA for such period.

Contingent Obligation - with respect to any Person, any obligation of such Person arising from any guaranty, indemnity or other assurance of payment or performance of any Debt, lease, dividend or other obligation (“primary obligations”) of any other Person (the “primary obligor”) in any manner, whether directly or indirectly, including (i) the direct or indirect guaranty, endorsement (other than for collection or deposit in the Ordinary Course of Business), co-making, discounting with recourse or sale with recourse by such Person of the obligation of a primary obligor, (ii) the obligation to make take-or-pay or similar payments, if required,

regardless of nonperformance by any other party or parties to an agreement, (iii) any obligation of such Person, whether or not contingent, (A) to purchase any such primary obligation or any Property constituting direct or indirect security therefor, (B) to advance or supply funds (1) for the purchase or payment of any such primary obligations or (2) to maintain working capital or equity capital of the primary obligor or otherwise to maintain the net worth or solvency of the primary obligor, (C) to purchase Property, Securities or services primarily for the purpose of assuring the owner of any such primary obligation of the ability of the primary obligor to make payment of such primary obligation or (D) otherwise to assure or hold harmless the holder of such primary obligation against loss in respect thereof; provided, however, that the term “Contingent Obligation” shall not include any product warranties extended in the Ordinary Course of Business. The amount of any Contingent Obligation shall be deemed to be an amount equal to the stated or determinable amount of the primary obligation with respect to which such Contingent Obligation is made (or, if less, the maximum amount of such primary obligation for which such Person may be liable pursuant to the terms of the instrument evidencing such Contingent Obligation) or, if not stated or determinable, the maximum reasonably anticipated liability with respect thereto (assuming such Person is required to perform thereunder), as determined by such Person in good faith.

Control or controlled by or under common control - possession, directly or indirectly, of the power to direct or cause the direction of management or policies (whether through ownership of voting securities, by contract or otherwise, but not solely by being an officer or director of that Person); provided, however, that in the event any Person which beneficially owns, directly or indirectly, 30% or more (in number of votes) of the Equity Interest having ordinary Voting Power with respect to a corporation shall be conclusively presumed to control such corporation.

Cure Proceeds - as defined in **Section 9.3.3**.

Cure Right - as defined in **Section 9.3.3**.

Current Maturities of Funded Debt - all principal payments in respect of Funded Debt scheduled to be made in the twelve (12) month period following the date of determination.

Debt - as applied to a Person means, without duplication: (i) all items which in accordance with GAAP would be included in determining total liabilities as shown on the liability side of a balance sheet of such Person as of the date as of which Debt is to be determined, including Capitalized Lease Obligations; (ii) all Contingent Obligations of such Person; (iii) all letters of credit or letter of credit guaranties outstanding for the account of such Person and, without duplication, all reimbursement obligations in connection therewith; and (iv) in the case of Borrowers (without duplication), the Obligations. The Debt of a Person shall include any recourse Debt of any partnership or joint venture in which such Person is a general partner or joint venturer.

Default - an event or condition the occurrence of which would, with the lapse of time or the giving of notice, or both, become an Event of Default.

Default Rate - on any date, a rate per annum that is equal to 2% in excess of the rate otherwise applicable to the Term Loans on such date.

Deposit Accounts - all of a Person's demand, time, savings, passbook, money market or other depository accounts, and all certificates of deposit, maintained by such Person with any bank, savings and loan association, credit union or other depository institution.

Deposit Account Assignment - the Collateral Assignment of Deposit Accounts to be executed by Borrowers on or before the Closing Date in favor of Agent for itself and the Pro Rata benefit of Lenders as security for the Obligations.

Disqualified Capital Stock - shall mean any Capital Stock of any Person issued after the date hereof which, by its terms or by the terms of any security into which it is convertible or for which it is exchangeable or exercisable at the option of the holder, or upon the happening of any event other than a change of control, matures or is mandatorily redeemable pursuant to sinking fund obligation or otherwise, or is redeemable for cash, property or securities constituting Indebtedness at the option of the holder thereof, in whole or in part, or would require the mandatory payment of dividends (other than dividends payable in Capital Stock (other than Disqualified Capital Stock)) on or prior to the date that is twelve (12) months following the Maturity Date.

Disregarded Subsidiary - any Subsidiary of a Borrower with an aggregate value of total assets, as of the Closing Date, of less than \$50,000 and Willoughby & Taylor, LLC, a Delaware limited liability company.

Distribution - in respect of any entity, (i) any payment of dividends or other distributions on Equity Interests of the entity (except distributions in such Equity Interests) and (ii) any purchase, redemption or other acquisition or retirement for value of any Equity Interests of the entity or any Affiliate of the entity unless made contemporaneously from the Net Proceeds of the sale of Equity Interests.

Document - shall have the meaning given to "document" in the UCC.

Dollars and the sign \$ - lawful money of the United States of America.

Domestic Subsidiary - a Subsidiary of an Obligor (other than a Subsidiary that is a Borrower) that is incorporated under the laws of a state of the United States or the District of Columbia.

Dominion Account - a special account established by a Borrower at Bank of America or another bank acceptable to Agent, over which Agent has exclusive control for withdrawal purposes.

EB - as defined in the introductory paragraph.

Electronic Chattel Paper - shall have the meaning given to "electronic chattel paper" in the UCC.

Eligible Assignee - a Person that is (i) a Lender, U.S. based Affiliate of a Lender or Approved Fund; (ii) any other Person approved by EB (which approval shall not be unreasonably withheld, delayed or conditioned, and shall be deemed given if no objection is made within five

(5) Business Days after notice of the proposed assignment) and Agent; and (iii) during any Event of Default, any Person acceptable to Agent in its discretion.

Environmental Laws - all Applicable Laws (including all programs, permits and guidance promulgated by regulatory agencies), relating to public health (but excluding occupational safety and health, to the extent regulated by OSHA) or the protection or pollution of the environment, including CERCLA, the Resource Conservation and Recovery Act ([42 U.S.C. §§ 6991-6991j](#)) and the Clean Water Act ([33 U.S.C. §§ 1251 et seq.](#)).

Environmental Notice - a notice from any Governmental Authority or other Person of noncompliance with, investigation of a violation of, litigation relating to, or potential fine or liability under any Environmental Law, or with respect to any Environmental Release, environmental pollution or hazardous materials, including any complaint, summons, citation, order, claim, demand or request for correction, remediation or otherwise.

Environmental Release - a release as defined in CERCLA or under any applicable Environmental Laws.

Equipment - shall have the meaning given to “equipment” in the UCC and shall include all of a Borrower’s machinery, apparatus, equipment, fittings, furniture, fixtures, motor vehicles and other tangible personal Property (other than Inventory) of every kind and description, whether now owned or hereafter acquired by a Borrower and wherever located, and all parts, accessories and special tools therefor, all accessions thereto, and all substitutions and replacements thereof.

Equity Interest - the interest of (i) a shareholder in a corporation, (ii) a partner (whether general or limited) in a partnership (whether general, limited or limited liability), (iii) a member in a limited liability company, or (iv) any other Person having any other form of equity security or ownership interest.

Equity Issuance - shall mean the issuance by any Obligor to any Person that is not an Obligor of any Capital Stock, including any Capital Stock that is issued pursuant to the exercise of any option, warrant or other conversion (including a conversion of any debt securities to equity), or the receipt by any Obligor of a capital contribution from any Person that is not an Obligor; other than any issuance of Capital Stock by SportCo to its equity holders, or any receipt by an Obligor of a cash common equity contribution, in each case, solely to finance Capital Expenditures permitted hereunder; provided that the foregoing shall not be deemed to imply that any such issuance is permitted under this Agreement. The term “Equity Issuance” shall not include any issuance pursuant to the exercise of any option, warrant or other sale of Capital Stock of SportCo to members of the management of the Borrowers pursuant to an employment agreement, employee option plan, stock option plan or other employee benefits program.

ERISA - the Employee Retirement Income Security Act of 1974 and all rules and regulations from time to time promulgated thereunder.

ERISA Affiliate - any trade or business (whether or not incorporated) under common control with an Obligor within the meaning of Section 414(b) or (c) of the Code (and Sections 414(m) and (o) of the Code for purposes of provisions relating to Section 412 of the Code).

ERISA Event - (a) a Reportable Event with respect to a Pension Plan; (b) a failure to make any required contribution to a Plan in a timely fashion; (c) a failure to comply with all applicable requirements under the Pension Funding Rules or the application for or receipt of a waiver of the minimum funding standards under the Pension Funding Rules by any Obligor or ERISA Affiliate; (d) the creation of any Lien in favor of the PBGC or a Plan on the assets of any Obligor or ERISA Affiliate; (e) a withdrawal by any Obligor or ERISA Affiliate from a Pension Plan subject to Section 4063 of ERISA during a plan year in which it was a substantial employer (as defined in Section 4001(a)(2) of ERISA) or a cessation of operations that is treated as such a withdrawal under Section 4062(e) of ERISA; (f) a complete or partial withdrawal by any Obligor or ERISA Affiliate from a Multiemployer Plan or notification that a Multiemployer Plan is in reorganization; (g) the filing of a notice of intent to terminate, the treatment of a Plan amendment as a termination under Section 4041 or 4041A of ERISA, or the commencement of proceedings by the PBGC to terminate a Pension Plan or Multiemployer Plan; (h) the determination that any Pension Plan or Multiemployer Plan is considered an at risk plan or a plan in critical or endangered status under the Code, ERISA or the Pension Protection Act of 2006; (i) an event or condition which constitutes grounds under Section 4042 of ERISA for the termination of, or the appointment of a trustee to administer, any Pension Plan or Multiemployer Plan; or (j) the imposition of any liability under Title IV of ERISA, other than for PBGC premiums due but not delinquent under Section 4007 of ERISA, upon any Obligor or ERISA Affiliate.

Eurocurrency Liabilities - shall have the meaning ascribed thereto in Regulation D issued by the Board of Governors.

Event of Default - as defined in **Section 11** of the Agreement.

Excess Cash Flow - shall mean, with respect to any Fiscal Year of the Borrowers on a Consolidated basis, an amount equal to (a) Adjusted EBITDA, exclusive of any adjustments made pursuant to subsection (v) or (x) of the definition thereof, for such Fiscal Year; minus (b) any cash charges added back thereto pursuant to the definition thereof for such Fiscal Year; minus (c) the sum of (i) Consolidated Capital Expenditures made in cash during such Fiscal Year to the extent made not in violation of this Agreement, plus (ii) Consolidated Interest Expense paid in cash during such Fiscal Year, plus (iii) the amount of any Taxes paid in cash during such Fiscal Year, (iv) Consolidated Scheduled Debt Payments made in cash during such Fiscal Year to the extent made not in violation of this Agreement, plus (v) increases in working capital (excluding cash and Cash Equivalents) for such Fiscal Year plus (vi) at the Obligors' option an amount up to 100% of the voluntary prepayments of the Term Loans made pursuant to **Section 4.3.1** or **4.3.2** during such Fiscal Year plus (vii) the amount of any payments under the Expense Reimbursement Agreement paid in cash in accordance with **Section 9.2.4** during such Fiscal Year.

Excluded Account - as defined in **Section 6.2**.

Excluded Equity - any voting stock in excess of 65% of the voting stock of any Foreign Subsidiary to the extent that a pledge of more than 65% of the voting Equity Interests of such Foreign Subsidiary could result in material incremental income tax liability as a result of the application of Section 956 of the Code, taking into account actual or anticipated repatriation of funds, foreign tax credits and other relevant factors. For the purposes of this definition, "voting

stock” means, as to any issuer, the issued and outstanding shares of each class of capital stock or other ownership interests of such issuer entitled to vote (within the meaning of Treasury Regulations § 1.956-2(c)(2)).

Excluded Property - the collective reference to (i) all Excluded Equity, (ii) any permit, lease, license, contract, instrument or other agreement held by any Obligor that prohibits or requires the consent of any Person other than Borrowers and their Affiliates as a condition to the creation by such Obligor of a Lien thereon, or any permit, lease, license, contract, instrument or other agreement held by any Obligor to the extent that any requirement of law applicable thereto prohibits the creation of a Lien thereon, but only, in each case, to the extent, and for so long as, such prohibition is not terminated or rendered unenforceable or otherwise deemed ineffective by the UCC or any other requirement of law and (iii) Equipment owned by any Obligor that is subject to a purchase money Lien or a capital lease if the contract or other agreement in which such Lien is granted (or in the documentation providing for such capital lease) prohibits or requires the consent of any Person other than Borrowers or their Affiliates as a condition to the creation of any other Lien on such Equipment; provided, however, “Excluded Property” shall not include any proceeds, substitutions or replacements of Excluded Property (unless such proceeds, substitutions or replacements would constitute Excluded Property).

Excluded Tax - with respect to Agent, any Lender or any other recipient of a payment to be made by or on account of any Obligation, (a) Taxes imposed on or measured by its overall net income (however denominated), and franchise Taxes imposed on it (in lieu of net income taxes), in each case, (i) by the jurisdiction (or any political subdivision thereof or therein) under the laws of which such recipient is organized or in which its principal office is located or, in the case of any Lender, in which its applicable Lending Office is located or (ii) by any other jurisdiction as a result of a present or former connection between such recipient and the jurisdiction imposing such Tax (other than connections arising from such recipient having executed, delivered, become a party to, performed its obligations under, received payments under, received or perfected a security interest under, engaged in any other transaction pursuant to or enforced any Loan Document or sold or assigned an interest in any of its rights or obligations under the Loan Documents); (b) any branch profits taxes imposed by the United States or any similar tax imposed by any other jurisdiction in which EB is located; (c) any backup withholding tax required by the Code to be withheld from amounts payable to a Lender that has failed to comply with **Section 4.10**; (d) in the case of a Foreign Lender, any United States withholding tax that is (i) required pursuant to laws in force at the time such Lender becomes a Lender (or designates a new Lending Office) hereunder, or (ii) attributable to such Lender’s failure or inability (other than as a result of a Change in Law) to comply with **Section 4.10**, except in the case of both (i) and (ii), to the extent that such Foreign Lender (or its assignor, if any) was entitled, at the time of designation of a new Lending Office (or assignment), to receive additional amounts from Borrowers with respect to such withholding tax, and (e) any U.S. federal withholding Taxes imposed pursuant to FATCA.

Expense Reimbursement Agreement – that certain Amended and Restated Expense Reimbursement Agreement, dated as of November 16, 2009, by and between SportCo and Wellspring Capital Management LLC.

Extraordinary Expenses - all costs, expenses, fees (including fees incurred to Agent Professionals) or advances that Agent or any Lender may suffer or incur, whether prior to or after the occurrence of an Event of Default, and whether prior to, after or during the pendency of an Insolvency Proceeding of an Obligor, on account of or in connection with (i) the audit, inspection, repossession, storage, repair, appraisal, insuring, completion of the manufacture of, preparing for sale, advertising for sale, selling, collecting or otherwise preserving or realizing upon any Collateral; (ii) the defense of Agent's Lien upon any Collateral or the priority thereof or any adverse claim with respect to the Term Loans, the Loan Documents or the Collateral asserted by any Obligor, any receiver or trustee for any Obligor or any creditor or representative of creditors of any Obligor; (iii) the settlement or satisfaction of any Liens upon any Collateral (whether or not such Liens are Permitted Liens); (iv) the collection or enforcement of any of the Obligations; (v) the negotiation, documentation, and closing of any restructuring or forbearance agreement with respect to the Loan Documents or Obligations; (vi) amounts advanced by Agent pursuant to **Section 7.1.3** of the Agreement; (vii) the enforcement of any of the provisions of any of the Loan Documents; or (viii) any payment under a guaranty, indemnity or other payment agreement provided by Agent or (with Agent's consent) any Lender, which is reimbursable to Agent or such Lender by Borrowers pursuant to **Section 2.4.2** of the Agreement. Such costs, expenses and advances may include transfer fees, Other Taxes, storage fees, insurance costs, permit fees, utility reservation and standby fees, legal fees, appraisal fees, brokers' fees and commissions, auctioneers' fees and commissions, accountants' fees, environmental study fees, wages and salaries paid to employees of a Borrower or independent contractors in liquidating any Collateral, travel expenses, all other fees and expenses payable or reimbursable by Borrowers or any other Obligor under any of the Loan Documents, and all other fees and expenses associated with the enforcement of rights or remedies under any of the Loan Documents, but excluding compensation paid to employees (including inside legal counsel who are employees) of Agent.

FATCA - Sections 1471 through 1474 of the Code, as of the date of this Agreement (or any amended or successor version that is substantively comparable and not materially more onerous to comply with), any current or future regulations or official interpretations thereof and any agreements entered into pursuant to Section 1471 (b) (1) of the Code.

Federal Funds Rate - the weighted average of interest rates on overnight federal funds transactions with members of the Federal Reserve System arranged by federal funds brokers on the applicable Business Day (or on the preceding Business Day, if the applicable day is not a Business Day), as published by the Federal Reserve Bank of New York on the next Business Day.

FEIN - with respect to any Person, the Federal Employer Identification Number of such Person.

First Priority Agent – has the meaning ascribed to “Senior Agent” in the Subordination Agreement.

First Priority Debt – has the meaning ascribed to “Senior Liabilities” in the Subordination Agreement, including any amendments or refinancings in whole or in part, thereof, in accordance with the terms of the Subordination Agreement.

First Priority Lenders - has the meaning ascribed to “Senior Creditors” in the Subordination Agreement.

First Priority Loan Agreement - has the meaning ascribed to “Senior Loan Agreement” in the Subordination Agreement.

First Priority Loan Documents - has the meaning ascribed to “Senior Loan Documents” in the Subordination Agreement.

Fiscal Month – each period of one month, commencing on the first day of a Fiscal Year.

Fiscal Year - the fiscal year of each Borrower and its Subsidiaries for accounting and tax purposes, which shall begin on January 1 of each calendar year and end on December 31 of each calendar year, and when preceded by the designation of a calendar year (e.g., 2007 Fiscal Year) means the fiscal year of such Person ended on December 31 of such designated calendar year.

Fixed Charges - for any period, the sum of Borrowers’ (i) Interest Expense during such period, plus (ii) on the date of determination, Current Maturities of Funded Debt.

FLSA - the Fair Labor Standards Act of 1938.

Foreign Lender – any Lender that is not a citizen or resident of the United States, a corporation, partnership or other entity created or organized in or under the laws of the United States (or any jurisdiction thereof), or any estate or trust that is subject to federal income taxation regardless of the source of its income.

Foreign Subsidiary - a Subsidiary that is not a Domestic Subsidiary.

Full Payment – with respect to any Obligations, the full and indefeasible cash payment thereof (other than contingent obligations to the extent no claim giving rise thereto has been asserted), including any interest, fees and other charges accruing during an Insolvency Proceeding (whether or not allowed in the proceeding).

Full Payment of the First Priority Debt – has the meaning ascribed to “Discharge of Senior Priority Liabilities” in the Subordination Agreement.

Funded Debt - collectively, without duplication, (i) the aggregate principal amount of Debt for Money Borrowed, including Capitalized Lease Obligations and all First Priority Debt and (ii) all Debt outstanding under any revolving credit, line of credit or renewals thereof), notwithstanding that any such Debt is created within one year of the expiration of such agreement.

GAAP - generally accepted accounting principles in the United States of America in effect from time to time.

General Intangibles - all general intangibles of a Borrower, whether now owned or hereafter created or acquired by a Borrower, including all choses in action, causes of action, company or other business records, inventions, blueprints, designs, patents, patent applications,

trademarks, trademark applications, trade names, trade secrets, service marks, goodwill, brand names, copyrights, registrations, licenses, franchises, customer lists, permits, tax refund claims, computer programs, operational manuals, internet addresses and domain names, insurance refunds and premium rebates, all claims under guaranties, security interests or other security held by or granted to a Borrower to secure payment of any of any of a Borrower's Accounts by an Account Debtor, all rights to indemnification, and all other intangible property of a Borrower of every kind and nature (other than Accounts).

Goods - shall have the meaning given to "goods" in the UCC.

Governing Body - shall mean, with respect to any Person, the board of directors, board of managers, board of representatives, board of advisors or similar governing body of such Person.

Governmental Approvals - all authorizations, consents, approvals, licenses (including, without limitation, all federal firearms licenses) and exemptions of, registrations and filings with, and reports to, all Governmental Authorities.

Governmental Authority - any federal, state, municipal, national, foreign or other governmental department, commission, board, bureau, court, agency or instrumentality or political subdivision thereof or any entity or officer exercising executive, legislative, judicial, regulatory or administrative functions of or pertaining to any government or any court, in each case whether associated with a state of the United States, the District of Columbia or a foreign entity or government.

Guaranties – the Holdings Guaranty, the SportCo Guaranty and each other guaranty executed by a Guarantor in support of the Obligations.

Guarantor Payment - as defined in **Section 4.11.3**.

Guarantors – Holdings, SportCo and each other Person who guarantees payment or performance of any Obligation.

Hazardous Materials - (a) any petroleum or petroleum products, radioactive materials, asbestos in any form that is or could become friable, urea formaldehyde foam insulation, dielectric fluid containing levels of polychlorinated biphenyls, radon gas and mold; (b) any chemicals, materials, pollutant or substances defined as or included in the definition of "hazardous substances", "hazardous waste", "hazardous materials", "extremely hazardous substances", "restricted hazardous waste", "toxic substances", "toxic pollutants", "contaminants", "pollutants" or words of similar import, under any applicable Environmental Law; and (c) any other chemical, material or substance, the exposure to, or release of which is prohibited, limited or regulated by any governmental authority or for which liability or standards of conduct are imposed pursuant to, any Environmental Law.

Hedging Agreement - an agreement relating to any swap, cap, floor, collar, option, forward, cross right or obligation, or combination thereof or similar transaction, with respect to interest rate, foreign exchange, currency, commodity, credit or equity risk.

Holdings – United Sporting Companies, Inc., a Delaware corporation.

Holdings Guaranty – that certain Guaranty dated as of the date hereof and made by Holdings, as the same may be amended, modified or replaced in accordance with the terms hereof.

Indemnified Amount - in the case of Agent Indemnitees, the amount of any loss, cost, expenses or damages suffered or incurred by Agent Indemnitees and against which Lenders or any Obligor have agreed to indemnify and Agent Indemnitees pursuant to the terms of the Agreement or any of the other Loan Documents; and in the case of Lender Indemnitees, the amount of any loss, cost, expenses or damages suffered or incurred by Lender Indemnitees and against which Lender or any Obligor have agreed to indemnify Lender Indemnitees pursuant to the terms of the Agreement or any of the other Loan Documents;

Indemnified Taxes - Taxes other than Excluded Taxes.

Indemnitees - the Agent Indemnitees and the Lender Indemnitees.

Insolvency Proceeding - any action, case or proceeding commenced by or against a Person, or any agreement of such Person, for (i) the entry of an order for relief under any chapter of the Bankruptcy Code or other insolvency, moratorium or debt adjustment law (whether state, federal or foreign), (ii) the appointment of a receiver, trustee, liquidator or other custodian for such Person or any part of its Property, (iii) an assignment or trust mortgage for the benefit of creditors of such Person, or (iv) the liquidation, dissolution or winding up of the affairs of such Person.

Instrument - shall have the meaning given to “instrument” in the UCC.

Intellectual Property - all intellectual and similar Property of every kind and description, including inventions, designs, patents, patent applications, copyrights, trademarks, service marks, trade names, mask works, trade secrets, confidential or proprietary information, know-how, software and databases and all embodiments or fixations thereof and related documentation, registrations and franchises, all books and records describing or used in connection with the foregoing and all licenses, or other rights to use any of the foregoing.

Intellectual Property Claim - the assertion by any Person of a claim (whether asserted in writing, by action, suit or proceeding or otherwise) that a Borrower’s ownership, use, marketing, sale or distribution of any Inventory, Equipment, Intellectual Property or other Property is violative of any ownership or right to use any Intellectual Property of such Person.

Interest Expense - for any period, the total interest expense of Borrowers payable in cash during such period determined in accordance with GAAP.

Interest Payment Date - shall mean each March 31, June 30, September 30 and December 31 of each year, commencing with December 31, 2012.

Inventory - shall have the meaning given to “inventory” in the UCC and shall include all goods intended for sale by a Borrower, to be furnished by a Borrower under contracts of service, or for display or demonstration; and work in process and all raw materials and other materials and supplies of every nature and description used or which might be used in connection with the

manufacture, printing, packing, shipping, advertising, selling, leasing or furnishing of such goods or otherwise used or consumed in a Borrower's business ("Work-In-Process and Raw Materials"); and all Documents evidencing and General Intangibles relating to any of the foregoing, whether now owned or hereafter acquired by a Borrower.

Investment Property - shall have the meaning given to "investment property" in the UCC and shall include all Securities (whether certificated or uncertificated), security entitlements, securities accounts, commodity contracts and commodity accounts.

IPO - shall mean a successfully completed firm underwritten public offering of the Capital Stock of EB or SportCo (or any direct or indirect parent of EB or SportCo) pursuant to an effective registration under the Securities Act resulting in the sale of more than 25% of such entity's Capital Stock.

IRS - the United States Internal Revenue Service.

Jerry – as defined in the introductory paragraph.

Landlord Agreements - an agreement duly executed in favor of Agent, in form and content acceptable to Agent, by which an owner or mortgagee of premises upon which any Property of an Obligor is located agrees to waive or subordinate any Lien it may have with respect to such Property in favor of Agent's Lien therein and to permit Agent to enter upon such premises and to remove such Property or to use such premises to store or dispose of such Property.

Lender Indemnitee - a Lender in its capacity as a lender under the Agreement and its present and future officers, directors, employees, agents and attorneys.

Lenders – Prospect, Summit, and any other Person who may from time to time become a "Lender" under the Agreement.

Lending Office - the office designated as such by the applicable Lender at the time it becomes party to this Agreement or thereafter by notice to EB.

LIBOR Rate – means (i) the British Bankers Association LIBOR Rate ("BBA LIBOR"), as published by Reuters (or other commercially available source designated by Agent); or (ii) if BBA LIBOR is not available for any reason, the interest rate at which Dollar deposits in the approximate amount of the LIBOR Loan would be offered by Bank of America's London branch to major banks in the London interbank Eurodollar market, in each case for an interest period of one (1) month. Each determination by Agent of any LIBOR Rate shall, in the absence of any manifest error, be conclusive.

License - any license or agreement under which an Obligor is authorized to use Intellectual Property in connection with any manufacture, marketing, distribution or disposition of Collateral, any use of Property or any other conduct of its business.

Lien - any interest in Property securing an obligation owed to, or a claim by, a Person other than the owner of the Property, whether such interest is based on common law, statute or

contract. The term “Lien” shall also include reservations, exceptions, encroachments, easements, rights-of-way, covenants, conditions, restrictions, leases and other title exceptions and encumbrances affecting Real Estate. For the purpose of the Agreement, a Borrower shall be deemed to be the owner of any Property which it has acquired or holds subject to a conditional sale agreement or other arrangement pursuant to which title to the Property has been retained by or vested in some other Person for security purposes.

Loan Documents - the Agreement, the Other Agreements and the Security Documents.

Margin Stock - shall have the meaning ascribed to it in Regulation U and of the Board of Governors.

Material Adverse Effect - the effect of any event, condition, action, omission or circumstance, which, alone or when taken together with other events, conditions, actions, omissions or circumstances occurring or existing concurrently therewith, (i) has a material adverse effect upon the business, operations, Properties or condition (financial or otherwise) of Borrowers, taken as a whole; (ii) has or could be reasonably expected to have any material adverse effect whatsoever upon the validity or enforceability of the Agreement or any of the other Loan Documents; (iii) has any material adverse effect upon the value of the whole or any material part of the Collateral, the Liens of Agent with respect to the Collateral or the priority of any such Liens; (iv) materially impairs the ability of any other Obligor to perform its obligations under this Agreement or any of the other Loan Documents, including repayment of any of the Obligations when due; or (v) materially impairs the ability of Agent or any Lender to enforce or collect the Obligations or realize upon any of the Collateral in accordance with the Loan Documents and Applicable Law.

Material Contract - an agreement to which an Obligor is a party (other than the Loan Documents) if (i) such agreement is deemed to be a material contract as provided in Regulation S-K promulgated by the SEC under the Securities Act of 1933 or (ii) the breach, termination, cancellation or nonperformance of or failure to renew such agreement could reasonably be expected to have a Material Adverse Effect.

Maturity Date – May 16, 2018.

Maximum Rate - the maximum non-usurious rate of interest permitted by Applicable Law that at any time, or from time to time, may be contracted for, taken, reserved, charged or received on the Debt in question or, to the extent that at any time Applicable Law may thereafter permit a higher maximum non-usurious rate of interest, then such higher rate. Notwithstanding any other provision hereof, the Maximum Rate shall be calculated on a daily basis (computed on the actual number of days elapsed over a year of three hundred and sixty (360) days.

Money Borrowed - as applied to any Person, without duplication, (i) Debt for money borrowed on the Consolidated balance sheet of such Person prepared in accordance with GAAP; (ii) Debt arising from the lending of money by any other Person to such Person; (iii) Debt, whether or not in any such case arising from the lending of money by another Person to such Person, (A) which is represented by notes payable or drafts accepted that evidence extensions of credit, (B) which constitutes obligations evidenced by bonds, debentures, notes or similar

instruments, or (C) upon which interest charges are customarily paid (other than accounts payable) or that was issued or assumed as full or partial payment for Property; (iv) Debt that constitutes a Capitalized Lease Obligation; (v) all letters of credit or letter of credit guaranties outstanding for the account of such Person and, without duplication, all reimbursement obligations in connection therewith and (vi) Debt of such Person under any guaranty of obligations that would constitute Debt for Money Borrowed under clauses (ii) through (iv) hereof, if owed directly by such Person.

Moody's - Moody's Investors Services, Inc.

Mortgage - a mortgage, deed of trust or deed to secure debt in which a Borrower grants a Lien on its Real Estate to Agent, as security for the Obligations.

Multiemployer Plan - any employee benefit plan of the type described in Section 4001(a)(3) of ERISA, to which any Obligor or ERISA Affiliate makes or is obligated to make contributions, or during the preceding five plan years, has made or been obligated to make contributions.

Net Book Value - Cost minus accumulated depreciation that is calculated (i) in accordance with GAAP and (ii) consistently with Borrowers' accounting practices in place on the Closing Date.

Notes - each promissory note executed by Borrowers at Agent's request to evidence any of the Obligations.

Notice of Borrowing - as defined in **Section 3.1.1(i)** of the Agreement.

Notice of Conversion/Continuation - as defined in **Section 2.1.2(ii)** of the Agreement.

Notice of Grant of Security Interest in Intellectual Property - the notice delivered by Borrowers on the Closing Date to be filed in the United States Patent and Trademark Office.

Obligations - in each case, whether now in existence or hereafter arising, (i) the principal of, and interest and premium, if any, on, the Term Loan; and (ii) all other Debts, covenants, duties and obligations (including Contingent Obligations) now or at any time or times hereafter owing by any Obligor to Agent or any Lender under or pursuant to the Agreement or any of the other Loan Documents, whether evidenced by any note or other writing, whether arising from any extension of credit, opening of a letter of credit, acceptance, loan, guaranty, indemnification or otherwise and whether direct or indirect, absolute or contingent, due or to become due, primary or secondary, or joint or several, including all interest, charges, expenses, fees or other sums (including Extraordinary Expenses) chargeable to any or all Obligors hereunder or under any of the Loan Documents.

Obligor - Each Borrower, each Guarantor and each other Person that is at any time liable for the payment of the whole or any part of the Obligations or that has granted in favor of Agent a Lien upon any of such Person's assets to secure payment of any of the Obligations.

Observer - as defined in **Section 9.1.10** of the Agreement.

Office Accounts – those certain deposit accounts (account numbers 2076700001962 and 2010000028973) administered by Wells Fargo Bank, National Association and owned by EB.

Ordinary Course of Business - with respect to any transaction involving any Person, the ordinary course of such Person's business, as conducted by such Person in accordance with past practices and reasonable adjustments thereto and undertaken by such Person in good faith and not for the purpose of evading any covenant or restriction in any Loan Document.

Organization Documents - with respect to any Person, its charter, certificate or articles of incorporation, bylaws, articles of organization, operating agreement, members agreement, partnership agreement, voting trust, or similar agreement or instrument governing the formation or operation of such Person.

Original Lender – means each of Prospect and Summit for as long as such Person owns and controls at least fifty percent (50%) of (A) the Term Loans being made by it hereunder on the Closing Date, minus (B) any prepayments of principal amounts of such Term Loans.

OSHA - the Occupational Safety and Hazard Act of 1970.

Other Agreements - the Notes, the Subordination Agreement, the Structuring Fee Letters and any and all agreements, instruments and documents (other than the Agreement and the Security Documents), heretofore, now or hereafter executed by a Borrower or Borrowers, any Obligor or any other Person and delivered to Agent or any Lender in respect of the transactions contemplated by the Agreement.

Other Taxes - all present or future stamp or documentary taxes or any other excise or property taxes, charges or similar levies arising from any payment made under any Loan Document or from the execution, delivery or enforcement of, or otherwise with respect to, any Loan Document.

Outdoor - as defined in the introductory paragraph.

Participant - as defined in **Section 13.2.1**.

Participant Register - as defined in **Section 13.2.1**.

Patriot Act - the Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act of 2001, Pub. L. No. 107-56, [115 Stat. 272](#) (2001).

Payment Intangibles - shall have the meaning given to “payment intangible” in the UCC.

Payment Items - all checks, drafts, or other items of payment payable to a Borrower, including proceeds of any of the Collateral.

PBGC - the Pension Benefit Guaranty Corporation or any successor thereto.

Pension Act - the Pension Protection Act of 2006.

Pension Funding Rules - the rules of the Code and ERISA regarding minimum required contributions (including any installment payment thereof) to Pension Plans and set forth in, with respect to plan years ending prior to the effective date of the Pension Act, Section 412 of the Code and Section 302 of ERISA, each as in effect prior to the Pension Act and, thereafter, Section 412, 430, 431, 432 and 436 of the Code and Sections 302, 303, 304 and 305 of ERISA.

Pension Plan - any employee pension benefit plan (as such term is defined in Section 3(2) of ERISA), other than a Multiemployer Plan, that is subject to Title IV of ERISA and is sponsored or maintained by any Obligor or ERISA Affiliate or to which the Obligor or ERISA Affiliate contributes or has an obligation to contribute, or in the case of a multiple employer or other plan described in Section 4064(a) of ERISA, has made contributions at any time during the preceding five plan years.

Permitted Contingent Obligations - Contingent Obligations arising from endorsements of Payment Items for collection or deposit in the Ordinary Course of Business; Contingent Obligations arising from guaranties of the Debt (to the extent permitted under **Section 9.2.3**) of one Borrower for the benefit of its Subsidiaries or another Borrower; Contingent Obligations of a Borrower and its Subsidiaries existing as of the Closing Date, including extensions and renewals thereof that do not increase the amount of such Contingent Obligations as of the date of such extension or renewal; Contingent Obligations incurred in the Ordinary Course of Business with respect to surety bonds, appeal bonds, performance bonds and other similar obligations; Contingent Obligations arising under indemnity agreements to title insurers to cause such title insurers to issue to Agent title insurance policies; Contingent Obligations with respect to customary indemnification obligations in favor of purchasers in connection with dispositions of Equipment permitted under **Section 7.4.2** of the Agreement; and other Contingent Obligations not to exceed \$230,000 in the aggregate at any time.

Permitted Lien - a Lien of a kind specified in **Section 9.2.5** of the Agreement.

Person - an individual, partnership, corporation, limited liability company, limited liability partnership, joint stock company, land trust, business trust, or unincorporated organization, or a Governmental Authority.

Plan - a Multiemployer Plan or a Pension Plan.

Pledge and Security Agreement – that certain Pledge and Security Agreement dated as of the date hereof, by and among SportCo, Holdings, Borrowers and Agent, as the same may be amended, modified or replaced in accordance with the terms hereof.

Prepayment Premium – shall mean, without duplication, (i) with respect to any voluntary prepayment made pursuant to **Section 4.3.1** or **Section 4.3.2** other than in connection with an IPO, (x) if such prepayment is made after the first anniversary of the Closing Date and on or prior to the second anniversary of the Closing Date, an amount equal to three percent (3.0%) of the principal balance of the Term Loans being prepaid, (y) if such prepayment is made after the second anniversary of the Closing Date and on or prior to the third anniversary of the Closing Date, an amount equal to two percent (2.0%) of the principal balance of the Term Loans being prepaid, and (z) if such prepayment is made after the third anniversary of the Closing Date and

on or prior to the fourth anniversary of the Closing Date, an amount equal to one percent (1.0%) of the principal balance of the Term Loans being prepaid, and (ii) with respect to any voluntary prepayment made pursuant to **Section 4.3.1** in connection with an IPO, or a mandatory prepayment made pursuant to **Section 4.3.4**, **Section 4.3.5**, **Section 4.3.8** or **Section 4.3.9**, if such prepayment is made after the first anniversary of the Closing Date and on or prior to the fourth anniversary of the Closing Date, an amount equal to one percent (1.0%) of the principal balance of the Term Loans being prepaid.

Pro Rata - a share of or in all liabilities, payments, proceeds, collections, Collateral and Extraordinary Expenses, which share for any Lender on any date shall be a percentage (expressed as a decimal, rounded to the ninth decimal place) arrived at by dividing the amount of the Term Loans of such Lender on such date by the aggregate amount of the Term Loans of all Lenders on such date.

Projections - Borrowers' forecasted (i) Consolidated profit and loss statements, cash flow statements, and capitalization statements, depicted on a month-by-month basis, all prepared on a consistent basis with Borrowers' historical financial statements, together with (ii) appropriate supporting details and a statement of underlying assumptions.

Properly Contested - in the case of any Debt of an Obligor (including any Taxes) that is not paid as and when due or payable by reason of such Obligor's bona fide dispute concerning its liability to pay same or concerning the amount thereof, (i) such Debt is being properly contested in good faith by appropriate proceedings promptly instituted and diligently conducted; (ii) such Obligor has established appropriate reserves as shall be required in conformity with GAAP; (iii) the non-payment of such Debt will not have a Material Adverse Effect; (iv) no Lien is imposed upon any of such Obligor's assets with respect to such Debt unless such Lien is at all times junior and subordinate in priority to the Liens in favor of Agent (except only with respect to property taxes that have priority as a matter of applicable state law) and enforcement of such Lien is stayed during the period prior to the final resolution or disposition of such dispute; (v) if the Debt results from, or is determined by the entry, rendition or issuance against an Obligor or any of its assets of a judgment, writ, order or decree, enforcement of such judgment, writ, order or decree is stayed pending a timely appeal or other judicial review; and (vi) if such contest is abandoned, settled or determined adversely (in whole or in part) to such Obligor, such Obligor forthwith pays such Debt and all penalties, interest and other amounts due in connection therewith.

Property - any interest in any kind of property or asset, whether real, personal or mixed and whether tangible or intangible.

Prospect – means Prospect Capital Corporation, together with its Affiliates and Approved Funds that are assignees of any Loan Documents, or any rights or obligations thereunder, in accordance with **Section 13.3.1**.

Prospect Structuring Fee Letter – that certain letter by and between EB and Prospect dated as of the date hereof whereby EB agrees to pay to Prospect its portion of the structuring fee referenced in **Section 2.2**.

Purchase Money Debt - (a) Debt (other than the Obligations) for payment of any of the purchase price of any fixed assets; (b) Debt (other than the Obligations) incurred within 10 days before or after acquisition of any such fixed assets, for the purpose of financing any portion of the purchase price thereof and actually used for such purpose; and (c) any renewals, extensions or refinancings (but not increases) thereof.

Purchase Money Lien - a Lien that secures Purchase Money Debt, encumbering only the fixed assets acquired with such Debt and constituting a Capital Lease or a purchase money security interest under the UCC.

Real Estate - all right, title and interest (whether as owner, lessor or lessee) in any real Property or any buildings, structures, parking areas or other improvements thereon.

Register - as defined in **Section 13.3.1**.

Regulation D - Regulation D of the Board of Governors.

Reimbursement Date - as defined in **Section 1.3.2(i)** of the Agreement.

Related Real Estate Documents - with respect to any Real Estate subject to a Mortgage, the following, in form and substance reasonably satisfactory to Agent and received by Agent for review at least 10 days prior to the effective date of the Mortgage: (a) a mortgagee title policy (or binder therefor) covering Agent's interest under the Mortgage, in a form and amount and by an insurer reasonably acceptable to Agent, which must be fully paid on such effective date; (b) such assignments of leases, estoppel letters, attornment agreements, consents, waivers and releases as Agent may reasonably request with respect to other Persons having an interest in the Real Estate; (c) an as-built survey of the Real Estate, containing a metes-and-bounds property description and certified by a licensed surveyor reasonably acceptable to Agent; (d) a life-of-loan flood hazard determination and, if the Real Estate is located in a flood plain, an acknowledged notice to borrower and flood insurance in an amount, with endorsements and by an insurer reasonably acceptable to Agent; (e) upon request of Agent, an environmental assessment, prepared by environmental engineers reasonably acceptable to Agent, and accompanied by such reports, certificates, studies or data as Agent may reasonably require, which shall all be in form and substance reasonably satisfactory to Required Lenders; (f) a favorable opinion of counsel to the Borrowers from each jurisdiction in which Real Estate subject to a Mortgage is located, in form and substance satisfactory to Agent and from a Person reasonably acceptable to Agent (it being understood and agreed that an opinion in the form of those delivered on the Closing Date shall be acceptable); and (g) such other documents, instruments or agreements as Agent may reasonably require with respect to any environmental risks regarding the Real Estate.

Rentals - as of the date of determination, all payments which the lessee is required to make by the terms of any lease.

Reportable Event - any of the events set forth in Section 4043(c) of ERISA, other than events for which the 30 day notice period has been waived.

Required Lenders – Lenders holding Term Loans representing in excess of 50% of the aggregate principal amount of all Term Loans then outstanding; provided, that, (a) at any time

when Prospect and Summit both remain as Original Lenders, “Required Lenders” shall mean both such Original Lenders together with additional Lenders (to the extent required) to represent in excess of 50% of the aggregate Term Loans then outstanding, and (b) at any time when either Prospect or Summit remains as an Original Lender, “Required Lenders” shall mean either such Original Lender together with additional Lenders (to the extent required) to represent in excess of 50% of the aggregate Term Loans then outstanding.

Restricted Investment - any acquisition of Property by a Borrower or any of its Subsidiaries in exchange for cash or other Property, whether in the form of an acquisition of Equity Interests or Debt, or the purchase or acquisition by a Borrower or any Subsidiary of any other Property, or a loan, advance, capital contribution or subscription, except acquisitions of the following: (i) fixed assets to be used in the Ordinary Course of Business of a Borrower or any Subsidiary; (ii) goods held for sale or lease or to be used in the manufacture of goods or the provision of services by a Borrower or any Subsidiary in the Ordinary Course of Business; (iii) Current Assets arising from the sale or lease of goods or the rendition of services in the Ordinary Course of Business of a Borrower or any Subsidiary; (iv) investments in Subsidiaries to the extent existing on the Closing Date; and (v) Cash Equivalents to the extent they are not subject to rights of offset in favor of any Person other than Agent or a Lender; and (vi) loans and other advances of money to the extent not prohibited by **Section 9.2.2**.

Restrictive Agreement - an agreement (other than any of the Loan Documents) that, if and for so long as an Obligor or any Subsidiary of such Obligor is a party thereto, would prohibit, condition or restrict such Obligor’s or Subsidiary’s right to incur or repay Debt for Money Borrowed (including any of the Obligations); grant Liens upon any of such Obligor’s or Subsidiary’s assets (except in connection with the acquisition of such asset and including Liens granted in favor of Agent pursuant to the Loan Documents); declare or make Distributions; amend, modify, extend or renew any agreement evidencing Debt for Money Borrowed (including any of the Loan Documents); or repay any Debt owed to another Obligor.

Royalties - all royalties, fees, expense reimbursement and other amounts payable by a Borrower under a License.

S&P - Standard & Poor’s Ratings Services, a Standard & Poor’s Financial Services LLC business, and its successors.

SEC - Securities and Exchange Commission.

Secured Parties - Agent, each Lender and each Affiliate of a Lender to the extent such Affiliate holds Obligations hereunder.

Security - shall have the same meaning as in Section 2(1) of the Securities Act of 1933.

Security Documents - the Notices of Grant of Security Interest in Intellectual Property, the Deposit Account Assignments, the Business Interruption Insurance Assignment, the Guaranties, the Pledge and Security Agreement, the Related Real Estate Documents for all Real Estate subject to a Mortgage and all other mortgages, instruments and agreements now or at any time hereafter securing the whole or any part of the Obligations.

Senior Officer - the chairman of the board of directors, chairman of the executive committee, the president or the chief financial officer of, or in-house legal counsel to, a Borrower.

Simmons - as defined in the introductory paragraph.

Software - shall have the meaning given to “software” in the UCC.

Solvent - as to any Person, such Person (i) owns Property whose fair saleable value is greater than the amount required to pay all of such Person’s Debts (including contingent Debts), (ii) is able to pay all of its Debts as such Debts mature, (iii) has capital sufficient to carry on its business and transactions and all business and transactions in which it is about to engage, and (iv) is not “insolvent” within the meaning of Section 101(32) of the Bankruptcy Code.

SportCo – SportCo Holdings, Inc., a Delaware corporation.

SportCo Guaranty – that certain Guaranty dated as of the date hereof and made by SportCo, as the same may be amended, modified or replaced in accordance with the terms hereof.

Statutory Reserves - on any date, the percentage (expressed as a decimal) established by the Board of Governors which is the then stated maximum rate for all reserves (including any emergency, supplemental or other marginal reserve requirements) applicable to any member bank of the Federal Reserve System in respect to Eurocurrency Liabilities (or any successor category of liabilities under Regulation D). Such reserve percentage shall include those imposed pursuant to said Regulation D. The Statutory Reserve shall be adjusted automatically on and as of the effective date of any change in such percentage.

Structuring Fee Letters – means the Prospect Structuring Fee Letter and the Summit Structuring Fee Letter, collectively.

Subordinated Debt - Debt incurred by a Borrower that is expressly subordinate and junior in right of payment to Full Payment of all Obligations, and is on terms (including maturity, interest, fees, repayment, covenants and subordination) satisfactory to Agent and Required Lenders.

Subordination Agreement - the Intercreditor and Subordination Agreement of even date herewith by and among First Priority Agent, the lenders party to the First Priority Debt Documents, Agent and the Lenders as the same may be amended, modified or replaced in accordance with the terms thereof.

Subsidiary - any Person in which more than 50% of its outstanding Voting Securities or more than 50% of all Equity Interests is owned directly or indirectly by a Borrower, by one or more other Subsidiaries of a Borrower or by a Borrower and one or more other Subsidiaries.

Summit – means Summit Partners Credit Fund, L.P., Summit Partners Credit Fund A-1, L.P., Summit Investors I, LLC, and Summit Investors I (UK), LP, collectively, together with

their respective Affiliates and Approved Funds that are assignees of any Loan Documents, or any rights or obligations thereunder, in accordance with **Section 13.3.1**.

Summit Structuring Fee Letter – that certain letter by and between Summit Partners Credit Advisors, L.P., Summit and EB, dated as of the date hereof whereby EB agrees to pay Summit’s portion of the structuring fee referenced in **Section 2.2** to Summit Partners Credit Advisors, L.P.

Supporting Obligations - shall have the meaning given to “supporting obligations” in the UCC.

Tangible Chattel Paper - shall have the meaning given to “tangible chattel paper” in the UCC.

Taxes - all present or future taxes, levies, imposts, duties, deductions, withholdings (including backup withholding), assessments, fees or other charges imposed by any Governmental Authority, including any interest, additions to tax or penalties applicable thereto.

Term Loan – means a term loan issued hereunder.

Transactions - means, collectively, (i) the execution by the Obligor and their Subsidiaries of the Agreement and the other Loan Documents to which they are or are intended to be a party as of the Closing Date, and the making of Term Loans on the Closing Date, (ii) the execution by the Obligor and their Subsidiaries of the First Priority Debt Documents to which they are or are intended to be a party as of the Closing Date, and issuance of the First Priority Debt on the Closing Date, (iii) payment of the Closing Date Distribution, (iv) the Distribution by EB to Holdings (for further Distribution to SportCo) and the repayment in full of the Wellspring Debt from such Distribution and termination of the Wellspring Debt Documents and (v) the payment of the fees and expenses incurred in connection with the foregoing.

Transferee - as defined in **Section 13.3.3** of the Agreement.

UCC - the Uniform Commercial Code (or any successor statute) as adopted and in force in the State of New York or, when the laws of any other state govern the method or manner of the perfection or enforcement of any security interest in any of the Collateral, the Uniform Commercial Code (or any successor statute) of such state.

Upstream Payment - a payment or distribution of cash or other Property by a Subsidiary to a Borrower, whether in repayment of Debt owed by such Subsidiary to Borrower, to pay dividends on account of a Borrower’s ownership of Equity Interests or otherwise.

Value - with reference to the value of Inventory or Equipment, value determined on the basis of the lower of cost or market of such Inventory or Equipment in accordance with GAAP, with the cost thereof calculated on a first-in, first-out basis determined in accordance with GAAP, and excluding any portion of cost attributable to intercompany profit among Borrowers and their Affiliates.

Voting Power - with respect to any Person, the power ordinarily (without the occurrence of a contingency) to elect the members of the Board of Directors (or persons performing similar functions) of such Person.

Voting Securities - Equity Interests of any class or classes of a corporation or other entity the holders of which are ordinarily, in the absence of contingencies, entitled to elect a majority of the corporate directors or Persons performing similar functions.

Wells Fargo - Wells Fargo Bank, National Association.

Wellspring – Wellspring Capital Partners IV, L.P., a Delaware limited partnership, and its Affiliates.

Wellspring Debt - the Debt of SportCo evidenced by that certain Amended and Restated Subordinated Term Loan and Guarantee Agreement, dated as of November 16, 2009, by and between SportCo and Wellspring Capital Partners IV, L.P., a Delaware limited partnership, in the aggregate principal amount outstanding of \$35,000,000, together with all related documents and all amendments, supplements, restatements, replacements and modifications thereof.

Accounting Terms. Unless otherwise specified herein, all terms of an accounting character used in the Agreement shall be interpreted, all accounting determinations under the Agreement shall be made, and all financial statements required to be delivered under the Agreement shall be prepared in accordance with GAAP, applied on a basis consistent with the most recent audited Consolidated financial statements of Borrowers and their Subsidiaries heretofore delivered to Agent and Lenders and using the same method for inventory valuation as used in such audited financial statements, except for any change required by GAAP.

Other Terms. All other terms contained in the Agreement shall have, when the context so indicates, the meanings provided for by the UCC to the extent the same are used or defined therein.

Certain Matters of Construction. The terms “herein,” “hereof” and “hereunder” and other words of similar import refer to the Agreement as a whole and not to any particular section, paragraph or subdivision. Any pronoun used shall be deemed to cover all genders. In the computation of periods of time from a specified date to a later specified date, the word “from” means “from and including” and the words “to” and “until” each means “to but excluding.” The section titles, table of contents and list of exhibits appear as a matter of convenience only and shall not affect the interpretation of the Agreement. All references to statutes and related regulations shall include any amendments of same and any successor statutes and regulations; to any of the Loan Documents shall include any and all modifications thereto and any and all restatements, extensions or renewals thereof; to any Person shall mean and include the successors and permitted assigns of such Person; to “including” and “include” shall be understood to mean “including, without limitation” (and, for purposes of the Agreement and each other Loan Document, the parties agree that the rule of *ejusdem generis* shall not be applicable to limit a general statement, which is followed by or referable to an enumeration of specific matters to matters similar to the matters specifically mentioned); or to the time of day shall mean the time of day on the day in question in New York, New York, unless otherwise

expressly provided in the Agreement. A Default or an Event of Default shall be deemed to exist at all times during the period commencing on the date that such Default or Event of Default occurs to the date on which such Default or Event of Default is waived in writing by Agent pursuant to the Agreement or, in the case of a Default, is cured within any period of cure expressly provided in this Agreement; and an Event of Default shall “continue” or be “continuing” until such Event of Default has been waived in writing by Agent. All calculations of Value shall be in Dollars, all Term Loans shall be funded in Dollars and all Obligations shall be repaid in Dollars. Whenever the phrase “to the best of Borrower’s knowledge” or words of similar import relating to the knowledge or the awareness of a Borrower are used in the Agreement or other Loan Documents, such phrase shall mean and refer to (i) the actual knowledge of a Senior Officer of such Borrower or (ii) the knowledge that a Senior Officer would have obtained if they had engaged in good faith and diligent performance of his duties. Whenever in the Agreement and the other Loan Documents reference is made to attorneys’ fees and expenses that are incurred by Agent or a Lender and that are to be reimbursed to Agent or a Lender by Borrowers, such reference shall be understood to mean the reasonable attorneys’ fees and expenses which are incurred by Agent or such Lender for services actually rendered by attorneys selected by Agent or such Lender on Agent’s or such Lender’s behalf.

THIS INSTRUMENT AND THE RIGHTS AND OBLIGATIONS EVIDENCED HEREBY ARE SUBORDINATE, IN THE MANNER AND TO THE EXTENT SET FORTH IN THAT CERTAIN INTERCREDITOR AND SUBORDINATION AGREEMENT (THE "SUBORDINATION AGREEMENT") DATED AS OF SEPTEMBER 11, 2012 BETWEEN PROSPECT CAPITAL CORPORATION, AS SECOND PRIORITY AGENT FOR THE SECOND PRIORITY CREDITORS AND BANK OF AMERICA, N.A., AS SENIOR AGENT FOR THE SENIOR CREDITORS, TO THE INDEBTEDNESS (INCLUDING INTEREST) OWED BY ELLETT BROTHERS, LLC ("ELLETT"), THE OTHER BORROWERS FROM TIME TO TIME PARTY THERETO (TOGETHER WITH ELLETT, INDIVIDUALLY A "BORROWER" AND COLLECTIVELY THE "BORROWERS"), PURSUANT TO THAT CERTAIN THIRD AMENDED AND RESTATED LOAN AND SECURITY AGREEMENT, DATED AS OF SEPTEMBER 11, 2012, BY AND AMONG THE BORROWERS, THE LENDERS FROM TIME TO TIME PARTY THERETO AND BANK OF AMERICA, N.A., AS AGENT, AND THE INDEBTEDNESS OWED BY ANY GUARANTORS UNDER GUARANTIES WITH RESPECT THERETO, AS SUCH AGREEMENTS HAVE BEEN AND HEREAFTER MAY BE AMENDED, RESTATED, SUPPLEMENTED, EXTENDED, RENEWED, REFINANCED, REPLACED OR OTHERWISE MODIFIED AND TO ANY INDEBTEDNESS REFINANCING THE INDEBTEDNESS UNDER SUCH AGREEMENTS AS CONTEMPLATED BY THE SUBORDINATION AGREEMENT; AND EACH HOLDER OF THIS INSTRUMENT, BY ITS ACCEPTANCE HEREOF, IRREVOCABLY AGREES TO BE BOUND BY THE PROVISIONS OF THE SUBORDINATION AGREEMENT.

EXHIBIT A

FORM OF TERM NOTE

\$[_____]

Date: [_____]

FOR VALUE RECEIVED, each of the undersigned, **ELLETT BROTHERS, LLC**, a South Carolina limited liability company ("**EB**"), **EVANS SPORTS, INC.**, a South Carolina corporation ("**Evans**"), **JERRY'S SPORTS, INC.** ("**Jerry**"), a Delaware corporation, **SIMMONS GUN SPECIALTIES, INC.**, a Delaware corporation ("**Simmons**"), **BONITZ BROTHERS, INC.**, a Delaware corporation ("**Bonitz**"), and **OUTDOOR SPORTS HEADQUARTERS, INC.**, a Delaware corporation ("**Outdoor**"; together with **EB**, **Evans**, **Jerry**, **Simmons** and **Bonitz**, each a "**Borrower**" and collectively, "**Borrowers**"), hereby jointly and severally unconditionally promises to pay to [_____] (herein, together with any subsequent holder hereof, called the "**Holder**") the principal sum of \$[_____] pursuant to the terms of the Loan Agreement (as defined below) on the date on which such outstanding principal amounts become due and payable pursuant to **Section 4.3** of the Loan Agreement, in strict accordance with the terms thereof. Each Borrower likewise jointly and severally unconditionally promises to pay to Holder interest from and after the date hereof on the outstanding principal amount of Term Loans at such interest rates, payable at such times, and computed in such manner as are specified in **Section 2.1** of the Loan Agreement, in strict accordance with the terms thereof.

This Term Note ("Note") is issued pursuant to, and is one of the "Notes" referred to in, that certain Second Lien Loan and Security Agreement dated as of September [28], 2012 (as the same may be amended from time to time, the "Loan Agreement"), between Borrowers, Prospect Capital Corporation, as collateral and administrative agent (in such capacity, "Agent") for itself and the financial institutions from time to time parties thereto as lenders ("Lenders"), such Lenders and the other parties named therein, and Holder is and shall be entitled to all benefits thereof and of all Loan Documents executed and delivered in connection therewith. All capitalized terms used herein, unless otherwise defined herein, shall have the meanings ascribed to such terms in the Loan Agreement.

The repayment of the principal balance of this Note is subject to the provisions of **Section 4.3** of the Loan Agreement. The entire unpaid principal balance and all accrued interest on this Note shall be due and payable immediately upon the Maturity Date.

All payments of principal and interest shall be made in Dollars in immediately available funds as specified in the Loan Agreement.

Upon or after the occurrence of an Event of Default and for so long as such Event of Default exists, the principal balance and all accrued interest of this Note may be declared due and payable in the manner and with the effect provided in the Loan Agreement, and the unpaid principal balance hereof shall bear interest at the Default Rate as and when provided in **Section 2.1.3** of the Loan Agreement. Each Borrower agrees to pay, and save Holder harmless against any liability for the payment of, all costs and expenses, including, but not limited to, reasonable attorneys' fees, if this Note is collected by or through an attorney-at-law.

All principal amounts of Term Loans made by Holder to Borrowers pursuant to the Loan Agreement, and all accrued and unpaid interest thereon, shall be deemed outstanding under this Note and shall continue to be owing by Borrowers until paid in accordance with the terms of this Note and the Loan Agreement.

In no contingency or event whatsoever, whether by reason of advancement of the proceeds hereof or otherwise, shall the amount paid or agreed to be paid to Holder for the use, forbearance or detention of money advanced hereunder exceed the highest lawful rate permissible under any law which a court of competent jurisdiction may deem applicable hereto; and, in the event of any such payment inadvertently paid by Borrowers or inadvertently received by Holder, such excess sum shall be, at Borrowers' option, returned to Borrowers forthwith or credited as a payment of principal, but shall not be applied to the payment of interest. It is the intent hereof that Borrowers not pay or contract to pay, and that Holder not receive or contract to receive, directly or indirectly in any manner whatsoever, interest in excess of that which may be paid by Borrowers under Applicable Law.

Time is of the essence of this Note. To the fullest extent permitted by Applicable Law, each Borrower, for itself and its legal representatives, successors and assigns, expressly waives presentment, demand, protest, notice of dishonor, notice of non-payment, notice of maturity, notice of protest, presentment for the purpose of accelerating maturity, diligence in collection, and the benefit of any exemption or insolvency laws.

Wherever possible each provision of this Note shall be interpreted in such a manner as to be effective and valid under Applicable Law, but if any provision of this Note shall be prohibited or invalid under Applicable Law, such provision shall be ineffective to the extent of such prohibition or invalidity without invalidating the remainder of such provision or remaining provisions of this Note. No delay or failure on the part of Holder in the exercise of any right or remedy hereunder shall operate as a waiver thereof, nor as an acquiescence in any default, nor shall any single or partial exercise by Holder of any right or remedy preclude any other right or remedy. Agent, at its option, may enforce its rights against any Collateral securing this Note without Agent or Holder enforcing its rights against any Borrower or any other property or indebtedness due or to become due to a Borrower. Each Borrower agrees that, without releasing or impairing such Borrower's liability hereunder, Holder or Agent may at any time release, surrender, substitute or exchange any Collateral securing this Note and may at any time release any party primarily or secondarily liable for the indebtedness evidenced by this Note.

The rights of Holder and obligations of Borrowers hereunder shall be construed in accordance with and governed by the laws (without giving effect to the conflict of law principles thereof) of the State of New York. This Note is intended to take effect as an instrument under seal under New York law.

[REMAINDER OF PAGE INTENTIONALLY LEFT BLANK]

IN WITNESS WHEREOF, each Borrower has caused this Note to be executed under seal and delivered by its duly authorized officers on the date first above written.

BORROWERS:

ELLETT BROTHERS, LLC

By: _____
Name: _____
Title: _____

EVANS SPORTS, INC.

By: _____
Name: _____
Title: _____

JERRY'S SPORTS, INC.

By: _____
Name: _____
Title: _____

SIMMONS GUN SPECIALTIES, INC.

By: _____
Name: _____
Title: _____

BONITZ BROTHERS, INC.

By: _____
Name: _____
Title: _____

[signature pages continue]

OUTDOOR SPORTS HEADQUARTERS, INC.

By: _____

Name: _____

Title: _____

EXHIBIT B

FORM OF COMPLIANCE CERTIFICATE

[To be issued on a Monthly Basis]

[Letterhead of Borrowers]

[_____]

Prospect Capital Corporation, as Agent
10 E. 40th Street, 44th Floor
New York, NY 10016

Reference is made to that certain Second Lien Loan and Security Agreement dated as of September [28], 2012, by and among **ELLETT BROTHERS, LLC**, a South Carolina limited liability company ("EB"), **EVANS SPORTS, INC.**, a South Carolina corporation ("Evans"), **JERRY'S SPORTS, INC.**, a Delaware corporation ("Jerry"), **SIMMONS GUN SPECIALTIES, INC.**, a Delaware corporation ("Simmons"), **BONITZ BROTHERS, INC.**, a Delaware corporation ("Bonitz"), **OUTDOOR SPORTS HEADQUARTERS, INC.**, a Delaware corporation ("Outdoor"; together with EB, Evans, Jerry, Simmons and Bonitz, each a "Borrower" and collectively, "Borrowers"), **PROSPECT CAPITAL CORPORATION**, as collateral and administrative agent (in such capacity, "Agent") for itself and the financial institutions from time to time parties thereto as lenders ("Lenders"), such Lenders and the other parties named therein (as at any time amended, the "Loan Agreement"). The undersigned, the chief financial officer of each Borrower, gives this certificate in accordance with the requirements of **Section 9.1.3** of the Loan Agreement. Capitalized terms used in this Certificate, unless otherwise defined herein, shall have the meanings ascribed to them in the Loan Agreement.

1. Based upon my review of the balance sheets and statements of income of Borrower and its Subsidiaries for the fiscal month ending [____], copies of which are attached hereto, I hereby certify that:

(i) Consolidated Fixed Charge Coverage Ratio is [____] to 1.0, which is **[in excess of][not in excess of]** the ratio set forth in **Section 9.3.1** of the Loan Agreement.

(ii) Consolidated Total Leverage Ratio is [____] to 1.0, which is [in excess of][not in excess of] the ratio set forth in **Section 9.3.2** of the Loan Agreement.

2. No Default exists on the date hereof, other than [____] (if none, so state).

3. No Event of Default exists on the date hereof, other than [____] (if none, so state).

4. As of the date hereof, each Borrower is current in its payment of all accrued rent and other charges to Persons who own or lease any premises where any of the Collateral is

located, and there are no pending disputes or claims regarding such Borrower's failure to pay or delay in payment of any such rent or other charges.

5. Attached hereto as Exhibit A are calculations that support the statements of the Borrowers' set forth in Section 1 above.

[REMAINDER OF PAGE INTENTIONALLY LEFT BLANK]

Very truly yours,

ELLETT BROTHERS, LLC
EVANS SPORTS, INC.
JERRY'S SPORTS, INC.
SIMMONS GUN SPECIALTIES, INC.
BONITZ BROTHERS, INC.
OUTDOOR SPORTS HEADQUARTERS, INC.

By: _____

Name: _____

Title: Chief Financial Officer

EXHIBIT A

CONSOLIDATED FIXED CHARGE COVERAGE RATIO

Twelve (12) month period ending: [_____]

With respect to any period of Borrowers, on a Consolidated basis, the ratio of Borrowers':

A. Numerator:

1. Adjusted EBITDA for such period: \$[_____]
2. cash income taxes and Distributions paid for such period: \$[_____]
3. Consolidated Capital Expenditures (other than Capital Expenditures financed with Money Borrowed other than Revolver Loans) for such period: \$[_____]
4. A1 minus A2 minus A3: \$[_____]

B. Denominator: for any period,

1. Interest Expense during such period: \$[_____]
2. on the date of determination, the Current Maturities of Funded Debt: \$[_____]
3. B1 plus B2: \$[_____]

Consolidated Fixed Charge Coverage Ratio (A4 divided by B3): [_____] to 1.00

EXHIBIT B

CONSOLIDATED TOTAL LEVERAGE RATIO

Twelve (12) month period ending: [_____]

With respect to any period of Borrowers, on a Consolidated basis, the ratio of Borrowers':

A. Numerator:

1. Debt for Money Borrowed (including Capitalized Leased Obligations of all First Priority Debt): \$[_____]
2. Debt outstanding under any revolving credit, line of credit or renewals thereof, notwithstanding that any such Debt is created within one year of the expiration of such agreement: \$[_____]
3. A1 plus A2: \$[_____]

B. Denominator:

1. Adjusted EBITDA for such Period: \$[_____]

Consolidated Total Leverage Ratio (A3 divided by B1): [_____] to 1.00

EXHIBIT C

FORM OF ASSIGNMENT AND ACCEPTANCE

Date: _____]

Reference is made to that certain Second Lien Loan and Security Agreement dated as of September [28], 2012, by and among **ELLETT BROTHERS, LLC**, a South Carolina limited liability company ("EB"), **EVANS SPORTS, INC.**, a South Carolina corporation ("Evans"), **JERRY'S SPORTS, INC.**, a Delaware corporation ("Jerry"), **SIMMONS GUN SPECIALTIES, INC.**, a Delaware corporation ("Simmons"), **BONITZ BROTHERS, INC.**, a Delaware corporation ("Bonitz"), **OUTDOOR SPORTS HEADQUARTERS, INC.**, a Delaware corporation ("Outdoor"; together with EB, Evans, Jerry, Simmons and Bonitz, each a "Borrower" and collectively, "Borrowers"), **PROSPECT CAPITAL CORPORATION**, as collateral and administrative agent (in such capacity, "Agent") for itself and the financial institutions from time to time parties thereto as lenders ("Lenders"), such Lenders and the other parties named therein (as at any time amended, the "Loan Agreement"). Capitalized terms used herein and not otherwise defined shall have the meanings assigned to such terms in the Loan Agreement.

_____] (the "Assignor") and _____] (the "Assignee") agree as follows:

1. Assignor hereby assigns to Assignee and Assignee hereby purchases and assumes from Assignor (a) a principal amount of \$[_____] of Assignor's outstanding Term Loans (the "Assigned Interest"), together with an interest in the Loan Documents corresponding to the Assigned Interest. This Agreement shall be effective as of the date ("Effective Date") indicated in the corresponding Assignment Notice delivered to Agent, provided such Assignment Notice is executed by Assignor, Assignee, Agent and Borrower Agent, if applicable. From and after the Effective Date, Assignee hereby expressly assumes, and undertakes to perform, all of Assignor's obligations in respect of the Assigned Interest, and all principal, interest, fees and other amounts which would otherwise be payable to or for Assignor's account in respect of the Assigned Interest shall be payable to or for Assignee's account, to the extent such amounts accrue on or after the Effective Date.

2. Assignor (a) represents that as of the date hereof, prior to giving effect to this assignment, the outstanding balance of its Term Loans is \$[_____]; (b) makes no representation or warranty and assumes no responsibility with respect to any statements, warranties or representations made in or in connection with the Loan Agreement or the execution, legality, validity, enforceability, genuineness, sufficiency or value of the Loan Agreement or any other instrument or document furnished pursuant thereto, other than that Assignor is the legal and beneficial owner of the interest being assigned by it hereunder and that such interest is free and clear of any adverse claim; and (c) makes no representation or warranty and assumes no responsibility with respect to the financial condition of Borrowers or the performance by Borrowers of their obligations under the Loan Documents. [Assignor is attaching the Note[s] held by it and requests that Agent exchange such Note[s] for new Notes payable to Assignee [and Assignor].]

3. Assignee (a) represents and warrants that it is legally authorized to enter into this Assignment and Acceptance; (b) confirms that it has received copies of the Loan Agreement and such other Loan Documents and information as it has deemed appropriate to make its own credit analysis and decision to enter into this Assignment and Acceptance; (c) agrees that it shall, independently and without reliance upon Assignor and based on such documents and information as it shall deem appropriate at the time, continue to make its own credit decisions in taking or not taking action under the Loan Documents; (d) confirms that it is an Eligible Assignee and meets all the requirements to be an assignee under **Section 13.3.4** of the Loan Agreement; (e) appoints and authorizes Agent to take such action as agent on its behalf and to exercise such powers under the Loan Agreement as are delegated to Agent by the terms thereof, together with such powers as are incidental thereto; (f) agrees that it will observe and perform all obligations that are required to be performed by it as a “Lender” under the Loan Documents; and (g) represents and warrants that the assignment evidenced hereby will not result in a non-exempt “prohibited transaction” under Section 406 of ERISA.

4. This Agreement shall be governed by the laws of the State of New York. If any provision is found to be invalid under Applicable Law, it shall be ineffective only to the extent of such invalidity and the remaining provisions of this Agreement shall remain in full force and effect.

5. Each notice or other communication hereunder shall be in writing, shall be sent by messenger, by telecopy or facsimile transmission or by first-class mail, shall be deemed given when sent and shall be sent as follows:

If to Assignee, to the following address (or to such other address as Assignee may designate from time to time):

If to Assignor, to the following address (or to such other address as Assignor may designate from time to time):

Payments hereunder shall be made by wire transfer of immediately available Dollars as follows:

(a) If to Assignee, to the following account (or to such other account as Assignee may designate from time to time):

ABA No. _____

Account No. _____

Reference: _____

(b) If to Assignor, to the following account (or to such other account as Assignor may designate from time to time):

ABA No. _____

For Account of: _____

Reference: _____

[REMAINDER OF PAGE INTENTIONALLY LEFT BLANK]

IN WITNESS WHEREOF, the parties hereto have caused this Assignment and Acceptance to be executed and delivered by their respective duly authorized officers, as of the date first above written.

(“Assignor”)

By: _____
Name: _____
Title: _____

(“Assignee”)

By: _____
Name: _____
Title: _____

EXHIBIT D

FORM OF NOTICE

Reference is made to (i) that certain Second Lien Loan and Security Agreement dated as of September [28], 2012, by and among **ELLETT BROTHERS, LLC**, a South Carolina limited liability company ("EB"), **EVANS SPORTS, INC.**, a South Carolina corporation ("Evans"), **JERRY'S SPORTS, INC.**, a Delaware corporation ("Jerry"), **SIMMONS GUN SPECIALTIES, INC.**, a Delaware corporation ("Simmons"), **BONITZ BROTHERS, INC.**, a Delaware corporation ("Bonitz"), **OUTDOOR SPORTS HEADQUARTERS, INC.**, a Delaware corporation ("Outdoor"; together with EB, Evans, Jerry, Simmons and Bonitz, each a "Borrower" and collectively, "Borrowers"), **PROSPECT CAPITAL CORPORATION**, as collateral and administrative agent (in such capacity, "Agent") for itself and the financial institutions from time to time parties thereto as lenders ("Lenders"), such Lenders and the other parties named therein (as at any time amended, the "Loan Agreement") and (ii) the Assignment and Acceptance dated as of [_____] (the "Assignment Agreement") between [_____] (the "Assignor") and [_____] (the "Assignee"). Except as otherwise defined herein, capitalized terms used herein which are defined in the Loan Agreement are used herein with the respective meanings specified therein.

Assignor hereby notifies Borrowers and Agent of Assignor's intent to assign to Assignee pursuant to the Assignment Agreement (a) a principal amount of \$[_____] of Assignor's outstanding Term Loans (the "Assigned Interest"), together with an interest in the Loan Documents corresponding to the Assigned Interest. This Agreement shall be effective as of the date ("Effective Date") indicated below, provided this Assignment Notice is executed by Assignor, Assignee, Agent and Borrower Agent, if applicable. Pursuant to the Assignment Agreement, Assignee has expressly assumed all of Assignor's obligations under the Loan Agreement to the extent of the Assigned Interest, as of the Effective Date.

The address of Assignee to which notices and information are to be sent under the terms of the Loan Agreement is:

The address of Assignee to which payments are to be sent under the terms of the Loan Agreement is shown in the Assignment and Acceptance.

This Notice is being delivered to the Borrowers and Agent pursuant to **Section 13.3** of the Loan Agreement. Please acknowledge your receipt of this Notice by executing and returning to Assignee and Assignor a copy of this Notice.

[REMAINDER OF PAGE INTENTIONALLY LEFT BLANK]

IN WITNESS WHEREOF, the undersigned have caused the execution of this Notice, as
of [_____].

("Assignor")

By: _____
Name: _____
Title: _____

("Assignee")

By: _____
Name: _____
Title: _____

ACKNOWLEDGED AND AGREED TO AS OF
THE DATE SET FORTH ABOVE: *

ELLETT BROTHERS, LLC

By: _____
Name: _____
Title: _____

EVANS SPORTS, INC.

By: _____
Name: _____
Title: _____

JERRY'S SPORTS, INC.

By: _____
Name: _____
Title: _____

SIMMONS GUN SPECIALTIES, INC.

By: _____
Name: _____
Title: _____

BONITZ BROTHERS, INC.

By: _____
Name: _____
Title: _____

OUTDOOR SPORTS HEADQUARTERS, INC.

By: _____
Name: _____
Title: _____

* No signature required if Assignee is a Lender, Affiliate of a Lender or Approved Fund, or if an Event of Default exists.

ACKNOWLEDGED AND AGREED TO AS OF
THE DATE SET FORTH ABOVE:

PROSPECT CAPITAL CORPORATION,
as Agent

By: _____
Name: _____
Title: _____

**ELLETT BROTHERS, LLC
EVANS SPORTS, INC.
JERRY'S SPORTS, INC.
SIMMONS GUN SPECIALTIES, INC.
BONITZ BROTHERS, INC.
and
OUTDOOR SPORTS HEADQUARTERS, INC.**

as Borrowers

SECOND LIEN LOAN AND SECURITY AGREEMENT
Dated: **September 28, 2012**

**THE FINANCIAL INSTITUTIONS
PARTY HERETO FROM TIME TO TIME, as Lenders**

and

PROSPECT CAPITAL CORPORATION, as Agent

Index to Schedules

Schedule 7.1.1	Borrowers' Business Locations
Schedule 7.1.2	Insurance
Schedule 7.6	Deposit Accounts
Schedule 8.1.1	Jurisdictions in which Borrowers and each Subsidiary is Authorized to do Business
Schedule 8.1.4	Capital Structure of Borrowers
Schedule 8.1.5	Corporate Names
Schedule 8.1.12	Surety Obligations
Schedule 8.1.13	Tax Identification Numbers of Borrowers and Subsidiaries
Schedule 8.1.15	Patents, Trademarks, Copyrights and Licenses
Schedule 8.1.18	Contracts Restricting Borrowers' Right to Incur Debts
Schedule 8.1.19	Litigation
Schedule 8.1.21	Capitalized and Operating Leases
Schedule 8.1.22	Pension Plans
Schedule 8.1.24	Labor Contracts
Schedule 8.1.28	Disregarded Subsidiaries
Schedule 9.1.14	Post-Closing Matters
Schedule 9.2.3	Existing Debt
Schedule 9.2.5	Permitted Liens
Schedule 9.2.8	Restrictions on Upstream Payments
Schedule 9.2.14	Leases in Connection with the Acquisition

SCHEDULE 7.1.1

BORROWERS' BUSINESS LOCATIONS

<u>Owner / Lessee</u>	<u>Mailing Address</u>	<u>County</u>	<u>State</u>	<u>Owned/Leased</u>
Evans Sports	801 Industrial Drive	Texas	MO	Leased
Ellett Brothers	130 E. Lake Street	Logan	OH	Leased
Ellett Brothers	150 E. Pennsylvania Ave.	Chester	PA	Leased
Ellett Brothers	267 Columbia Avenue	Richland	SC	Owned
Ellett Brothers	786 Wilson Road,	Newberry	SC	Owned
Ellett Brothers	5.27 ac. adjacent to 267 Columbia Ave	Lexington	SC	Owned
Simmons	20241 W. 207th St.	Johnson	KS	Leased
Bonitz	931 Dana Drive	Dauphin	PA	Leased
Outdoor	967 Water Tower Lane	Montgomery	OH	Leased
Jerry's	121 Main Street	Lackawanna	PA	Leased
Jerry's	76 Stanwell Road	Hartford	CT	Leased
Jerry's	Route 247	Lackawanna	PA	Leased
Ellett Brothers	14361 Commerce Way	Miami-Dade	FL	Leased
Ellett Brothers	5935 Granite Lake Drive	Placer	CA	Leased
Ellett Brothers	2401 Dutch Fork Road	Richland	SC	Leased
Ellett Brothers	5340 Jaycee Avenue	Dauphin	PA	Leased

SCHEDULE 7.1.2

INSURANCE

See attached.

Insurance Broker:

Name: Aon

Address: 10 Lanidex Center West, PO Box 608 Parsippany NJ 07054

Contact: Gary Eppinger

Phone Number: 973-463-6078

SCHEDULE 7.6

DEPOSIT ACCOUNTS

Borrower	Name and Address of Bank	Account No.	Purpose	DACA Required Pursuant to Section 7.6
Ellett Brothers Evans Sports	Wells Fargo	No.2076700001962 No.2010000028973	Office Account Office Account	No No
Ellett Brothers	BB&T	No.5122604227 No.5127388638	MC/Visa Payroll	No No
Ellett Brothers Ellett Brothers Ellett Brothers Ellett Brothers Evans Sports	Bank of America	No.942-922-6652 No.942-922-6759 No.Loan EB 01 No.80231342 No.80231350	Deposits Master Operating Fund operating Accounts Loan Operating Ellett Operating Evans	Yes No No No No
Jerry's Sports Jerry's Sports Jerry's Sports Jerry's Sports	Bank of America	No.383006757948 No. 383007324257 No. 223012078030 No. 002210002980	Collection Account Concentration Account Local Deposit Account Disbursement Account	Yes No No No
Jerry's Sports Jerry's Sports	Wells Fargo N.A.	No. 2000037878708 No. 2000037878724	Office Account Collection Account	No Yes
Jerry's Sports	PNC Bank	No. 42-0222-2224	Collection Account	No

SCHEDULE 8.1.1

JURISDICTIONS IN WHICH BORROWERS AND EACH SUBSIDIARY ARE AUTHORIZED TO DO BUSINESS

<u>Name of Subsidiary</u>	<u>State</u>
Ellett Brothers, LLC	North Carolina Ohio Pennsylvania
Evans Sports, Inc	Missouri
Jerry's Sports, Inc.	Pennsylvania Connecticut
Simmons Gun Specialties, Inc.	Kansas
Bonitz Brothers, Inc.	Pennsylvania
Outdoor Sports Headquarters, Inc.	Ohio

SCHEDULE 8.1.4

CAPITAL STRUCTURE OF BORROWERS AND SUBSIDIARIES

Entity	Ownership information	Formation Date & Place	Class of Shares
ELLETT BROTHERS, LLC	Sole member is United Sporting Companies, Inc.	Formed 11/6/06 in South Carolina	N/A
EVANS SPORTS, INC.	100% of common stock owned by Ellett Brothers, LLC	Formed 4/21/95 in South Carolina	Common – 1,000 shares authorized, issued and outstanding
SAFESPORT MANUFACTURING COMPANY ¹	100% of common stock owned by Ellett Brothers, LLC	Formed 7/28/95 in South Carolina	Common – 1,000 shares issued and outstanding
QUALITY BOXES, INC.	100% of common stock owned by Ellett Brothers, LLC	Formed 8/28/95 in South Carolina	Common – 1,000 shares issued and outstanding
LEISURE SPORTS MARKETING CORPORATION ²	100% of common stock owned by Ellett Brothers, LLC	Formed 12/29/95 in South Carolina	Common – 10,000 shares issued and outstanding

¹ To be dissolved on or about the closing date.

² To be dissolved on or about the closing date.

Entity	Ownership information	Formation Date & Place	Class of Shares
ARCHERY CENTER INTERNATIONAL, INC. ³	100% of common stock owned by Ellett Brothers, LLC	Formed 10/5/99 in South Carolina	Common – 1,000 shares issued and outstanding
WILLOUGHBY & TAYLOR, LLC ⁴	Sole member is Ellett Brothers, LLC	Formed 10/11/07 in Delaware	N/A
JERRY’S SPORTS, INC.	100% of common stock owned by Ellett Brothers, LLC	Formed 10/19/09 in Delaware	Common – 100 shares authorized, 1 share issued and outstanding
SIMMONS GUN SPECIALTIES, INC.	100% of common stock owned by Ellett Brothers, LLC	Formed 10/19/09 in Delaware	Common – 100 shares authorized, 1 share issued and outstanding
BONITZ BROTHERS, INC.	100% of common stock owned by Ellett Brothers, LLC	Formed 10/19/09 in Delaware	Common – 100 shares authorized, 1 share issued and outstanding
OUTDOOR SPORTS HEADQUARTERS, INC.	100% of common stock owned by Ellett Brothers, LLC	Formed 10/19/09 in Delaware	Common – 100 shares authorized, 1 share issued and outstanding

³ To be dissolved on or about the closing date.

⁴ To be dissolved on or about the closing date.

<u>Borrower</u>	<u>Name of Corporate Affiliates</u>	<u>Nature of Affiliation</u>
ELLETT BROTHERS, LLC	UNITED SPORTING COMPANIES, INC.	PARENT OF ELLETT BROTHERS, LLC
	SPORTCO HOLDINGS, INC.	PARENT OF UNITED SPORTING COMPANIES, INC.
EVANS SPORTS, INC.	ELLETT BROTHERS, LLC	PARENT OF EVANS SPORTS, INC.
JERRY'S SPORTS, INC.	ELLETT BROTHERS, LLC	PARENT OF JERRY'S SPORTS, INC.
SIMMONS GUN SPECIALTIES, INC.	ELLETT BROTHERS, LLC	PARENT OF SIMMONS GUN SPECIALTIES, INC.
BONITZ BROTHERS, INC.	ELLETT BROTHERS, LLC	PARENT OF BONITZ BROTHERS, INC.
OUTDOOR SPORTS HEADQUARTERS, INC.	ELLETT BROTHERS, LLC	PARENT OF OUTDOOR SPORTS HEADQUARTERS, INC.

SCHEDULE 8.1.5

CORPORATE NAMES

Pursuant to the Asset Purchase Agreement dated as of September 22, 2009, purchase of substantially all of the assets of the seller companies listed below.

Sellers of Assets	Jurisdiction of Incorporation / Formation
Jerry's Sports, Inc.	Pennsylvania
Simmons Gun Specialties, Inc.	Kansas
Bonitz Brothers, Inc.	Pennsylvania
Outdoor Sports Headquarters, Inc.	Ohio
JSC Enterprises, Inc.	Pennsylvania
JSC Financing, Inc.	Delaware
JSC Purchasing and Administration, Inc.	Pennsylvania

SCHEDULE 8.1.12

SURETY OBLIGATIONS

NONE

SCHEDULE 8.1.13

TAX IDENTIFICATION NUMBERS OF BORROWERS AND SUBSIDIARIES

<u>Name of Subsidiary</u>	<u>Tax ID Number</u>
Ellett Brothers, LLC	57-0957069
Evans Sports, Inc	57-1022654
Quality Boxes, Inc	57-1030287
Safesport Manufacturing Co.	57-1027526
Archery Center International, Inc.	57-1085400
Leisure Sports Marketing Corp.	57-1037172
Willoughby & Taylor, LLC	26-1345294
Jerry's Sports, Inc.	27-1144289
Simmons Gun Specialties, Inc.	27-1144364
Bonitz Brothers, Inc.	27-1144441
Outdoor Sports Headquarters, Inc.	27-1144548

SCHEDULE 8.1.15

PATENTS, TRADEMARKS, COPYRIGHTS AND LICENSES

Patents:

<u>Patent</u>	<u>Owner</u>	<u>Federal Registration Number</u>	<u>Registration Date</u>
Apparatus for Recording and Verifying Handwriting, In Particular Signatures	Ellett Brothers, LLC	US 5013874	May 7, 1991

Trademarks:

MARK	SERIAL NUMBER	STATUS	REGISTRATION NUMBER	REGIS. DATE
ELLETT BROTHERS AS BIG AS ALL OUTDOORS.	74-388809	Renewed	1918493	09/12/95
ELLETT BROTHERS	74-388810	Renewed	1838245	05/31/94
AS BIG AS ALL OUTDOORS	74-388811	Renewed	1916955	09/05/95
CHURCHILL	73-744999	Renewed	1727424	10/27/92

Material Unregistered Trademarks:

JERRY'S SPORT CENTER

JSC

JERRY'S SPORT CENTER, INC.

JERRY'S SPORTS CENTER – NORTHEAST

JERRY'S SPORTS CENTER – N/E

JERRY'S SPORTS CENTER – SIMMONS GUN SPECIALTIES

JERRY'S SPORTS CENTER – SIMMONS GUN SPECIALTIES, INC.

JERRY'S SPORTS CENTER – BONITZ BROTHERS

JERRY'S SPORTS CENTER – BONITZ BROTHERS, INC.

JSC – SIMMONS GUN SPECIALTIES

JSC – SIMMONS GUN SPECIALTIES, INC.

JSC – BONITZ BROTHERS

JSC – BONITZ BROTHERS, INC.

JSC, INC. – SIMMONS GUN SPECIALTIES

JSC, INC. – SIMMONS GUN SPECIALTIES, INC.

JSC, INC. – BONITZ BROTHERS

JSC, INC. – BONITZ BROTHERS, INC.

SIMMONS GUN SPECIALTIES – A WHOLLY OWNED SUBSIDIARY OF JSC, INC.

SIMMONS GUN SPECIALTIES, INC. – A WHOLLY OWNED SUBSIDIARY OF JSC, INC.

BONITZ BROTHERS – A WHOLLY OWNED SUBSIDIARY OF JSC, INC.

BONITZ BROTHERS, INC. – A WHOLLY OWNED SUBSIDIARY OF JSC, INC.

OUTDOOR SPORTS HEADQUARTERS, INC.

OUTDOOR SPORTS INTERNATIONAL SALES

Copyrights:

NONE

Patent Licenses:

NONE

Trademark Licenses:

1. License Agreement made and effective as of June 27, 2007 by and between Ellett Brothers, LLC and Springfield, Inc. "Fear No Evil"
2. Ellett Brothers, LLC has been granted limited, non-exclusive licenses to use the trademarks of Sturm Ruger, Mossberg, Glock, Smith & Wesson, Federal Cartridge Company and Ammunition Accessories Inc. and other additional parties pursuant to its distribution agreements.

Copyright Licenses:

1. DCI End-User Software License Agreement dated January 28, 2002 between Ellett Brothers, LLC and Daly. Commerce, Inc.
2. Software Services Agreement, dated January 12, 2012, between Infor Global Solutions (Michigan), Inc. and Ellett Brothers, LLC, as amended.
3. Volume Licensing Agreement, dated November 30, 2012, between Microsoft Licensing, GP and Ellett Brothers, LLC.

SCHEDULE 8.1.18

CONTRACTS RESTRICTING BORROWERS' RIGHT TO INCUR DEBTS

NONE

SCHEDULE 8.1.19

LITIGATION

1. *City of New York v. Beretta, et al. and National Association of the Advancement of Colored People vs. Accusport Corporation.*

In connection with the litigation referenced above, the plaintiff is seeking equitable relief together with recovery of attorney's fees under a nuisance theory. In November 2006, Congress passed and the President signed into law the "Protection of Lawful Commerce in Arms Act" ("PLCAA") which prohibits liability actions against manufacturers, distributors and dealers engaged in lawful commerce in arms. As a result, the defendants, including Ellett Brothers, LLC ("Ellett"), moved to immediately dismiss the action. The district court ruled that the PLCAA was constitutional but did not apply to the case. In the appellate proceeding, the United States Court of Appeals for the Second Circuit ruled in favor of Ellett and the other defendants. The plaintiff has filed a request to have the case heard by the United States Supreme Court.

2. *People v. Arcadia Machine & Tool, Inc., et al*

Pursuant to terms of that certain Memorandum of Understanding dated June 20, 2003, the plaintiffs that were a party to the above-referenced action and Ellett, agreed to settle the litigation. The plaintiffs are permitted to appeal any claims resolved against the plaintiffs in connection with an "Omnibus Motion for Summary Judgment". The plaintiffs have agreed not to pursue any further appeals or any further actions against Ellett, except to enforce the settlement terms included in the Memorandum of Understanding.

3. *Stealth*

In a letter dated June 12, 2006, the owner of the "Stealth" trademark alleged improper use of the "Stealth" corporate name and/or trademark by Ellett Brothers. Stealth also provided a draft Settlement Agreement to Ellett Brothers, pursuant to which Ellett Brothers would agree to pay Twenty-Five Thousand Dollars to resolve the dispute. In a letter to Stealth dated July, 11, 2006, Ellett Brothers affirmatively disclaimed any use, right, or title to the trademark. After sending this letter, Ellett Brothers received no additional correspondence or communications from Stealth relating to this matter.

4. *In re: HA2003, Inc., formerly known as HA-LO Industries, Inc., et. al., v. Quality Boxes, Inc.*

In 2004, Quality Boxes, Inc. received notice of a preferential payment action made against it. Because Quality Boxes, Inc. had no assets to pay the amount and significant net operating losses, Quality Boxes, Inc. did not dispute the action. On June 14, 2004 a default judgment in the amount of \$28,946.75 was entered against Quality Boxes, Inc. in the United States Bankruptcy Court for the Northern District of Illinois. After the judgment was entered, Quality Boxes, Inc. received an attempt to collect from a collection agency. In response to the attempt to collect, Quality Boxes, Inc. provided a copy of Quality Boxes, Inc.'s tax return, which reflected significant net operating losses. After providing a copy of the tax return, Quality Boxes, Inc. received no additional communications regarding this matter.

5. *Theodore Kennedy v. Ellett Brothers, LLC, et al.*

On January 27, 2009, Plaintiff, Theodore Kennedy, an investigator with South Carolina Law Enforcement Division (SLED) suffered injuries while removing paperwork from the trunk of his vehicle when his SLED-issued Remington 870 shotgun discharged, firing buckshot into his chest and abdomen. The shotgun had been placed in a soft case provided by SLED, and Plaintiff kept a self-purchased Shot Lock brand trigger lock over the trigger. Plaintiff alleges that the trigger lock was not properly designed for use with the subject shotgun.

On March 23, 2010, Plaintiff filed a complaint of breach of warranty, strict products liability (including allegations of defective design and manufacture and inadequate warnings), negligence, and negligent misrepresentation against Shot Lock Corp. and Eason Ventures, Inc., f/k/a Dana Safety Supply, Inc., d/b/a Palmetto Distributors, a/k/a Palmetto Firearms. On February 1, 2011, Plaintiff amended his complaint to assert these same claims against Ellett Brothers, LLC (the alleged distributors of the trigger lock) and Palmetto Distributors, Inc. (the alleged retailer of the trigger lock). On August 2, 2011, Plaintiff requested to strike the case from the active docket. On August 1, 2012, plaintiff filed a motion seeking to restore the case to the active docket. When the case was stricken from the docket last year, Plaintiff had yet to provide response to discovery served on him. He also claimed that he had served discovery on the defendants which was never received. In addition, no depositions have been conducted in the case.

6. *Sandra Day Yastremski and Robert C. Hin vs. Jerry's Sports, Inc. and Wellspring Capital Management, LLC.*

The plaintiffs, former employees of Jerry's Sports, Inc., allege that Jerry's Sports, Inc. breached their employment contracts by failing to pay "substantially equivalent" bonuses as those paid to plaintiffs prior to the defendant's acquisition of substantially all the assets of plaintiff's former employer. A complaint was filed on July 22, 2011, and an amended complaint was filed on October 14, 2011. Yastremski claims that \$127,770 was improperly held from the 2010 bonus. Hine claims that \$139,221 as improperly held from the 2010 bonus. The parties are in settlement discussions with respect to the Yastremski claim. The Hine claim is continuing with discovery.

SCHEDULE 8.1.21

CAPITALIZED AND OPERATING LEASES

Capitalized Leases

NONE

Operating Leases

1. Lease Agreement dated as of July 26, 2006, between Community Storage and Properties, Ltd. and Ellett Brothers, LLC (Ohio Office Lease – 130 E. Lake Street, Lakeview, OH 43331)
2. Lease Agreement dated as of January 9, 2006, by and between Mill Town Partners, L.P. and Ellett Brothers, LLC (formerly Ellett Brothers, Inc.) (Pennsylvania Office Lease – 150 E. Pennsylvania Ave. Suite 530, Downingtown, PA 19335).
3. Lease and Option to Purchase dated and effective as of April 24, 1995, as amended, by and between Clydie Evans Jr. and Evans Sports, Inc. (Evans Sports Lease – 801 Industrial Drive, Houston, MO 65)
4. Lease Agreement dated as of December 4, 2002, by and between KZK Associates, LLC and Bonitz Brothers, Inc. (Bonitz Brothers Lease - 931 Dana Drive, Harrisburg, PA 17109)
5. Lease Agreement dated as of July 11, 1996, by and between ECAL Associates, L.P. and Outdoor Sports, Inc., as amended (Outdoor Sports Headquarters Lease - 967 Water Tower Lane, Dayton, Ohio 45449).
6. Lease Agreement dated as of November 15, 2004, as amended by a certain Addendum to Lease, dated March 15, 2005, as further amended by a certain Addendum to Lease, dated Dec. 14, 2007, by and between KZK Associates, LLC and Jerry's Sports, Inc. (Jerry's Sports Lease - 121 Main Street, Vandling, PA 18421)
7. Lease Agreement dated November 1, 2009, by and between Simmons Gun Specialties, Inc. (KS) and Simmons Gun Specialties, Inc. (DE.) for Real Estate and Improvements at 20241 West 207 Street, Spring Hill, KS 66063.
8. Lease Agreement dated November 1, 2009, by and between Jerry's Sports, Inc. (PA.) and Jerry's Sports, Inc. (DE.) for Real Estate and Improvements at 76 Stanwell Road, Newington, CT 06111.
9. Lease Agreement dated November 1, 2009, by and between Jerry's Sports, Inc. (PA.) and Jerry's Sports, Inc. (DE.) for Real Estate and Improvements at Route 247, Montdale, PA 18447.
10. Lease Agreement dated September 7, 2012, by and between Ellett Brothers, LLC (SC.) and ADS 93 Trust (Suite A, 5340 Jaycee Avenue, Harrisburg, PA 17112).
11. Lease Agreement dated January 25, 2012, by and between Ellett Brothers, LLC (SC) and James R. Stock, Sr. (2401 Dutch Fork Road, White Rock, SC 29036).
12. Office Lease Agreement dated May 11, 2011, by and between Ellett Brothers, LLC (SC) and AGS Properties Corporation (14361 Commerce Way, Miami Lakes, FL 33016).
13. Lease Agreement dated March 2, 2011, by and between Douglas Officer Park, LLC and Ellett Brothers, LLC (SC) (formerly Ellett Brothers, Inc.) (5935 Granite Lake Drive, Granite Bay, CA 95746).

SCHEDULE 8.1.22

PENSION PLANS

NONE

SCHEDULE 8.1.24

LABOR CONTRACTS

NONE

SCHEDULE 8.1.28

DISREGARDED SUBSIDIARIES

Company	Jurisdiction of Incorporation / Formation
Archery Center International, Inc.	South Carolina
Leisure Sports Marketing Corporation	South Carolina
Quality Boxes, Inc.	South Carolina
Safesport Manufacturing Company	South Carolina
Willoughby & Taylor, LLC	Delaware

SCHEDULE 9.1.14

POST-CLOSING MATTERS

The Borrowers shall deliver, or cause to be delivered, to Agent or its designee each of the following documents, each in form and substance satisfactory to Agent:

1. Stock of Disregarded Subsidiaries. As soon as possible, but in any event within **30 days** after the Closing Date, First Priority Agent shall have received a stock certificate evidencing the Equity Interests in each Disregarded Subsidiary, together with an undated stock power for such certificate duly executed in blank by the pledgor thereof, unless Borrowers provide Agent with evidence reasonably satisfactory to it of the dissolution of such Disregarded Subsidiary prior to the end of such period.

2. Landlord Agreements. As soon as possible, but in any event within **120 days** after the Closing Date, Agent shall use commercially reasonable efforts to deliver, or cause to be delivered, to Agent fully executed Landlord Agreements or Warehouseman Waiver Agreements, as applicable, for the following locations:

- 801 Industrial Drive, City of Houston, Missouri 77011
- 100 – 124 Capital Road, Pittston, Pennsylvania 18640
- 4910 Longley Lane, Reno, Nevada 89502

3. Deposit Account Assignment. As soon as possible, but in any event within **120 days** after the Closing Date, Agent shall have received a fully executed Deposit Account Assignment with respect to the Deposit Account listed below:

<u>Bank</u>	<u>Account Nos.</u>
Wells Fargo Bank, National Association	2000037878724

SCHEDULE 9.2.3

EXISTING DEBT

NONE

SCHEDULE 9.2.5

PERMITTED LIENS

NONE

SCHEDULE 9.2.8

RESTRICTIONS ON UPSTREAM PAYMENTS

NONE

SCHEDULE 9.2.14

LEASES IN CONNECTION WITH THE ACQUISITION

1. Lease Agreement dated as of December 4, 2002, by and between KZK Associates, LLC and Bonitz Brothers, Inc. (Bonitz Brothers Lease - 931 Dana Drive, Harrisburg, PA 17109)
2. Lease Agreement dated as of July 11, 1996, by and between ECAL Associates, L.P. and Outdoor Sports, Inc. (Outdoor Sports Headquarters Lease - 967 Water Tower Lane, Dayton, Ohio 45449)
3. Lease Agreement dated as of November 15, 2004, as amended by a certain Addendum to Lease, dated March 15, 2005, as further amended by a certain Addendum to Lease, dated Dec. 14, 2007, by and between KZK Associates, LLC and Jerry's Sports, Inc. (Jerry's Sports Lease - 121 Main Street, Vandling, PA 18421)
4. Lease Agreement dated November 1, 2009 by and between Simmons Gun Specialties, Inc. (KS) and Simmons Gun Specialties, Inc. (DE.) for Real Estate and Improvements at 20241 West 207 Street, Spring Hill, KS 66063.
5. Lease Agreement dated November 1, 2009 by and between Jerry's Sports, Inc. (PA.) and Jerry's Sports, Inc. (DE.) for Real Estate and Improvements at 76 Stanwell Road, Newington, CT 06111.
6. Lease Agreement dated November 1, 2009 by and between Jerry's Sports, Inc. (PA.) and Jerry's Sports, Inc. (DE.) for Real Estate and Improvements at Route 247, Montdale, PA 18447.

Exhibit 3

FIRST AMENDMENT AND LIMITED CONSENT

This **FIRST AMENDMENT AND LIMITED CONSENT** (this "Agreement"), dated as of March 7, 2013, is made by and among Ellett Brothers, LLC, a South Carolina limited liability company ("EB"), Evans Sports, Inc., a South Carolina corporation ("Evans"), Jerry's Sports, Inc., a Delaware corporation ("Jerry"), Simmons Gun Specialties, Inc. a Delaware corporation ("Simmons"), Bonitz Brothers, Inc., a Delaware corporation ("Bonitz"), Outdoor Sports Headquarters, Inc., a Delaware Corporation ("Outdoor" and, together with EB, Evans, Jerry, Simmons and Bonitz, each a "Borrower" and collectively, the "Borrowers") each with its chief executive office and principal place of business at 267 Columbia Avenue, Chapin, South Carolina; the Lenders party hereto, and Prospect Capital Corporation, a Maryland corporation, in its capacity as collateral and administrative agent for the Lenders party thereto from time to time pursuant to Section 12 of the Loan Agreement (as defined below) (together with its successors in such capacity, "Agent"). Except as otherwise defined herein, capitalized terms used herein shall have the meanings ascribed to such terms in the Loan Agreement (as defined below).

WHEREAS, reference is made to that certain Second Lien Loan and Security Agreement, dated as of September 28, 2012 (as amended, restated, supplemented or otherwise modified from time to time prior to the date hereof, the "Existing Loan Agreement" and as amended by this Agreement and as further amended, restated, supplemented or otherwise modified from time to time, the "Loan Agreement"), by and among the Borrowers, the Lenders party thereto from time to time and the Agent;

WHEREAS, the Borrowers have requested that (a) Prospect agree to advance to the Borrowers an incremental term loan in an aggregate principal amount equal to \$60,000,000 (the "Incremental Term Loan"), the proceeds of which shall be used to make the Incremental Term Loan Funding Date Distribution and to pay fees and expenses relating thereto subject to the limits set forth herein, and (b) the Agent and Lenders agree to effect certain amendments to the Existing Loan Agreement and the other Loan Documents to reflect the terms of the Incremental Term Loan; and

WHEREAS, Prospect is willing to provide the requested Incremental Term Loan, and the Agent and the Lenders party hereto have agreed to make the requested amendments to the Existing Loan Agreement and the other Loan Documents and to provide the requested consent with respect to the Incremental Term Loan and the Incremental Term Loan Funding Date Distribution, in each case, subject to the terms and conditions set forth herein.

NOW, THEREFORE, in consideration of the foregoing premises, and other good and valuable consideration, the receipt, sufficiency and adequacy of which are hereby acknowledged, the parties hereto agree as follows:

1. Limited Consent. Subject to the terms and conditions set forth in Section 3 below and in reliance upon the representations and warranties made by Borrowers in Section 4 below, each Lender party hereto and Agent hereby (i) consent to the incurrence by Borrowers of the Incremental Term Loan in an aggregate principal amount not exceeding \$60,000,000, (ii) consent to the making by the Borrowers of the Incremental Term Loan Funding Date Distribution as set forth herein, and (iii) waive the application of Section 4.3.9 of the Existing Loan Agreement with respect to the proceeds of the Incremental Term Loan (the "Limited Consent").

2. Amendments. Subject to the terms and conditions set forth in Section 3 below and in reliance upon the representations and warranties made by Borrowers in Section 4 below, the Existing Loan Agreement is hereby amended as follows:

- A. Appendix A of the Existing Loan Agreement is hereby amended by inserting the following new definitions in the appropriate alphabetical order:

“Closing Date Term Loan – means a term loan in the aggregate principal amount of one-hundred and seventy million Dollars (\$170,000,000) provided to the Borrowers by the Lenders hereunder on the Closing Date.”

“Incremental Term Loan – means a term loan in the aggregate principal amount of sixty million Dollars (\$60,000,000) provided to Borrowers by Prospect hereunder on the Incremental Term Loan Funding Date.”

“Incremental Term Loan Funding Date – means March 7, 2013.”

“Incremental Term Loan Funding Date Distribution – the one-time cash Distribution by Borrowers to Holdings (for immediate further distribution to SportCo and Wellspring and the other shareholders of SportCo) on the Incremental Term Loan Funding Date in an amount up to (x) \$60,000,000, less (y) the fees and expenses incurred in connection with the negotiation, execution and delivery of the documents related to the Incremental Term Loan, the amount of which Distribution shall be excluded from all calculations of the Consolidated Fixed Charge Coverage Ratio.

- A. Appendix A of the Existing Loan Agreement is hereby amended by deleting subclause (viii)(A) of the definition of “Adjusted EBITDA” set forth therein in its entirety and, in lieu thereof, inserting the following:

“(A) the negotiation, execution and delivery of the Loan Documents and the First Priority Loan Documents, including amendments and other modifications thereof from time to time, and”

- B. Appendix A of the Existing Loan Agreement is hereby amended by deleting the text of the definition of “Original Lender” set forth therein in its entirety and, in lieu thereof, inserting the following:

“Original Lender – means (i) Prospect for so long as it owns and controls at least \$50,000,000 in principal amount of Term Loans made by it hereunder, and (ii) Summit for as long as it owns and controls at least fifty percent (50%) of (A) the Term Loans made by it hereunder, minus (B) any prepayments of principal amounts of such Term Loans.”

- C. Appendix A of the Existing Loan Agreement is hereby amended by deleting the text of the definition of “Prepayment Premium” set forth therein in its entirety and, in lieu thereof, inserting the following:

“Prepayment Premium – shall mean, without duplication, (i) with respect to any voluntary prepayment made pursuant to **Section 4.3.1** or **Section 4.3.2** other than in connection with an IPO, (x) if such prepayment is made after March 31, 2014 and on or prior to March 31, 2015, an amount equal to three percent (3.0%) of the principal balance of the Term Loans being prepaid, (y) if such prepayment is made after March 31, 2015 and on or prior to March 31, 2016, an amount equal to two percent (2.0%) of the principal balance of the Term Loans being prepaid, and (z) if such prepayment is made after March 31, 2016 and on or prior to March 31, 2017, an amount equal to one percent (1.0%) of the principal balance of the Term Loans being prepaid, and (ii) with respect to any voluntary prepayment made pursuant to **Section 4.3.1** or **Section 4.3.2** in connection with an IPO, or a mandatory prepayment made pursuant to **Section 4.3.4**, **Section**

4.3.5, Section 4.3.8 or Section 4.3.9, if such prepayment is made prior to March 31, 2017, an amount equal to one percent (1.0%) of the principal balance of the Term Loans being prepaid.

- D. Appendix A of the Existing Loan Agreement is hereby amended by deleting the text of the definition of “Term Loan” set forth therein in its entirety and, in lieu thereof, inserting the following:

“Term Loan shall mean the Closing Date Term Loan and the Incremental Term Loan.”

- E. Section 1.1.1 of the Existing Loan Agreement is hereby amended by deleting the first sentence thereof in its entirety and, in lieu thereof, inserting the following:

“Subject to the terms and conditions hereof and in reliance upon the representations and warranties set forth herein and in the other Loan Documents, (i) each Lender severally agrees to make available to Borrowers on the Closing Date, a principal amount equal to such Lender’s Commitment Percentage of the aggregate principal amount of the Closing Date Term Loan for the purposes hereinafter set forth and (ii) Prospect agrees to make available to Borrowers on the Incremental Term Loan Funding Date, a principal amount of the Incremental Term Loan in an original amount equal to \$60,000,000 for the purposes hereinafter set forth.”

- F. Section 1.1.3 of the Existing Loan Agreement is hereby amended by deleting the text set forth therein in its entirety and, in lieu thereof, inserting the following:

“1.1.3 Use of Proceeds. Proceeds of the Closing Date Term Loan shall be used by Borrowers solely for one or more of the following purposes: (i) to make a one-time Distribution to Holdings (for further Distribution to SportCo) to repay a portion of the Wellspring Debt on the Closing Date; (ii) to pay the Closing Date Distribution on the Closing Date, and (iii) to pay the fees and transaction expenses associated with the closing of the Transactions described herein. Proceeds of the Incremental Term Loan shall be used solely (a) to pay the Incremental Term Loan Funding Date Distribution on the Incremental Term Loan Funding Date and (b) to pay the fees and transaction expenses in connection with the Incremental Term Loan. In no event may any Term Loan proceeds be used by Borrowers to make a contribution to the equity of any Subsidiary which is not a Borrower, to purchase or to carry, or to reduce, retire or refinance any Debt incurred to purchase or carry any Margin Stock or for any related purpose that violates the provisions of Regulations T, U or X of the Board of Governors.”

- G. Section 2.1.1 of the Existing Loan Agreement is hereby amended by deleting the text thereof in its entirety and, in lieu thereof, inserting the following:

“2.1.1 Interest Rate. Subject to Section 2.1.3 and Section 2.7, interest shall accrue on the outstanding principal balance of the Closing Date Term Loans from the Closing Date and the Incremental Term Loans from the Incremental Term Loan Funding Date and until the principal amount of the Term Loans has been repaid in full at a rate per annum equal to the greater of (x) the LIBOR Rate plus eleven percent (11.00%) and (y) twelve and three-quarters percent (12.75%). Any determination of the interest rate by the Agent shall be conclusive and binding on the Borrowers in the absence of manifest error.

- H. Section 4.3.1 of the Existing Loan Agreement is hereby amended by deleting the text thereof in its entirety and, in lieu thereof, inserting the following:

“4.3.1 Prepayment in Full. On or after March 31, 2014, upon not less than ten (10) days’ prior written notice to the Agent and the Lenders, which notice shall be irrevocable and shall be delivered no later than 2:00 p.m. (New York City time), the Borrowers shall have the right to prepay the outstanding principal balance of the Term Loans in full, together with accrued but unpaid interest thereon and all other amounts then owing under the Loan Documents, plus the amount of any applicable Prepayment Premium.”

- I. Section 4.3.2 of the Existing Loan Agreement is hereby amended by deleting the text thereof in its entirety and, in lieu thereof, inserting the following:

“4.3.2 Partial Prepayments. On or after March 31, 2014, upon not less than ten (10) days’ prior written notice to the Agent and the Lenders, which notice shall be irrevocable and shall be delivered no later than 2:00 p.m. (New York City time), the Borrowers shall have the right to prepay a portion of the outstanding principal balance of the Term Loans, together with accrued but unpaid interest thereon and all other amounts then owing under the Loan Documents, plus the amount of any applicable Prepayment Premium; provided that each partial prepayment of the Term Loans shall be in a minimum principal amount of \$1,000,000 and integral multiples of \$500,000 in excess thereof.”

- J. Section 4.3.6 of the Existing Loan Agreement is hereby amended by inserting the following sentence immediately after the final sentence thereof:

“For the avoidance of doubt, except as expressly permitted pursuant to the provisions of this **Section 4.3**, no prepayment or repayment of the Term Loans shall be permitted at any time prior to April 1, 2014.”

- K. Section 9.2.4 of the Existing Loan Agreement is hereby amended by (i) deleting reference to “and” at the end of clause (v) and substituting therefor “,”, and (ii) deleting the “.” at the end of clause (vi) and inserting the following:

“, and (vii) payments to Wellspring in an aggregate amount of up to \$1,000,000 of past due fees and expenses incurred by Wellspring prior to the Closing Date and payable in accordance with the Expense Reimbursement Agreement.”

- L. Section 9.2.7 of the Existing Loan Agreement is hereby amended by deleting the text thereof in its entirety and, in lieu thereof, inserting the following:

“9.2.7 Distributions. Declare or make any Distributions, or set apart assets for a sinking or other analogous fund for the purpose of making Distributions, except for (i) Upstream Payments, (ii) the payment by EB to each of its members of income taxes then being assessed against such member on items of ordinary income and expense and net capital gain allocated to such member by EB in accordance with the terms of the operating agreement of EB, (iii) the Closing Date Distribution and the Distribution to Holdings (for further Distribution to SportCo) to repay the Wellspring Debt in full on the Closing Date, which Distributions under this subclause (iii) shall be excluded from all calculations of Consolidated Fixed Charge Coverage Ratio, and (iv) the Incremental Term Loan Funding Date Distribution, which Distribution under this subclause (iv) shall be excluded from all calculations of Consolidated Fixed Charge Coverage Ratio.”

- M. Section 10 of the Existing Loan Agreement is hereby amended by adding the following new Section 10.3 to the end thereof:

“Section 10.3 Conditions to Incremental Term Loan.”

The obligation of Prospect to make the Incremental Term Loan on the Incremental Term Loan Funding Date is subject to the satisfaction of the following conditions (and delivery to the Agent and the Lenders of a certificate of a knowledgeable Senior Officer of each Borrower certifying that such conditions have been satisfied and, as applicable, providing the relevant calculations or other evidence thereof):

10.3.1 Agent and Lenders shall have received a certificate setting forth the amendments to the Schedules to the Loan Agreement and the Pledge and Security Agreement that would be necessary to make the representations and warranties set forth therein true and correct in all respects on and as of the Incremental Term Loan Funding Date as if references to the “Closing Date” or “the date hereof” in such Loan Documents were deemed to refer to the Incremental Term Loan Funding Date;

10.3.2 The representations and warranties of any Obligor set forth in this Agreement and each other Loan Document shall be true and correct in all respects on and as of the Incremental Term Loan Funding Date (except to the extent that any such representation or warranty is expressly stated to have been made as of an earlier date, in which case, such representation or warranty shall be true and correct in all respects as of such earlier date);

10.3.3 At the time of and immediately after giving effect to the making of the Incremental Term Loan, no Default or Event of Default exists;

10.3.4 Agent and Lenders shall have received evidence satisfactory to them from one or more knowledgeable Senior Officers of each Borrower that, after giving effect to the Incremental Term Loan and Incremental Term Loan Funding Date Distribution, each Borrower is Solvent;

10.3.5 Agent and Lender shall have received certificates of existence for each Obligor, issued by the Secretary of State or other appropriate official of (a) such Obligor’s jurisdiction of organization, and (b) each jurisdiction where the conduct of such Obligor’s business activities or ownership of its Property necessitates qualification; provided, that to the extent the Borrower has used its commercially reasonable efforts to receive any certificate referenced in subsection (b) prior to the Incremental Term Loan Funding Date and has not received such certificate on or prior to the Incremental Term Loan Funding Date, then the Borrower shall provide such certificate within fifteen (15) days after the Incremental Term Loan Funding Date;

10.3.6 Agent shall have received copies of UCC Lien searches and other evidence in form and substance satisfactory to Agent and Lenders that there are no other Liens upon any Collateral except for Permitted Liens; and

10.3.7 Agent and Lenders shall have received a favorable, written opinion of (i) Paul, Weiss, Rifkind & Garrison LLP, as special counsel to the Obligors and (ii) Nelson Mullins Riley & Scarborough LLP, local counsel to Borrowers organized in South Carolina, each in form and substance satisfactory to Agent.

3. Conditions Precedent to Effectiveness. The effectiveness of this Agreement and the Limited Consent provided herein is subject to satisfaction of the following: (a) the Agent and the Lenders shall have received a duly executed counterpart hereof from each of the Borrowers dated as of the date hereof, (b) Prospect shall have received a duly executed counterpart of the Incremental Term Loan Fee Letter from EB dated as of the date hereof, and shall have received full payment of the fee due and owing thereunder, (c) Summit shall have received a duly executed counterpart of the Amendment Fee Letter from EB dated as of the date hereof, and shall have received full payment of the fee due and owing thereunder, (d) to the extent documented and invoiced, the Agent and the Lenders shall have received payment of all fees and expenses (including any fees and expenses of counsel to the Agent) due and owing to the Agent and the Lenders as of the date hereof in accordance with the Loan Agreement; (e) the Agent and the Lenders shall have received a duly executed counterpart of an amendment to the Subordination Agreement from the Borrowers and the Required Senior Creditors (as defined therein) dated as of the date hereof which shall include, among other things, an amendment to the definition of "Second Priority Cap Amount" set forth therein; (f) the Agent and the Lenders shall have received a duly executed counterpart of an amendment to the First Priority Loan Agreement from the Borrowers and the Required Lenders (as defined therein) dated as of the date hereof which shall include, among other things, an amendment to the definition of "Second Priority Debt" set forth therein; (g) the Agent shall have received duly executed Notes from the Borrowers evidencing the Incremental Term Loans; (h) the Agent shall have received copies of a written consent, resolution or other evidence of approval from the Governing Body of each Borrower with respect to this Agreement and the transactions contemplated hereby; and (i) the Agent shall have received such other documents, agreements or information as the Agent or any Lender may request with respect to any matter described herein, all in form and substance satisfactory to the Agent.

4. Representations and Warranties. Each of the Borrowers represents and warrants to each Lender and the Agent that, as of the date of this Agreement: (a) after giving effect to the amendments set forth in Section 2, no Default or Event of Default has occurred and is continuing under the Loan Agreement or any of the other Loan Documents; and (b) each of the Borrowers has the power and authority and has taken all necessary action to authorize the execution, delivery and performance of this Agreement.

5. Acknowledgement of Obligations. The Borrowers and the Guarantors hereby acknowledge, confirm and agree that the aggregate outstanding principal amount of the Credit Party Obligations is \$170,000,000 as of the date hereof (prior to giving effect to the amendments set forth in Section 2).

6. Consent and Reaffirmation. Each Obligor hereby consents to the amendment of the Existing Loan Agreement effected hereby and confirms and agrees that, notwithstanding the effectiveness of this Agreement, each Loan Document to which such Obligor is a party is, and the obligations of such Obligor contained in the Loan Agreement, this Agreement or in any other Loan Document to which it is a party are, and shall continue to be, in full force and effect and are hereby ratified and confirmed in all respects, in each case as amended by this Agreement. For greater certainty and without limiting the foregoing, each Obligor hereby confirms that the existing security interests granted by such Obligor in favor of the Secured Parties pursuant to the Loan Documents in the Collateral described therein shall continue to secure the obligations of the Obligors under the Loan Agreement and the other Loan Documents as and to the extent provided in the Loan Documents.

7. Counterparts; Severability; Integration; Successors and Assigns. This Agreement may be executed by one or more of the parties to this Agreement on any number of separate counterparts, including facsimiles and all of said counterparts taken together shall be deemed to constitute one and the same instrument. Any provision of this Agreement which is prohibited or unenforceable in any

jurisdiction shall, as to such jurisdiction, be ineffective to the extent of such prohibition or unenforceability without invalidating the remaining provisions hereof, and any such prohibition or unenforceability in any jurisdiction shall not invalidate or render unenforceable such provision in any other jurisdiction. This Agreement represents the agreement of the Borrowers, the Agent and the Lenders with respect to the subject matter hereof, and there are no promises, undertakings, representations or warranties by the Borrowers, the Agent or any Lender relative to the subject matter hereof not expressly set forth or referred to herein or in the other Loan Documents. This Agreement shall be binding upon and inure to the benefit of the successors and permitted assigns of the parties hereto.

8. Governing Law; Consent to Jurisdiction; WAIVER OF JURY TRIAL. This Agreement and the rights and obligations of the parties hereunder shall be governed by, and construed and interpreted in accordance with, the law of the State of New York. Sections 14.20 and 14.21 of the Loan Agreement are hereby incorporated by reference as if fully stated herein, *mutatis mutandis*. THE BORROWERS, THE AGENT AND THE LENDERS HEREBY IRREVOCABLY AND UNCONDITIONALLY WAIVE, TO THE EXTENT PERMITTED BY APPLICABLE LAW, TRIAL BY JURY IN ANY LEGAL ACTION OR PROCEEDING RELATING TO THIS AGREEMENT OR ANY OTHER LOAN DOCUMENT AND FOR ANY COUNTERCLAIM THEREIN.

9. Loan Document. This Agreement shall be deemed to be a Loan Document.

10. No Other Modification. The amendments set forth in Section 2 hereof and the Limited Consent herein provided are limited as specified and shall not constitute or be deemed to constitute an amendment, waiver or modification of, or consent to any deviation from, the terms and conditions of the Existing Loan Agreement, except as expressly set forth herein. Except as expressly set forth herein, the Existing Loan Agreement and each other Loan Document shall remain in full force and effect and is hereby confirmed and ratified in all respects, including with respect to any security interest or Lien granted to the Agent pursuant to the terms of the Loan Documents. Each Guarantor acknowledges and agrees that (a) notwithstanding the conditions to effectiveness set forth in this Agreement, the consent of such Guarantor to the amendments to the Existing Loan Agreement effected pursuant to this Agreement is not required for such effectiveness by the terms of the Loan Agreement or any other Loan Document, and (b) nothing in the Loan Agreement, this Agreement or any other Loan Document shall be deemed to require the consent of such Guarantor as a condition to the effectiveness to any future waivers, consents or amendments to the Existing Loan Agreement.

11. No Waiver; Cumulative Remedies. No failure to exercise and no delay in exercising, on the part of the Agent or any Lender, any right, remedy, power or privilege hereunder shall operate as a waiver thereof; nor shall any single or partial exercise of any right, remedy, power or privilege hereunder preclude any other or further exercise thereof or the exercise of any other right, remedy, power or privilege. The rights, remedies, powers and privileges provided in the Loan Documents are cumulative and not exclusive of any rights, remedies, powers and privileges provided by law.

12. Fees and Expenses. The Credit Parties agree and acknowledge that all fees and expenses as described in Section 2.4 of the Loan Agreement incurred by the Agent and the Lenders, including, without limitation, those related to the preparation, arrangement, negotiation, documentation and administration of the transactions contemplated by this Agreement shall be for the account of the Borrowers.

13. Release. To the extent that any offsets, defenses or claims may exist arising out of or relating to this Agreement or any Loan Document against the Agent or any Lender or any of their respective subsidiaries, affiliates, officers, directors, employees, agents, attorneys, predecessors, successors or assigns whether asserted or unasserted, by execution of this Agreement, each Borrower, for

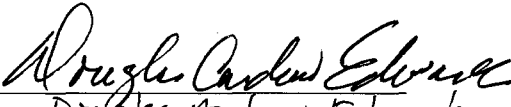
itself and its successors, assigns, parents, subsidiaries, affiliates, predecessors, employees, agents, heirs and executors, as applicable (collectively, the “Releasors”), jointly and severally with each other Borrower, releases, remises, acquits and forever discharges the Agent and each Lender and each of their respective subsidiaries, affiliates, officers, directors, employees, agents, attorneys, predecessors, successors and assigns, both present and former (collectively, the “Released Parties”) of and from any and all manner of actions, causes of action, torts, suits, debts, controversies, damages, judgments, executions, claims and demands whatsoever, asserted or unasserted, in law or in equity, that exist or have occurred on or prior to the date of this Agreement, arising out of or relating to this Agreement or any Loan Document which the Releasors ever had or now have against any of the Released Parties, including any presently existing claim whether or not presently suspected, contemplated or anticipated.

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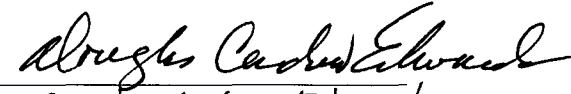
IN WITNESS WHEREOF, this Agreement has been duly executed on the day and year specified at the beginning of this Agreement.

BORROWERS:

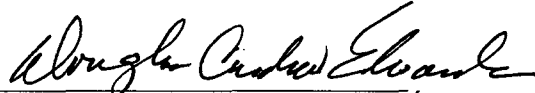
ELLET BROTHERS, LLC

By: 
Name: Douglas Andrew Edwards
Title: Vice President - Finance,
Secretary and Treasurer

EVANS SPORTS, INC.

By: 
Name: Douglas Andrew Edwards
Title: Vice President - Finance,
Secretary and Treasurer

JERRY'S SPORTS, INC.

By: 
Name: Douglas Andrew Edwards
Title: Chief Financial Officer

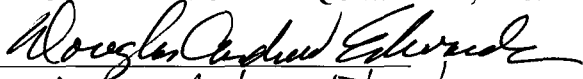
SIMMONS GUN SPECIALTIES, INC.

By: 
Name: Douglas Andrew Edwards
Title: Chief Financial Officer

BONITZ BROTHERS, INC.

By: 
Name: Douglas Andrew Edwards
Title: Chief Financial Officer

OUTDOOR SPORTS HEADQUARTERS, INC.

By: 

Name: Douglas Andrew Edwards

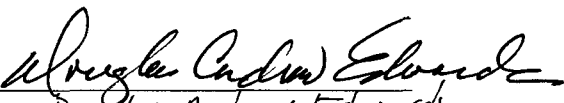
Title: Chief Financial Officer

GUARANTORS:

UNITED SPORTING COMPANIES, INC.

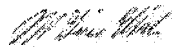
By: 
Name: Douglas Andrew Edwards
Title: Vice President - Finance,
Secretary and Treasurer

SPORTCO HOLDINGS, INC.

By: 
Name: Douglas Andrew Edwards
Title: Chief Financial Officer

AGENT:

PROSPECT CAPITAL CORPORATION

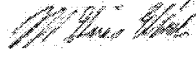
By:  _____

Name: M. Grier Eliasek

Title: President

LENDER:

PROSPECT CAPITAL CORPORATION

By: _____

Name: M. Grier Eliasek

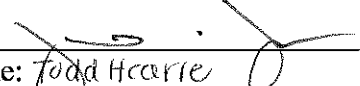
Title: President

LENDER:

SUMMIT PARTNERS CREDIT FUND, L.P.

By: Summit Partners Credit GP, L.P.
Its: General Partner

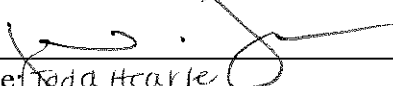
By: Summit Partners Credit GP, LLC
Its: General Partner

By: 
Name: Todd Harte
Title: Authorized Signatory

SUMMIT PARTNERS CREDIT FUND A-1, L.P.

By: Summit Partners Credit GP A-1, L.P.
Its: General Partner

By: Summit Partners Credit GP A-1, LLC
Its: General Partner

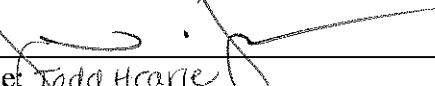
By: 
Name: Todd Harte
Title: Authorized Signatory

SUMMIT INVESTORS I, LLC

By: Summit Investors Management, LLC
Its: Manager

By: Summit Partners L.P.
Its: Manager

By: Summit Master Company LLC
Its: General Partner

By: 
Name: Todd Harte
Title: Authorized Signatory

LENDER:

SUMMIT INVESTORS I (UK), LLC

By: Summit Investors Management, LLC
Its: Manager

By: Summit Partners L.P.
Its: Manager

By: Summit Master Company LLC
Its: General Partner

By: 
Name: Todd Hearn
Title: Authorized Signatory

**SUMMIT PARTNERS CREDIT OFFSHORE
INTERMEDIATE FUND, L.P.**

By: Summit Partners Credit GP, L.P.
Its: General Partner

By: Summit Partners Credit GP, LLC
Its: General Partner

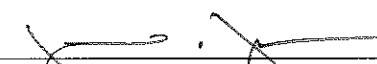
By: 
Name: Todd Hearn
Title: Authorized Signatory

Exhibit 4

SECOND AMENDMENT

This **SECOND AMENDMENT** (this "**Agreement**"), dated as of September 30, 2014, is made by and among Ellett Brothers, LLC, a South Carolina limited liability company ("**EB**"), Evans Sports, Inc., a South Carolina corporation ("**Evans**"), Jerry's Sports, Inc., a Delaware corporation ("**Jerry**"), Simmons Gun Specialties, Inc. a Delaware corporation ("**Simmons**"), Bonitz Brothers, Inc., a Delaware corporation ("**Bonitz**"), Outdoor Sports Headquarters, Inc., a Delaware Corporation ("**Outdoor**" and, together with EB, Evans, Jerry, Simmons and Bonitz, each a "**Borrower**" and collectively, the "**Borrowers**") each with its chief executive office and principal place of business at 267 Columbia Avenue, Chapin, South Carolina; the Lenders party hereto, and Prospect Capital Corporation, a Maryland corporation, in its capacity as collateral and administrative agent for the Lenders party thereto from time to time pursuant to Section 12 of the Loan Agreement (as defined below) (together with its successors in such capacity, "**Agent**"). Except as otherwise defined herein, capitalized terms used herein shall have the meanings ascribed to such terms in the Loan Agreement (as defined below).

WHEREAS, reference is made to that certain Second Lien Loan and Security Agreement, dated as of September 28, 2012 (as previously amended by that certain First Amendment and Limited Consent dated as of March 7, 2013 and as further amended, restated, supplemented or otherwise modified from time to time prior to the date hereof, the "**Existing Loan Agreement**" and as amended by this Agreement and as further amended, restated, supplemented or otherwise modified from time to time, the "**Loan Agreement**"), by and among the Borrowers, the Lenders party thereto from time to time and the Agent;

WHEREAS, the Borrowers have requested an amendment to and under the Existing Loan Agreement as more particularly described herein; and

WHEREAS, the Lenders are willing to consent to such request and have agreed to make such amendment to and under the Existing Loan Agreement as provided herein, in each case, subject to the terms and conditions set forth herein;

NOW, THEREFORE, in consideration of the foregoing premises, and other good and valuable consideration, the receipt, sufficiency and adequacy of which are hereby acknowledged, the parties hereto agree as follows:

1. **Amendments to Existing Loan Agreement.** Subject to and in accordance with the terms and conditions set forth herein, the Existing Loan Agreement is hereby amended as follows:

- (a) **Schedule 9.2.14** of the Existing Loan Agreement is hereby amended and restated in its entirety to read as set forth in **Exhibit A** hereto, which amendment shall be deemed to be retroactive to the Closing Date.
- (b) **Section 14.20** of the Existing Loan Agreement is hereby amended and restated in its entirety to read as follows:

"14.20 Governing Law; Jurisdiction; Dispute Resolution; Etc.

14.20.1 Governing Law. This Agreement shall be governed by, and construed in accordance with, the law of the State of New York and the validity, interpretation, construction, and performance hereof shall be governed by and construed and enforced in accordance with, and any claim by any party hereto against any other party hereto (including any claims sounding in contract or tort law arising out of the subject matter hereof and any determinations with respect to

post-judgment interest) shall be determined in accordance with, the internal laws of the State of New York for contracts made and to be performed wholly within the State of New York (excluding the laws applicable to conflicts or choice of law that would require the application of the law of any other jurisdiction).

14.20.2 Submission to Jurisdiction. Each Borrower irrevocably and unconditionally submits, for itself and its property, to the exclusive jurisdiction of the courts of the State of New York sitting in the Borough of Manhattan, New York, New York and of the United States District Court of the Southern District of New York, and any appellate court from any thereof, in any action or proceeding arising out of or relating to this Agreement or any other Loan Document, or for recognition or enforcement of any judgment, and each of the parties hereto irrevocably and unconditionally agrees that all claims in respect of any such action or proceeding may be heard and determined in such New York state court or, to the fullest extent permitted by Applicable Law, in such federal court. Each of the parties hereto agrees that a final judgment in any such action or proceeding shall be conclusive and may be enforced in other jurisdictions by suit on the judgment or in any other manner provided by law. Nothing in this Agreement or in any other Loan Document shall affect any right that the Agent or any Lender may otherwise have to bring any action or proceeding relating to this Agreement or any other Loan Document against any Borrower or its properties in the courts of any jurisdiction.

14.20.3 Waiver of Venue. Each Borrower irrevocably and unconditionally waives, to the fullest extent permitted by Applicable Law, any objection that it may now or hereafter have to the laying of venue of any action or proceeding arising out of or relating to this Agreement or any other Loan Document in any court referred to in Subsection 14.20.2. Each of the parties hereto hereby irrevocably waives, to the fullest extent permitted by Applicable Law, the defense of an inconvenient forum to the maintenance of such action or proceeding in any such court. Each Borrower irrevocably waives, to the fullest extent permitted by Applicable Law, any right to bring any action or proceeding against (a) the Agent in any court outside the Borough of Manhattan, New York, New York, or (b) any other Lender other than a state within the United States designated by such Lender.

14.20.4 Service of Process. Each party hereto irrevocably consents to service of process in the manner provided for notices in Section 14.9. Nothing in this Agreement will affect the right of any party hereto to serve process in any other manner permitted by Applicable Law.

14.20.5 No provision of, nor the exercise of any rights under, Section 14.20.2 or Section 14.20.3 above shall limit the right of the Agent or any Lender (i) to foreclose against any real or personal property collateral through judicial foreclosure, by the exercise of a power of sale under a deed of trust, mortgage or other security agreement or instrument, pursuant to applicable provisions of the UCC, or otherwise pursuant to Applicable Law, (ii) to exercise self-help remedies including but not limited to set-off and repossession, or (ii) to request and obtain from a court having jurisdiction before, during or after the pendency of any arbitration provisional or ancillary remedies and relief including but not limited to injunctive or mandatory relief or the appointment of a receiver. The institution and maintenance of an action or judicial proceeding for, or pursuit of, provisional or ancillary remedies or exercise of self-help remedies shall not constitute a waiver of any rights of the Agent, even if the Agent would otherwise have such right."

2. Effectiveness. The effectiveness of Section 1 of this Agreement is subject to satisfaction of the following: (a) the Agent and the Lenders shall have received a duly executed counterpart hereof from each of the Borrowers dated as of the date hereof and (b) to the extent documented and invoiced, the

Agent and the Lenders shall have received payment of all fees and expenses (including any fees and expenses of counsel to the Agent) due and owing to the Agent and the Lenders as of the date hereof in accordance with the Loan Agreement.

3. Representations and Warranties. Each of the Borrowers represents and warrants to each Lender and the Agent that, as of the date of this Agreement: (a) after giving effect to the amendments set forth in Section 1, no Default or Event of Default has occurred and is continuing under the Loan Agreement or any of the other Loan Documents; and (b) each of the Borrowers has the power and authority and has taken all necessary action to authorize the execution, delivery and performance of this Agreement.

4. Acknowledgement of Obligations. The Borrowers and the Guarantors hereby acknowledge, confirm and agree that the aggregate outstanding principal amount of the Credit Party Obligations is \$230,000,000.00 as of the date hereof.

5. Consent and Reaffirmation. Each Obligor hereby consents to the amendments of the Existing Loan Agreement effected hereby and confirms and agrees that, notwithstanding the effectiveness of this Agreement, each Loan Document to which such Obligor is a party is, and the obligations of such Obligor contained in the Loan Agreement, this Agreement or in any other Loan Document to which it is a party are, and shall continue to be, in full force and effect and are hereby ratified and confirmed in all respects, in each case as amended by this Agreement. For greater certainty and without limiting the foregoing, each Obligor hereby confirms that the existing security interests granted by such Obligor in favor of the Secured Parties pursuant to the Loan Documents in the Collateral described therein shall continue to secure the obligations of the Obligors under the Loan Agreement and the other Loan Documents as and to the extent provided in the Loan Documents.

6. Counterparts; Severability; Integration; Successors and Assigns. This Agreement may be executed by one or more of the parties to this Agreement on any number of separate counterparts, including facsimiles and all of said counterparts taken together shall be deemed to constitute one and the same instrument. Any provision of this Agreement which is prohibited or unenforceable in any jurisdiction shall, as to such jurisdiction, be ineffective to the extent of such prohibition or unenforceability without invalidating the remaining provisions hereof, and any such prohibition or unenforceability in any jurisdiction shall not invalidate or render unenforceable such provision in any other jurisdiction. This Agreement represents the agreement of the Borrowers, the Agent and the Lenders with respect to the subject matter hereof, and there are no promises, undertakings, representations or warranties by the Borrowers, the Agent or any Lender relative to the subject matter hereof not expressly set forth or referred to herein or in the other Loan Documents. This Agreement shall be binding upon and inure to the benefit of the successors and permitted assigns of the parties hereto.

7. Governing Law; Consent to Jurisdiction; WAIVER OF JURY TRIAL. This Agreement and the rights and obligations of the parties hereunder shall be governed by, and construed and interpreted in accordance with, the law of the State of New York. Sections 14.20 and 14.21 of the Loan Agreement, as amended hereby, are hereby incorporated by reference as if fully stated herein, *mutatis mutandis*. THE BORROWERS, THE AGENT AND THE LENDERS HEREBY IRREVOCABLY AND UNCONDITIONALLY WAIVE, TO THE EXTENT PERMITTED BY APPLICABLE LAW, TRIAL BY JURY IN ANY LEGAL ACTION OR PROCEEDING RELATING TO THIS AGREEMENT OR ANY OTHER LOAN DOCUMENT AND FOR ANY COUNTERCLAIM THEREIN.

8. Loan Document. This Agreement shall be deemed to be a Loan Document.

9. No Other Modification. The amendments set forth in Section 1 hereof shall not constitute or be deemed to constitute an amendment, waiver or modification of, or consent to any deviation from, the terms and conditions of the Existing Loan Agreement, except as expressly set forth herein. Except as expressly set forth herein, the Existing Loan Agreement and each other Loan Document shall remain in full force and effect and is hereby confirmed and ratified in all respects, including with respect to any security interest or Lien granted to the Agent pursuant to the terms of the Loan Documents. Each Guarantor acknowledges and agrees that (a) notwithstanding the conditions to effectiveness set forth in this Agreement, the consent of such Guarantor to the amendments to the Existing Loan Agreement effected pursuant to this Agreement is not required for such effectiveness by the terms of the Loan Agreement or any other Loan Document, and (b) nothing in the Loan Agreement, this Agreement or any other Loan Document shall be deemed to require the consent of such Guarantor as a condition to the effectiveness to any future waivers, consents or amendments to the Existing Loan Agreement.

10. No Waiver; Cumulative Remedies. No failure to exercise and no delay in exercising, on the part of the Agent or any Lender, any right, remedy, power or privilege hereunder shall operate as a waiver thereof; nor shall any single or partial exercise of any right, remedy, power or privilege hereunder preclude any other or further exercise thereof or the exercise of any other right, remedy, power or privilege. The rights, remedies, powers and privileges provided in the Loan Documents are cumulative and not exclusive of any rights, remedies, powers and privileges provided by law.

11. Fees and Expenses. The Credit Parties agree and acknowledge that all fees and expenses as described in Section 2.4 of the Loan Agreement incurred by the Agent and the Lenders, including, without limitation, those related to the preparation, arrangement, negotiation, documentation and administration of the transactions contemplated by this Agreement shall be for the account of the Borrowers.

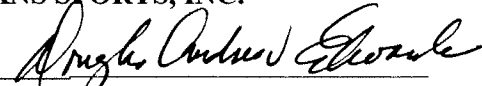
12. Release. To the extent that any offsets, defenses or claims may exist arising out of or relating to this Agreement or any Loan Document against the Agent or any Lender or any of their respective subsidiaries, affiliates, officers, directors, employees, agents, attorneys, predecessors, successors or assigns whether asserted or unasserted, by execution of this Agreement, each Borrower, for itself and its successors, assigns, parents, subsidiaries, affiliates, predecessors, employees, agents, heirs and executors, as applicable (collectively, the "Releasors"), jointly and severally with each other Borrower, releases, remises, acquits and forever discharges the Agent and each Lender and each of their respective subsidiaries, affiliates, officers, directors, employees, agents, attorneys, predecessors, successors and assigns, both present and former (collectively, the "Released Parties") of and from any and all manner of actions, causes of action, torts, suits, debts, controversies, damages, judgments, executions, claims and demands whatsoever, asserted or unasserted, in law or in equity, that exist or have occurred on or prior to the date of this Agreement, arising out of or relating to this Agreement or any Loan Document which the Releasors ever had or now have against any of the Released Parties, including any presently existing claim whether or not presently suspected, contemplated or anticipated.

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IN WITNESS WHEREOF, this Agreement has been duly executed on the day and year specified at the beginning of this Agreement.

BORROWERS:

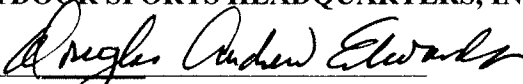
**ELLETT BROTHERS, LLC
EVANS SPORTS, INC.**

By 

Name: Douglas Andrew Edwards

Title: Vice President, Chief Financial Officer and
Treasurer

**JERRY'S SPORTS, INC.
SIMMONS GUN SPECIALTIES, INC.
BONITZ BROTHERS, INC.
OUTDOOR SPORTS HEADQUARTERS, INC.**

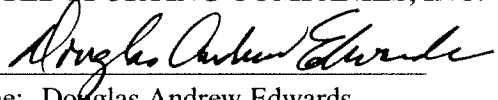
By 

Name: Douglas Andrew Edwards

Title: Vice President, Chief Financial Officer and
Treasurer

GUARANTORS:

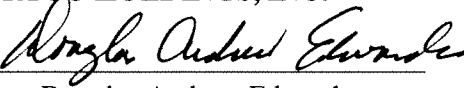
UNITED SPORTING COMPANIES, INC.

By 

Name: Douglas Andrew Edwards

Title: Vice President, Chief Financial Officer
and Treasurer

SPORTCO HOLDINGS, INC.

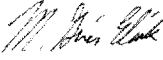
By 

Name: Douglas Andrew Edwards

Title: Chief Financial Officer

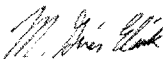
AGENT:

PROSPECT CAPITAL CORPORATION

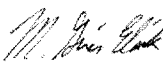
By 
Name: Grier Eliasek
Title: President and Chief Operating Officer

LENDER:

PROSPECT CAPITAL CORPORATION

By 
Name: Grier Eliasek
Title: President and Chief Operating Officer

PROSPECT CAPITAL FUNDING LLC

By 
Name: Grier Eliasek
Title: Vice President

LENDER:

SUMMIT PARTNERS CREDIT FUND, L.P.

By: Summit Partners Credit GP, L.P.

Its: General Partner

By

Name: Todd Hearle

Title: Authorized Signatory

SUMMIT PARTNERS CREDIT FUND A-1, L.P.

By: Summit Partners Credit GP A-1 , L.P.

Its: General Partner

By

Name: Todd Hearle

Title: Authorized Signatory

SUMMIT INVESTORS I, LLC

By: Summit Investors Management, LLC

Its: Manager

By

Name: Todd Hearle

Title: Authorized Signatory

LENDER:

SUMMIT INVESTORS I (UK), L.P.

By: Summit Investors Management, LLC

Its: General Partner

By

Name: Todd Hearle

Title: Authorized Signatory

**SUMMIT PARTNERS CREDIT OFFSHORE
INTERMEDIATE FUND, L.P.**

By: Summit Partners Credit GP, L.P.

Its: General Partner

By

Name: Todd Hearle

Title: Authorized Signatory

SCHEDULE 9.2.14

PERMITTED LEASES

1. Lease Agreement dated as of December 4, 2002, by and between KZK Associates, LLC and Bonitz Brothers, Inc. (Bonitz Brothers Lease - 931 Dana Drive, Harrisburg, PA 17109).
2. Lease Agreement dated as of July 11, 1996, by and between ECAL Associates, L.P. and Outdoor Sports, Inc. (Outdoor Sports Headquarters Lease - 967 Water Tower Lane, Dayton, Ohio 45449).
3. Lease Agreement dated as of November 15, 2004, as amended by a certain Addendum to Lease, dated March 15, 2005, as further amended by a certain Addendum to Lease, dated Dec. 14, 2007, by and between KZK Associates, LLC and Jerry's Sports, Inc. (Jerry's Sports Lease - 121 Main Street, Vandling, PA 18421).
4. Lease Agreement dated November 1, 2009 by and between Simmons Gun Specialties, Inc. (KS) and Simmons Gun Specialties, Inc. (DE.) for Real Estate and Improvements at 20241 West 207 Street, Spring Hill, KS 66063.
5. Lease Agreement dated November 1, 2009 by and between Jerry's Sports, Inc. (PA.) and Jerry's Sports, Inc. (DE.) for Real Estate and Improvements at 76 Stanwell Road, Newington, CT 06111.
6. Lease Agreement dated November 1, 2009 by and between Jerry's Sports, Inc. (PA.) and Jerry's Sports, Inc. (DE.) for Real Estate and Improvements at Route 247, Montdale, PA 18447.
7. Lease Agreement dated January 21, 2011, by and between Mericle 100 Capital, LLC (PA) and United Sporting Companies (DE) for real estate and improvements at 100 Capital Road, CenterPoint Commerce & Trade Park East, Jenkins Township, Luzerne County, PA.
8. Fulfillment Services Agreement dated December 29, 2010 and amended August 22, 2013, by and between Innotrac Corporation (GA) and United Sporting Companies (DE) for fulfillment services including dedicated space and warehouse storage at 4910 Longley Lane, Suites 101 (administrative office) and 102 (warehouse), Reno, NV.

Exhibit 5

Use these links to rapidly review the document

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**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

FORM 10-K

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

For the fiscal year ended June 30, 2013

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

Commission File Number: 814-00659

PROSPECT CAPITAL CORPORATION

(Exact name of registrant as specified in its charter)

Maryland
(State or other jurisdiction of
incorporation or organization)

43-2048643
(I.R.S. Employer
Identification No.)

10 East 40th Street
New York, New York
(Address of principal executive
offices)

10016
(Zip Code)

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

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

<u>(Title of each class)</u>	<u>(Name of each exchange where registered)</u>
Common Stock, par value \$0.001 per share	NASDAQ Global Select Market
6.95% Senior Notes due 2022	New York Stock Exchange

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

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

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

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

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act:

Large accelerated filer ☒

Accelerated filer ☐

Non-accelerated filer ☐

Smaller reporting company ☐

(Do not check if a
smaller reporting company)

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

The aggregate market value of common stock held by non-affiliates of the Registrant on December 31, 2012 based on the closing price on that date of \$10.87 on the NASDAQ Global Select Market was \$2.303 billion. For the purposes of calculating this amount only, all directors and executive officers of the Registrant have been treated as affiliates.

As of August 21, 2013, there were 259,683,651 shares of the registrant's common stock outstanding.

Documents Incorporated by Reference

Portions of the Registrant's definitive Proxy Statement relating to the 2013 Annual Meeting of Stockholders, to be filed with the Securities and Exchange Commission, are incorporated by reference in Part III of this Annual Report on Form 10-K to the extent described therein.

PROSPECT CAPITAL CORPORATION
FORM 10-K FOR THE YEAR ENDED JUNE 30, 2013

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PART I

The terms "we," "us," "our," "Company" and "Prospect Capital" refer to Prospect Capital Corporation; "Prospect Capital Management" or the "Investment Adviser" refers to Prospect Capital Management LLC; "Prospect Administration" or the "Administrator" refers to Prospect Administration LLC.

Our \$150.0 million of 6.25% Convertible Senior Notes due 2015 are referred to as the 2015 Notes. Our \$167.5 million of 5.5% Convertible Senior Notes due 2016 are referred to as the 2016 Notes. Our \$130.0 million of 5.375% Convertible Senior Notes due 2017 are referred to as the 2017 Notes. Our \$200.0 million of 5.75% Convertible Senior Notes due 2018 are referred to as the 2018 Notes. Our \$200.0 million of 5.875% Convertible Senior Notes due 2019 are referred to as the 2019 Notes, and collectively with the 2015 Notes, 2016 Notes, 2017 Notes and the 2018 Notes, the Senior Convertible Notes. Our \$100.0 million of 6.95% Senior Notes due 2022 are referred to as the 2022 Notes. Our \$250.0 million of 5.875% Senior Notes due 2023 are referred to as the 2023 Notes. Any Prospect Capital InterNotes® issued pursuant to our medium term notes program are referred to as the Prospect Capital InterNotes, and together with our Senior Convertible Notes, the 2022 Notes and 2023 Notes are referred to as Senior Notes.

Item 1. Business.

General

We are a financial services company that primarily lends to and invests in middle market privately-held companies. We are a closed-end investment company 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 and recapitalization. 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 seven 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, and (7) investments in syndicated debt. 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 mezzanine 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. This strategy has represented approximately 50%-60% 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. This strategy generally has comprised approximately 10%-15% 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

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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, subprime 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 10%-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 represented 10%-20% of the portfolio.

Real Estate Investments—We make investments in real estate through our wholly-owned tax-efficient real estate investment trust ("REIT"), American Property Holdings Corp. 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. We 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 represented less than 5% of our business.

Investments in Syndicated Debt—On an opportunistic basis, we make investments in loans and high yield bonds that have been sold to a syndicate of buyers. Here we look for investments with attractive risk-adjusted returns after we have completed a fundamental credit analysis. These investments are purchased with a long term, buy-and-hold outlook and we look to provide significant structuring input by providing anchoring orders. This strategy has represented approximately 5%-10% of the portfolio.

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

We seek to maximize total returns to our investors, including both current yield and equity upside, by applying rigorous credit analysis and asset-based and cash-flow based lending techniques to make and monitor our investments. We are currently 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 seek to be a long-term investor with our portfolio companies. From our July 27, 2004 inception to the fiscal year ended June 30, 2007, we invested primarily in industries related to the industrial/energy economy. Since then, we have widened our strategy to focus in other sectors of the economy

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and continue to reduce our exposure to the energy industry, and our holdings in the energy and energy related industries now represent less than 7% of our investment portfolio.

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, 44th Floor, New York, NY 10016, and our telephone number is (212) 448-0702. Our investment adviser is Prospect Capital Management LLC.

Our Investment Objective and Policies

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

We invest primarily in first and second lien senior loans and mezzanine debt. First and second lien senior loans generally are senior debt instruments that rank ahead of subordinated debt of a given portfolio company. These loans also have the benefit of security interests on the assets of the portfolio company, which may rank ahead of or be junior to other security interests. Mezzanine debt and our investments in CLOs are subordinated to senior loans and are generally unsecured. Our investments have generally ranged between \$5 million and \$250 million each, although the investment size may be more or less than this range. Our investment sizes are expected to grow as our capital base expands.

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

We seek to maximize returns and minimize risk for our investors by applying rigorous analysis to make and monitor our investments. While the structure of our investments varies, we can invest in senior secured debt, senior unsecured debt, subordinated secured debt, subordinated unsecured debt, mezzanine debt, convertible debt, convertible preferred equity, preferred equity, common equity, warrants and other instruments, many of which generate current yield. While our primary focus is to seek current income through investment in the debt and/or dividend-paying equity securities of eligible privately-held, thinly-traded or distressed companies and long-term capital appreciation by acquiring accompanying warrants, options or other equity securities of such companies, we may invest up to 30% of the portfolio in opportunistic investments in order to seek enhanced returns for stockholders. Such investments may include investments in the debt and equity instruments of broadly-traded public companies. We expect that these public companies generally will have debt securities that are non-investment grade. Such investments may also include purchases (either in the primary or secondary markets) of the equity and junior debt tranches of a type of such pools known as CLOs. Structurally, CLOs are entities that are formed to hold a portfolio of senior secured loans ("Senior Secured Loans") made to companies whose debt is rated below investment grade or, in limited circumstances, unrated. 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

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from this equity interest. We have structured, and will continue to structure, some warrants to include provisions protecting our rights as a minority-interest or, if applicable, controlling-interest holder, as well as puts, or rights to sell such securities back to the company, upon the occurrence of specified events. In many cases, we obtain registration rights in connection with these equity interests, which may include demand and "piggyback" registration rights.

We plan to hold many of our investments to maturity or repayment, but will sell an 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 investment to be in our best interest.

We have qualified and elected to be treated for U.S. Federal income tax purposes as a Registered Investment Company ("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

While our original investments were concentrated in industrial and energy related companies, we continue to widen our focus in other sectors of the economy to diversify our portfolio holdings. Our portfolio is now well diversified into 36 industry categories with no individual industry comprising more than 14.6% 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;
- 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 assets, we follow the guidance of Accounting Standards Codification ("ASC") 820 that defines fair value, establishes a framework for measuring fair value in conformity with accounting

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principles generally accepted in the United States or America, or GAAP, and requires disclosures about fair value measurements.

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 the Company at the measurement date.

Level 2: Quoted prices for similar assets or liabilities in active markets, or quoted prices for identical for 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.

ASC 820 applies to fair value measurements already required or permitted by other standards.

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.

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 an independent valuation firm engaged by our Board of Directors;
- 2) the independent valuation firms conduct independent appraisals and make their own independent assessment;
- 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 shadow bond approach, a market approach, an income approach, a liquidation approach, or a combination of approaches, as appropriate. The shadow bond and market approaches use prices and other relevant information generated by market transactions involving identical or comparable assets or liabilities (including a business). The income approach uses valuation techniques to convert future amounts (for example, cash flows or earnings) to a single present value amount (discounted) calculated based on an appropriate discount rate. The measurement is based on the net present value indicated by current market expectations about those future amounts. In following these approaches, the types of factors that we may take into account in fair value pricing our investments include, as relevant: available current market data, including relevant and applicable

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market trading and transaction comparables, applicable market yields and multiples, security covenants, call protection provisions, information rights, the nature and realizable value of any collateral, the portfolio company's ability to make payments, its earnings and discounted cash flows, the markets in which the portfolio company does business, comparisons of financial ratios of peer companies that are public, M&A comparables, 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 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 security, the most appropriate valuation approach has been chosen from alternative approaches to ensure the most accurate valuation for each security. To value a CLO, both the assets and liabilities of the CLO capital structure need be modeled. We use a waterfall engine to store the collateral data, generate collateral cash flows from the assets, and distributes the cash flow to the liability structure based on the payment priorities, and discount them back using proper discount rates that incorporate all the risk factors. 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."

Valuation of Other Financial Assets and Financial Liabilities

ASC Subtopic 820-10-05-1, *The Fair Value Option for Financial Assets and Financial Liabilities*, ("ASC 820-10-05-1") permits an entity to elect fair value as the initial and subsequent measurement attribute for many assets and liabilities for which the fair value option has been elected and similar assets and liabilities measured using another measurement attribute. We have elected not to value some assets and liabilities at fair value as would be permitted by ASC 820-10-05-1.

Managerial Assistance

As a business development company, we offer, and must provide upon request, managerial assistance to certain of our portfolio companies. This assistance could involve, among other things, monitoring the operations of our portfolio companies, participating in board and management meetings, consulting with and advising officers of portfolio companies and providing other organizational and financial guidance. Prospect Administration provides such managerial assistance on our behalf to portfolio companies when we are required to provide this assistance. We are also deemed to be providing managerial assistance to all portfolio companies that we control, either by ourselves or in conjunction with others.

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 Adviser 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 the Company's behalf. The principal executive offices of Prospect Capital Management are 10 East 40th Street, 44th 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

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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, we pay Prospect Capital Management investment advisory fees, which consist of an annual base management fee based on our gross assets as well as a two-part incentive fee based on our performance. Mr. Barry currently controls Prospect Capital Management.

Investment Advisory Agreement

Terms

We have entered into an investment advisory and management agreement (the "Investment Advisory Agreement") with Prospect Capital Management, under which the Investment Adviser, subject to the overall supervision of our Board of Directors, manages our day-to-day operations and provides us with investment advisory services. 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.

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 2.00% 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. 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, 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).

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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 with 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 with a 7.00% annualized hurdle rate).

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

The second part of the incentive fee, the capital gains incentive fee, is determined and payable in arrears as of the end of each calendar year (or upon termination of the Investment Advisory Agreement, as of the termination date), and equals 20.00% of our realized capital gains for the calendar year, if any, computed net of all realized capital losses and unrealized capital depreciation at the end of such year. In determining the capital gains incentive fee payable to the Investment Adviser, we calculate the aggregate realized capital gains, aggregate realized capital losses and aggregate unrealized capital depreciation, as applicable, with respect to each investment that has been in our portfolio. For the purpose of this calculation, an "investment" is defined as the total of all rights and claims which may be asserted against a portfolio company arising 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 of. 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 of. 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.

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Examples of Quarterly Incentive Fee Calculation

Example 1: Income Incentive Fee(*):

Alternative 1

Assumptions

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

Hurdle rate(1) = 1.75%

Base management fee(2) = 0.50%

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

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

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

Alternative 2

Assumptions

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

Hurdle rate(1) = 1.75%

Base management fee(2) = 0.50%

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

Pre-incentive fee net investment income (investment income - (base management fee + other expenses)) = 2.00%

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

Income incentive Fee = 100% × "Catch Up" + the greater of 0% AND (20% × (pre-incentive fee net investment income - 2.1875%))

= (100% × (2.00% - 1.75%)) + 0%

= 100% × 0.25% + 0%

= 0.25%

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Alternative 3

Assumptions

Investment income (including interest, dividends, fees, etc.) = 3.00%

Hurdle rate(1) = 1.75%

Base management fee(2) = 0.50%

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

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

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

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

$= (100\% \times (2.1875\% - 1.75\%)) + \text{the greater of } 0\% \text{ AND } (20\% \times (2.30\% - 2.1875\%))$

$= (100\% \times 0.4375\%) + (20\% \times 0.1125\%)$

$= 0.4375\% + 0.0225\%$

$= 0.46\%$

- (1) Represents 7% annualized hurdle rate.
- (2) Represents 2% annualized base management fee.
- (3) Excludes organizational and offering expenses.
- (*) The hypothetical amount of pre-incentive fee net investment income shown is based on a percentage of total net assets.

Example 2: Capital Gains Incentive Fee:

Alternative 1

Assumptions

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

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

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

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Alternative 2

Assumptions

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

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

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

Alternative 3

Assumptions

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

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

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

Alternative 4

Assumptions

- Year 1: \$20 million investment made in company A ("Investment A"), and \$20 million investment made in company B ("Investment B")

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- Year 2: FMV of Investment A is determined to be \$21 million, and FMV of Investment B is determined to be \$17 million
- Year 3: FMV of Investment A is determined to be \$18 million, and FMV of Investment B is determined to be \$18 million
- Year 4: FMV of Investment A is determined to be \$19 million, and FMV of Investment B is determined to be \$21 million
- Year 5: Investment A is sold for \$17 million, and Investment B is sold for \$23 million

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

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

Duration and Termination

The Investment Advisory Agreement was originally approved by our Board of Directors on June 23, 2004 and was recently re-approved by the Board of Directors on May 3, 2013 for an additional one-year term expiring June 22, 2014. Unless terminated earlier as described below, it will remain in effect from year to year thereafter if approved annually by our Board of Directors or by the affirmative vote of the holders of a majority of our outstanding voting securities, including, in either case, approval by a majority of our directors who are not interested persons. The Investment Advisory Agreement will automatically terminate in the event of its assignment. The Investment Advisory Agreement may be terminated by either party without penalty upon not more than 60 days' written notice to the other. See "Risk factors—Risks relating to our business—We are dependent upon Prospect Capital Management's key management personnel for our future success."

Indemnification

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

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Administration Agreement

We have also entered into an administration agreement (the "Administration Agreement") with Prospect Administration under which Prospect Administration, among other things, provides (or arranges for the provision of) administrative services and facilities for us. For providing these services, we reimburse Prospect Administration for our allocable portion of overhead incurred by Prospect Administration in performing its obligations under the Administration Agreement, including rent and our allocable portion of the costs of Brian H. Oswald, our chief financial officer and chief compliance officer, and his staff, including the internal legal staff. Under this agreement, Prospect Administration furnishes us with office facilities, equipment and clerical, bookkeeping and record keeping services at such facilities. Prospect Administration also performs, or oversees the performance of, our required administrative services, which include, among other things, being responsible for the financial records that we are required to maintain and preparing reports to our stockholders and reports filed with the Securities and Exchange Commission, or 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. The Administration Agreement may be terminated by either party without penalty upon 60 days' written notice to the other party. Prospect Administration is a wholly owned subsidiary of the Investment Adviser.

We reimbursed Prospect Administration \$8.7 million, \$6.8 million and \$4.9 million for the twelve months ended June 30, 2013, June 30, 2012 and June 30, 2011, respectively, for services it provided to the Company at cost.

Payment of Our Expenses

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

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License Agreement

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

Determination of Net Asset Value

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

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

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

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

As part of the fair valuation process, the independent valuation firm engaged by the Board of Directors performs a review of each debt and equity investment requiring fair valuation and provides 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 firm may adjust their preliminary evaluations to reflect comments provided by our Audit Committee. The Audit Committee reviews the final valuation report and management's valuation recommendations and makes a recommendation to the Board of Directors based on its analysis of the methodologies employed and

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the various weights that should be accorded to each portion of the valuation as well as factors that the independent valuation firm 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.

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 our 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 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.

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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.

Participants may terminate their accounts under the plan by notifying the plan administrator via its website at 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 assumes that investors hold our common stock as capital assets (within the meaning of the Code). The discussion is based upon the Code, Treasury regulations, and administrative and judicial interpretations, each as of the date of this report and all of which are subject to change, possibly retroactively, which could affect the continuing validity of this discussion. This summary does not discuss any aspects of U.S. estate or gift tax or foreign, state or local tax. It does not discuss the special treatment under U.S. Federal income tax laws that could result if we invested in tax-exempt securities or certain other investment assets.

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

- a citizen or individual resident of the United States;

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

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

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

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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," or the Diversification Tests.

To the extent that we invest in entities treated as partnerships for U.S. Federal income tax purposes (other than a "qualified publicly traded partnership"), we generally must include the items of gross income derived by the partnerships for purposes of the 90% Income Test, and the income that is derived from a partnership (other than a "qualified publicly traded partnership") will be treated as qualifying income for purposes of the 90% Income Test only to the extent that such income is attributable to items of income of the partnership which would be qualifying income if realized by us directly. In addition, we generally must take into account our proportionate share of the assets held by partnerships (other than a "qualified publicly traded partnership") in which we are a partner for purposes of the diversification tests. If the partnership is a "qualified publicly traded partnership," the net income derived from such partnership will be qualifying income for purposes of the 90% Income Test, and interests in the partnership will be "securities" for purposes of the diversification tests. We 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 capital gains in excess of net short-term capital losses) we timely distribute to stockholders. We will be subject to U.S. Federal income tax at the regular corporate rates on any income or capital gain not distributed (or deemed distributed) to our stockholders.

We will be subject to a 4% non-deductible U.S. Federal excise tax on certain undistributed income of RICs unless we distribute in a timely manner an amount at least equal to the sum of (1) 98.2% of our ordinary income for each calendar year, (2) 98% of our capital gain net income for the one-year period ending October 31 in that calendar year and (3) any income realized, but not distributed, in preceding years.

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

Gain or loss realized by us from warrants acquired by us as well as any loss attributable to the lapse of such warrants generally will be treated as capital gain or loss. Such gain or loss generally will be long-term or short-term, depending on how long we held a particular warrant. As a RIC, we are not

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allowed to carry forward or carry back a net operating loss for purposes of computing our investment company taxable income in other taxable years.

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

If we fail to satisfy the Annual Distribution Requirement or otherwise fail to qualify as a RIC in any taxable year, we would be subject to tax on all of our taxable income at regular corporate rates. We would not be able to deduct distributions to stockholders, nor would we be required to make distributions. Distributions would generally be taxable to our individual and other non-corporate taxable stockholders as ordinary dividend income eligible for the reduced maximum rate applicable to qualified dividend income to the extent of our current and accumulated earnings and profits, provided certain holding period and other requirements are met. Subject to certain limitations under the Code, corporate distributees would be eligible for the dividends-received deduction. To qualify again to be taxed as a RIC in a subsequent year, we would be required to distribute to our shareholders our accumulated earnings and profits attributable to non-RIC years 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.

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

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taxable as ordinary income to U.S. Stockholders to the extent of our current or accumulated earnings and profits, whether paid in cash or reinvested in additional common stock. Provided that certain holding period and other requirements are met, such distributions (if 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 his, her or its proportionate share of the deemed distribution in income as if it had been actually distributed to the U.S. Stockholder, and the U.S. Stockholder will be entitled to claim a credit equal to its allocable share of the tax paid thereon by us. The amount of the deemed distribution net of such tax will be added to the U.S. Stockholder's tax basis for his, her or its common stock. 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 a stockholder's liability for U.S. Federal income tax. A stockholder that is not subject to U.S. Federal income tax or otherwise required to file a U.S. Federal income tax return would be required to file a U.S. Federal income tax return on the appropriate form in order to claim a refund for the taxes we paid. In order to utilize the deemed distribution approach, we must provide written notice to our stockholders prior to the expiration of 60 days after the close of the relevant taxable year. We cannot treat any of our investment company taxable income as a "deemed distribution."

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

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

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A U.S. Stockholder generally will recognize taxable gain or loss if such U.S. Stockholder sells or otherwise disposes of its shares of our common stock. Any gain or loss arising from such sale or taxable disposition generally will be treated as long-term capital gain or loss if the U.S. Stockholder has held his, her or its shares for more than one year. Otherwise, it would be classified as short-term capital gain or loss. However, any capital loss arising from the sale or taxable disposition of shares of our common stock held for six months or less will be treated as long-term capital loss to the extent of the amount of capital gain dividends received, or undistributed capital gain deemed received, with respect to such shares. In addition, all or a portion of any loss recognized upon a taxable disposition of shares of our common stock may be disallowed if other substantially identical shares are purchased (whether through reinvestment of distributions or otherwise) within 30 days before or after the disposition. Capital losses are deductible only to the extent of capital gains (subject to an exception for individuals under which a limited amount of capital losses may be offset against ordinary income).

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

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

We will send to each of our U.S. Stockholders, as promptly as possible after the end of each calendar year, a notice detailing, on a per share basis, the amounts includible in such U.S. Stockholder's taxable income for such year as ordinary income and as long-term capital gain. 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.

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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 or substitute Form). In the case of shares held through an intermediary, the intermediary may withhold even if we report the payment as qualified net interest income or qualified short-term capital gain. Non-U.S. Stockholders should contact their intermediaries with respect to the application of these rules to their accounts. There can be no assurance as to what portion of our distributions will qualify for favorable treatment as qualified net interest income or qualified short-term capital gains.

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

Distributions of our "investment company taxable income" and net capital gain (including deemed distributions) to Non-U.S. Stockholders, and gains realized by Non-U.S. Stockholders upon the sale of our common stock that are effectively connected with a U.S. trade or business conducted by the Non-U.S. Stockholder, will be subject to U.S. Federal income tax at the graduated rates applicable to U.S. citizens, residents and domestic corporations. In addition, if such Non-U.S. Stockholder is a foreign corporation, it may also be subject to a 30% (or lower applicable treaty rate) branch profits tax on its effectively connected earnings and profits for the taxable year, subject to adjustments, if its investment in our common stock is effectively connected with its conduct of a U.S. trade or business.

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

In addition, after June 30, 2014, withholding at a rate of 30% will be 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. An intergovernmental agreement between the

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United States and an applicable foreign country, or future Treasury regulations or other guidance, may modify these requirements. 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 to us that such entity does not have any "substantial United States owners" or (ii) provides certain information regarding the entity's "substantial United States owners," which we will in turn provide to the Internal Revenue Service. 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. Holder 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. Holder the amount of any dividends or constructive dividends treated as paid to such Non-U.S. Holder, 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. Holder 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. Holder's U.S. Federal income tax liability, if any, provided that certain required information is provided timely to the IRS.

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

Failure to Obtain RIC Tax Treatment

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

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

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

Regulation as a Business Development Company

General

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

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We may invest up to 100% of our assets in securities acquired directly from issuers in privately negotiated transactions. With respect to such securities, we may, for the purpose of public resale, be deemed an "underwriter" as that term is defined in the Securities Act of 1933 (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 registered investment company, invest more than 5% of the value of our total assets in the securities of one investment company or invest more than 10% of the value of our total assets in the securities of more than one investment company. With regard to that portion of our portfolio invested in securities issued by investment companies, it should be noted that such investments subject our stockholders indirectly to additional expenses. None of these policies are fundamental and may be changed without stockholder approval.

Qualifying Assets

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

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

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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 means, among other things, exercising control, either on its own or together with others, over a portfolio company, or any arrangement whereby the business development company, through its directors, officers or employees, offers to provide, and, if accepted, does so provide, significant guidance and counsel concerning the management, operations or business objectives and policies of a portfolio company.

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

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

Senior Securities

We are permitted, under specified conditions, to issue multiple classes of indebtedness and one class of stock senior to our common stock if our asset coverage, as defined in the 1940 Act, is at least equal to 200% immediately after each such issuance. 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."

Compliance Policies and Procedures

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

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

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

Appointment of auditors. 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.

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

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

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

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

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

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

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

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

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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, 44th 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.

Available Information

We file with or submit to the SEC annual, quarterly and current periodic reports, proxy statements and other information meeting the informational requirements of the Securities Exchange Act of 1934, or the Exchange Act. This information is available free of charge by contacting us at 10 East 40th Street, 44th floor, New York, NY 10016 or by telephone at (212) 448-0702. You may inspect and copy these reports, proxy statements and other information, as well as the registration statement and related exhibits and schedules, at the Public Reference Room of the SEC at 100 F Street NE, Washington, D.C. 20549. You may obtain information on the operation of the Public Reference Room by calling the SEC at (202) 551-8090. The SEC maintains an Internet site that contains reports, proxy and information statements and other information filed electronically by us with the SEC which are available on the SEC's Internet site at <http://www.sec.gov>. Copies of these reports, proxy and information statements and other information may be obtained, after paying a duplicating fee, by electronic request at the following E-mail address: publicinfo@sec.gov, or by writing the SEC's Public Reference Section, Washington, D.C. 20549-0102.

Item 1A. Risk Factors.

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

Forward Looking Information

Our annual report on Form 10-K for the year ended June 30, 2013, 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 may contain forward looking statements within the meaning of the Section 21E of the Securities and Exchange Act of 1934, as amended, which involve certain 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 identified by their use of such terms and phrases 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 similar expressions. 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.

Our actual results may differ significantly from any results expressed or implied by these forward looking statements. Some, but not all, of the factors that might cause such a difference include, but are not limited to:

- our future operating results;
- our business prospects and the prospects of our portfolio companies;
- the impact of investments that we expect to make;
- our contractual arrangements and relationships with third parties;
- the dependence of our future success on the general economy and its impact on the industries in which we invest;
- the ability of our portfolio companies to achieve their objectives;
- 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;

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- our regulatory structure and tax treatment, including our ability to operate as a business development company and a regulated investment company;
- the adequacy of our cash resources and working capital;
- the timing of cash flows, if any, from the operations of our portfolio companies;
- the ability of the Investment Adviser to locate suitable investments for us and to monitor and administer our investments.;
- 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 risk factors set forth below.

Risks Relating to Our Business

Capital markets could experience a period of disruption and instability. Such market conditions have historically and could again have a material and adverse effect on debt and equity capital markets in the United States and abroad, which had, and may in the future have, a negative impact on our business and operations.

The global capital markets have historically experienced an extended period of instability as evidenced by the periodic disruptions in liquidity in the debt capital markets, significant write-offs in the financial services sector, the re-pricing of credit risk in the broadly syndicated credit market and the failure of certain major financial institutions. Despite actions of the U.S. federal government and foreign governments during such period, these events contributed to worsening general economic conditions that materially and adversely impacted the broader financial and credit markets and reduced the availability of debt and equity capital for the market as a whole and financial services firms in particular. While recent market conditions have improved, there can be no assurance that adverse market conditions will not repeat themselves or worsen in the future. If these adverse and volatile market conditions repeat themselves or worsen in the future, we and other companies in the financial services sector may have to access, if available, alternative markets for debt and equity capital in order to grow. Equity capital may be difficult to raise because, subject to some limited exceptions, as a BDC, we are generally not able to issue additional shares of our common stock at a price less than net asset value without first obtaining approval for such issuance from our stockholders and our independent directors. At our annual meeting of stockholders held on December 7, 2012, subject to the condition that the maximum number of shares salable below net asset value pursuant to this authority in any particular offering that could result in such dilution is limited to 25% of our then outstanding common stock immediately prior to each such offering, our stockholders approved our ability to sell or otherwise issue shares of our common stock at a price below its then current net asset value per share for a twelve month period expiring on the anniversary of the date of stockholder approval. In addition, our ability to incur indebtedness (including by issuing preferred stock) is limited by applicable regulations such that our asset coverage, as calculated in accordance with the Investment Company Act, must equal at least 200% immediately after each time we incur indebtedness. The debt capital that will be available to us in the future, if at all, may be at a higher cost and on less favorable terms and conditions than what we currently experience. Any inability to raise capital could have a negative effect on our business, financial condition and results of operations.

Moreover, the re-appearance of market conditions similar to those experienced from 2007 through 2009 for any substantial length of time could make it difficult to extend the maturity of or refinance

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our existing indebtedness under similar terms and any failure to do so could have a material adverse effect on our business.

Given the extreme volatility and dislocation that the capital markets have historically experienced, many BDCs have faced, and may in the future face, a challenging environment in which to raise or access capital. In addition, significant changes in the capital markets, including the extreme volatility and disruption over the past several years, has had, and may in the future have, a negative effect on the valuations of our investments and on the potential for liquidity events involving our investments. While most of our investments are not publicly traded, applicable accounting standards require us to assume as part of our valuation process that our investments are sold in a principal market to market participants (even if we plan on holding an investment through its maturity). As a result, volatility in the capital markets can adversely affect our investment valuations. Further, the illiquidity of our investments may make it difficult for us to sell such investments to access capital if required. As a result, we could realize significantly less than the value at which we have recorded our investments if we were required to sell them for liquidity purposes. An inability to raise or access capital could have a material adverse impact on our business, financial condition or results of operations.

The current financial market situation, as well as various social and political tensions in the United States and around the world, particularly in the Middle East, may continue to contribute to increased market volatility, may have long-term effects on the United States and worldwide financial markets, and may cause further economic uncertainties or deterioration in the United States and worldwide. Since 2010, several European Union ("EU") countries, including Greece, Ireland, Italy, Spain, and Portugal have faced budget issues, some of which may have negative long-term effects for the economies of those countries and other EU countries. There is continued concern about national-level support for the euro and the accompanying coordination of fiscal and wage policy among European Economic and Monetary Union member countries. We do not know how long the financial markets will continue to be affected by these events and cannot predict the effects of these or similar events in the future on the United States economy and securities markets or on our investments. We monitor developments and seek to manage our investments in a manner consistent with achieving our investment objective, but there can be no assurance that it will be successful in doing so; and we may not timely anticipate or manage existing, new or additional risks, contingencies or developments, including regulatory developments in the current or future market environment.

We may suffer credit losses.

Investment in small and middle-market companies is highly speculative and involves a high degree of risk of credit loss. These risks are likely to increase during volatile economic periods, such as the U.S. and many other economies have recently been experiencing. See "Risks Related to Our Investments."

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

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

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

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

We operate in a highly competitive market for investment opportunities.

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

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

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

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

Borrowings and other types of financing, also known as leverage, magnify the potential for gain or loss on amounts invested and, therefore, increase the risks associated with investing in our securities. Our lenders have fixed dollar claims on our assets that are superior to the claims of our common stockholders or any preferred stockholders. If the value of our assets increases, then leveraging would cause the net asset value to increase more sharply than it would have had we not leveraged. Conversely, if the value of our assets decreases, leveraging would cause net asset value to decline more sharply than it otherwise would have had we not leveraged. Similarly, any increase in our income in excess of consolidated interest payable on the borrowed funds would cause our net income to increase.

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more than it would without the leverage, while any decrease in our income would cause net income to decline more sharply than it would have had we not borrowed. Such a decline could negatively affect our ability to make common stock dividend payments. Leverage is generally considered a speculative investment technique.

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

A portion of the debt investments we make bears interest at fixed rates and other debt investments bear interest at variable rates with floors and the value of these investments could be negatively affected by increases in market interest rates. In addition, as the interest rate on our revolving credit facility is at a variable rate based on an index, an increase in interest rates would make it more expensive to use debt to finance our investments. As a result, an increase in market interest rates could both reduce the value of our portfolio investments and increase our cost of capital, which could reduce our net investment income or net increase in net assets resulting from operations.

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

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

We may experience fluctuations in our quarterly results.

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

Our most recent NAV was calculated on June 30, 2013 and our NAV when calculated effective September 30, 2013 and thereafter may be higher or lower.

Our most recently estimated NAV per share is \$10.73 on an as adjusted basis solely to give effect to our issuance of common stock since June 30, 2013 in connection with our dividend reinvestment plan, shares issued in connection with investment transactions, and our issuance of 9,818,907 shares of common stock during the period from July 1, 2013 to August 21, 2013 under our at-the-market program (the "ATM Program"), \$0.01 higher than the \$10.72 determined by us as of June 30, 2013. NAV per share as of September 30, 2013 may be higher or lower than \$10.73 based on potential changes in valuations, issuances of securities, dividends paid and earnings for the quarter then ended. Our Board of Directors has not yet determined the fair value of portfolio investments at any date subsequent to June 30, 2013. Our Board of Directors determines the fair value of our portfolio investments on a quarterly basis in connection with the preparation of quarterly financial statements

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and based on input from independent valuation firms, the Investment Adviser, the Administrator and the Audit Committee of our Board of Directors.

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

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

Potential conflicts of interest could impact our investment returns.

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

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

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

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

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

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

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

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

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

The Investment Adviser is entitled to incentive compensation for each fiscal quarter based, in part, on our pre-incentive fee net investment income if any, for the immediately preceding calendar quarter above a performance threshold for that quarter. Accordingly, since the performance threshold is based

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on a percentage of our net asset value, decreases in our net asset value make it easier to achieve the performance threshold. Our pre-incentive fee net investment income for incentive compensation purposes excludes realized and unrealized capital losses or depreciation that we may incur in the fiscal quarter, even if such capital losses or depreciation result in a net loss on our statement of operations for that quarter. Thus, we may be required to pay the Investment Adviser incentive compensation for a fiscal quarter even if there is a decline in the value of our portfolio or we incur a net loss for that quarter.

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

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

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

We are subject to changing rules and regulations of federal and state governments, as well as the stock exchange on which our common stock is listed. These entities, including the Public Company Accounting Oversight Board, the SEC and The NASDAQ Global Select Market, have issued a significant number of new and increasingly complex requirements and regulations over the course of the last several years and continue to develop additional regulations. In particular, changes in the laws or regulations or the interpretations of the laws and regulations that govern BDCs, RICs or non-depository commercial lenders could significantly affect our operations and our cost of doing business. We are subject to federal, state and local laws and regulations and are subject to judicial and administrative decisions that affect our operations, including our loan originations, maximum interest rates, fees and other charges, disclosures to portfolio companies, the terms of secured transactions, collection and foreclosure procedures and other trade practices. If these laws, regulations or decisions change, or if we expand our business into jurisdictions that have adopted more stringent requirements than those in which we currently conduct business, we may have to incur significant expenses in order to comply, or we might have to restrict our operations. In addition, if we do not comply with applicable laws, regulations and decisions, we may lose licenses needed for the conduct of our business and be subject to civil fines and criminal penalties, any of which could have a material adverse effect upon our business, financial condition and results of operations.

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Foreign and domestic political risk may adversely affect our business.

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

Risks Relating to Our Operation as a Business Development Company

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

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

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

To maintain our qualification for U.S. federal income tax purposes as a RIC under Subchapter M of the Internal Revenue Code of 1986, as amended, or the Code, and obtain RIC tax treatment, we must meet certain source of income, asset diversification and annual distribution requirements.

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

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

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

If we fail to qualify as a RIC for any reason or become subject to corporate income tax, the resulting corporate taxes would substantially reduce our net assets, the amount of income available for

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distribution, and the actual amount of our distributions. Such a failure would have a materially adverse effect on us and our stockholders. For additional information regarding asset coverage ratio and RIC requirements, see "Business—Tax Considerations" and "Business—Regulation as a Business Development Company".

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

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

The income incentive fee payable by us is computed and paid on income that may include interest that has been accrued but not yet received in cash. If a portfolio company defaults on a loan that is structured to provide accrued interest, it is possible that accrued interest previously used in the calculation of the income incentive fee will become uncollectible.

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

Regulations governing our operation as a business development company affect our ability to raise, and the way in which we raise, additional capital.

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

As a BDC regulated under provisions of the 1940 Act, we are not generally able to issue and sell our common stock at a price below the current net asset value per share without stockholder approval. If our common stock trades at a discount to net asset value, this restriction could adversely affect our ability to raise capital. We may, however, sell our common stock, or warrants, options or rights to acquire our common stock, at a price below the current net asset value of our common stock in certain

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circumstances, including if (i)(1) the holders of a majority of our shares (or, if less, at least 67% of a quorum consisting of a majority of our shares) and a similar majority of the holders of our shares who are not affiliated persons of us approve the sale of our common stock at a price that is less than the current net asset value, and (2) a majority of our Directors who have no financial interest in the transaction and a majority of our independent Directors (a) determine that such sale is in our and our stockholders' best interests and (b) in consultation with any underwriter or underwriters of the offering, make a good faith determination as of a time either immediately prior to the first solicitation by us or on our behalf of firm commitments to purchase such shares, or immediately prior to the issuance of such shares, that the price at which such shares are to be sold is not less than a price which closely approximates the market value of such shares, less any distributing commission or discount or if (ii) a majority of the number of the beneficial holders of our common stock entitled to vote at our annual meeting, without regard to whether a majority of such shares are voted in favor of the proposal, approve the sale of our common stock at a price that is less than the current net asset value per share.

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

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

Securitization of our assets subjects us to various risks.

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

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

In accordance with the above description, to securitize loans, we may create a wholly owned subsidiary and contribute a pool of our assets to such subsidiary. The SPE may be funded with, among other things, whole loans or interests from other pools and such loans may or may not be rated. The SPE would then sell its notes to purchasers who we would expect to be willing to accept a lower interest rate and the absence of any recourse against us to invest in a pool of income producing assets to which none of our creditors would have access. We would retain all or a portion of the equity in the SPE. An inability to successfully securitize portions of our portfolio or otherwise leverage our portfolio through secured and unsecured borrowings could limit our ability to grow our business and fully execute our business strategy, and could decrease our earnings. However, the successful securitization

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of portions of our portfolio exposes us to a risk of loss for the equity we retain in the SPE and might expose us to greater risk on our remaining portfolio because the assets we retain may tend to be those that are riskier and more likely to generate losses. A successful securitization may also impose financial and operating covenants that restrict our business activities and may include limitations that could hinder our ability to finance additional loans and investments or to make the distributions required to maintain our status as a RIC under Subchapter M of the Code. The 1940 Act may also impose restrictions on the structure of any securitizations.

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

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

We may also engage in transactions utilizing SPEs and securitization techniques where the assets sold or contributed to the SPE remain on our balance sheet for accounting purposes. If, for example, we sell the assets to the SPE with recourse or provide a guarantee or other credit support to the SPE, its assets will remain on our balance sheet. Consolidation would also generally result if we, in consultation with the SEC, determine that consolidation would result in a more accurate reflection of our assets, liabilities and results of operations. In these structures, the risks will be essentially the same as in other securitization transactions but the assets will remain our assets for purposes of the limitations described above on investing in assets that are not qualifying assets and the leverage incurred by the SPE will be treated as borrowings incurred by us for purposes of our limitation on the issuance of senior securities.

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

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

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

Risks Relating to Our Investments

We may not realize gains or income from our investments.

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

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

A large percentage of our portfolio investments consist of securities of privately held companies. Hence, market quotations are generally not readily available for determining the fair values of such investments. The determination of fair value, and thus the amount of unrealized losses we may incur in any year, is to a degree subjective, and the Investment Adviser has a conflict of interest in making the determination. We value these securities quarterly at fair value as determined in good faith by our Board of Directors based on input from the Investment Adviser, our Administrator, a third party independent valuation firm and our Audit Committee. Our Board of Directors utilizes the services of an independent valuation firm to aid it in determining the fair value of any securities. The types of factors that may be considered in determining the fair values of our investments include the nature and realizable value of any collateral, the portfolio company's ability to make payments and its earnings, the markets in which the portfolio company does business, comparison to publicly traded companies, discounted cash flow, current market interest rates and other relevant factors. Because such valuations, and particularly valuations of private securities and private companies, are inherently uncertain, the valuations may fluctuate significantly over short periods of time due to changes in current market conditions. The determinations of fair value by our Board of Directors may differ materially from the values that would have been used if an active market and market quotations existed for these investments. Our net asset value could be adversely affected if the determinations regarding the fair value of our investments were materially higher than the values that we ultimately realize upon the disposal of such securities.

In addition, decreases in the market values or fair values of our investments are recorded as unrealized depreciation. Unprecedented declines in prices and liquidity in the corporate debt markets experienced during the recent financial crises resulted in significant net unrealized depreciation in our portfolio in the past. The effect of all of these factors on our portfolio reduced our NAV by increasing net unrealized depreciation in our portfolio. Depending on market conditions, we could incur substantial realized losses and may continue to suffer additional unrealized losses in future periods, which could have a material adverse impact on our business, financial condition and results of operations. We have no policy regarding holding a minimum level of liquid assets. As such, a high percentage of our portfolio generally is not liquid at any given point in time. See "The lack of liquidity may adversely affect our business."

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

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

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

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

Some of our portfolio companies have relatively short or no operating histories. These companies are and will be subject to all of the business risk and uncertainties associated with any new business enterprise, including the risk that these companies may not reach their investment objective and the value of our investment in them may decline substantially or fall to zero.

In addition, investment in the middle market companies that we are targeting involves a number of other significant risks, including:

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

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

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

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

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

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

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

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

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

- any equity investment we make in a portfolio company could be subject to further dilution as a result of the issuance of additional equity interests and to serious risks as a junior security that will be subordinate to all indebtedness (including trade creditors) or senior securities in the

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event that the issuer is unable to meet its obligations or becomes subject to a bankruptcy process;

- to the extent that the portfolio company requires additional capital and is unable to obtain it, we may not recover our investment; and
- in some cases, equity securities in which we invest will not pay current dividends, and our ability to realize a return on our investment, as well as to recover our investment, will be dependent on the success of the portfolio company. Even if the portfolio company is successful, our ability to realize the value of our investment may be dependent on the occurrence of a liquidity event, such as a public offering or the sale of the portfolio company. It is likely to take a significant amount of time before a liquidity event occurs or we can otherwise sell our investment. In addition, the equity securities we receive or invest in may be subject to restrictions on resale during periods in which it could be advantageous to sell them.

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

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

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

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

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

If one of our portfolio companies were to go bankrupt, even though we may have structured our interest as senior debt, depending on the facts and circumstances, a bankruptcy court might recharacterize our debt holding as an equity investment and subordinate all or a portion of our claim to that of other creditors. In addition, lenders can be subject to lender liability claims for actions taken

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by them where they become too involved in the borrower's business or exercise control over the borrower. For example, we could become subject to a lender's liability claim, if, among other things, we actually render significant managerial assistance.

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

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

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

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

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

Our portfolio companies may be highly leveraged.

Some of our portfolio companies may be highly leveraged, which may have adverse consequences to these companies and to us as an investor. These companies may be subject to restrictive financial and operating covenants and the leverage may impair these companies' ability to finance their future operations and capital needs. As a result, these companies' flexibility to respond to changing business and economic conditions and to take advantage of business opportunities may be limited. Further, a leveraged company's income and net assets will tend to increase or decrease at a greater rate than if borrowed money were not used.

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

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

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

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

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

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

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

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

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

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

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

- our debt investments may be in the form of mezzanine loans, therefore our liens on the collateral, if any, are subordinated to those of the senior secured debt of the portfolio companies, if any. As a result, we may not be able to control remedies with respect to the collateral;
- the collateral may not be valuable enough to satisfy all of the obligations under our secured loan, particularly after giving effect to the repayment of secured debt of the portfolio company that ranks senior to our loan;
- bankruptcy laws may limit our ability to realize value from the collateral and may delay the realization process;
- our rights in the collateral may be adversely affected by the failure to perfect security interests in the collateral;
- the need to obtain regulatory and contractual consents could impair or impede how effectively the collateral would be liquidated and could affect the value received; and
- some or all of the collateral may be illiquid and may have no readily ascertainable market value. The liquidity and value of the collateral could be impaired as a result of changing economic conditions, competition, and other factors, including the availability of suitable buyers.

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

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

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

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

We may employ hedging techniques to minimize certain investment risks, such as fluctuations in interest and currency exchange rates, but we can offer no assurance that such strategies will be effective. If we engage in hedging transactions, we may expose ourselves to risks associated with such transactions. We may utilize instruments such as forward contracts, currency options and interest rate swaps, caps, collars and floors to seek to hedge against fluctuations in the relative values of our portfolio positions from changes in currency exchange rates and market interest rates. Hedging against a decline in the values of our portfolio positions does not eliminate the possibility of fluctuations in the

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values of such positions or prevent losses if the values of such positions decline. However, such hedging can establish other positions designed to gain from those same developments, thereby offsetting the decline in the value of such portfolio positions. Such hedging transactions may also limit the opportunity for gain if the values of the portfolio positions should increase. Moreover, it may not be possible to hedge against an exchange rate or interest rate fluctuation that is so generally anticipated that we are not able to enter into a hedging transaction at an acceptable price. Furthermore, our ability to engage in hedging transactions may also be adversely affected by recent rules adopted by the CFTC.

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

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

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

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

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

CLOs typically will have no significant assets other than their underlying Senior Secured Loans; payments on CLO investments are and will be payable solely from the cashflows from such Senior Secured Loans.

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

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Our CLO investments are exposed to leveraged credit risk.

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

There is the potential for interruption and deferral of cashflow from CLO investments.

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

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

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

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

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

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

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

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

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

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

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

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

We have limited control of the administration and amendment of Senior Secured Loans owned by the CLOs in which we invest.

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

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

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

Senior Secured Loans of CLOs may be sold and replaced resulting in a loss to us.

The Senior Secured Loans underlying our CLO investments may be sold and replacement collateral purchased within the parameters set out in the relevant CLO indenture between the CLO and the CLO trustee and those parameters may typically only be amended, modified or waived by the agreement of a majority of the holders of the senior notes and/or the junior secured notes and/or the

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equity tranche once the CLO has been established. If these transactions result in a net loss, the magnitude of the loss from the perspective of the equity tranche would be increased by the leveraged nature of the investment.

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

We expect that a majority of our portfolio will consist of equity and junior debt investments in CLOs, which involve a number of significant risks. CLOs are typically highly levered up to approximately 10 times, and therefore the junior debt and equity tranches that we will invest in are subject to a higher risk of total loss. In particular, investors in CLOs indirectly bear risks of the underlying debt investments held by such CLOs. We will generally have the right to receive payments only from the CLOs, and will generally not have direct rights against the underlying borrowers or the entities that sponsored the CLOs. Although it is difficult to predict whether the prices of indices and securities underlying CLOs will rise or fall, these prices, and, therefore, the prices of the CLOs will be influenced by the same types of political and economic events that affect issuers of securities and capital markets generally.

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

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

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

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

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

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

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As a result, the values of the portfolios underlying our CLO investments could decrease as a result of decisions made by third party CLO collateral managers.

Risks Relating To Our Securities

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

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

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

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

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

- A likelihood of greater volatility in the net asset value and market price of our common stock;
- Diminished operating flexibility as a result of asset coverage or investment portfolio composition requirements required by lenders or investors that are more stringent than those imposed by the 1940 Act;
- The possibility that investments will have to be liquidated at less than full value or at inopportune times to comply with debt covenants or to pay interest or dividends on the leverage;
- Increased operating expenses due to the cost of leverage, including issuance and servicing costs;
- Convertible or exchangeable securities, such as the Senior Convertible Notes outstanding or those issued in the future may have rights, preferences and privileges more favorable than those of our common stock;
- Subordination to lenders' superior claims on our assets as a result of which lenders will be able to receive proceeds available in the case of our liquidation before any proceeds will be distributed to our stockholders;
- Making it more difficult for us to meet our payment and other obligations under the Notes and our other outstanding debt;
- The occurrence of an event of default if we fail to comply with the financial and/or other restrictive covenants contained in our debt agreements, including the credit agreement and each indenture governing the Notes, which event of default could result in all or some of our debt becoming immediately due and payable;

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- Reduced availability of our cash flow to fund investments, acquisitions and other general corporate purposes, and limiting our ability to obtain additional financing for these purposes;
- The risk of increased sensitivity to interest rate increases on our indebtedness with variable interest rates, including borrowings under our amended senior credit facility; and
- Reduced flexibility in planning for, or reacting to, and increasing our vulnerability to, changes in our business, the industry in which we operate and the general economy.

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

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

Illustration. The following table illustrates the effect of leverage on returns from an investment in our common stock assuming various annual returns, net of interest expense. The calculations in the table below are hypothetical and actual returns may be higher or lower than those appearing below. The calculation assumes (i) \$4.4 billion in total assets, (ii) an average cost of funds of 5.63%, (iii) \$1.7 billion in debt outstanding and (iv) \$2.7 billion of shareholders' equity.

Assumed Return on Our Portfolio (net of expenses)	(10) %	(5) %	0%	5%	10%
Corresponding Return to Stockholder	(19.8)%	(11.7)%	(3.5)%	4.6%	12.7%

The assumed portfolio return is required by regulation of the SEC and is not a prediction of, and does not represent, our projected or actual performance. Actual returns may be greater or less than those appearing in the table.

The Senior Convertible Notes, the 2022 Notes and the 2023 Notes present other risks to holders of our common stock, including the possibility that such Notes could discourage an acquisition of the Company by a third party and accounting uncertainty.

Certain provisions of the Senior Convertible Notes, the 2022 Notes and the 2023 Notes could make it more difficult or more expensive for a third party to acquire us. Upon the occurrence of certain transactions constituting a fundamental change, holders of the Senior Convertible Notes, the 2022 Notes and the 2023 Notes will have the right, at their option, to require us to repurchase all of their Senior Convertible Notes, the 2022 Notes and the 2023 Notes or any portion of the principal amount of such Senior Convertible Notes, the 2022 Notes and the 2023 Notes in integral multiples of \$1,000, in the case of the Senior Convertible Notes and the 2023 Notes, and \$25, in the case of the

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2022 Notes. We may also be required to increase the conversion rate or provide for conversion into the acquirer's capital stock in the event of certain fundamental changes with respect to the Senior Convertible Notes. These provisions could discourage an acquisition of us by a third party.

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

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

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

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

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

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

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

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

As of June 30, 2013, we were in compliance with these covenants. However, our continued compliance with these covenants depends on many factors, some of which are beyond our control. Accordingly, there are no assurances that we will continue to comply with the covenants in our credit facility. Failure to comply with these covenants would result in a default under this facility which, if we were unable to obtain a waiver from the lenders thereunder, could result in an acceleration of

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repayments under the facility and thereby have a material adverse impact on our business, financial condition and results of operations.

Failure to extend our existing credit facility, the revolving period of which is currently scheduled to expire on March 27, 2015, could have a material adverse effect on our results of operations and financial position and our ability to pay expenses and make distributions.

The revolving period for our credit facility with a syndicate of lenders is currently scheduled to terminate on March 27, 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. If the credit facility is not renewed or extended by the participant banks by March 27, 2015, we will not be able to make further borrowings under the facility after such date and the outstanding principal balance on that date will be due and payable on March 27, 2017. At June 30, 2013 we had \$124.0 million of outstanding borrowings under our credit facility. Interest on borrowings under the credit 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 credit facility equal to either 50 basis points if at least half of the credit facility is drawn or 100 basis points otherwise. The credit facility requires us to pledge assets as collateral in order to borrow under the credit facility. If we are unable to extend our facility or find a new source of borrowing on acceptable terms, we will be required to pay down the amounts outstanding under the facility during the two-year term-out period through one or more of the following: (1) principal collections on our securities pledged under the facility, (2) at our option, interest collections on our securities pledged under the facility and cash collections on our securities not pledged under the facility, or (3) possible liquidation of some or all of our loans and other assets, any of which could have a material adverse effect on our results of operations and financial position and may force us to decrease or stop paying certain expenses and making distributions until the facility is repaid. In addition, our stock price could decline significantly, we would be restricted in our ability to acquire new investments and, in connection with our year-end audit, our independent registered accounting firm could raise an issue as to our ability to continue as a going concern.

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

Our Senior Notes mature at various dates from December 15, 2015 to June 15, 2043. If we are unable to refinance our Senior Notes or find a new source of borrowing on acceptable terms, we will be required to pay down the amounts outstanding at maturity under the facility during the two-year term-out period through one or more of the following: (1) borrowing additional funds under our then current credit facility, (2) issuance of additional common stock or (3) possible liquidation of some or all of our loans and other assets, any of which could have a material adverse effect on our results of operations and financial position. In addition, our stock price could decline significantly; we would be restricted in our ability to acquire new investments and, in connection with our year-end audit, our independent registered accounting firm could raise an issue as to our ability to continue as a going concern.

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

Our publicly issued debt securities may or may not have an established trading market. We cannot assure our noteholders that a trading market for our publicly issued debt securities will ever develop or be maintained if developed. In addition to our creditworthiness, many factors may materially adversely

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affect the trading market for, and market value of, our publicly issued debt securities. These factors include, but are not limited to, the following:

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

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

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

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

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

Shares of closed-end investment companies frequently trade at a market price that is less than the net asset value that is attributable to those shares. This characteristic of closed-end investment companies is separate and distinct from the risk that our net asset value per share may decline. It is not possible to predict whether any shares of our common stock will trade at, above, or below net asset value. In the recent past, including during much of 2009, the stocks of BDCs as an industry, including at times shares of our common stock, traded below net asset value and at near historic lows as a result of concerns over liquidity, leverage restrictions and distribution requirements. When our common stock is trading below its net asset value per share, we will generally not be able to issue additional shares of our common stock at its market price without first obtaining approval for such issuance from our stockholders and our independent directors. At our 2012 annual meeting of stockholders held on December 7, 2012, our stockholders approved our ability, subject to the condition that the maximum number of shares salable below net asset value pursuant to this authority in any particular offering that could result in such dilution is limited to 25% of our then outstanding common stock immediately prior to each such offering, to sell shares of our common stock at any level of discount from net asset value per share during the 12 month period following December 7, 2012.

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

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

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

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

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

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

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

All dividends declared in cash payable to stockholders that are participants in our dividend reinvestment plan are automatically reinvested in shares of our common stock. As a result, our stockholders that opt out of our dividend reinvestment plan will experience dilution in their ownership percentage of our common stock over time.

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

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

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

At our 2012 annual meeting of stockholders held on December 7, 2012, our stockholders approved our ability, subject to the condition that the maximum number of shares salable below net asset value pursuant to this authority in any particular offering that could result in such dilution is limited to 25% of our then outstanding common stock immediately prior to each such offering, to sell shares of our common stock at any level of discount from net asset value per share during the 12 month period following December 7, 2012. The issuance or sale by us of shares of our common stock or securities to

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subscribe for or are convertible into shares of our common stock at a discount to net asset value poses a risk of dilution to our stockholders. In particular, stockholders who do not purchase additional shares of common stock at or below the discounted price in proportion to their current ownership will experience an immediate decrease in net asset value per share (as well as in the aggregate net asset value of their shares of common stock if they do not participate at all). These stockholders will also experience a disproportionately greater decrease in their participation in our earnings and assets and their voting power than the increase we experience in our assets, potential earning power and voting interests from such issuance or sale. In addition, such sales may adversely affect the price at which our common stock trades. We have sold shares of our common stock at prices below net asset value per share in the past and may do so to the future. We have not sold any shares of our common stock at prices below net asset value per share since July 18, 2011.

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

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

The market price of our securities may fluctuate significantly.

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

- significant volatility in the market price and trading volume of securities of business development companies or other companies in the energy industry, which are not necessarily related to the operating performance of these companies;
- price and volume fluctuations in the overall stock market from time to time;
- changes in regulatory policies or tax guidelines, particularly with respect to RICs or business development companies;
- loss of RIC qualification;
- changes in earnings or variations in operating results;
- changes in the value of our portfolio of investments;
- any shortfall in revenue or net income or any increase in losses from levels expected by investors or securities analysts;
- departure of one or more of Prospect Capital Management's key personnel;
- operating performance of companies comparable to us;
- short-selling pressure with respect to shares of our common stock or BDCs generally;
- future sales of our securities convertible into or exchangeable or exercisable for our common stock or the conversion of such securities, including the Convertible Unsecured Notes;

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- uncertainty surrounding the strength of the U.S. economic recovery;
- concerns regarding European sovereign debt;
- changes in prevailing interest rates;
- litigation matters;
- general economic trends and other external factors; and
- loss of a major funding source.

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

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

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

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

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

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

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

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

Our charter and bylaws also provide that our Board of Directors has the exclusive power to adopt, alter or repeal any provision of our bylaws, and to make new bylaws. The Maryland General

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Corporation Law also contains certain provisions that may limit the ability of a third party to acquire control of us, such as:

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

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

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

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

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

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

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the expiration date of a rights offering or what proportion of the shares will be purchased as a result of such rights offering. Such dilution could be substantial.

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

We may distribute taxable dividends that are payable in part in our stock. The IRS has issued private letter rulings on cash/stock dividends paid by RICs and real estate investment trusts if certain requirements are satisfied, and we have received such a ruling permitting us to declare such taxable cash/stock dividends, up to 80% in stock, with respect to our taxable years ending August 31, 2012 and August 31, 2013. Taxable stockholders receiving such dividends would be required to include the full amount of the dividend as ordinary income (or as long-term capital gain to the extent such distribution is properly designated as a capital gain dividend) to the extent of our current and accumulated earnings and profits for United States federal income tax purposes. As a result, a U.S. Stockholder (as defined in "Material U.S. Federal Income Tax Considerations") may be required to pay tax with respect to such dividends in excess of any cash received. If a U.S. Stockholder sells the stock it receives as a dividend in order to pay this tax, it may be subject to transaction fees (e.g. broker fees or transfer agent fees) and the sales proceeds may be less than the amount included in income with respect to the dividend, depending on the market price of its stock at the time of the sale. Furthermore, with respect to Non-U.S. Stockholders (as defined in "Material U.S. Federal Income Tax Considerations"), we may be required to withhold U.S. tax with respect to such dividends, including in respect of all or a portion of such dividend that is payable in stock. In addition, if a significant number of our stockholders determine to sell shares of our stock in order to pay taxes owed on dividends, it may put downward pressure on the trading price of our stock. It is unclear whether and to what extent we will be able to pay dividends in cash and our stock.

Item 1B. Unresolved Staff Comments.

Not applicable.

Item 2. Properties.

We do not own any real estate or other physical properties materially important to our operation. Our principal executive offices are located at 10 East 40th Street, New York, New York 10016, where we occupy our office space pursuant to our Administration Agreement with Prospect Administration. The office facilities, which are shared with the Investment Adviser and Administrator, consist of approximately 28,633 square feet, with leases expiring through 2023. We believe that our office facilities are suitable and adequate for our business as currently conducted.

Item 3. Legal Proceedings.

From time to time, we may become involved in various investigations, claims and legal proceedings that arise in the ordinary course of our business. These matters may relate to intellectual property, employment, tax, regulation, contract or other matters. The resolution of these matters as they arise will be subject to various uncertainties and, even if such claims are without merit, could result in the expenditure of significant financial and managerial resources. We are not aware of any such litigation as of June 30, 2013.

Item 4. Mine Safety Disclosures.

Not applicable.

PART II

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

Our common stock is quoted on the NASDAQ Global Select Market under the symbol "PSEC." The following table sets forth, for the periods indicated, our net asset value per share of common stock and the high and low closing prices per share of our common stock as reported on the NASDAQ Global Select Market. Our common stock historically has traded at prices both above and below its net asset value. There can be no assurance, however, that such premium or discount, as applicable, to net asset value will be maintained.

	Net Asset Value Per Share(1)	Stock Price		Premium (Discount) of High Sales Price to Net Asset Value	Premium (Discount) of Low Sales Price to Net Asset Value
Year Ended		High	Low		
June 30, 2013					
First quarter	\$ 10.88	\$ 12.21	\$ 10.83	12.2%	(0.5)%
Second quarter	\$ 10.81	\$ 11.98	\$ 9.89	10.8%	(8.5)%
Third quarter	\$ 10.71	\$ 11.49	\$ 10.91	7.3%	1.9%
Fourth quarter	\$ 10.72	\$ 11.11	\$ 10.08	3.6%	(6.0)%
June 30, 2012					
First quarter	\$ 10.41	\$ 10.18	\$ 7.41	(2.2)%	(28.8)%
Second quarter	\$ 10.69	\$ 9.88	\$ 7.99	(7.6)%	(25.3)%
Third quarter	\$ 10.82	\$ 11.39	\$ 9.43	5.3%	(12.8)%
Fourth quarter	\$ 10.83	\$ 11.39	\$ 10.55	5.2%	(2.5)%
June 30, 2011					
First quarter	\$ 10.24	\$ 10.00	\$ 9.18	(2.3)%	(10.4)%
Second quarter	\$ 10.25	\$ 10.86	\$ 9.69	6.0%	(5.5)%
Third quarter	\$ 10.33	\$ 12.33	\$ 10.72	19.4%	3.8%
Fourth quarter	\$ 10.36	\$ 12.18	\$ 9.95	17.6%	(4.0)%
June 30, 2010					
First quarter	\$ 11.11	\$ 10.99	\$ 8.82	(1.1)%	(20.6)%
Second quarter	\$ 10.10	\$ 12.31	\$ 9.93	21.9%	(1.7)%
Third quarter	\$ 10.12	\$ 13.20	\$ 10.45	30.4%	3.3%
Fourth quarter	\$ 10.30	\$ 12.20	\$ 9.65	18.4%	(6.3)%
June 30, 2009					
First quarter	\$ 14.63	\$ 14.24	\$ 11.12	(2.7)%	(24.0)%
Second quarter	\$ 14.43	\$ 13.08	\$ 6.29	(9.4)%	(56.4)%
Third quarter	\$ 14.19	\$ 12.89	\$ 6.38	(9.2)%	(55.0)%
Fourth quarter	\$ 12.40	\$ 10.48	\$ 7.95	(15.5)%	(35.9)%

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

On August 16, 2013, the last reported sales price of our common stock was \$10.89 per share. As of August 16, 2013, we had approximately 137 stockholders of record, and we had approximately 137,479 beneficial owners whose shares are held in the names of brokers, dealers and clearing agencies.

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 and intend to continue with monthly distributions. 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 at least 90% of our ordinary income and net short-term capital gains in excess of realized net long-term capital losses. In order to avoid certain excise taxes imposed on RICs, we are required to timely distribute with respect to each calendar year an amount at least equal to the sum of

- 98% of our ordinary income for the calendar year,
- 98.2% of our capital gains in excess of capital losses for the one-year period ending on October 31 of the calendar year, and
- any ordinary income and net capital gains for preceding years that were not distributed during such years.

At December 31, 2012, we accrued, and subsequently paid, \$4,500 for the undistributed ordinary income retained at December 31, 2012. Through June 30, 2013, we have accrued an additional \$2,000 as we expect to again retain undistributed ordinary income at December 31, 2013.

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 as 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.

We maintain an "opt out" dividend reinvestment plan for our common stockholders. As a result, if we declare a distribution, then stockholders' cash distributions will be automatically reinvested in additional shares of our common stock, unless they specifically "opt out" of the dividend reinvestment plan so as to receive cash distributions. Stockholders who receive distributions in the form of stock are subject to the same U.S. Federal, state and local tax consequences as are stockholders who elect to receive their distributions in cash. See "Dividend Reinvestment Plan". To the extent prudent and practicable, we intend to declare and pay dividends on a monthly basis.

With respect to the distributions paid to stockholders, income from origination, structuring, closing, commitment and other upfront fees associated with investments in portfolio companies were treated as taxable income and accordingly, distributed to stockholders. During the fiscal year ended June 30, 2013, we declared total distributions of approximately \$271.5 million.

Tax characteristics of all distributions will be reported to stockholders, as appropriate, on Form 1099-DIV after the end of the year. Our ability to pay distributions could be affected by future business performance, liquidity, capital needs, alternative investment opportunities and loan covenants.

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The following table reflects the distributions per share that we have declared on our common stock to date. In June 2010, we changed our distribution policy from a quarterly payment to a monthly payment.

Declaration Date	Record Date	Pay Date	Rate	Amount (in thousands)	
8/20/2013	3/31/2014	4/17/2014	0.110375		*
8/20/2013	2/28/2014	3/20/2014	0.110350		*
8/20/2013	1/31/2014	2/20/2014	0.110325		*
6/17/2013	12/31/2013	1/23/2014	0.110300		*
6/17/2013	11/29/2013	12/19/2013	0.110275		*
6/17/2013	10/31/2013	11/21/2013	0.110250		*
6/17/2013	9/30/2013	10/24/2013	0.110225		*
5/6/2013	8/30/2013	9/19/2013	0.110200		*
5/6/2013	7/31/2013	8/22/2013	0.110175	\$ 28,001	
5/6/2013	6/28/2013	07/18/2013	0.110150	27,299	
5/6/2013	5/31/2013	6/19/2013	0.110125	27,280	
2/7/2013	4/30/2013	5/23/2013	0.110100	26,619	
2/7/2013	3/29/2013	4/18/2013	0.110075	26,267	
2/7/2013	2/28/2013	3/21/2013	0.110050	25,307	
11/7/2012	1/31/2013	2/20/2013	0.110025	24,641	
11/7/2012	12/31/2012	1/23/2013	0.110000	23,669	
11/7/2012	11/30/2012	12/20/2012	0.101675	21,308	
8/21/2012	10/31/2012	11/22/2012	0.101650	17,736	
8/21/2012	9/30/2012	10/24/2012	0.101625	17,597	
5/7/2012	8/31/2012	9/21/2012	0.101600	16,897	
5/7/2012	7/31/2012	8/24/2012	0.101575	16,886	
5/7/2012	6/29/2012	7/24/2012	0.101550	14,180	
5/7/2012	5/31/2012	6/22/2012	0.101525	12,395	
2/6/2012	4/30/2012	5/24/2012	0.101500	12,384	
2/6/2012	3/30/2012	4/20/2012	0.101475	12,372	
2/6/2012	2/29/2012	3/23/2012	0.101450	12,361	
11/7/2011	1/31/2012	2/17/2012	0.101425	11,134	
11/7/2011	12/31/2011	1/25/2012	0.101400	11,122	
11/7/2011	11/30/2011	12/22/2011	0.101375	11,111	
8/24/2011	10/31/2011	11/22/2011	0.101350	11,098	
8/24/2011	9/30/2011	10/25/2011	0.101325	11,087	
5/9/2011	8/31/2011	9/23/2011	0.101300	11,074	
5/9/2011	7/29/2011	8/26/2011	0.101275	11,060	
5/9/2011	6/30/2011	7/22/2011	0.101250	10,896	
5/9/2011	5/31/2011	6/24/2011	0.101225	9,871	
2/8/2011	4/29/2011	5/31/2011	0.101200	9,861	
2/8/2011	3/31/2011	4/29/2011	0.101175	8,939	
2/8/2011	2/28/2011	3/31/2011	0.101150	8,930	
11/8/2010	1/31/2011	2/28/2011	0.101125	8,919	
11/8/2010	12/31/2010	1/31/2011	0.101000	8,899	
11/8/2010	11/30/2010	12/31/2010	0.100875	8,668	
8/26/2010	10/29/2010	11/30/2010	0.100750	8,347	
8/26/2010	9/30/2010	10/29/2010	0.100625	7,889	
6/18/2010	8/31/2010	9/30/2010	0.100500	7,620	
6/18/2010	7/30/2010	8/31/2010	0.100250	7,330	
Prior to 6/30/2010				215,157	
Since Inception				\$ 762,211	

* Not yet determinable

Dividend Reinvestment

We maintain an "opt out" dividend reinvestment and cash purchase plan for our registered stockholders. Under the plan, if shares of our common stock are registered, distributions will be automatically reinvested in additional shares of common stock unless you "opt out" of the plan. Stockholders are advised to consult with their brokers or financial institutions, as appropriate, with respect to the administration of their dividends and related instructions.

Assuming that we maintain our status as a RIC under Subchapter M of the Code, we intend to make distributions to our stockholders on a monthly basis of substantially all of our net operating income. We may also make distributions of net realized capital gains, as appropriate.

Tax characteristics of all distributions will be reported to stockholders, as appropriate, on Form 1099-DIV after the end of the year. Our Board of Directors presently intends to declare and pay monthly distributions on the common stock. Our ability to make distributions could be affected by future business performance, liquidity, capital needs, alternative investment opportunities and loan covenants.

Stock distributions distributed pursuant to this dividend reinvestment plan may come in the form of the issuance of new shares or the distribution of pre-existing shares re-acquired from the open market. How the stock to be distributed as part of this plan is made available is a determination made by our Board of Directors.

During the year ended June 30, 2013, we distributed 1,450,578 shares of common stock in accordance with this dividend reinvestment plan. All of the shares issued were distributed from new issues.

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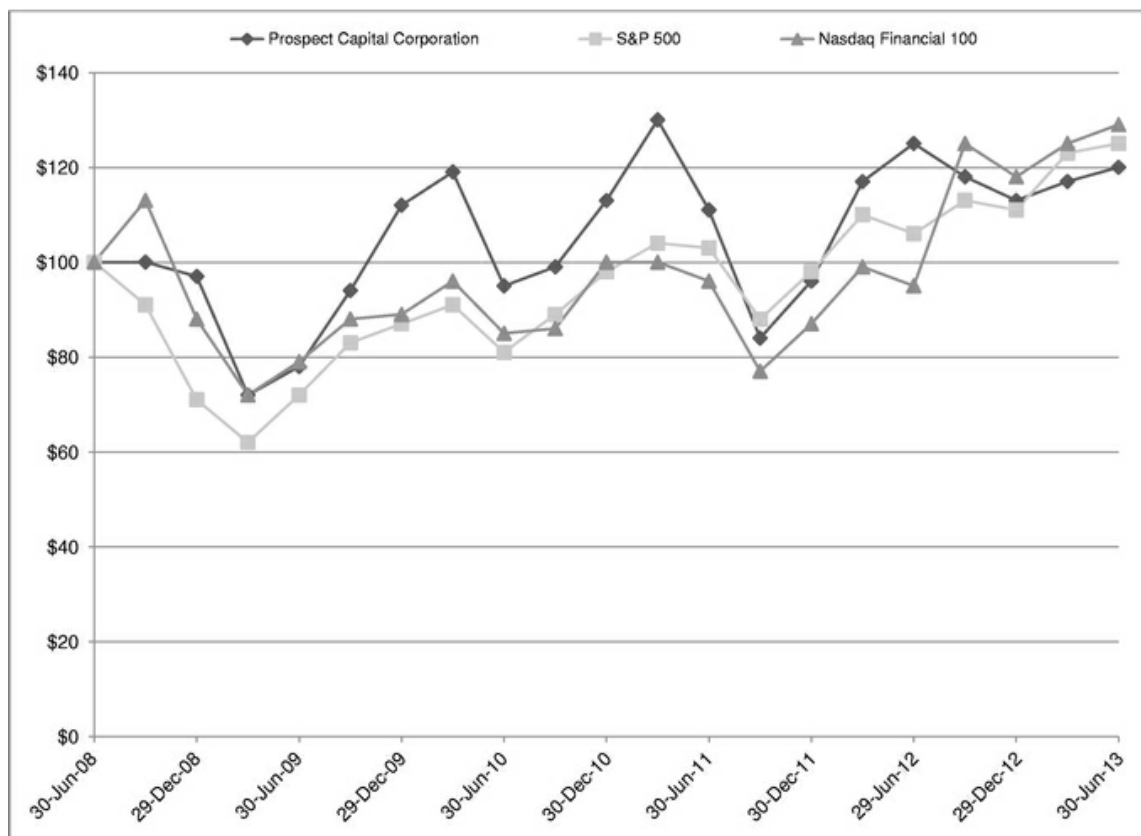
The following table reflects dividend reinvestments distributed through the issuance of new shares:

Record Date	Shares Issued	Aggregate Offering Price (in thousands)	% of Dividend
June 30, 2013	109,437	1,208	4.5%
May 31, 2013	117,107	1,228	4.8%
April 30, 2013	117,497	1,277	4.8%
March 29, 2013	138,087	1,444	5.5%
February 28, 2013	132,237	1,471	5.8%
January 31, 2013	160,941	1,820	7.4%
December 31, 2013	160,182	1,820	7.7%
November 30, 2012	100,552	1,100	5.2%
October 31, 2012	84,904	904	5.1%
September 30, 2012	83,200	981	5.6%
August 31, 2012	74,494	878	5.2%
July 31, 2012	75,543	866	5.1%
June 29, 2012	205,834	2,287	16.1%
May 31, 2012	72,407	815	5.7%
April 30, 2012	81,773	893	7.2%
March 30, 2012	85,063	930	7.5%
February 29, 2012	77,764	833	6.7%
January 31, 2012	69,864	771	6.9%
December 30, 2011	85,252	896	8.1%
November 30, 2011	90,677	854	7.7%
October 31, 2011	94,213	868	7.8%
September 30, 2011	89,078	853	7.7%
August 31, 2011	100,634	845	7.6%
July 31, 2011	106,869	931	8.4%
June 30, 2011	102,890	1,041	9.6%
May 31, 2011	92,813	941	9.5%
April 29, 2011	78,689	909	9.2%
March 31, 2011	76,377	917	10.3%
February 28, 2011	76,253	926	10.4%
January 31, 2011	83,021	1,004	11.3%
December 31, 2010	84,155	958	10.8%
November 30, 2010	89,603	970	11.2%
October 29, 2010	87,941	865	10.4%
September 30, 2010	92,999	913	11.6%
August 31, 2010	90,006	876	11.5%
July 30, 2010	89,620	833	10.3%
June 30, 2010	83,875	822	11.9%

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Stock Performance Graph

This graph compares the return on our common stock with that of the Standard & Poor's 500 Stock Index and the NASDAQ Financial 100 Index, for the period July 1, 2008 through June 30, 2013. The graph assumes that, on July 1, 2008, a person invested \$100 in each of our common stock, the S&P 500 Index, and the NASDAQ Financial 100 Index. The graph measures total shareholder return, which takes into account both changes in stock price and dividends. It assumes that dividends paid are invested in like securities.



The graph and other information furnished under this Part II, Item 5 of this annual report on Form 10-K shall not be deemed to be "soliciting material" or to be "filed" with the SEC or subject to Regulation 14A or 14C, or to the liabilities of Section 18 of the 1934 Act. The stock price performance included in the above graph is not necessarily indicative of future stock performance.

Item 6. Selected Financial Data.

The following selected financial data is derived from our financial statements which have been audited by BDO USA, LLP, our independent registered public accounting firm. The financial data should be read in conjunction with our financial statements and related notes thereto and "Management's Discussion and Analysis of Financial Condition and Results of Operations" included below in this annual report.

	For the Year Ended June 30,				
	2013	2012	2011	2010	2009
	(in thousands except data relating to shares, per share and number of portfolio companies)				
Performance Data:					
Interest income	\$ 435,455	\$ 219,536	\$ 134,454	\$ 86,518	\$ 62,926
Dividend income	82,705	64,881	15,092	15,366	22,793
Other income	58,176	36,493	19,930	12,675	14,762
Total investment income	576,336	320,910	169,476	114,559	100,481
Interest and credit facility expenses	(76,341)	(38,534)	(17,598)	(8,382)	(6,161)
Investment advisory expense	(151,031)	(82,507)	(46,051)	(30,727)	(26,705)
Other expenses	(24,040)	(13,185)	(11,606)	(8,260)	(8,452)
Total expenses	(251,412)	(134,226)	(75,255)	(47,369)	(41,318)
Net investment income	324,924	186,684	94,221	67,190	59,163
Realized and unrealized (losses) gains	(104,068)	4,220	24,017	(47,565)	(24,059)
Net increase in net assets from operations	\$ 220,856	\$ 190,904	\$ 118,238	\$ 19,625	\$ 35,104
Per Share Data:					
Net increase in net assets from operations(1)	\$ 1.07	\$ 1.67	\$ 1.38	\$ 0.33	\$ 1.11
Distributions declared per share	\$ (1.28)	\$ (1.22)	\$ (1.21)	\$ (1.33)	\$ (1.62)
Average weighted shares outstanding for the period	207,069,971	114,394,554	85,978,757	59,429,222	31,559,905
Assets and Liabilities Data:					
Investments	\$ 4,172,852	\$ 2,094,221	\$ 1,463,010	\$ 748,483	\$ 547,168
Other assets	275,365	161,033	86,307	84,212	119,857
Total assets	4,448,217	2,255,254	1,549,317	832,695	667,025
Amount drawn on credit facility	124,000	96,000	84,200	100,300	124,800
Senior convertible notes	847,500	447,500	322,500	—	—
Senior unsecured notes	347,725	100,000	—	—	—
InterNotes®	363,777	20,638	—	—	—
Amount owed to related parties	6,690	8,571	7,918	9,300	6,713
Other liabilities	102,031	70,571	20,342	11,671	2,916
Total liabilities	1,791,723	743,280	434,960	121,271	134,429
Net assets	\$ 2,656,494	\$ 1,511,974	\$ 1,114,357	\$ 711,424	\$ 532,596
Investment Activity Data:					
No. of portfolio companies at period end	124	85	72	58	30
Acquisitions	\$ 3,103,217	\$ 1,120,659	\$ 953,337	\$ 364,788(2)	\$ 98,305
Sales, repayments, and other disposals	\$ 931,534	\$ 500,952	\$ 285,562	\$ 136,221	\$ 27,007
Total return based on market value(3)	6.2%	27.2%	17.2%	17.7%	(18.6)%
Total return based on net asset value(3)	10.9%	18.0%	12.5%	(6.8)%	(0.6)%
Weighted average yield at end of period(4)	13.6%	13.9%	12.8%	16.2%	14.6%

(1) Per share data is based on average weighted shares for the period

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- (2) Includes \$207,126 of acquired portfolio investments from Patriot Capital Funding, Inc.
- (3) Total return based on market value is based on the change in market price per share between the opening and ending market prices per share in each period and assumes that dividends are reinvested in accordance with our dividend reinvestment plan. Total return based on net asset value is based upon the change in net asset value per share between the opening and ending net asset values per share in each period and assumes that dividends are reinvested in accordance with our dividend reinvestment plan.
- (4) Excludes equity investments and non-performing loans.

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Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations. *(All figures in this item are in thousands except per share and other data)*

The following discussion should be read in conjunction with our financial statements and related notes and other financial information appearing elsewhere in this annual report. In addition to historical information, the following discussion and other parts of this annual report contain forward-looking information that involves risks and uncertainties. Our actual results could differ materially from those anticipated by such forward-looking information due to the factors discussed under Part I, Item 1A "Risk Factors" and "Note about Forward-Looking Statements" appearing elsewhere herein.

Overview

We are a financial services company that primarily lends to and invests in middle market privately-held companies. We are a closed-end investment company 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 and recapitalization. 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 seven 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, and (7) investments in syndicated debt. 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 mezzanine 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. This strategy has represented approximately 50%-60% 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. This strategy generally has comprised approximately 10%-15% 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, subprime auto lending and other strategies. Our investments in these companies are generally structured as a combination of yield-producing debt and equity. These investments are often structured in a tax-efficient RIC-compliant partnership, enhancing returns. This strategy has comprised approximately 10%-15% of our business.

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Investments in Structured Credit—We make investments in 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 represented 10%-20% of the portfolio.

Real Estate Investments—We make investments in real estate through our wholly-owned tax-efficient REIT, APHC. 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. We 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 represented less than 5% of our business.

Investments in Syndicated Debt—On an opportunistic basis, we make investments in loans and high yield bonds that have been sold to a syndicate of buyers. Here we look for investments with attractive risk-adjusted returns after we have completed a fundamental credit analysis. These investments are purchased with a long term, buy-and-hold outlook and we look to provide significant structuring input by providing anchoring orders. This strategy has represented approximately 5%-10% of the portfolio.

We invest primarily in first and second lien senior loans and mezzanine debt, which in some cases includes an equity component. First and second lien senior loans generally are senior debt instruments that rank ahead of subordinated debt of a given portfolio company. These loans also have the benefit of security interests on the assets of the portfolio company, which may rank ahead of or be junior to other security interests. Mezzanine debt and our investments in CLOs are subordinated to senior loans and are generally unsecured. 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 depending on the tranche.

We seek to be a long-term investor with our portfolio companies. The aggregate value of our portfolio investments was \$4,172,852 and \$2,094,221 as of June 30, 2013 and June 30, 2012, respectively. During the year ended June 30, 2013, our net cost of investments increased by \$2,156,465, or 102.7%, as a result of 68 new investments, 25 follow-on investments and several revolver advances of \$3,043,531, accrued of payment-in-kind interest of \$10,947, structuring fees of \$52,699 and amortization of discounts and premiums of \$11,016, while we received full repayment on 23 investments, sold ten investments, impaired one investment, and received several partial prepayments, amortization payments and a revolver repayment, totaling \$931,534.

Compared to the end of last fiscal year (ended June 30, 2012), net assets increased by \$1,144,520, or 75.7% during the year ended June 30, 2013, from \$1,511,974 to \$2,656,494. This increase resulted from the issuance of new shares of our common stock (less offering costs) in the amount of \$1,179,084, dividend reinvestments of \$16,087, and \$220,856 from operations. These increases, in turn, were offset by \$271,507 in dividend distributions to our stockholders. The \$220,856 increase in net assets resulting from operations is net of the following: net investment income of \$324,924, net realized loss on investments of \$26,234, and a decrease in net assets due to changes in net unrealized depreciation of investments of \$77,834.

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

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Fourth Quarter Highlights

Investment Transactions

On April 1, 2013, we refinanced our existing \$18,635 of subordinated loans to Ajax Rolled Ring & Machine, Inc. ("Ajax"), increasing the size of our debt investment to \$38,537. Concurrent with the refinancing, we received repayment of the \$18,635 subordinated loans that were previously outstanding. The subordinated unsecured term loan bears interest in cash at the greater of 11.5% or Libor plus 8.5% and interest payment in kind of 6.0% and has a final maturity of March 30, 2018.

On April 15, 2013, assets previously held by H&M were assigned to Wolf in exchange for a \$66,000 term loan secured by the assets. Our cost basis in this loan of \$44,632 was determined in accordance with ASC 310-40, *Troubled Debt Restructurings by Creditors*, and is equal to the fair value of assets at the time of transfer and we recorded a realized loss of \$19,647 in connection with the foreclosure on the assets. On May 17, 2013, Wolf sold certain of the assets that had been previously held by H&M that were located in Martin County to Hibernia for \$66,000. Proceeds from the sale were primarily used to repay the loan and NPI receivable due to us and we recognized as a realized gain of \$11,826 partially offsetting the previously recorded loss. We received \$3,960 of structuring and advisory fees from Wolf during the year ended June 30, 2013 related to the sale and \$991 under the NPI agreement which was recognized as other income during the fiscal year ended June 30, 2013.

On April 17, 2013, we made an investment of \$43,650 to purchase 97% of the subordinated notes in Mountain View CLO 2013-I Ltd. ("Mountain View").

On April 22, 2013, we provided \$34,375 of senior secured financing, of which \$31,875 was funded at closing, to support the acquisition of Pegasus Business Intelligence, LP ("Pegasus"), the world's largest processor of commissions paid by hotels to travel agencies for room booking services. The \$15,938 Term Loan A note bears interest in cash at the greater of 6.75% or Libor plus 5.5% and has a final maturity of April 18, 2018. The \$15,938 Term Loan B note bears interest in cash at the greater of 13.75% or Libor plus 12.5% and has a final maturity of April 18, 2018. The \$2,500 senior secured revolver, which was unfunded at closing, bears interest in cash at the greater of 9.0% or Libor plus 7.75% and has a final maturity of April 18, 2014.

On April 25, 2013, we made an investment of \$26,000 to purchase 50.9% of the subordinated notes in Brookside Mill CLO Ltd. ("Brookside").

On April 30, 2013, we made a \$21,247 follow-on investment in APH, to acquire Lofton Place Apartments and Vista at Palma Sola, multi-family residential properties located in Florida. We invested \$3,247 of equity and \$18,000 of debt in APH. The senior secured note bears interest in cash at the greater of 6.0% or Libor plus 4.0% and interest payment in kind of 5.50% and has a final maturity of October 24, 2020.

On April 30, 2013, we sold our investment in Fischbein, LLC ("Fischbein") for net proceeds of \$3,168, recognizing a realized gain of \$2,293 on the sale. In addition, there is \$310 being held in escrow which will be recognized as additional gain if and when received.

On May 8, 2013, we made a \$6,119 follow-on investment in APH, to acquire Arlington Park, a multi-family residential property located in Marietta, Georgia. We invested \$2,119 of equity and \$4,000 of debt in APH. The senior secured note bears interest in cash at the greater of 6.0% or Libor plus 4.0% and interest payment in kind of 5.50% and has a final maturity of October 24, 2020.

On May 9, 2013, we provided a \$55,000 senior secured credit facility to support the recapitalization of Sandow Media, LLC ("Sandow"), a provider of multimedia content and services to businesses and consumers focused on the areas of design and luxury. The senior secured first lien loan bears interest in cash at the greater of 10.5% or Libor plus 8.5% and interest payment in kind of 1.5% and has a final maturity of May 8, 2018.

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On May 10, 2013, we provided \$150,000 of secured second lien financing to support the recapitalization of Arctic Glacier, Inc. ("Arctic Glacier"), a leading producer, marketer, and distributor of high-quality packaged ice to consumers in the United States and Canada. After the financing, we received repayment of \$86,982 of subordinated unsecured term loan previously outstanding. The senior secured second lien loan bears interest in cash at the greater of 11.25% or Libor plus 10.0% and has a final maturity of November 10, 2019.

On May 14, 2013, we provided \$4,000 of senior secured financing to SourceHOV, LLC ("SourceHOV"), a leading provider of business and knowledge process outsourcing. The second lien term loan bears interest in cash at the greater of 8.75% or Libor plus 7.5% and has a final maturity of April 30, 2019. On June 13, 2013, we sold our \$4,000 investment in SourceHOV and realized a gain of \$40 on this investment.

On May 16, 2013, Out Rage, LLC ("Out Rage") repaid the \$11,836 loan receivable to us.

On May 23, 2013, Snacks Holding Corporation ("Snacks Holding") repaid the \$15,366 loan receivable to us.

On May 31, 2013, we made a follow-on secured second lien debt investment of \$7,190 in Injured Workers Pharmacy LLC ("IWP"), a specialty pharmacy services company. The secured second lien loan bears interest in cash at the greater of 11.5% or Libor plus 7.0% and interest payment in kind of 1.0% and has a final maturity of May 31, 2019.

On June 3, 2013, Nobel Learning Communities, Inc. ("Nobel") repaid the \$15,262 loan receivable to us.

On June 4, 2013, Springs Window Fashions, LLC ("Springs") repaid the \$35,000 loan receivable to us.

On June 11, 2013, we provided \$115,000 of senior secured financing to CI Holdings ("Transplace"), a third-party logistics company that services many of the largest shippers in the world. The senior secured first lien loan bears interest in cash at the greater of 10.0% or Libor plus 5.0% and has a final maturity of June 11, 2019.

On June 11, 2013, we provided \$7,000 of secured second lien financing to Armor Holding II LLC ("AST"), a leading North American third-party provider of share registry and associated value added services to shareholders on behalf of listed public companies. The second lien loan bears interest in cash at the greater of 9.25% or Libor plus 8.0% and has a final maturity of December 26, 2020.

On June 12, 2013, we made a \$23,250 follow-on investment in R-V Industries, Inc. ("R-V"). The senior subordinated note bears interest in cash at the greater of 10.0% or Libor plus 9.0% and has a final maturity of June 12, 2018.

On June 14, 2013, we sold our \$10,000 investment in Transaction Networks Services, Inc. ("TNS") and realized a gain of \$117 on this investment.

On June 18, 2013, we served as sole agent and provider of \$70,000 senior secured financing, of which \$65,643 was funded at closing, to support the recapitalization of Traeger Pellet Grills LLC ("Traeger"), a leading designer, marketer, and distributor of wood pellet grills, flavored wood pellets, and grill accessories. The \$30,000 Term Loan A note bears interest in cash at the greater of 6.5% or Libor plus 4.5% and has a final maturity of June 18, 2018. The \$30,000 Term Loan B note bears interest in cash at the greater of 11.5% or Libor plus 9.5% and has a final maturity of June 18, 2018. The \$10,000 senior secured revolver, of which \$5,643 was drawn at closing, bears interest in cash at the greater of 9.0% or Libor plus 7.0% and has a final maturity of June 18, 2014.

On June 24, 2013, we made a \$76,533 follow-on investment in APH, to acquire Arium Resort (f/k/a The Resort at Pembroke Pines), a prominent multi-family residential community located in

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Pembroke Pines, Florida. We invested \$13,533 of equity and \$63,000 of debt in APH. The senior secured note bears interest in cash at the greater of 6.0% or Libor plus 4.0% and interest payment in kind of 5.50% and has a final maturity of October 24, 2020.

On June 25, 2013, we made an investment of \$26,500 to purchase 84.13% of the subordinated notes in LCM XIV CLO Ltd. ("LCM XIV").

On June 27, 2013, we provided \$11,000 of secured second lien financing to Blue Coat Systems, Inc. ("Blue Coat"), a leading provider of web security and wide area network (WAN) optimization solutions. The second lien note bears interest in cash at the greater of 9.5% or Libor plus 8.5% and has a final maturity of June 28, 2020.

On June 27, 2013, we made a follow-on secured debt investment of \$87,500 to support the recapitalization of Progrexion Holdings, Inc. ("Progrexion"). After the financing, we now hold \$241,033 of senior secured debt of Progrexion. The senior secured first lien note bears interest in cash at the greater of 10.5% or Libor plus 8.5% and has a final maturity of September 14, 2017.

On June 28, 2013, Sandow repaid \$30,100 of the \$55,000 loan receivable to us. After the repayment, we now hold \$24,900 of senior secured debt of Sandow.

On June 28, 2013, we made a \$1,000 follow-on investment in Ajax. The subordinated unsecured term loan bears interest in cash at the greater of 11.5% or Libor plus 8.5% and interest payment in kind of 6.0% and has a final maturity of March 30, 2018.

On June 28, 2013, we made an \$18,000 secured debt follow-on investment in New Star Metals, Inc. ("New Star"), a provider of specialized processing services to the steel industry. The senior subordinated term loan bears interest in cash at 11.5% and interest payment in kind of 1.0% and has a final maturity of February 2, 2018.

In June 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 market value.

Equity Issuance

During the period from April 1, 2013 to May 31, 2013, we sold 8,836,237 shares of our common stock at an average price of \$10.92 per share, and raised \$96,476 of gross proceeds, under the ATM Program. Net proceeds were \$95,474 after commissions to the broker-dealer on shares sold and offering costs. No additional shares were sold from June 1, 2013 to June 30, 2013.

On April 18, 2013, May 23, 2013 and June 20, 2013, we issued 138,087, 117,497 and 117,107 shares of our common stock in connection with the dividend reinvestment plan, respectively.

Dividend

On May 6, 2013, we announced the declaration of monthly dividends in the following amounts and with the following dates:

- \$0.110125 per share for May 2013 to holders of record on May 31, 2013 with a payment date of June 20, 2013;
- \$0.110150 per share for June 2013 to holders of record on June 28, 2013 with a payment date of July 18, 2013;
- \$0.110175 per share for July 2013 to holders of record on July 31, 2013 with a payment date of August 22, 2013; and
- \$0.110200 per share for August 2013 to holders of record on August 30, 2013 with a payment date of September 19, 2013.

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On June 17, 2013, we announced the declaration of monthly dividends in the following amounts and with the following dates:

- \$0.110225 per share for September 2013 to holders of record on September 30, 2013 with a payment date of October 24, 2013;
- \$0.110250 per share for October 2013 to holders of record on October 31, 2013 with a payment date of November 21, 2013;
- \$0.110275 per share for November 2013 to holders of record on November 29, 2013 with a payment date of December 19, 2013; and
- \$0.110300 per share for December 2013 to holders of record on December 31, 2013 with a payment date of January 23, 2014.

Debt Issuance

During the quarter ended June 30, 2013, we issued \$164,376 in aggregate principal amount of our Prospect Capital InterNotes® for net proceeds of approximately \$159,983, as follows:

<u>Date of Issuance</u>	<u>Principal Amount</u>	<u>Interest Rate Range</u>	<u>Weighted Average Interest Rate</u>	<u>Maturity Date</u>
April 4, 2013 - April 25, 2013	\$ 29,528	4.50% - 5.00%	4.96%	April 15, 2020
April 4, 2013 - April 25, 2013	264	3.78% - 3.78%	3.78%	April 15, 2023
April 4, 2013 - April 25, 2013	5,164	4.63% - 5.50%	5.34%	April 15, 2031
April 4, 2013 - April 25, 2013	12,280	6.00%	6.00%	April 15, 2043
May 2, 2013 - May 31, 2013	42,482	5.00%	5.00%	May 15, 2020
May 2, 2013 - May 31, 2013	10,000	5.00%	5.00%	May 15, 2028
May 2, 2013 - May 31, 2013	7,548	5.75%	5.75%	May 15, 2031
May 2, 2013 - May 31, 2013	33,641	6.25%	6.25%	May 15, 2043
June 6, 2013 - June 27, 2013	9,905	5.00% - 5.25%	5.04%	June 15, 2020
June 6, 2013 - June 27, 2013	5,000	5.00%	5.00%	June 15, 2028
June 6, 2013 - June 27, 2013	1,707	5.75% - 6.00%	5.85%	June 15, 2031
June 6, 2013 - June 27, 2013	6,857	6.25% - 6.50%	6.31%	June 15, 2043
	\$ 164,376			

Investment Holdings

As of June 30, 2013, we continue to pursue our diversified investment strategy. At June 30, 2013, approximately \$4,172,852 or 157.1% of our net assets are invested in 124 long-term portfolio investments and CLOs and 5.4% of our net assets are invested in money market funds.

During the year ended June 30, 2013, we originated \$3,103,217 of new investments. Our origination efforts are focused primarily on secured lending, to reduce the risk in the portfolio, investing primarily in first lien loans, and subordinated notes in CLOs, though we also continue to close select junior debt and equity investments. In addition to targeting investments senior in corporate capital structures with our new originations, we have also increased our origination business mix of third party private equity sponsor owned companies, which tend to have more third party equity capital supporting our debt investments than non-sponsor transactions. Our annualized current yield was 13.9% and 13.6% as of June 30, 2012 and June 30, 2013, respectively, across all performing interest bearing investments. The decrease in our current yield is primarily due to recent originations being at lower yields than the existing portfolio. Monetization of equity positions that we hold and loans on non-accrual status are not included in this yield calculation. In many of our portfolio companies we hold equity positions, ranging from minority interests to majority stakes, which we expect over time to

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contribute to our investment returns. Some of these equity positions include features such as contractual minimum internal rates of returns, preferred distributions, flip structures and other features expected to generate additional investment returns, as well as contractual protections and preferences over junior equity, in addition to the yield and security offered by our cash flow and collateral debt protections.

We classify our investments by level of control. As defined in the 1940 Act, control investments are those where there is the ability or power to exercise a controlling influence over the management or policies of a company. Control is generally deemed to exist when a company or individual possesses or has the right to acquire within 60 days or less, a beneficial ownership of more than 25% of the voting securities of an investee company. Affiliated investments and affiliated companies 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 the investee company.

As of June 30, 2013, we own controlling interests in AIRMALL USA, Inc. ("AIRMALL"), Ajax, APH, AWCNC, LLC, Borga, Inc., CCPI Holdings, Inc. ("CCPI"), Credit Central Holdings of Delaware, LLC ("Credit Central"), Energy Solutions Holdings, Inc. (f/k/a Gas Solutions Holdings, Inc.) ("Energy Solutions"), First Tower Holdings of Delaware, LLC ("First Tower Delaware"), Manx Energy, Inc. ("Manx"), Nationwide Acceptance Holdings, LLC ("Nationwide"), NMMB Holdings, Inc. ("NMMB"), R-V Industries, Inc. ("R-V"), The Healing Staff, Inc. ("THS"), Valley Electric Holdings I, Inc. ("Valley Electric") and Wolf Energy Holdings, Inc. ("Wolf"). We also own an affiliated interest in BNN Holdings Corp. (f/k/a Biotronic NeuroNetwork) ("Biotronic"), Boxercraft Incorporated ("Boxercraft") and Smart, LLC.

The following is a summary of our investment portfolio by level of control at June 30, 2013 and June 30, 2012, respectively:

Level of Control	June 30, 2013				June 30, 2012			
	Cost	Percent of Portfolio	Fair Value	Percent of Portfolio	Cost	Percent of Portfolio	Fair Value	Percent of Portfolio
Control	\$ 830,151	19.5%	\$ 811,634	19.5%	\$ 518,015	24.7%	\$ 564,489	27.0%
Affiliate	49,189	1.2%	42,443	1.0%	44,229	2.1%	46,116	2.2%
Non-control/Non-affiliate	3,376,438	79.3%	3,318,775	79.5%	1,537,069	73.2%	1,483,616	70.8%
Total Portfolio	\$ 4,255,778	100.0%	\$ 4,172,852	100.0%	\$ 2,099,313	100.0%	\$ 2,094,221	100.0%

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The following is our investment portfolio presented by type of investment at June 30, 2013 and June 30, 2012, respectively:

Type of Investment	June 30, 2013				June 30, 2012			
	Cost	Percent of Portfolio	Fair Value	Percent of Portfolio	Cost	Percent of Portfolio	Fair Value	Percent of Portfolio
Revolving Line of Credit	\$ 9,238	0.2%	\$ 8,729	0.2%	\$ 1,145	0.1%	\$ 868	0.0%
Senior Secured Debt	2,262,327	53.1%	2,207,091	52.8%	1,146,454	54.6%	1,080,053	52.0%
Subordinated Secured Debt	1,062,386	25.0%	1,024,901	24.6%	536,900	25.6%	488,113	22.9%
Subordinated Unsecured Debt	88,470	2.1%	88,827	2.1%	72,617	3.5%	73,195	3.5%
CLO Debt	27,667	0.7%	28,589	0.7%	27,258	1.3%	27,717	1.3%
CLO Residual Interest	660,619	15.5%	658,086	15.8%	214,559	10.2%	218,009	10.4%
Preferred Stock	25,016	0.6%	14,742	0.4%	31,323	1.5%	29,155	1.4%
Common Stock	117,678	2.7%	108,494	2.6%	61,459	2.9%	137,198	6.6%
Membership Interests	216	0.0%	492	0.0%	5,437	0.2%	13,844	0.7%
Overriding Royalty Interests	—	—%	—	—%	—	—%	1,623	0.1%
Net Profit Interests	—	—%	20,959	0.5%	—	—%	—	—%
Escrows Receivable	—	—%	4,662	0.1%	—	—%	17,686	0.8%
Warrants	2,161	0.1%	7,280	0.2%	2,161	0.1%	6,760	0.3%
Total Portfolio	<u>\$ 4,255,778</u>	<u>100.0%</u>	<u>\$ 4,172,852</u>	<u>100.0%</u>	<u>\$ 2,099,313</u>	<u>100.0%</u>	<u>\$ 2,094,221</u>	<u>100.0%</u>

The following is our investments in interest bearing securities presented by type of security at June 30, 2013 and June 30, 2012, respectively:

Type of Investment	June 30, 2013				June 30, 2012			
	Cost	Percent of Debt Securities	Fair Value	Percent of Debt Securities	Cost	Percent of Debt Securities	Fair Value	Percent of Debt Securities
First Lien	\$ 2,271,565	55.3%	\$ 2,215,820	55.2%	\$ 1,147,599	57.4%	\$ 1,088,887	57.6%
Second Lien	1,062,386	25.8%	1,024,901	25.5%	536,900	26.9%	480,147	25.4%
Unsecured	88,470	2.2%	88,827	2.2%	72,617	3.6%	73,195	3.9%
CLO Residual Interest	660,619	16.0%	658,086	16.4%	214,559	10.7%	218,009	11.6%
CLO Debt	27,667	0.7%	28,589	0.7%	27,258	1.4%	27,717	1.5%
Total Debt Securities	<u>\$ 4,110,707</u>	<u>100.0%</u>	<u>\$ 4,016,223</u>	<u>100.0%</u>	<u>\$ 1,998,933</u>	<u>100.0%</u>	<u>\$ 1,887,955</u>	<u>100.0%</u>

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The following is our investment portfolio presented by geographic location of the investment at June 30, 2013 and June 30, 2012, respectively:

Geographic Location	June 30, 2013				June 30, 2012			
	Cost	Percent of Portfolio	Fair Value	Percent of Portfolio	Cost	Percent of Portfolio	Fair Value	Percent of Portfolio
Canada	\$ 165,000	3.9%	\$ 165,000	4.0%	\$ 15,134	0.7%	\$ 17,040	0.8%
Cayman Islands	688,286	16.2%	686,675	16.5%	241,817	11.5%	245,726	11.7%
Ireland	14,927	0.4%	15,000	0.4%	14,918	0.7%	15,000	0.7%
Midwest US	565,239	13.3%	531,934	12.7%	427,430	20.4%	377,139	18.0%
Northeast US	649,484	15.3%	663,025	15.9%	293,181	14.0%	313,437	15.0%
Puerto Rico	41,352	1.0%	41,352	1.0%	—	—%	—	—%
Southeast US	1,111,946	26.0%	1,081,320	25.8%	642,984	30.6%	634,945	30.4%
Southwest US	345,392	8.1%	336,362	8.1%	193,627	9.2%	234,433	11.2%
Western US	674,152	15.8%	652,184	15.6%	270,222	12.9%	256,501	12.2%
Total Portfolio	<u>\$ 4,255,778</u>	<u>100.0%</u>	<u>\$ 4,172,852</u>	<u>100.0%</u>	<u>\$ 2,099,313</u>	<u>100.0%</u>	<u>\$ 2,094,221</u>	<u>100.0%</u>

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The following is our investment portfolio presented by industry sector of the investment at June 30, 2013 and June 30, 2012, respectively:

Industry	June 30, 2013				June 30, 2012			
	Cost	Percent of Portfolio	Fair Value	Percent of Portfolio	Cost	Percent of Portfolio	Fair Value	Percent of Portfolio
Aerospace and Defense	\$ 56	0.0%	\$ —	—%	\$ 56	0.0%	\$ —	—%
Automobile / Auto Finance	23,214	0.6%	22,917	0.5%	32,806	1.6%	32,478	1.6%
Biotechnology	—	—%	14	0.0%	—	—%	—	—%
Business Services	180,793	4.2%	179,544	4.3%	3,164	0.2%	3,288	0.2%
Chemicals	28,364	0.7%	28,648	0.7%	58,104	2.8%	58,104	2.8%
Commercial Services	252,073	5.9%	252,073	6.0%	80,418	3.8%	80,407	3.8%
Construction and Engineering	53,615	1.3%	53,615	1.3%	—	—%	—	—%
Consumer Finance	413,332	9.7%	406,964	9.8%	305,521	14.6%	305,521	14.6%
Consumer Services	330,343	7.8%	332,394	8.0%	146,335	7.0%	147,809	7.1%
Contracting	2,145	0.1%	—	—%	15,949	0.8%	—	—%
Diversified Financial Services	745,705	17.5%	742,434	17.8%	260,219	12.3%	264,128	12.6%
Diversified / Conglomerate Service	—	—%	143	0.0%	—	—%	35	0.0%
Durable Consumer Products	380,225	8.9%	370,207	8.9%	153,327	7.3%	152,862	7.3%
Ecological	141	0.0%	335	0.0%	141	0.0%	240	0.0%
Electronics	—	—%	149	0.0%	—	—%	144	0.0%
Energy	63,895	1.5%	56,321	1.3%	63,245	3.0%	126,868	6.1%
Food Products	177,423	4.2%	177,428	4.3%	101,975	4.9%	96,146	4.5%
Healthcare	275,124	6.5%	273,838	6.6%	141,990	6.8%	143,561	6.9%
Hotel, Restaurant & Leisure	11,764	0.3%	12,000	0.3%	—	—%	—	—%
Insurance	—	—%	—	—%	83,461	4.0%	83,461	4.0%
Machinery	396	0.0%	790	0.0%	4,684	0.2%	6,485	0.3%
Manufacturing	163,431	3.8%	167,584	4.0%	95,191	4.5%	127,127	6.1%
Media	171,290	4.0%	161,325	3.9%	165,866	7.9%	161,843	7.7%
Metal Services and Minerals	60,162	1.4%	60,274	1.4%	—	—%	—	—%
Oil and Gas Equipment Services	—	—%	—	—%	7,188	0.3%	7,391	0.4%
Oil and Gas Production	75,126	1.8%	24,420	0.6%	130,928	6.2%	38,993	1.9%
Personal and Nondurable Consumer Products	39,000	0.9%	39,630	0.9%	39,351	1.8%	39,968	1.9%
Production Services	—	—%	—	—%	268	0.0%	2,040	0.1%
Property Management	51,170	1.2%	54,648	1.3%	51,770	2.5%	47,982	2.2%
Real Estate	152,540	3.6%	152,540	3.7%	—	—%	—	—%
Retail	14,190	0.3%	14,569	0.3%	63	0.0%	129	0.0%
Software & Computer Services	307,734	7.2%	309,308	7.4%	53,908	2.6%	54,711	2.6%
Specialty Minerals	38,500	0.9%	42,558	1.0%	37,732	1.8%	44,562	2.1%
Textiles, Apparel & Luxury Goods	99,500	2.3%	99,323	2.4%	—	—%	—	—%
Textiles and Leather	16,760	0.4%	9,385	0.2%	15,123	0.7%	17,161	0.8%

Transportation	127,767	3.0%	127,474	3.1%	50,530	2.4%	50,777	2.4%
Total Portfolio	<u>\$ 4,255,778</u>	<u>100.0%</u>	<u>\$ 4,172,852</u>	<u>100.0%</u>	<u>\$ 2,099,313</u>	<u>100.0%</u>	<u>\$ 2,094,221</u>	<u>100.0%</u>

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Portfolio Investment Activity

During the year ended June 30, 2013, we acquired \$2,574,755 of new investments, completed follow-on investments in existing portfolio companies, totaling approximately \$496,371, funded \$21,143 of revolver advances, and recorded PIK interest of \$10,947, resulting in gross investment originations of \$3,103,217. The more significant of these investments are described briefly in the following:

On July 5, 2012, we made a senior secured debt investment of \$28,000 to support the acquisition of Material Handling Services, LLC, d/b/a/ Total Fleet Solutions ("TFS"), a provider of forklift and other material handling equipment fleet management and procurement services, by funds managed by CI Capital Partners, LLC. The senior secured term loan bears interest in cash at the greater of 10.5% or Libor plus 8.5% and has a final maturity of July 5, 2017.

On July 16, 2012, we provided \$15,000 of secured second lien financing to Pelican Products, Inc., a leading provider of unbreakable, watertight protective cases and technically advanced professional lighting equipment. The second lien term loan bears interest in cash at the greater of 11.5% or Libor plus 10.0% and has a final maturity of June 14, 2019.

On July 20, 2012, we provided \$12,000 of senior secured financing to EIG Investors Corp ("EIG"), a provider of an array of online services such as web presence, domain hosting, e-commerce, e-mail and other related services to small- and medium-sized businesses. The second lien term loan bears interest in cash at the greater of 11.0% or Libor plus 9.5% and has a final maturity of October 22, 2018.

On July 20, 2012, we provided \$10,000 of senior secured financing to FPG, LLC ("FPG"), a supplier of branded consumer and commercial products sold to the retail, foodservice, and hospitality sectors. The note payable bears interest in cash at the greater of 12.0% or Libor plus 11.0% and has a final maturity of January 20, 2017.

On July 27, 2012, we provided \$85,000 of subordinated financing to support the acquisition of substantially all the assets of Arctic Glacier Income Funds by funds affiliated with H.I.G. The new company, Arctic Glacier U.S.A., Inc., will continue to conduct business under the "Arctic Glacier" name and be a leading producer, marketer, and distributor of high-quality packaged ice to consumers in Canada and the United States. The unsecured subordinated term loan bears interest in cash at 12.0% and interest payment in kind of 3.0% and has a final maturity of July 27, 2019.

On August 2, 2012, we provided a \$27,000 secured loan to support the acquisition of New Star, a provider of specialized processing services to the steel industry, by funds managed by Insight Equity Management Company. The senior subordinated note bears interest in cash at the greater of 11.5% or Libor plus 8.5% and interest payment in kind of 1.0% and has a final maturity of February 2, 2018.

On August 3, 2012, we provided \$120,000 of senior secured financing, of which \$110,000 was funded at closing, to support the acquisition of InterDent, Inc. ("Interdent"), a leading provider of dental practice management services to dental professional corporations and associations in the United States, by funds managed by H.I.G. The \$55,000 Term Loan A note bears interest in cash at the greater of 8.0% or Libor plus 6.5% and has a final maturity of August 3, 2017. The \$55,000 Term Loan B note bears interest in cash at the greater of 13.0% or Libor plus 10.0% and has a final maturity of August 3, 2017. The \$10,000 senior secured revolver, which was unfunded at closing, bears interest in cash at the greater of 10.5% or Libor plus 8.25% and matured on February 3, 2013.

On August 3, 2012, we provided \$44,000 of secured subordinated financing to support the refinancing of New Century Transportation, Inc., a leading transportation and logistics company.

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The senior subordinated loan bears interest in cash at the greater of 12.0% or Libor plus 10.0% and interest payment in kind of 3.0% and has a final maturity of February 3, 2018.

On August 3, 2012, we provided \$10,000 of senior secured financing to Pinnacle (US) Acquisition Co Limited, the largest multi-national software company focused on the delivery of analytical and information management solutions for the discovery and extraction of subsurface natural resources. The second lien term loan originally bore interest in cash at the greater of 10.5% or Libor plus 8.25%. On January 17, 2013, we amended the terms of this investment and the first lien note bears interest in cash at the greater of 6.0% or Libor plus 4.0% and interest payment in kind of 5.5% as of June 30, 2013. The second lien term loan has a final maturity of August 3, 2020.

On August 6, 2012, we made an investment of \$22,210 to purchase 62.9% of the subordinated notes in Halcyon Loan Advisors Funding 2012-I, Ltd.

On August 7, 2012, we made an investment of \$36,798 to purchase 95.0% of the subordinated notes in ING IM CLO 2012-II, Ltd.

On August 17, 2012, we made a secured second lien investment of \$38,500 to support the recapitalization of American Gilsonite Company. The secured note bears interest in cash at 11.5% and has a final maturity of September 1, 2017. After the financing, on August 28, 2012, we received repayment of the \$37,732 loan previously outstanding.

On September 14, 2012, we invested an additional \$10,000 in Hoffmaster Group, Inc. The second lien term loan bears interest in cash at the greater of 11.0% or Libor plus 9.5% and has a final maturity of January 3, 2019.

On September 14, 2012, we made a secured investment of \$135,000 to support the recapitalization of Progrexion. Concurrent with the financing, we received repayment of the \$62,680 of loans that were previously outstanding. The senior secured loan bears interest in cash at the greater of 10.5% or Libor plus 8.5% and has a final maturity of September 14, 2017.

On September 27, 2012, we made an investment of \$45,746 to purchase 95% of the subordinated notes in ING IM CLO 2012-III, Ltd.

On September 28, 2012, we made an unsecured investment of \$10,400 to support the acquisition of Evanta Ventures, Inc., a diversified event management company. The subordinated note bears interest in cash at 12.0% and interest payment in kind of 1.0% and has a final maturity of September 28, 2018.

On September 28, 2012, we made a secured second lien investment of \$100,000 to support the recapitalization of United Sporting Companies, Inc. ("USC"), a national distributor of hunting, outdoor, marine and tackle products. The secured loan bears interest in cash at the greater of 12.75% or Libor plus 11.0% and has a final maturity of May 16, 2018.

On October 3, 2012, we made a senior secured investment of \$21,500 to support the acquisition of CP Well Testing, LLC, a leading provider of flowback services to oil and gas companies operating in Western Oklahoma and the Texas Panhandle. The first lien note bears interest in cash at the greater of 13.5% or Libor plus 11.0% and has a final maturity of October 3, 2017.

On October 11, 2012, we made a secured second lien investment of \$12,000 in Deltek, Inc., an enterprise software and information solutions provider for professional services firms, government contractors, and government agencies. The second lien note bears interest in cash at the greater of 10.0% or Libor plus 8.75% and has a final maturity of October 10, 2019.

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On October 12, 2012, we made a senior secured investment of \$42,000 to support the acquisition of Gulf Coast Machine and Supply Company, a preferred provider of value-added forging solutions to energy and industrial end markets. The first lien note bears interest in cash at the greater of 10.5% or Libor plus 8.5% and has a final maturity of October 12, 2017.

On October 18, 2012, we made a follow-on senior secured debt investment of \$20,000 in First Tower Delaware, to support seasonal growth in finance receivables due to increased holiday borrowing activity among its customer base. The first lien note bears interest in cash at the greater of 20.0% or Libor plus 18.5% and has a final maturity of June 30, 2022.

On October 24, 2012, we made an investment of \$7,800 in APH, to acquire an industrial real estate property occupied by Filet-of-Chicken, a chicken processor in Georgia. We invested \$1,809 of equity and \$6,000 of debt in APH. The first lien note originally bore interest in cash at the greater of 10.5% or Libor plus 8.5% and interest payment in kind of 2.0%. On January 17, 2013, we amended the terms of this investment and the first lien note bears interest in cash at the greater of 6.0% or Libor plus 4.0% and interest payment in kind of 5.5% as of June 30, 2013. The first lien note has a final maturity of October 24, 2020.

On November 5, 2012, we made an investment of \$39,475 to purchase 95.0% of the income notes in ING IM CLO 2012-IV, Ltd.

On November 9, 2012, we made a secured second lien investment of \$22,000 to support the recapitalization of EIG. Concurrent with the financing, we received a repayment of the \$12,000 loan previously outstanding. The new note bears interest in cash at the greater of 10.25% or Libor plus 9.0% and has a final maturity of May 9, 2020.

On November 26, 2012, we made a secured second lien investment of \$22,000 in The Petroleum Place, Inc., a provider of enterprise resource planning software focused on the oil & gas industry. The second lien note bears interest in cash at the greater of 10.0% or Libor plus 8.75% and has a final maturity of May 20, 2019.

On November 30, 2012, we made a secured second lien investment of \$9,500 to support the recapitalization of R-V. The second lien note bears interest in cash at the greater of 12.0% or Libor plus 9.0% and has a final maturity of May 30, 2018. As part of the recapitalization, we received a dividend of \$11,073 for our investment in R-V's common stock.

On December 6, 2012, we made an investment of \$38,291 to purchase 90% of the subordinated notes in Apidos CLO XI, LLC.

On December 13, 2012, we completed a \$33,921 recapitalization of CCPI, an international manufacturer of refractory materials and other consumable products for industrial applications. Through the recapitalization, Prospect acquired a controlling interest in CCPI for \$28,334 in cash and 467,928 unregistered shares of our common stock. The first lien note issued to CCPI bears interest in cash at a fixed rate of 10.0% and has a final maturity of December 31, 2017. The first lien note issued to CCPI bears interest in cash at a fixed rate of 12.0% and interest payment in kind of 7.0%, and has a final maturity of June 30, 2018.

On December 14, 2012, we provided \$10,000 of first lien financing to support the recapitalization of Prince Mineral Holding Corp. ("Prince"), a leading global specialty mineral processor and consolidator. The first lien note bears interest in cash at a fixed rate of 11.5% and has a final maturity of December 15, 2019.

On December 14, 2012, we made a \$3,000 follow-on investment in Focus Brands, Inc. The second lien note bears interest in cash at the greater of 10.25% or Libor plus 9.0% and has a final maturity of August 21, 2018.

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On December 17, 2012, we made a \$39,800 first lien investment in Coverall North America, Inc. ("Coverall"), a leading franchiser of commercial cleaning businesses. The first lien note bears interest in cash at the greater of 11.5% or Libor plus 8.5% and has a final maturity of December 17, 2017.

On December 17, 2012, we made a \$38,150 first lien follow-on investment in TFS, to support the acquisition of Miner Holding Company, Inc. The first lien note bears interest in cash at the greater of 10.0% or Libor plus 8.0% and has a final maturity of December 21, 2017.

On December 17, 2012, we made a secured debt investment of \$30,000 to support the recapitalization of Biotronic. After the financing, we received repayment of the \$26,227 loan that was previously outstanding. The new note bears interest in cash at the greater of 10.0% or Libor plus 8.0% and has a final maturity of December 17, 2017.

On December 19, 2012, we provided \$17,500 of senior secured second lien financing to Grocery Outlet, Inc., to support the recapitalization of a retailer of food, beverages and general merchandise. The second lien note bears interest in cash at the greater of 10.5% or Libor plus 9.25% and has a final maturity of June 17, 2019.

On December 19, 2012, we provided \$23,200 of senior secured second lien financing to support the recapitalization of TB Corp., a Mexican restaurant chain. The second lien note bears interest in cash at a fixed rate of 12.0% and interest payment in kind of 1.5% and has a final maturity of December 18, 2018.

On December 20, 2012, we made an additional follow-on senior secured debt investment of \$19,500 to support the recapitalization of Progrexion. After the financing, we held \$154,500 of senior secured debt of Progrexion. The first lien note bears interest in cash at the greater of 10.5% or Libor plus 8.5% and has a final maturity of September 14, 2017.

On December 21, 2012, we made a \$10,000 senior secured second lien follow-on investment in Seaton Corp. The second lien note bears interest in cash at the greater of 12.5% or Libor plus 9.0% and interest payment in kind of 2.0% and has a final maturity of March 14, 2015.

On December 21, 2012, we made a \$37,500 senior secured first lien investment in Lasership, Inc., a leading provider of regional same day and next day distribution services for premier e-commerce and product supply businesses. The first lien note bears interest in cash at the greater of 10.25% or Libor plus 8.25% and has a final maturity of December 21, 2017.

On December 21, 2012, we made a \$12,000 senior secured first lien follow-on investment in FPG, a supplier of branded consumer and commercial products sold to the retail, foodservice, and hospitality sectors. The first lien note bears interest in cash at the greater of 12.0% or Libor plus 11.0% and has a final maturity of January 20, 2017.

On December 24, 2012, we made a follow-on secured debt investment of \$5,000 in New Star. The second lien note bears interest in cash at the greater of 11.5% or Libor plus 8.5% and interest payment in kind of 1.0% and has a final maturity of February 2, 2018.

On December 24, 2012, we made a \$7,000 second lien secured investment in Aderant North America, Inc., a leading provider of enterprise software solutions to professional services organizations. The second lien note bears interest in cash at the greater of 11.0% or PRIME plus 7.75% and has a final maturity of June 20, 2019.

On December 28, 2012, we made a \$9,500 first lien secured investment in APH, to acquire Abbington Pointe, Inc., a multi-family property in Marietta, Georgia. We invested \$3,193 of equity and \$6,400 of debt in APH. The first lien note originally bore interest in cash at the greater of 10.5% or Libor plus 8.5% and interest payment in kind of 2.0%. On January 17, 2013, we

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amended the terms of this investment and the first lien note bears interest in cash at the greater of 6.0% or Libor plus 4.0% and interest payment in kind of 5.5% as of June 30, 2013. The first lien note has a final maturity of October 24, 2020.

On December 28, 2012, we made a \$5,000 second lien secured investment in TransFirst Holdings, Inc., a payments processing firm that provides electronic credit card authorization to merchants located throughout the United States. The second lien note bears interest in cash at the greater of 11.0% or Libor plus 9.75% and has a final maturity of June 27, 2018.

On December 28, 2012, we completed a \$47,900 recapitalization of Credit Central, a branch-based provider of installment loans. Through the recapitalization, we acquired a controlling interest in Credit Central for \$38,082 in cash and 897,906 unregistered shares of our common stock. The first lien note bears interest in cash at the greater of 20.0% or Libor plus 18.5% and has a final maturity of December 31, 2020.

On December 28, 2012, we made a \$3,600 follow-on subordinated unsecured investment in Ajax. The unsecured note bears interest in cash at the greater of 11.5% or Libor plus 8.5% and interest payment in kind of 6.00% and has a final maturity of December 31, 2017.

On December 28, 2012, we made a \$30,000 first lien senior secured investment to support the recapitalization of Spartan Energy Services, LLC ("Spartan"), a leading provider of thru tubing and flow control services to oil and gas companies. The first lien note bears interest in cash at the greater of 10.5% or Libor plus 9.0% and has a final maturity of December 28, 2017.

On December 31, 2012, we provided \$32,000 senior secured loan to support the acquisition of System One Holdings, LLC, a leading provider of professional staffing services. The first lien note bears interest in cash at the greater of 11.0% or Libor plus 9.5% and has a final maturity of December 31, 2018.

On December 31, 2012, we funded a recapitalization of Valley Electric with \$42,572 of debt and \$9,526 of equity financing. Through the recapitalization, we acquired a controlling interest in Valley Electric for \$7,449 in cash and 4,141,547 unregistered shares of our common stock. The first lien note issued to Valley Electric bears interest in cash at the greater of 9.0% or Libor plus 6.0% and interest payment in kind of 9.0% and has a final maturity of December 31, 2018. The first lien note issued to Valley Electric Co. of Mt. Vernon Inc. bears interest in cash at the greater of 8.0% or Libor plus 5.0% and interest payment in kind of 2.5% and has a final maturity of December 31, 2017.

On December 31, 2012, we provided \$70,000 of secured second lien debt financing for the acquisition of Thomson Reuters Property Tax Services by Ryan, LLC ("Ryan"). The second lien note bears interest in cash at the greater of 12.0% or Libor plus 9.0% and interest payment in kind of 3.0% and has a final maturity of June 30, 2018.

On January 11, 2013, we provided \$27,100 of debt financing to Correctional Healthcare Holding Company, Inc. ("CHC"), a national provider of correctional medical and behavioral healthcare solutions. The subordinated secured second lien loan bears interest in cash at 11.25% and has a final maturity of January 11, 2020.

On January 17, 2013, we made a \$30,348 follow-on investment in APH, to acquire 5100 Live Oaks Blvd, LLC, a multi-family residential property located in Tampa, Florida. We invested \$2,748 of equity and \$27,600 of debt in APH. The first lien note bears interest in cash at the greater of 6.0% or Libor plus 4.0% and interest payment in kind of 5.50% and has a final maturity of October 24, 2020.

On January 24, 2013, we made an investment of \$24,870 to purchase 56.14% of the subordinated notes in Cent 17 CLO Limited.

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On January 24, 2013, we made an investment of \$26,901 to purchase 50.12% of the subordinated notes in Octagon Investment Partners XV, Ltd.

On January 29, 2013, we provided \$8,000 of secured second lien financing to TGG Medical Transitory, Inc., a developer of technologies for extracorporeal photopheresis treatments. The senior secured second lien term loan bears interest in cash at the greater of 11.25% or Libor plus 10.0% and has a final maturity of June 27, 2018.

On January 31, 2013, we funded an acquisition of the subsidiaries of Nationwide, which operate a specialty finance business based in Chicago, Illinois, with \$21,308 of debt and \$3,843 of equity financing. The senior secured term loan bears interest in cash at the greater of 20.0% or Libor plus 18.5% and has a final maturity of January 31, 2023.

On February 5, 2013, we received a distribution of \$3,250 related to our investment in NRG Manufacturing, Inc. ("NRG"), for which we realized a gain of the same amount. This was a partial release of the amount held in escrow.

On February 5, 2013, we made a secured debt investment of \$2,000 in Healogics, Inc. ("Healogics"), a provider of outpatient wound care management services located in Jacksonville, Florida.

On February 13, 2013, we made an investment of \$35,025 to purchase 50.34% of the subordinated notes in Galaxy XV CLO, Ltd.

On February 14, 2013, we made a \$2,000 secured second lien debt investment in J.G. Wentworth, LLC ("J.G. Wentworth"), the largest purchaser of structured settlement and annuity payments in the United States. The second lien term loan bears interest in cash at the greater of 9.0% or Libor plus 7.5% and has a final maturity of February 8, 2019.

On February 14, 2013, we provided \$15,000 of senior secured financing to Speedy Group Holdings Corp., a leading provider of short-term loans and financial services in the United States, the United Kingdom and Canada. The unsecured subordinated term loan bears interest in cash at 12.0% and has a final maturity of November 15, 2017.

On February 15, 2013, we made a \$6,000 secured second lien debt investment in SESAC Holdco II LLC, a performing rights organization based in Nashville, Tennessee. The second lien term loan bears interest in cash at the greater of 10.0% or Libor plus 8.75% and has a final maturity of July 12, 2019.

On February 21, 2013, we provided \$39,550 of senior secured first lien financing to Atlantis Healthcare Group (Puerto Rico), Inc., a leading owner and operator of dialysis stations. The senior secured term loan bears interest in cash at the greater of 10.0% or Libor plus 8.0% and has a final maturity date of February 21, 2018.

On February 25, 2013, we made a \$10,000 secured second lien loan and a \$2,000 secured first lien debt investment in TNS, an international data communications company that provides networking, data communications and other value added services. The second lien term loan bears interest in cash at the greater of 9.0% or Libor plus 8.0% and has a final maturity of August 14, 2020.

On March 1, 2013, we made a \$70,000 secured term loan investment in a subsidiary of Cinedigm DC Holdings, LLC, a leading provider of digital cinema services, software and content marketing and distribution. The senior secured term loan bears interest in cash at the greater of 11.0% or Libor plus 9.0% and interest payment in kind of 2.5% and has a final maturity of March 31, 2021.

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On March 6, 2013, we made a \$5,000 follow-on investment in Rocket Software, Inc. The senior secured second lien term loan bears interest in cash at the greater of 10.25% or Libor plus 8.75% and has a final maturity of February 8, 2019.

On March 7, 2013, we made a secured second lien follow-on investment of \$60,000 in USC. The senior secured second lien term loan bears interest in cash at the greater of 12.75% or Libor plus 11.0% and has a final maturity of May 16, 2018.

On March 8, 2013, we made an investment of \$40,400 to purchase 78.60% of the subordinated notes in Halcyon Loan Advisors Funding 2013-I Ltd.

On March 12, 2013, we provided \$12,000 of secured second lien financing to ALG USA Holding, LLC, a vertically integrated travel company that focuses on providing all-inclusive vacations in Mexico and the Caribbean to U.S. customers. The senior secured second lien term loan bears interest in cash at the greater of 10.25% or Libor plus 9.0% and has a final maturity of February 28, 2020.

On March 15, 2013, we made an investment of \$44,063 to purchase 95.27% of the subordinated notes in Apidos CLO XII, Ltd.

On March 18, 2013, we provided a \$197,291 first lien senior secured credit facility to support the refinancing of Capstone Logistics, LLC ("Capstone"), a logistics services portfolio company. After the financing, we received repayment of \$69,139 of loans previously outstanding. The \$97,291 Term Loan A note bears interest in cash at the greater of 6.5% or Libor plus 5.0% and has a final maturity of September 16, 2016. The \$100,000 Term Loan B note bears interest in cash at the greater of 11.5% or Libor plus 10.0% and has a final maturity of September 16, 2016.

On March 27, 2013, we provided \$100,000 of senior secured debt financing to support the recapitalization of Broder Bros., Co. ("Broder"), a leading distributor of imprintable sportswear and accessories in the United States. The senior secured term loan bears interest in cash at the greater of 10.75% or Libor plus 9.0% and has a final maturity of June 27, 2018.

On April 1, 2013, we refinanced our existing \$38,472 senior and subordinated loans to Ajax, increasing the size of our debt investment to \$38,537. Concurrent with the refinancing, we received repayment of the \$18,635 loans that were previously outstanding. The subordinated unsecured term loan bears interest in cash at the greater of 11.5% or Libor plus 8.5% and interest payment in kind of 6.0% and has a final maturity of March 30, 2018.

On April 17, 2013, we made an investment of \$43,650 to purchase 97% of the subordinated notes in Mountain View.

On April 22, 2013, we provided \$34,375 of senior secured financing, of which \$31,875 was funded at closing, to support the acquisition of Pegasus, the world's largest processor of commissions paid by hotels to travel agencies for room booking services. The Term Loan A note bears interest in cash at the greater of 6.75% or Libor plus 5.5% and has a final maturity of April 18, 2018. The Term Loan B note bears interest in cash at the greater of 13.75% or Libor plus 12.5% and has a final maturity of April 18, 2018. The \$5,000 senior secured revolver bears interest in cash at the greater of 9.0% or Libor plus 7.75% and has a final maturity of April 18, 2014.

On April 25, 2013, we made an investment of \$26,000 to purchase 50.9% of the subordinated notes in Brookside.

On April 30, 2013, we made a \$21,247 follow-on investment in APH, to acquire Lofton Place Apartments and Vista at Palma Sola, multi-family residential properties located in Florida. We invested \$3,247 of equity and \$18,000 of debt in APH. The senior secured note bears interest in

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cash at the greater of 6.0% or Libor plus 4.0% and interest payment in kind of 5.50% and has a final maturity of October 24, 2020.

On May 8, 2013, we made a \$6,119 follow-on investment in APH, to acquire Arlington Park, a multi-family residential property located in Marietta, Georgia. We invested \$2,118 of equity and \$4,000 of debt in APH. The senior secured note bears interest in cash at the greater of 6.0% or Libor plus 4.0% and interest payment in kind of 5.50% and has a final maturity of October 24, 2020.

On May 9, 2013, we provided a \$60,000 senior secured credit facility, of which \$55,000 was funded at closing, to support the recapitalization of Sandow, a provider of multimedia content and services to businesses and consumers focused on the areas of design and luxury. The senior secured first lien loan bears interest in cash at the greater of 10.5% or Libor plus 8.5% and interest payment in kind of 1.5% and has a final maturity of May 8, 2018.

On May 10, 2013, we provided a \$150,000 senior secured term loan to support the recapitalization of Arctic Glacier, a leading producer, marketer, and distributor of high-quality packaged ice to consumers in the United States and Canada. After the financing, we received repayment of \$86,982 of subordinated unsecured term loan previously outstanding. The senior secured second lien loan bears interest in cash at the greater of 11.25% or Libor plus 10.0% and has a final maturity of November 10, 2019.

On May 14, 2013, we provided \$4,000 of senior secured financing to SourceHOV, a leading provider of business and knowledge process outsourcing. The senior secured second lien loan bears interest in cash at the greater of 8.75% or Libor plus 7.5% and has a final maturity of April 30, 2019.

On May 31, 2013, we made a follow-on secured second lien debt investment of \$7,190 in IWP, a specialty pharmacy services company. The secured second lien loan bears interest in cash at the greater of 11.5% or Libor plus 7.0% and interest payment in kind of 1.0% and has a final maturity of May 31, 2019.

On June 11, 2013, we provided \$115,000 of senior secured financing to Transplace, a third-party logistics company that services many of the largest shippers in the world. The senior secured first lien loan bears interest in cash at the greater of 10.0% or Libor plus 5.0% and has a final maturity of June 11, 2019.

On June 11, 2013, we provided \$7,000 of secured second lien financing to AST, a leading North American third-party provider of share registry and associated value added services to shareholders on behalf of listed public companies. The second lien loan bears interest in cash at the greater of 9.25% or Libor plus 8.0% and has a final maturity of December 26, 2020.

On June 12, 2013, we made a \$23,250 follow-on investment in R-V. The senior subordinated note bears interest in cash at the greater of 10.0% or Libor plus 9.0% and has a final maturity of June 12, 2018.

On June 18, 2013, we served as sole agent and provider of \$70,000 senior secured financing, of which \$65,643 was funded at closing, to support the recapitalization of Traeger, a leading designer, marketer, and distributor of wood pellet grills, flavored wood pellets, and grill accessories. The \$30,000 Term Loan A note bears interest in cash at the greater of 6.5% or Libor plus 4.5% and has a final maturity of June 18, 2018. The \$30,000 Term Loan B note bears interest in cash at the greater of 11.5% or Libor plus 9.5% and has a final maturity of June 18, 2018. The \$10,000 senior secured revolver, of which \$5,643 was drawn at closing, bears interest in cash at the greater of 9.0% or Libor plus 7.0% and has a final maturity of June 18, 2014.

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On June 24, 2013, we made a \$76,533 follow-on investment in APH, to acquire Arium Resort (f/k/a The Resort at Pembroke Pines), a prominent multi-family residential community located in Pembroke Pines, Florida. We invested \$13,533 of equity and \$63,000 of debt in APH. The senior secured note bears interest in cash at the greater of 6.0% or Libor plus 4.0% and interest payment in kind of 5.50% and has a final maturity of October 24, 2020.

On June 25, 2013, we made an investment of \$26,500 to purchase 84.13% of the subordinated notes in LCM XIV.

On June 27, 2013, we provided \$11,000 of secured second lien financing to Blue Coat, a leading provider of web security and wide area network (WAN) optimization solutions. The second lien note bears interest in cash at the greater of 9.5% or Libor plus 8.5% and has a final maturity of June 28, 2020.

On June 27, 2013, we made a follow-on secured debt investment of \$87,500 to support the recapitalization of Progrexion. After the financing, we now hold \$241,033 of senior secured debt of Progrexion. The senior secured first lien note bears interest in cash at the greater of 10.5% or Libor plus 8.5% and has a final maturity of September 14, 2017.

On June 28, 2013, we made a \$1,000 follow-on investment in Ajax. The subordinated unsecured term loan bears interest in cash at the greater of 11.5% or Libor plus 8.5% and interest payment in kind of 6.0% and has a final maturity of March 30, 2018.

On June 28, 2013, we made an \$18,000 secured debt follow-on investment in New Star, a provider of specialized processing services to the steel industry. The senior subordinated term loan bears interest in cash at 11.5% and interest payment in kind of 1.0% and has a final maturity of February 2, 2018.

During the year ended June 30, 2013, we closed-out twenty-three positions which are briefly described below.

On July 24, 2012, we sold our 3,821 shares of Iron Horse Coiled Tubing, Inc. ("Iron Horse") common stock in connection with the exercise of an equity buyout option, receiving \$2,040 of net proceeds and realizing a gain of approximately \$1,772 on the sale.

On August 3, 2012, Pinnacle Treatment Centers, Inc. repaid the \$17,475 loan receivable to us.

On August 10, 2012, U.S. HealthWorks Holding Company, Inc. repaid the \$25,000 loan receivable to us.

On September 20, 2012, Fischbein repaid the \$3,425 loan receivable to us.

On October 5, 2012, Northwestern Management Services, LLC ("Northwestern") repaid the \$15,092 loan receivable to us and we sold our 50 shares of Northwestern common stock for total proceeds of \$2,233, realizing a gain of \$1,862.

On October 16, 2012, Blue Coat repaid the \$25,000 loan receivable to us.

On October 18, 2012, Hi-Tech Testing Services, Inc. and Wilson Inspection X-Ray Services, Inc. repaid the \$7,200 loan receivable to us.

On October 19, 2012, Mood Media Corporation repaid the \$15,000 loan receivable to us.

On October 31, 2012, Shearer's Foods, Inc. ("Shearer's") repaid the \$37,999 loan receivable to us. On November 7, 2012, we redeemed our membership interests in Mistral Chip Holdings, LLC, Mistral Chip Holdings 2, LLC and Mistral Chip Holdings 3, LLC in connection with the sale of Shearer's, receiving \$6,022 of net proceeds and realizing a gain of approximately \$2,027 on the redemption.

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On November 8, 2012, Potters Holdings II, L.P. repaid the \$15,000 loan receivable to us.

On November 15, 2012, Renaissance Learning, Inc. repaid the \$6,000 loan receivable to us.

On December 3, 2012, VanDeMark Chemicals, Inc. repaid the \$29,658 loan receivable to us.

On December 7, 2012, Hudson Products Holdings, Inc. ("Hudson") repaid the \$6,267 loan receivable to us.

On December 21, 2012, ST Products, LLC repaid the \$23,162 loan receivable to us.

On December 21, 2012, SG Acquisition, Inc. repaid the \$83,242 loan receivable to us.

On February 5, 2013, we sold our \$2,000 investment in Healogics and realized a gain of \$60 on this investment.

On February 25, 2013, we sold our \$2,000 secured first lien investment in TNS and realized a gain of \$20 on this investment.

On March 18, 2013, we sold our \$2,000 investment in J.G. Wentworth and realized a gain of \$75 on this investment.

On March 28, 2013, we sold our investment in New Meatco Provisions, LLC ("Meatco") for net proceeds of approximately \$1,965, realizing a loss of \$10,814 on the sale.

On March 29, 2013, we received net proceeds of \$1,251 for the partial sale of our equity investment in Caleel + Hayden, LLC, realizing a gain of \$900 on the sale.

On April 30, 2013, we sold our investment in Fischbein for net proceeds of \$3,168, recognizing a realized gain of \$2,293 on the sale. In addition, there is \$310 being held in escrow which will be recognized as additional gain if and when received.

On May 16, 2013, Out Rage repaid the \$11,836 loan receivable to us.

On May 23, 2013, Snacks Holding repaid the \$15,366 loan receivable to us.

On June 3, 2013, Nobel repaid the \$15,262 loan receivable to us.

On June 4, 2013, Springs repaid the \$35,000 loan receivable to us.

On June 13, 2013, we sold our \$4,000 investment in SourceHOV and realized a gain of \$40 on this investment.

On June 14, 2013, we sold our \$10,000 investment in TNS and realized a gain of \$117 on this investment.

On June 28, 2013, Sandow repaid \$30,100 of the \$55,000 loan receivable to us. After the repayment, we now hold \$24,900 of senior secured debt of Sandow.

In addition to the repayments noted above, during the year ended June 30, 2013, we received principal amortization payments of \$19,568 on several loans, and \$99,066 of partial prepayments primarily related to Byrider Systems Acquisition Corp, Capstone, Cargo Airport Services USA, LLC ("Cargo"), Energy Solutions, NMMB, Northwestern, and Sandow.

On January 4, 2012, Energy Solutions sold its gas gathering and processing assets ("Gas Solutions") for a sale price of \$199,805, adjusted for the final working capital settlement, including a potential earnout of \$28,000 that will be paid based on the future performance of Gas Solutions. We do not know the timing, if any, related to this potential earnout and have valued the \$28,000 at zero as of June 30, 2013. After expenses, including structuring fees of \$9,966 paid to us, Energy Solutions received approximately \$158,687 in cash. Currently, a loan to Energy Solutions remains outstanding and is collateralized by the cash held by Energy Solutions after the sale transaction. The sale of Gas

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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, *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. During the year ended June 30, 2013, Energy Solutions repaid \$28,500 of senior and subordinated secured debt. We received \$19,543 of make-whole fees for early repayment of the outstanding loan receivables, which was recorded as interest income during the year ended June 30, 2013. During the year ended June 30, 2013, we received distributions of \$53,820 from Energy Solutions which were recorded as dividend income. Energy Solutions continues to hold \$23,979 of cash for future investment and repayment of the remaining debt.

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 Capital Funding, Inc. ("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. We expect to recognize \$240 of normal accretion during the three months ended September 30, 2013.

During the year ended June 30, 2012, we recognized \$6,613 of interest income due to purchase discount accretion from the assets acquired from Patriot. Included in the \$6,613 is \$3,083 of normal accretion and \$3,530 of accelerated accretion resulting from the repayment of Mac & Massey Holdings, LLC ("Mac & Massey"), Nupla Corporation ("Nupla"), ROM Acquisition Corp and Sport Helmets Holdings, LLC ("Sport Helmets").

During the year ended June 30, 2011, we recognized \$22,084 of interest income due to purchase discount accretion from the assets acquired from Patriot. Included in the \$22,084 is \$4,912 of normal accretion, \$12,035 of accelerated accretion resulting from the repayment of Impact Products, LLC, Label Corp Holdings Inc. and Prince, and \$4,968 of accelerated accretion resulting from the recapitalization of our debt investments in Arrowhead General Insurance Agency, Inc. ("Arrowhead"), The Copernicus Inc. ("Copernicus"), Fischbein and Northwestern. The restructured loans for Arrowhead, Copernicus, Fischbein and Northwestern were issued at market terms comparable to other industry transactions. In accordance with ASC 320-20-35 the cost basis of the new loans were recorded at par value, which precipitated the acceleration of original purchase discount from the loan repayments which was recognized as interest income.

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The following is a quarter-by-quarter summary of our investment activity:

<u>Quarter-End</u>	<u>Acquisitions(1)</u>	<u>Dispositions(2)</u>
June 30, 2013	\$ 798,760	\$ 321,615
March 31, 2013	784,395	102,527
December 31, 2012	772,125	349,269
September 30, 2012	747,937	158,123
June 30, 2012	573,314	146,292
March 31, 2012	170,073	188,399
December 31, 2011	154,697	120,206
September 30, 2011	222,575	46,055
June 30, 2011	312,301	71,738
March 31, 2011	359,152	78,571
December 31, 2010	140,933	67,405
September 30, 2010	140,951	68,148
June 30, 2010	88,973	39,883
March 31, 2010	59,311	26,603
December 31, 2009(3)	210,438	45,494
September 30, 2009	6,066	24,241
June 30, 2009	7,929	3,148
March 31, 2009	6,356	10,782
December 31, 2008	13,564	2,128
September 30, 2008	70,456	10,949
June 30, 2008	118,913	61,148
March 31, 2008	31,794	28,891
December 31, 2007	120,846	19,223
September 30, 2007	40,394	17,949
June 30, 2007	130,345	9,857
March 31, 2007	19,701	7,731
December 31, 2006	62,679	17,796
September 30, 2006	24,677	2,781
June 30, 2006	42,783	5,752
March 31, 2006	15,732	901
December 31, 2005	—	3,523
September 30, 2005	25,342	—
June 30, 2005	17,544	—
March 31, 2005	7,332	—
December 31, 2004	23,771	32,083
September 30, 2004	30,371	—
Since inception	<u>\$ 6,352,530</u>	<u>\$ 2,089,211</u>

(1) Includes new deals, additional fundings, refinancings and PIK interest.

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

(3) The \$210,438 of acquisitions for the quarter ended December 31, 2009 includes \$207,126 of portfolio investments acquired from Patriot.

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Investment Valuation

In determining the fair value of our portfolio investments at June 30, 2013, the Audit Committee considered valuations from the independent valuation firms and from management having an aggregate range of \$4,081,889 to \$4,354,692, excluding money market investments.

In determining the range of value for debt instruments, management and the independent valuation firms generally shadow rated the investment and then based upon the range of ratings, determined appropriate yields to maturity for a loan rated as such. A discounted cash flow analysis was then prepared using the appropriate yield to maturity as the discount rate, yielding the ranges. For equity investments, the enterprise value was determined by applying EBITDA multiples for similar recent investment sales. For stressed equity investments, a liquidation analysis was prepared.

In determining the range of value for our investments in CLOs, management and the independent valuation firms used discounted cash flow models. 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 security, the most appropriate valuation approach was chosen from alternative approaches to ensure the most accurate valuation for each security. A discounted cash flow model is prepared, utilizing a waterfall engine to store the collateral data, generate collateral cash flows from the assets, and distributes the cash flow to the liability structure based on the payment priorities, and discount them back using proper discount rates that incorporate all the risk factors.

The Board of Directors looked at several factors in determining where within the range to value the asset including: recent operating and financial trends for the asset, independent ratings obtained from third parties, comparable multiples for recent sales of companies within the industry and discounted cash flow models for our investments in CLOs. The composite of all these analyses, applied to each investment, was a total valuation of \$4,172,852, excluding money market investments.

Our portfolio companies are generally lower middle market companies, outside of the financial sector, with less than \$150,000 of annual EBITDA. We believe our market has experienced less volatility than others because we believe there are more buy and hold investors who own these less liquid investments.

Control investments offer increased risk and reward over straight debt investments. Operating results and changes in market multiples can result in dramatic changes in values from quarter to quarter. Significant downturns in operations can further result in our looking to recoveries on sales of assets rather than the enterprise value of the investment. Several control investments in our portfolio are under enhanced scrutiny by our senior management and our Board of Directors and are discussed below.

AIRMALL USA, Inc.

AIRMALL is a leading developer and manager of airport retail operations. AIRMALL has developed and presently manages all or substantially all of the retail operations and food and beverage concessions at Baltimore/Washington International Thurgood Marshall Airport (BWI), Boston Logan International Airport (BOS), Cleveland Hopkins International Airport (CLE) and Pittsburgh International Airport (PIT). AIRMALL does so pursuant to long-term, infrastructure-like contracts with the respective municipal agencies that own and operate the airports.

On July 30, 2010, we invested \$52,420 of combined debt and equity as follows: \$30,000 senior term loan, \$12,500 senior subordinated note and \$9,920 preferred equity. We own 100% of AIRMALL's equity securities. AIRMALL's financial performance has been consistent since the acquisition and we continue to monitor the medium to long-term growth prospects for the company.

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As a result of improved operating results, the Board of Directors increased the fair value of our investment in AIRMALL to \$54,648 as of June 30, 2013, a premium of \$3,478 from its amortized cost, compared to the \$3,788 unrealized depreciation recorded at June 30, 2012.

Ajax Rolled Ring & Machine, Inc.

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.

We acquired a controlling equity interest in Ajax in a recapitalization of Ajax that was closed on April 4, 2008. We funded \$22,000 of senior secured term debt, \$11,500 of subordinated term debt and \$6,300 of equity as of that closing. During the fiscal year ended June 30, 2010, we funded an additional \$3,530 of secured subordinated debt to refinance a third-party revolver provider and provide working capital. Ajax repaid \$3,461 of this secured subordinated debt during the quarter ended September 30, 2010. During the quarter ended December 31, 2012, we funded an additional \$3,600 of unsecured debt to refinance first lien debt held by Wells Fargo.

On April 1, 2013, we refinanced our existing \$38,472 senior loans to Ajax, increasing the size of our debt investment to \$38,537. Concurrent with the refinancing, we received repayment of the \$18,635 loans that were previously outstanding. As of June 30, 2013, we control 78.01% of the fully-diluted common and preferred equity. The principal balance of our senior debt to Ajax was \$19,737 and our subordinated debt was \$19,700 as of June 30, 2013.

Due to soft operating results, the Board of Directors decreased the fair value of our investment in Ajax to \$39,437 as of June 30, 2013, a reduction of \$6,057 from its amortized cost, compared to the \$11,151 unrealized appreciation recorded at June 30, 2012.

APH Property Holdings, LLC

We make investments in real estate through our investment in APH, a holding company that owns 100% of the common equity of APHC. APHC is a Maryland corporation and qualified REIT for federal income tax purposes.

During the year ended June 30, 2013, we provided \$125,892 and \$26,648 of debt and equity financing, respectively, to APH for the acquisition of various industrial and multi-family residential real estate properties in Florida and Georgia. We received structuring fees of \$4,511 from APH that were recorded as other income during the year ended June 30, 2013. As of June 30, 2013, APHC's real estate portfolio was comprised of seven investments. The following table shows the mortgages outstanding due to other parties for each of the seven properties:

No.	Property Name	City	Date of Acquisition	Purchase Price	Mortgage Outstanding
1	146 Forest Parkway	Forest Park, GA	10/24/2012	\$ 7,400	\$ —
2	Abbingtion Pointe	Marietta, GA	12/28/2012	23,500	15,275
3	Amberly Place	Tampa, FL	1/17/2013	63,400	39,600
4	Lofton Place	Tampa, FL	4/30/2013	26,000	16,965
5	Vista at Palma Sola	Bradenton, FL	4/30/2013	27,000	17,550
6	Arlington Park	Marietta, GA	5/8/2013	14,850	9,650
7	Arium Resort	Pembroke Pines, GA	6/24/2013	225,000	157,500

The Board of Directors set the fair value of our investment in APH to \$152,540 as of June 30, 2013, equal to its amortized cost.

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Energy Solutions Holdings Inc. (f/k/a Gas Solutions Holdings, Inc.)

Energy Solutions owns interests in other companies operating in the energy sector. These include operating offshore supply vessels and ownerships of a non-operating biomass plant and several coal mines. Energy Solutions subsidiaries formerly owned interests in a gas gathering and processing system in east Texas.

In December 2011, we completed a reorganization of Gas Solutions Holdings, Inc. renaming the company Energy Solutions and transferring ownership of other operating companies owned by us and operating within the energy industry with the intent of strategically expanding Energy Solutions operations across energy sectors. As part of the reorganization, we transferred our equity interests in Change Clean Energy Holdings, Inc. ("CCEHI"), Change Clean Energy, Inc. ("CCEI"), Freedom Marine Holdings, LLC ("Freedom Marine") and Yatesville Coal Holdings, Inc. ("Yatesville") to Energy Solutions. On December 28, 2011, we made a follow-on investment of \$4,750 to support the acquisition of a new vessel by Vessel Holdings LLC, a subsidiary of Freedom Marine.

On January 4, 2012, Energy Solutions sold Gas Solutions for a sale price of \$199,805, adjusted for the final working capital settlement, including a potential earnout of \$28,000 that will be paid based on the future performance of Gas Solutions. After expenses, including structuring fees of \$9,966 paid to us, Energy Solutions received approximately \$158,687 in cash. Currently, a loan to Energy Solutions remains outstanding and is collateralized by the cash held by Energy Solutions after the sale transaction. 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. As a result, distributions from Energy Solutions to us were required to be 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 current year earnings and profits sufficient to support such recognition.

In determining the value of Energy Solutions, we have utilized two valuation techniques to determine the value of the investment. Our Board of Directors has determined the value to be \$26,696 for our debt and equity positions at June 30, 2013 based upon a combination of a current value method for the cash balances of Energy Solutions and a liquidation analysis for our interests in CCEHI, CCEI, Freedom Marine and Yatesville. At June 30, 2013 and June 30, 2012, Energy Solutions, including the underlying portfolio companies affected by the reorganization, was valued at \$7,574 below and \$63,623 above its amortized cost, respectively. We received distributions of \$53,820 from Energy Solutions that were recorded as dividend income during the year ended June 30, 2013. We also received \$19,543 of make-whole fees from Energy Solutions for early repayments of the outstanding loans, which was recorded as interest income in the year ended June 30, 2013.

First Tower Holdings of Delaware, LLC

First Tower is a multiline specialty finance company based in Flowood, Mississippi with over 170 branch offices.

On June 15, 2012, we acquired 80.1% of First Tower, LLC ("First Tower") businesses for \$110,200 in cash and 14,518,207 unregistered shares of our common stock. Based on our share price of \$11.06 at the time of issuance, we acquired our 80.1% interest in First Tower for approximately \$270,771. As consideration for our investment, First Tower Delaware, which is 100% owned by us, recorded a secured revolving credit facility to us of \$244,760 and equity of \$43,193. First Tower Delaware owns 80.1% of First Tower Holdings LLC, the holding company of First Tower. The assets of First Tower acquired include, among other things, the subsidiaries owned by First Tower, which hold finance receivables, leaseholds, and tangible property associated with First

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Tower's businesses. During the three months ended June 30, 2012, we received \$8,075 in structuring fee income. During the three months ended December 31, 2012, we funded an additional \$20,000 of senior secured debt to support seasonally high demand during the holiday season. As of June 30, 2013, First Tower had total assets of approximately \$605,783 including \$378,327 of finance receivables net of unearned charges. As of June 30, 2013, First Tower's total debt outstanding to parties senior to us was \$264,760.

Due to a reduction in public market comparables in the consumer finance industry, the Board of Directors set the fair value of our investment in First Tower at \$298,084 as of June 30, 2013, a discount of \$9,869 to its amortized cost, compared to \$287,953 as of June 30, 2012, equal to its amortized cost at that time.

Manx Energy, Inc.

Manx was formed for the purpose of rolling up the assets of two existing Prospect portfolio companies, Coalbed, LLC ("Coalbed") and Appalachian Energy Holdings, LLC ("AEH"), bringing them under new management, restructuring the outstanding debt, and infusing additional capital to allow for future growth. Coalbed is the owner of 100% of the outstanding equity interests of Coalbed Pipelines, LLC and Coalbed Operator, LLC. Coalbed was formed in October 2009 to acquire our outstanding senior secured loan and assigned interests in Conquest Cherokee, LLC ("Conquest"). Conquest's assets consisted primarily of coalbed methane reserves in the Cherokee Basin. AEH was formed in 2006 and is the owner of 100% of the outstanding equity interests of East Cumberland L.L.C., a provider of outsourced mine site development and construction services for coal production companies operating in Southern Appalachia, and C&S Oilfield and Pipeline Construction, a provider of support services to companies engaged in the exploration and production of oil and natural gas.

On January 19, 2010, we modified the terms of our senior secured debt in AEH and Coalbed in conjunction with the formation of Manx, a new entity consisting of the assets of AEH, Coalbed and Kinley Exploration LLC. The assets of the three companies were combined 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, and we continue to fully reserve any income accrued for Manx. During the year ended June 30, 2011, we made a follow-on secured debt investments of \$750 in Manx to support ongoing operations. On June 30, 2012, Manx assigned the membership interests and associated operating company debt of Coalbed and AEH to Wolf Energy Holdings, Inc. ("Wolf"), a newly-formed company owned by us.

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 market value. The Board of Directors set the fair value of our investment in Manx at \$346 as of June 30, 2013, a reduction of \$154 from its amortized cost, compared to the \$11,028 unrealized depreciation recorded at June 30, 2012.

The Healing Staff, Inc.

During the three months ended December 31, 2012, we determined that the impairment of Integrated Contract Services, 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 investments are in THS and Vets Securing America ("VSA"), wholly owned subsidiaries of ICS with ongoing operations. THS provides outsourced medical staffing services to governmental and

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commercial enterprises. VSA provides out-sourced security guards staffed primarily using retired military and police department veterans.

During September and October 2007, we provided \$1,170 to THS for working capital through our investment in ICS. In January 2009, we foreclosed on the real and personal property of ICS. Through this foreclosure process, we gained 100% ownership of THS. As part of its strategy to diversify its revenues THS started VSA as a new business in the latter part of 2009. During the year ended June 30, 2011 and the six months ended December 31, 2011, we made follow-on secured debt investments of \$1,708 and \$874, respectively, to support the ongoing operations of THS and VSA. Effective October 19, 2011, the closing date of the sale by VSA of a commercial real estate asset, \$893 of the follow-on secured debt investments were repaid. In early May 2012, we made short-term secured debt investments of \$118 and \$42, respectively, to support the operations of THS and VSA, which short term debt was repaid in early June 2012. We made no additional fundings during the six months ended June 30, 2012 and the fiscal year ended June 30, 2013. In May 2012, in connection with the implementation of accounts receivable based funding programs for THS and VSA with a third party provider we agreed to subordinate our 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.

Based upon an analysis of the liquidation value of assets, our Board of Directors determined the fair value of our investment in THS and VSA to be zero at June 30, 2013 and June 30, 2012, respectively, a reduction of \$3,831 and \$3,750 from its amortized cost, respectively.

Wolf Energy Holdings, Inc.

Wolf is a holding company formed to hold 100% of the outstanding membership interests of each of Coalbed and AEH. The membership interests of Coalbed and AEH, which were previously owned by Manx, were assigned to Wolf effective June 30, 2012. The purpose of assignment was to remove those activities from Manx deemed non-core by the Manx convertible debt investors who were not interested in funding those operations. In addition, effective June 29, 2012 C&J Cladding Holding Company, Inc. ("C&J") merged with and into Wolf, with Wolf as the surviving entity. At the time of the merger, C&J held the remaining undistributed proceeds from the sale of its membership interests in C&J Cladding, LLC. The merger was effectuated in connection with the broader simplification of our energy investment holdings.

On April 15, 2013, assets previously held by H&M were assigned to Wolf in exchange for a \$66,000 term loan secured by the assets. Our cost basis in this loan of \$44,632 was determined in accordance with ASC 310-40, *Troubled Debt Restructurings by Creditors*, and is equal to the fair value of assets at the time of transfer and we recorded a realized loss of \$19,647 in connection with the foreclosure on the assets. On May 17 2013, Wolf sold certain of the assets that had been previously held by H&M that were located in Martin County to Hibernia for \$66,000. Proceeds from the sale were primarily used to repay the loan and NPI receivable due to us and we recognized as a realized gain of \$11,826 partially offsetting the previously recorded loss. We received \$3,960 of structuring and advisory fees from Wolf during the year ended June 30, 2013 related to the sale and \$991 under the NPI agreement which was recognized as other income during the fiscal year ended June 30, 2013.

Based on an increase in the liquidation value of Wolf due to the acquisition of assets previously held by H&M, the Board of Directors increased the fair value of our investment in Wolf to \$4,949 as of June 30, 2013, a reduction of \$3,091 from its amortized cost, compared to the \$7,991 unrealized depreciation recorded at June 30, 2012.

Equity positions in the portfolio are susceptible to potentially significant changes in value, both increases as well as decreases, due to changes in operating results. Two of our portfolio companies,

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Ajax and First Tower Delaware, experienced such volatility and experienced fluctuations in valuation during the year ended June 30, 2013. The valuation of Ajax decreased due to declining operating results. The value of our equity position in Ajax decreased to zero as of June 30, 2013, a discount of \$6,057 to its cost, compared to the \$11,134 unrealized gain recorded at June 30, 2012. The valuation of First Tower Delaware decreased due to change in current market conditions. The value of our equity position in First Tower decreased to \$33,324 as of June 30, 2013, a discount of \$9,869 to its cost, compared to the value of \$43,193 recorded at June 30, 2012, equal to its cost. Six of the other controlled investments have been valued at discounts to the original investment. Eight of the control investments are valued at the original investment amounts or higher. Overall, at June 30, 2013, the control investments are valued at \$18,517 below their amortized cost.

We hold three affiliate investments at June 30, 2013. One of our affiliate portfolio companies, Boxercraft, experienced a meaningful decrease in valuation during the year ended June 30, 2013 due to declining operating results. As of June 30, 2013, Boxercraft is valued at \$9,385, a reduction of \$7,375 to its amortized cost. Overall, at June 30, 2013, affiliate investments are valued at \$6,746 below their amortized cost.

With the Non-control/Non-affiliate investments, generally, there is less volatility related to our total investments because our equity positions tend to be smaller than with our control/affiliate investments, and debt investments are generally not as susceptible to large swings in value as equity investments. For debt investments, the fair value is limited on the high side to each loan's par value, plus any prepayment premia that could be imposed. Many of the debt investments in this category have not experienced a significant change in value, as they were previously valued at or near par value. Non-control/Non-affiliate investments did not experience significant changes in valuation and are generally performing as expected or better than expected. As of June 30, 2013 and June 30, 2012, four of our Non-control/Non-affiliate investments, ICON Health & Fitness, Inc. ("ICON"), Gulf Coast Machine & Supply Company ("Gulf Coast"), Stryker Energy, LLC ("Stryker") and Wind River Resources Corp. and Wind River II Corp. ("Wind River"), are valued at a significant discount to amortized cost, due to significant decreases in the operating results of the operating companies. Overall, at June 30, 2013, other Non-control/Non-affiliate investments are valued at \$8,427 above their amortized cost, excluding our investments in ICON, Gulf Coast, Stryker and Wind River, as the remaining companies are generally performing as or better than expected.

Capitalization

Our investment activities are capital intensive and the availability and cost of capital is a critical component of our business. We capitalize our business with a combination of debt and equity. Our debt currently consists of a revolving credit facility availing us of the ability to borrow debt subject to borrowing base determinations and Senior Convertible Notes which we issued in December 2010, February 2011, April 2012, August 2012 and December 2012, Senior Unsecured Notes, and Prospect Capital InterNotes®, which we may issue from time to time, and our equity capital, which is comprised entirely of common equity. The following table shows the Revolving Credit Facility, Senior Convertible Notes, Senior Unsecured Notes and InterNotes® amounts and outstanding borrowings at June 30, 2013 and June 30, 2012:

	As of June 30, 2013		As of June 30, 2012	
	Maximum Draw Amount	Amount Outstanding	Maximum Draw Amount	Amount Outstanding
Revolving Credit Facility	\$ 552,500	\$ 124,000	\$ 492,500	\$ 96,000
Senior Convertible Notes	\$ 847,500	\$ 847,500	\$ 447,500	\$ 447,500
Senior Unsecured Notes	\$ 347,725	\$ 347,725	\$ 100,000	\$ 100,000
InterNotes®	\$ 363,777	\$ 363,777	\$ 20,638	\$ 20,638

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The following table shows the contractual maturity of our Revolving Credit Facility, Senior Convertible Notes, Senior Unsecured Notes and InterNotes® at 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
InterNotes®	363,777	—	—	—	363,777
Total contractual obligations	<u>\$ 1,683,002</u>	<u>\$ —</u>	<u>\$ 150,000</u>	<u>\$ 421,500</u>	<u>\$ 1,111,502</u>

We have and expect to continue to fund a portion of our cash needs through borrowings from banks, issuances of senior securities, including secured, unsecured and convertible debt securities, or issuances of common equity. For flexibility, we maintain a universal shelf registration statement that allows for the public offering and sale of our debt securities, common stock, preferred stock, subscription rights, and warrants and units to purchase such securities in an amount up to \$3,000,000 less issuances to date. As of June 30, 2013, we can issue up to \$1,743,217 of additional debt and equity securities in the public market under this shelf registration. We may from time to time issue securities pursuant to the shelf registration statement or otherwise pursuant to private offerings. The issuance of debt or equity securities will depend on future market conditions, funding needs and other factors and there can be no assurance that any such issuance will occur or be successful.

Revolving Credit Facility

On June 11, 2010, we closed an extension and expansion of our existing credit facility with a syndicate of lenders through PCF (the "2010 Facility"). The 2010 Facility, which had \$325,000 total commitments as of June 30, 2011, included an accordion feature which allowed the 2010 Facility to accept up to an aggregate total of \$400,000 of commitments, a limit which was met on September 1, 2011. Interest on borrowings under the 2010 Facility was one-month Libor plus 325 basis points, subject to a minimum Libor floor of 100 basis points. Additionally, the lenders charged a fee on the unused portion of the 2010 Facility equal to either 75 basis points if at least half of the credit facility was used or 100 basis points otherwise.

On March 27, 2012, we renegotiated the 2010 Facility and closed on an expanded five-year \$650,000 revolving credit facility (the "2012 Facility"). The lenders have extended commitments of \$552,500 under the 2012 Facility as of June 30, 2013. The 2012 Facility includes an accordion feature which allows commitments to be increased up to \$650,000 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. At June 30, 2013, we were in compliance with the applicable covenants.

Interest on borrowings under the 2012 Facility is one-month Libor plus 275 basis points with no minimum Libor floor. Additionally, the lenders charge a fee on the unused portion of the 2012 Facility

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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, 2013 and June 30, 2012, we had \$473,508 and \$418,980, respectively, available to us for borrowing under our 2012 Facility, of which the amount outstanding was \$124,000 and \$96,000, respectively. As additional investments that are eligible are transferred to PCF and pledged under the 2012 Facility, PCF will generate additional availability up to the commitment amount of \$552,500. At June 30, 2013, the investments used as collateral for the 2012 Facility had an aggregate market value of \$833,310, which represents 31.4% of our net assets. These assets have been transferred to PCF, a bankruptcy remote special purpose entity, which owns these investments and as such, these investments are not available to our general creditors. PCF, a bankruptcy remote special purpose entity and our wholly-owned subsidiary, holds all of these investments at market value as of June 30, 2013. 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 \$11,150 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 \$6,722 remains to be amortized as of June 30, 2013.

During the years ended June 30, 2013, June 30, 2012 and June 30, 2011, we recorded \$9,082, \$14,883 and \$8,507 of interest costs, unused fees and amortization of financing costs on our credit facility as interest expense, respectively.

Senior Convertible Notes

On December 21, 2010, we issued \$150,000 in aggregate principal amount of our 6.25% senior convertible notes due 2015 ("2015 Notes") for net proceeds following underwriting expenses of approximately \$145,200. Interest on the 2015 Notes is paid semi-annually in arrears on June 15 and December 15, at a rate of 6.25% per year, commencing June 15, 2011. The 2015 Notes mature on December 15, 2015 unless converted earlier. The 2015 Notes are convertible into shares of common stock at an initial conversion rate and conversion rate at June 30, 2013 of 88.0902 and 88.1429 shares of common stock, respectively, per \$1 principal amount of 2015 Notes, which is equivalent to a conversion price of approximately \$11.35 per share of common stock, subject to adjustment in certain circumstances. The conversion price in effect at June 30, 2013 was last calculated on the anniversary of the issuance (December 21, 2012) and will next be adjusted on the next anniversary, unless the exercise price shall have changed by more than 1% before the anniversary. The conversion rate for the 2015 Notes is increased if monthly cash dividends paid to common shares exceed the rate of \$0.101125 per share, subject to adjustment.

On February 18, 2011, we issued \$172,500 in aggregate principal amount of our 5.50% senior convertible notes due 2016 ("2016 Notes") for net proceeds following underwriting expenses of approximately \$167,325. Between January 30, 2012 and February 2, 2012, we repurchased \$5,000 of our 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. Interest on the remaining \$167,500 of 2016 Notes is paid semi-annually in arrears on February 15 and August 15, at a rate of 5.50% per year, commencing August 15, 2011. The 2016 Notes mature on August 15, 2016 unless converted earlier. The 2016 Notes are convertible into shares of common stock at an initial conversion rate and conversion rate at June 30, 2013 of 78.3699 and 78.5395 shares, respectively, of common stock per \$1 principal amount of 2016 Notes, which is equivalent to a conversion price of approximately \$12.73 per share of common stock, subject to adjustment in certain circumstances. The conversion price in effect at June 30, 2013 was last calculated on the anniversary of the issuance (February 14, 2012) and will next be adjusted on the next anniversary, unless the exercise price shall have changed by more than 1% before the anniversary. The conversion rate for the 2016 Notes is increased when monthly cash dividends paid to common shares exceed the monthly dividend rate of \$0.101150 per share.

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On April 16, 2012, we issued \$130,000 in aggregate principal amount of our 5.375% senior convertible notes due 2017 ("2017 Notes") for net proceeds following underwriting expenses of approximately \$126,035. Interest on the 2017 Notes is paid semi-annually in arrears on October 15 and April 15, at a rate of 5.375% per year, commencing October 15, 2012. The 2017 Notes mature on October 15, 2017 unless converted earlier. The 2017 Notes are convertible into shares of common stock at an initial conversion rate and conversion rate at June 30, 2013 of 85.8442 and 86.1162 shares of common stock, respectively, per \$1 principal amount of 2017 Notes, which is equivalent to a conversion price of approximately \$11.61 per share of common stock, subject to adjustment in certain circumstances. The conversion price in effect at June 30, 2013 was last calculated on the anniversary of the issuance (April 16, 2012) and will next be adjusted on the next anniversary, unless the exercise price shall have changed by more than 1% before the anniversary. The conversion rate for the 2017 Notes is increased when monthly cash dividends paid to common shares exceed the monthly dividend rate of \$0.10150 per share.

On August 14, 2012, we issued \$200,000 in aggregate principal amount of our 5.75% senior convertible notes due 2018 ("2018 Notes") for net proceeds following underwriting expenses of approximately \$193,600. Interest on the 2018 Notes is paid semi-annually in arrears on March 15 and September 15, at a rate of 5.75% per year, commencing March 15, 2013. The 2018 Notes mature on March 15, 2018 unless converted earlier. The 2018 Notes are convertible into shares of common stock at an initial conversion rate and conversion rate at June 30, 2013 of 82.3451 shares of common stock per \$1 principal amount of 2018 Notes, which is equivalent to a conversion price of approximately \$12.07 per share of common stock, subject to adjustment in certain circumstances. The conversion price has not been adjusted since the issuance (August 14, 2012) and will next be adjusted on the first anniversary, unless the exercise price shall have changed by more than 1% before the anniversary. The conversion rate for the 2018 Notes is increased when monthly cash dividends paid to common shares exceed the monthly dividend rate of \$0.101600 per share.

On December 21, 2012, we issued \$200,000 in aggregate principal amount of 5.875% senior convertible notes due 2019 (the "2019 Notes") for net proceeds following underwriting and other expenses of approximately \$193,600. Interest on the 2019 Notes is paid semi-annually in arrears on January 15 and July 15, at a rate of 5.875% per year, commencing July 15, 2013. The 2019 Notes mature on January 15, 2019 unless converted earlier. The 2019 Notes are convertible into shares of common stock at an initial conversion rate and conversion rate at June 30, 2013 of 79.7766 shares of common stock per \$1 principal amount of 2019 Notes, which is equivalent to a conversion price of approximately \$12.54 per share of common stock, subject to adjustment in certain circumstances. The conversion price has not been adjusted since the issuance (December 21, 2012) and will next be adjusted on the first anniversary, unless the exercise price shall have changed by more than 1% before the anniversary. The conversion rate for the 2019 Notes is increased when monthly cash dividends paid to common shares exceed the monthly dividend rate of \$0.110025 per share.

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.

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Prior to obtaining the Guidance, we will not engage in certain transactions that would result in an adjustment to the conversion rate of the 2015 Notes 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 2015 Notes and 2016 Notes (collectively, "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 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 Notes upon a fundamental change at a price equal to 100% of the principal amount of the 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 \$27,032 of fees which are being amortized over the terms of the notes in accordance with ASC 470-50, *Debt Modifications and Extinguishments*, of which \$20,254 remains to be amortized and is included within deferred financing costs on the consolidated statements of assets and liabilities as of June 30, 2013.

During the years ended June 30, 2013, June 30, 2012 and June 30, 2011, we recorded \$45,878, \$22,197 and \$9,090 of interest costs and amortization of financing costs on the Senior Convertible Notes as interest expense, respectively.

Senior Unsecured Notes

On May 1, 2012, we issued \$100,000 in aggregate principal amount of 6.95% senior unsecured notes due 2022 for proceeds net of offering expenses of \$97,000 (the "2022 Notes"). Interest on the 2022 Notes is paid quarterly in arrears on August 15, November 15, February 15 and May 15, at a rate of 6.95% per year, commencing on August 15, 2012. The 2022 Notes mature on November 15, 2022. These notes will be our direct unsecured obligations and rank equally with all of our unsecured senior indebtedness from time to time outstanding.

On March 15, 2013, we issued \$250,000 in aggregate principal amount of 5.875% senior unsecured notes due 2023 (the "2023 Notes") for net proceeds following underwriting and other expenses of approximately \$245,885. Interest on the 2023 Notes is paid semi-annually. The 2023 Notes matured on March 15, 2023. These notes will be our direct unsecured obligations and rank equally with all of our unsecured senior indebtedness from time to time outstanding.

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In connection with the issuance of the 2022 Notes and 2023 Notes (collectively the "Senior Unsecured Notes"), we incurred \$7,480 of fees which are being amortized over the term of the notes in accordance with ASC 470-50, *Debt Modifications and Extinguishments*, of which \$7,114 remains to be amortized and is included within deferred financing costs on the consolidated statements of assets and liabilities.

During the years ended June 30, 2013 and June 30, 2012, we recorded \$11,672 and \$1,178 of interest costs and amortization of financing costs on the Senior Unsecured Notes as interest expense, respectively.

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 subsequently increased to \$1,000,000. Additional agents appointed by us from time to time in connection with the InterNotes Offering may become parties to the Selling Agent Agreement.

These notes are direct unsecured senior obligations and will 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, 2013, we issued \$343,139 in aggregate principal amount of our Prospect Capital InterNotes® for net proceeds of approximately \$334,243. These notes were issued with stated interest rates ranging from 3.28% to 6.63% with a weighted average rate of 5.59%. These notes mature between July 15, 2019 and June 15, 2043.

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The bonds outstanding as of June 30, 2013 are:

Date of Issuance	Principal Amount	Interest Rate Range	Weighted Average Interest Rate	Maturity Date
March 1, 2012 - March 8, 2012	\$ 5,465	6.90% - 7.00%	6.97%	March 15, 2022
April 5, 2012 - April 26, 2012	8,516	6.50% - 6.85%	6.72%	April 15, 2022
June 14, 2012	2,657	6.95%	6.95%	June 15, 2022
June 28, 2012	4,000	6.55%	6.55%	June 15, 2019
July 6, 2012 - July 26, 2012	20,928	6.20% - 6.45%	6.31%	July 15, 2019
August 2, 2012 - August 23, 2012	17,545	6.05% - 6.15%	6.09%	August 15, 2019
September 7, 2012 - September 27, 2012	29,406	5.85% - 6.00%	5.92%	September 15, 2019
October 4, 2012	7,172	5.70%	5.70%	October 19, 2019
November 23, 2012 - November 29, 2012	13,754	5.00% - 5.13%	5.09%	November 15, 2019
November 29, 2012	1,979	5.75%	5.75%	November 15, 2032
November 23, 2012 - November 29, 2012	16,437	6.50% - 6.63%	6.58%	November 15, 2042
December 6, 2012 - December 28, 2012	9,339	4.50% - 4.86%	4.73%	December 15, 2019
December 6, 2012	1,127	5.63%	5.63%	December 15, 2032
December 13, 2012 - December 28, 2012	3,702	5.00% - 5.13%	5.11%	December 15, 2030
December 6, 2012 - December 28, 2012	22,966	6.00% - 6.38%	6.21%	December 15, 2042
January 4, 2013 - January 31, 2013	4,427	4.00% - 4.375%	4.15%	January 15, 2020
January 4, 2013 - January 31, 2013	2,388	4.50% - 4.875%	4.74%	January 15, 2031
January 4, 2013 - January 31, 2013	9,338	5.50% - 5.875%	5.63%	January 15, 2043
February 4, 2013 - February 28, 2013	2,619	4.00%	4.00%	February 15, 2031
February 4, 2013 - February 28, 2013	664	4.50%	4.50%	February 15, 2031
February 4, 2013 - February 28, 2013	4,623	5.50%	5.50%	February 15, 2043
March 4, 2013 - March 28, 2013	3,832	4.00%	4.00%	March 15, 2020
March 4, 2013 - March 28, 2013	984	4.125% - 4.50%	4.24%	March 15, 2031
March 4, 2013 - March 28, 2013	4,308	5.50%	5.50%	March 15, 2043
March 14, 2013 - March 28, 2013	1,225	L+3.00%	3.27%	March 15, 2023
April 4, 2013 - April 25, 2013	29,528	4.50% - 5.00%	4.96%	April 15, 2020
April 4, 2013 - April 25, 2013	264	L+3.50%	3.78%	April 15, 2023
April 4, 2013 - April 25, 2013	5,164	4.63% - 5.50%	5.34%	April 15, 2031
April 4, 2013 - April 25, 2013	12,280	6.00%	6.00%	April 15, 2043
May 2, 2013 - May 31, 2013	42,482	5.00%	5.00%	May 15, 2020
May 2, 2013 - May 31, 2013	10,000	5.00%	5.00%	May 15, 2028
May 2, 2013 - May 31, 2013	7,548	5.75%	5.75%	May 15, 2031
May 2, 2013 - May 31, 2013	33,641	6.25%	6.25%	May 15, 2043
June 6, 2013 - June 27, 2013	9,905	5.00% - 5.25%	5.04%	June 15, 2020
June 6, 2013 - June 27, 2013	5,000	5.00%	5.00%	June 15, 2028
June 6, 2013 - June 27, 2013	1,707	5.75% - 6.00%	5.85%	June 15, 2031
June 6, 2013 - June 27, 2013	6,857	6.25% - 6.50%	6.31%	June 15, 2043
	\$ 363,777			

In connection with the issuance of the Prospect Capital InterNotes®, we incurred \$10,598 of fees which are being amortized over the term of the notes in accordance with ASC 470-50, *Debt Modifications and Extinguishments*, of which \$10,248 remains to be amortized and is included within deferred financing costs on the consolidated statements of assets and liabilities.

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

Net Asset Value

During the year ended June 30, 2013, we raised \$1,179,084 of additional equity, net of offering costs, by issuing 106,752,517 shares of our common stock. The following table shows the calculation of net asset value per share as of June 30, 2013 and June 30, 2012:

	As of June 30, 2013	As of June 30, 2012
Net Assets	\$ 2,656,494	\$ 1,511,974
Shares of common stock outstanding	247,836,965	139,633,870
Net asset value per share	\$ 10.72	\$ 10.83

Results of Operations

Net increase in net assets resulting from operations for the years ended June 30, 2013, 2012 and 2011 was \$220,856, \$190,904 and \$118,238, respectively, representing \$1.07, \$1.67 and \$1.38 per weighted average share, respectively. During the year ended June 30, 2013, we experienced net unrealized and realized losses of \$104,068 or approximately \$0.50 per weighted average share primarily due to the 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 dividends of \$53,820 during the year, which were recorded as interest and dividend income, respectively, reducing the amount previously recorded as unrealized appreciation. These losses were partially offset by net realized gains from the sale of assets in Wolf, assets formerly held by H&M, and distributions received from our escrow receivable account, primarily from NRG. During the year ended June 30, 2012, we experienced net unrealized and realized gains of \$4,220 or approximately \$0.04 per weighted average share primarily from significant write-ups of our investments in Ajax, Energy Solutions and R-V, and our sale of NRG for which we realized a gain of \$36,940. These instances of appreciation were partially offset by unrealized depreciation in Biotronic, H&M, Meatco, NMMB, Stryker and Wind River.

Net investment income decreased on a weighted average per share basis from \$1.63 to \$1.57 for the years ended June 30, 2012 and 2013, respectively. The decrease is primarily due to an increase of \$6,500 in accrued excise as the result of undisturbed ordinary income at December 31, 2012 and expected at December 31, 2013, and higher levels of cash awaiting deployment during the year ended June 30, 2013. Net investment income increased on a weighted average per share basis from \$1.10 to \$1.63 for the years ended June 30, 2011 and 2012, respectively. This increase is primarily due to the sale of NRG, for which we received a \$26,936 make-whole fee for early repayment of the outstanding loan, which was recorded as interest income in the year ended June 30, 2012, and an increase in dividend income received from Energy Solutions and NRG of \$38,000 and \$11,411, respectively. These increases were partially offset by a \$15,471 decline in interest income from purchase discount accretion from the assets acquired from Patriot.

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.

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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 net profits interests revenue, overriding royalty interests and structuring fees, was \$576,336, \$320,910, and \$169,476, for the years ended June 30, 2013, June 30, 2012 and June 30, 2011, respectively. 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, 2013	Year Ended June 30, 2012	Year Ended June 30, 2011
Interest income	\$ 435,455	\$ 219,536	\$ 134,454
Dividend income	82,705	64,881	15,092
Other income	58,176	36,493	19,930
Total investment income	\$ 576,336	\$ 320,910	\$ 169,476
Average debt principal of performing investments	\$ 2,878,421	\$ 1,466,703	\$ 871,400
Weighted average interest rate earned on performing assets	15.1%	15.0%	15.2%

Average interest income producing assets have increased from \$871,400 for the year ended June 30, 2011 to \$1,466,703 for the year ended June 30, 2012 to \$2,878,421 for the year ended June 30, 2013. The average yield on performing interest bearing assets remained relatively consistent over the three year period.

Investment income is also generated from dividends and other income. 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. 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. 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

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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.

Dividend income increased from \$15,092 for the year ended June 30, 2011 to \$64,881 for the year ended June 30, 2012. This \$49,789 increase in dividend income is primarily attributed to an increase in the dividends received from our investments in Energy Solutions and NRG due to increased profits generated by the portfolio companies. We received dividends from NRG of \$15,011 and \$3,600 during the years ended June 30, 2012 and June 30, 2011, respectively. We received dividends from Energy Solutions of \$47,850 and \$9,850 during the years ended June 30, 2012 and June 30, 2011, 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. 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.

Other income has come primarily from structuring fees, overriding royalty interests, and settlement of net profits interests. Comparing the year ended June 30, 2012 to the year ended June 30, 2013, income from other sources increased from \$36,493 to \$58,176, respectively. This \$21,683 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 originations, in comparison to \$26,443 of structuring fees recognized during the year ended June 30, 2012. This \$26,256 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 \$4,210 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.

Comparing the year ended June 30, 2011 to the year ended June 30, 2012, income from other sources increased from \$19,930 to \$36,493. This \$16,563 increase is primarily due to \$14,137 of structuring and advisory fees recognized during the year ended June 30, 2012 from our investments in Energy Solutions and NRG. The remaining \$2,426 increase is primarily due to \$21,088 of structuring fees recognized, excluding those received from our investments in Energy Solutions and NRG, during the year ended June 30, 2012 primarily from the Capstone, First Tower, Naylor, LLC and Totes Isotoner Corporation ("Totes") originations, in comparison to \$18,494 of structuring fees recognized during the year ended June 30, 2011.

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 in accordance with our Administration Agreement with Prospect Administration. Operating expenses were \$251,412, \$134,226 and \$75,255 for the years ended June 30, 2013, June 30, 2012 and June 30, 2011, respectively.

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The base investment advisory expenses were \$69,800, \$35,836 and \$22,496 for the years ended June 30, 2013, June 30, 2012 and June 30, 2011, respectively. These increases are directly related to our growth in total assets. For the years ended June 30, 2013, June 30, 2012 and June 30, 2011, income incentive fees incurred were \$81,231, \$46,761 and \$23,555, respectively. The \$34,470 increase in the income incentive fee for the year ended June 30, 2013 is driven by an increase in pre-incentive fee net investment income of \$172,800 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, 2013, June 30, 2012 and June 30, 2011, we incurred \$76,341, \$38,534 and \$17,598, respectively, of expenses related to our 2012 Facility, InterNotes®, Senior Unsecured Notes and Senior Convertible Notes. These expenses are related directly to the leveraging capacity put into place for each of those years and the levels of indebtedness actually undertaken in those years. The table below describes the various expenses of our 2012 Facility, InterNotes®, Senior Unsecured Notes and Senior Convertible Notes and the related indicators of leveraging capacity and indebtedness during these years.

	Year Ended June 30, 2013	Year Ended June 30, 2012	Year Ended June 30, 2011
Interest on borrowings	\$ 62,657	\$ 27,346	\$ 9,861
Amortization of deferred financing costs	8,283	8,510	5,366
Commitment and other fees	5,401	2,678	2,371
Total	\$ 76,341	\$ 38,534	\$ 17,598
Weighted-average debt outstanding	\$ 1,066,368	\$ 502,038	\$ 176,277
Weighted average interest rate on borrowings (excluding amortization and undrawn facility fees)	5.88%	5.45%	5.59%
Facility amount at beginning of year	\$ 492,500	\$ 325,000	\$ 210,000

The increase in interest expense for the year ended June 30, 2013 is primarily due to the issuance of the 2022 Notes, 2023 Notes and the Senior Convertible Notes on April 16, 2012, August 14, 2012 and December 21, 2012, for which we incurred \$34,551 of collective interest expense. The weighted average interest rate on borrowings (excluding amortization and undrawn facility fees) increased from 5.45% to 5.88% as of June 30, 2012 and June 30, 2013, respectively. This increase is primarily due to a decrease in utilization of our credit facility in favor of longer term financing.

The allocation of overhead expense from Prospect Administration was \$8,737, \$6,848 and \$4,979 for the years ended June 30, 2013, 2012 and 2011, respectively. As our portfolio continues to grow, we expect Prospect Administration to continue to increase the size of its administrative and financial staff.

Total operating expenses, net of investment advisory fees, interest costs, excise tax and allocation of overhead from Prospect Administration ("Other Operating Expenses"), were \$8,803, \$6,337 and \$6,627 for the years ended June 30, 2013, 2012 and 2011, respectively. The increase in Other Operating Expenses during the year ended June 30, 2013 when compared to the year ended June 30, 2012 is primarily the result of a \$1,000 insurance claim settlement for legal fees expensed in previous periods that was received during the year ended June 30, 2012. The decrease in Other Operating Expenses during the year ended June 30, 2012 when compared to the year ended June 30, 2011 is primarily the result of a \$1,000 insurance claim settlement for legal fees expensed in previous periods that was received during the year ended June 30, 2012.

Net Investment Income

Net investment income represents the difference between investment income and operating expenses. Our net investment income was \$324,924, \$186,684 and \$94,221 for the years ended June 30, 2013, June 30, 2012 and June 30, 2011, respectively, or \$1.57 per share, \$1.63 per share and \$1.10 per

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share, respectively. The \$138,240 increase for the year ended June 30, 2013 is primarily due to an increase of \$215,919 in interest income, due to the increased size of our portfolio for which we have recognized additional interest income. The \$255,426 increase in investment income is offset by an increase in operating expenses of \$117,186, primarily due to a \$68,524 increase in advisory fees due to the growing size of our portfolio and related income, and \$37,807 of additional interest and credit facility expenses. For the calendar year ended December 31, 2012, we elected to retain a portion of our annual taxable income and have paid \$4,500 for the excise tax due with the filing of the return. As of June 30, 2013, we have \$2,000 accrued as an estimate of two quarters of the excise tax due for the calendar year ending December 31, 2013. The per share decrease is primarily due to an increase of \$6,500 in excise taxes and higher levels of cash awaiting deployment during the year ended June 30, 2013.

The \$92,463 increase for the year ended June 30, 2012 is primarily due to a \$151,434 increase in investment income offset by an increase in operating expenses of \$58,971. The \$151,434 increase in investment income is due to increases of \$85,082, \$49,789 and \$16,563 in interest income, dividend income and other income, respectively, due to the increased size of our portfolio for which we have recognized additional interest income, dividends, structuring fees and advisory fees recognized primarily from our investments in Energy Solutions, First Tower and NRG. In conjunction with the sale of NRG we also received a \$26,936 make-whole fee for early repayment of the outstanding loan, which was recorded as interest income in the year ended June 30, 2012. The offsetting \$58,971 increase in operating expenses is primarily due to a \$36,456 increase in advisory fees due to the growing size of our portfolio and related income, \$20,936 of additional interest and credit facility expenses and a \$1,869 increase in overhead allocated from Prospect Administration.

Net Realized (Losses) Gains, (Decrease) Increase in Net Assets from Net Changes in Unrealized Appreciation/Depreciation

Net realized (losses) gains were (\$26,234), \$36,588 and \$16,465 for the years ended June 30, 2013, June 30, 2012 and June 30, 2011, respectively. The net realized loss for the year ended June 30, 2013 was primarily due to the sale of Meatco (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 (realized gain of \$11,826), assets formerly held by H&M, and distributions received from our escrow receivable account, primarily NRG (resulting in realized gains of \$3,252). The net realized gain for the year ended June 30, 2012 was due primarily to the sale of NRG common stock for which we realized a gain of \$36,940 and the sale of our equity interests in Copernicus, C&J, Fairchild Industrial Products, Co., Fischbein, Mac & Massey, Nupla and Sport Helmets for which we realized a total gain of \$14,317. These gains were offset by our impairment of Deb Shops. During the year ended June 30, 2012, Deb Shops filed for bankruptcy and a plan for reorganization was proposed. The plan was approved by the bankruptcy court and our debt position was eliminated with no payment to us. We determined that the impairment of Deb Shops was other-than-temporary on September 30, 2011 and recorded a realized loss of \$14,607 for the full amount of the amortized cost. The asset was completely written off when the plan of reorganization was approved. The net realized gain for the year ended June 30, 2011 was due primarily to gains from the sales of our common equity in Fischbein and Miller of \$9,893 and \$7,977, respectively.

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Net (decrease) increase in net assets from changes in unrealized (depreciation) appreciation was (\$77,834), (\$32,368), and \$7,552 for the years ended June 30, 2013, June 30, 2012 and June 30, 2011, respectively, or (\$0.37) per share, (\$0.28) per share and \$0.09 per share, respectively. For the year ended June 30, 2013, the \$77,834 decrease in net assets from the net change in unrealized depreciation was driven by 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. For the year ended June 30, 2012, the \$32,368 decrease in net assets from the net change in unrealized appreciation/depreciation was driven by write-downs of \$68,197 related to our investments in H&M, Meatco and Stryker, as well as the elimination of the unrealized appreciation resulting from the sale of NRG mentioned above. The unrealized depreciation was partially offset by unrealized appreciation of approximately \$34,712 related to our investments in Ajax and R-V. For the year ended June 30, 2011, the \$7,552 increase in net assets from the net change in unrealized appreciation was driven by significant write-ups of \$54,916 related to our investments in Ajax, Biotronic, ESHI, Iron Horse, NRG and Sport Helmets. The unrealized appreciation were partially offset by unrealized depreciation of approximately \$35,689 related to our investments in H&M, ICS, Manx, Shearer's, Stryker, and \$10,840 related to the repayment of Prince.

Financial Condition, Liquidity and Capital Resources

For the years ended June 30, 2013, June 30, 2012 and June 30, 2011, our operating activities used \$1,811,101, \$287,881 and \$581,609 of cash, respectively. There were no investing activities for the years ended June 30, 2013, June 30, 2012 and June 30, 2011. Financing activities provided cash flows of \$1,868,250, \$289,214 and \$582,020 for the years ended June 30, 2013, June 30, 2012 and June 30, 2011, respectively. Dividends paid were \$242,301, \$127,564 and \$91,247 for the years ended June 30, 2013, June 30, 2012 and June 30, 2011, 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 mezzanine 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, 2013, we borrowed \$223,000 and made repayments totaling \$195,000 under our 2012 Facility. As of June 30, 2013, we had \$124,000 outstanding on our revolving credit facility, \$847,500 outstanding on our Senior Convertible Notes, \$347,725 outstanding on our Senior Unsecured Notes and \$363,777 outstanding on InterNotes®. (See *Capitalization*.)

Undrawn committed revolvers incur commitment fees ranging from 0.50% to 2.00%. As of June 30, 2013 and June 30, 2012, we have \$202,518 and \$180,646 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 200,000,000 to 500,000,000 in the aggregate. The amendment became effective July 30, 2012.

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On October 29, 2012, our Registration Statement on Form N-2 was declared effective by the SEC. Under this Shelf Registration Statement, we can issue up to an additional \$1,743,217 of debt and equity securities in the public market at June 30, 2013.

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

On June 1, 2012, we entered into an ATM Program with KeyBanc through which we could sell, by means of at-the-market offerings from time to time, of up to 9,500,000 shares of our common stock. During the period from July 2, 2012 to July 12, 2012, we sold 2,247,275 shares of our common stock at an average price of \$11.59 per share, and raised \$26,040 of gross proceeds, under the ATM Program. Net proceeds were \$25,779 after commission to KeyBanc on shares sold.

On July 16, 2012, we issued 21,000,000 shares of our common stock at \$11.15 per share (or \$11.05 per share net proceeds excluding expenses), raising \$234,150 of gross proceeds.

On July 27, 2012, we issued 3,150,000 shares in connection with the exercise of an option granted with the July 12, 2012 offering of 21,000,000 shares which were delivered July 16, 2012, raising an additional \$35,123 of gross proceeds and \$34,808 of net proceeds.

On September 10, 2012, we entered into an ATM Program with KeyBanc through which we could sell, by means of at-the-market offerings from time to time, of up to 9,750,000 shares of our common stock. During the period from October 1, 2012 to October 9, 2012, we sold 1,245,655 shares of our common stock at an average price of \$11.53 per share, and raised \$14,361 of gross proceeds, under this program. Net proceeds were \$14,217 after commission to the broker-dealer on shares sold and offering costs.

On November 7, 2012, we issued 35,000,000 shares of our common stock at \$11.10 per share (or \$10.96 per share net proceeds excluding expenses), raising \$383,600 of net proceeds.

On December 21, 2012, we entered into an ATM Program with KeyBanc through which we could sell, by means of at-the-market offerings from time to time, of up to 17,500,000 shares of our common stock. During the period from January 7, 2013 to February 5, 2013, we sold 10,248,051 shares of our common stock at an average price of \$11.25 per share, and raised \$115,315 of gross proceeds, under this program. Net proceeds were \$114,162 after commission to KeyBanc on shares sold.

On February 11, 2013, we entered into an ATM Program with KeyBanc through which we could sell, by means of at-the-market offerings from time to time, of up to 45,000,000 shares of our common stock. During the period from February 14, 2013 to May 3, 2013, we sold 17,230,253 shares of our common stock at an average price of \$11.14 per share, and raised \$191,897 of gross proceeds, under the ATM Program. Net proceeds were \$190,109 after commissions to KeyBanc on shares sold.

On May 8, 2013, we entered into an ATM Program with BB&T Capital Markets, BMO Capital Markets, and KeyBanc through which we could sell, by means of at-the-market offerings from time to time, of up to 45,000,000 shares of our common stock. During the period from May 14, 2013 to June 30, 2013, we sold 4,359,200 shares of our common stock at an average price of \$10.91 per share, and raised \$47,532 of gross proceeds, under the ATM Program. Net proceeds were \$47,133 after commissions to BB&T Capital Markets, BMO Capital Markets, and KeyBanc on shares sold. During the period from July 1, 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 \$106,822 after commissions to BB&T Capital Markets, BMO Capital Markets, and KeyBanc on shares sold. (See *Recent Developments*.)

Off-Balance Sheet Arrangements

At June 30, 2013, 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

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than those which originate from 1) the investment advisory and management agreement and the administration agreement and 2) the portfolio companies.

Recent Developments

During the period from July 1, 2013 to August 21, 2013, we issued \$58,607 in aggregate principal amount of our Prospect Capital InterNotes® for net proceeds of \$57,344. In addition, we sold \$7,682 in aggregate principal amount of our Prospect Capital InterNotes® for net proceeds of \$7,513 with expected closing on August 22, 2013.

During the period from July 1, 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 \$106,822 after commissions to the broker-dealer on shares sold and offering costs.

On July 1, 2013, Pre-Paid Legal Services, Inc. repaid the \$5,000 loan receivable to us.

On July 9, 2013, Southern Management Corporation repaid the \$17,565 loan receivable to us.

On July 12, 2013, we provided \$11,000 of secured second lien financing to Water PIK, Inc., a leader in developing innovative personal and oral healthcare products.

On July 23, 2013, we made a \$2,000 investment in Carolina Beverage Group, LLC ("Carolina Beverage"), a contract beverage manufacturer.

On July 24, 2013, we sold our \$2,000 investment in Carolina Beverage and realized a gain of \$45 on this investment.

On July 26, 2013, we made a \$2,000 follow-on senior secured debt investment in Spartan, a leading provider of thru tubing and flow control services to oil and gas companies.

On July 26, 2013, we made a \$20,000 follow-on secured second lien investment in Royal Adhesives & Sealants, LLC ("Royal"), a leading producer of proprietary, high-performance adhesives and sealants.

On July 31, 2013, we made a \$5,100 follow-on investment in Coverall, a leading franchiser of commercial cleaning businesses.

On July 31, 2013, Royal repaid the \$28,364 subordinated unsecured loan receivable to us.

On July 31, 2013, Cargo repaid the \$43,399 loan receivable to us.

On August 1, 2013, Medical Security Card Company, LLC repaid the \$13,214 loan receivable to us.

On August 2, 2013, we made an investment of \$44,100 to purchase 90% of the subordinated notes in CIFIC Funding 2013-III, Ltd.

On August 2, 2013, we funded a recapitalization of CP Energy Services, Inc. ("CP Energy") with \$81,273 of debt and \$12,741 of equity financing. Through the recapitalization, we acquired a controlling interest in CP Energy for \$73,009 in cash and 1,918,342 unregistered shares of our common stock. After the financing, we received repayment of the \$18,991 loan previously outstanding.

On August 12, 2013, we provided \$80,000 in senior secured loans and a senior secured revolving loan facility, of which \$70,000 was funded at closing, for the recapitalization of Matrixx Initiatives, Inc., owner of Zicam, a leading developer and marketer of OTC cold remedy products under the Zicam brand.

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On August 14, 2013, we announced the revised conversion rate on the 2018 Notes of 82.8631 shares of common stock per \$1 principal amount of 2018 Notes, which is equivalent to a conversion price of approximately \$12.07.

On August 15, 2013, we announced an increase of \$15,000 to our commitments to our credit facility. The commitments to the credit facility now stand at \$567,500.

On August 15, 2013, we made a \$14,000 follow-on investment in Totes, a leading designer, distributor and retailer of high quality, branded functional accessories.

On August 21, 2013, we announced the declaration of monthly dividends in the following amounts and with the following dates:

- \$0.110325 per share for January 2014 to holders of record on January 31, 2014 with a payment date of February 20, 2014;
- \$0.110350 per share for February 2014 to holders of record on February 28, 2014 with a payment date of March 20, 2014; and
- \$0.110375 per share for March 2014 to holders of record on March 31, 2014 with a payment date of April 17, 2014.

Critical Accounting Policies and Estimates

Our discussion and analysis of our financial condition and results of operations are based upon our financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP"). The preparation of these financial statements requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses. Changes in the economic environment, financial markets and any other parameters used in determining such estimates could cause actual results to differ materially. In addition to the discussion below, our critical accounting policies are further described in the notes to the financial statements.

Basis of Consolidation

Under the 1940 Act rules, the regulations pursuant to Article 6 of Regulation S-X and the American Institute of Certified Public Accountants' Audit and Accounting Guide for Investment Companies, we are precluded from consolidating any entity other than another investment company or an operating company which provides substantially all of its services and benefits to us. Our financial statements include our accounts and the accounts of PCF, our only wholly-owned, closely-managed subsidiary that is also an investment company. All intercompany balances and transactions have been eliminated in consolidation.

Investment Classification

We are a non-diversified company within the meaning of 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. Affiliated investments and affiliated companies 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.

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

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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. Investments in other, non-security financial instruments are recorded on the basis of subscription date or redemption date, as applicable. 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 Valuation

To value our assets, we follow the guidance of ASC 820 that defines fair value, establishes a framework for measuring fair value in conformity with accounting principles generally accepted in the United States or America, or GAAP, and requires disclosures about fair value measurements.

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 the Company at the measurement date.

Level 2: Quoted prices for similar assets or liabilities in active markets, or quoted prices for identical for 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.

ASC 820 applies to fair value measurements already required or permitted by other standards.

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.

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 an independent valuation firm engaged by our Board of Directors;
- 2) the independent valuation firms conduct independent appraisals and make their own independent assessment;
- 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.

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Investments are valued utilizing a shadow bond approach, a market approach, an income approach, a liquidation approach, or a combination of approaches, as appropriate. The shadow bond and market approaches use prices and other relevant information generated by market transactions involving identical or comparable assets or liabilities (including a business). The income approach uses valuation techniques to convert future amounts (for example, cash flows or earnings) to a single present value amount (discounted) calculated based on an appropriate discount rate. The measurement is based on the net present value indicated by current market expectations about those future amounts. In following these approaches, the types of factors that we may take into account in fair value pricing our investments include, as relevant: available current market data, including relevant and applicable market trading and transaction comparables, applicable market yields and multiples, security covenants, call protection provisions, information rights, the nature and realizable value of any collateral, the portfolio company's ability to make payments, its earnings and discounted cash flows, the markets in which the portfolio company does business, comparisons of financial ratios of peer companies that are public, M&A comparables, 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 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 security, the most appropriate valuation approach has been chosen from alternative approaches to ensure the most accurate valuation for each security. To value a CLO, both the assets and liabilities of the CLO capital structure need be modeled. We use a waterfall engine to store the collateral data, generate collateral cash flows from the assets, and distributes the cash flow to the liability structure based on the payment priorities, and discount them back using proper discount rates that incorporate all the risk factors. 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."

Valuation of Other Financial Assets and Financial Liabilities

ASC Subtopic 820-10-05-1, *The Fair Value Option for Financial Assets and Financial Liabilities* ("ASC 820-10-05-1") permits an entity to elect fair value as the initial and subsequent measurement attribute for many of assets and liabilities for which the fair value option has been elected and similar assets and liabilities measured using another measurement attribute. We have elected not to value some assets and liabilities at fair value as would be permitted by ASC 820-10-05-1.

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 of 1986 (the "Code"), applicable to regulated investment companies. We are required to distribute at least 90% of our investment company taxable income and intend to distribute (or retain through a deemed distribution) all of our investment company taxable income and net capital gain to stockholders; therefore, we have made no provision for income taxes. The character of income and gains that we will distribute is determined in accordance with income tax regulations that may differ from GAAP. Book and tax basis differences relating to stockholder dividends and distributions and other permanent book and tax differences are reclassified to paid-in capital.

If we do not distribute at least 98% of our annual 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 exceeds the distributions

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from such taxable income for the year. To the extent that we determine that our estimated current year annual taxable income will be in excess of estimated current year dividend distributions from such taxable income, we accrue excise taxes, if any, on estimated excess taxable income as taxable income is earned using an annual effective excise tax rate. The annual effective excise tax rate is determined by dividing the estimated annual excise tax by the estimated annual taxable income. For the calendar year ended December 31, 2012, we elected to retain a portion of our annual taxable income and have paid \$4,500 for the excise tax due with the filing of the return. As of June 30, 2013, we have \$2,000 accrued as an estimate of two quarters of the excise tax due for the calendar year ending December 31, 2013.

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

We adopted FASB ASC 740, *Income Taxes* ("ASC 740"). ASC 740 provides guidance for how uncertain tax positions should be recognized, measured, presented, and disclosed in the 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. Adoption of ASC 740 was applied to all open tax years as of July 1, 2007. The adoption of ASC 740 did not have an effect on our net asset value, financial condition or results of operations as there was no liability for unrecognized tax benefits and no change to our beginning net asset value. As of June 30, 2012 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.

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. 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.

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

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maturity utilizing assumed cash flows in accordance with ASC 325-40-35, *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.

Loans are placed on non-accrual status when principal or interest payments are past due 90 days or more or 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, 2012, approximately 2.9% of our net assets are in non-accrual status.

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.

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 dividend or distribution is approved by our Board of Directors each quarter and is generally based upon our management's estimate of our earnings for the quarter. Net realized capital gains, if any, are distributed at least annually.

Financing Costs

We record origination expenses related to our credit facility and 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.

We record registration expenses related to shelf filings as prepaid assets. These expenses consist principally of Securities and Exchange Commission ("SEC") registration fees, legal fees and accounting fees incurred. These prepaid assets will be charged to capital upon the receipt of an equity offering proceeds or charged to expense if no offering 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 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 common share are calculated using the weighted average number of common shares outstanding for the period presented. In accordance with ASC 946, *Financial Services—Investment Companies*, convertible securities are not considered in the calculation of net assets per share.

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Recent Accounting Pronouncements

In May 2011, the FASB issued Accounting Standards Update 2011-04, *Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRS* ("ASU 2011-04"). ASU 2011-04 amends Topic 820, *Fair Value Measurements*, ("ASC 820") by: (1) clarifying that the highest-and-best-use and valuation-premise concepts only apply to measuring the fair value of non-financial assets; (2) allowing a reporting entity to measure the fair value of the net asset or net liability position in a manner consistent with how market participants would price the net risk position, if certain criteria are met; (3) providing a framework for considering whether a premium or discount can be applied in a fair value measurement; (4) providing that the fair value of an instrument classified in a reporting entity's shareholders' equity is estimated from the perspective of a market participant that holds the identical item as an asset; and (5) expanding the qualitative and quantitative fair value disclosure requirements. The expanded disclosures include, for Level 3 items, a description of the valuation process and a narrative description of the sensitivity of the fair value to changes in unobservable inputs and interrelationships between those inputs if a change in those inputs would result in a significantly different fair value measurement. ASU 2011-4 also requires disclosures about the highest-and-best-use of a non-financial asset when this use differs from the asset's current use and the reasons for such a difference. In addition, this ASU amends ASC 820, *Fair Value Measurements*, to require disclosures to include any transfers between Level 1 and Level 2 of the fair value hierarchy. These amendments were effective for fiscal years beginning after December 15, 2011 and for interim periods within those fiscal years. The adoption of the amended guidance in ASU 2011-04 did not have a significant effect on our financial statements. See Note 3 for the disclosure required by ASU 2011-04.

In August 2012, the FASB issued Accounting Standards Update 2012-03, *Technical Amendments and Corrections to SEC Sections: Amendments to SEC Paragraphs Pursuant to SEC Staff Accounting Bulletin No. 114 ("SAB No. 114"), Technical Amendments Pursuant to SEC Release No. 33-9250, and Corrections Related to FASB Accounting Standards Update 2010-22* ("ASU 2012-03"). The update amends various SEC paragraphs pursuant to the issuance of SAB No. 114 and is effective upon issuance. The adoption of the amended guidance in ASU 2012-03 did not have a significant effect on our financial statements.

In October 2012, the FASB issued Accounting Standards Update 2012-04, *Technical Corrections and Improvements* ("ASU 2012-04"). The amendments in this update cover a wide range of Topics in the ASC. These amendments include technical corrections and improvements to the ASC and conforming amendments related to fair value measurements. The adoption of the amended guidance in ASU 2012-04 did not have a significant effect on our financial statements.

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"). ASU 2013-08 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 ASU 2013-08 is not expected to materially effect on our financial statements.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk.

We are subject to financial market risks, including changes in interest rates and equity price risk. 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 twelve months ended June 30, 2013, we did not engage in hedging activities.

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Item 8. Financial Statements and Supplementary Data.

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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 schedule of investments, as of June 30, 2013 and 2012, 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, 2013, and the financial highlights for each of the five years in the period ended June 30, 2013. 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 consolidated 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 consolidated financial statements. Our procedures include confirmation of securities owned as of June 30, 2013 and 2012 by correspondence with the custodian, trustees and portfolio companies, and alternative procedures. 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, 2013 and 2012, 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, 2013, and the financial highlights for each of the five years in the period ended June 30, 2013, 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, 2013, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) and our report dated August 21, 2013 expressed an unqualified opinion thereon.

/s/ BDO USA, LLP

BDO USA, LLP
New York, New York
August 21, 2013

PROSPECT CAPITAL CORPORATION AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF ASSETS AND LIABILITIES

(in thousands, except share and per share data)

	June 30, 2013	June 30, 2012
Assets (Note 4)		
Investments at fair value:		
Control investments (net cost of \$830,151 and \$518,015, respectively)	\$ 811,634	\$ 564,489
Affiliate investments (net cost of \$49,189 and \$44,229, respectively)	42,443	46,116
Non-control/Non-affiliate investments (net cost of \$3,376,438 and \$1,537,069, respectively)	3,318,775	1,483,616
Total investments at fair value (net cost of \$4,255,778 and \$2,099,313, respectively, Note 3)	4,172,852	2,094,221
Investments in money market funds	143,262	118,369
Cash	59,974	2,825
Receivables for:		
Interest, net	22,863	14,219
Other	4,397	784
Prepaid expenses	540	421
Deferred financing costs	44,329	24,415
Total Assets	4,448,217	2,255,254
Liabilities		
Credit facility payable (Notes 4 and 8)	124,000	96,000
Senior convertible notes (Notes 5 and 8)	847,500	447,500
Senior unsecured notes (Notes 6 and 8)	347,725	100,000
Prospect Capital InterNotes® (Notes 7 and 8)	363,777	20,638
Due to Broker	43,588	44,533
Dividends payable	27,299	14,180
Due to Prospect Administration (Note 12)	1,366	658
Due to Prospect Capital Management (Note 12)	5,324	7,913
Accrued expenses	2,345	2,925
Interest payable	24,384	6,723
Other liabilities	4,415	2,210
Total Liabilities	1,791,723	743,280
Net Assets	\$ 2,656,494	\$ 1,511,974
Components of Net Assets		
Common stock, par value \$0.001 per share (500,000,000 common shares authorized; 247,836,965 and 139,633,870 issued and outstanding, respectively) (Note 9)	\$ 248	\$ 140
Paid-in capital in excess of par (Note 9)	2,739,864	1,544,801
Undistributed net investment income	77,084	23,667
Accumulated realized losses on investments	(77,776)	(51,542)
Unrealized depreciation on investments	(82,926)	(5,092)
Net Assets	\$ 2,656,494	\$ 1,511,974
Net Asset Value Per Share	\$ 10.72	\$ 10.83

See notes to consolidated financial statements.

PROSPECT CAPITAL CORPORATION AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF OPERATIONS

(in thousands, except share and per share data)

	Year Ended		
	June 30, 2013	June 30, 2012	June 30, 2011
Investment Income			
Interest income: (Note 3)			
Control investments	\$ 106,425	\$ 53,408	\$ 21,747
Affiliate investments	6,515	12,155	11,307
Non-control/Non-affiliate investments	234,013	144,592	101,400
CLO Fund securities	88,502	9,381	—
Total interest income	435,455	219,536	134,454
Dividend income:			
Control investments	78,282	63,144	13,569
Affiliate Investments	728	—	—
Non-control/Non-affiliate investments	3,656	1,733	1,507
Money market funds	39	4	16
Total dividend income	82,705	64,881	15,092
Other income: (Note 10)			
Control investments	16,821	25,464	2,829
Affiliate investments	623	108	190
Non-control/Non-affiliate investments	40,732	10,921	16,911
Total other income	58,176	36,493	19,930
Total Investment Income	576,336	320,910	169,476
Operating Expenses			
Investment advisory fees:			
Base management fee (Note 12)	69,800	35,836	22,496
Income incentive fee (Note 12)	81,231	46,671	23,555
Total investment advisory fees	151,031	82,507	46,051
Interest and credit facility expenses	76,341	38,534	17,598
Legal fees	1,918	279	1,062
Valuation services	1,579	1,212	992
Audit, compliance and tax related fees	1,566	1,446	876
Allocation of overhead from Prospect Administration (Note 12)	8,737	6,848	4,979
Insurance expense	356	324	285
Directors' fees	300	273	255
Excise tax	6,500	—	—
Other general and administrative expenses	3,084	2,803	3,157
Total Operating Expenses	251,412	134,226	75,255
Net Investment Income	324,924	186,684	94,221
Net realized (loss) gain on investments (Note 3)	(26,234)	36,588	16,465
Net change in unrealized (depreciation) appreciation on investments (Note 3)	(77,834)	(32,368)	7,552
Net Increase in Net Assets Resulting from Operations	\$ 220,856	\$ 190,904	\$ 118,238
Net increase in net assets resulting from operations per share: (Notes 11 and 15)	\$ 1.07	\$ 1.67	\$ 1.38
Weighted average shares of common stock outstanding:	207,069,971	114,394,554	85,978,757

See notes to consolidated financial statements.

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

	Year Ended		
	June 30, 2013	June 30, 2012	June 30, 2011
Increase in Net Assets from Operations:			
Net investment income	\$ 324,924	\$ 186,684	\$ 94,221
Net (loss) gain on investments	(26,234)	36,588	16,465
Net change in unrealized (depreciation) appreciation on investments	(77,834)	(32,368)	7,552
Net Increase in Net Assets Resulting from Operations	220,856	190,904	118,238
Dividends to Shareholders:			
Distribution of net investment income	(271,507)	(136,875)	(94,326)
Distribution of return of capital	—	(4,504)	(11,841)
Total Dividends to Shareholders	(271,507)	(141,379)	(106,167)
Capital Share Transactions:			
Net proceeds from capital shares sold	1,180,899	338,270	381,316
Less: Offering costs of public share offerings	(1,815)	(708)	(1,388)
Reinvestment of dividends	16,087	10,530	10,934
Net Increase in Net Assets Resulting from Capital Share Transactions	1,195,171	348,092	390,862
Total Increase in Net Assets:	1,144,520	397,617	402,933
Net assets at beginning of year	1,511,974	1,114,357	711,424
Net Assets at End of Year	\$ 2,656,494	\$ 1,511,974	\$ 1,114,357
Capital Share Activity:			
Shares sold	101,245,136	30,970,696	37,494,476
Shares issued to acquire controlled investments	5,507,381	—	—
Shares issued through reinvestment of dividends	1,450,578	1,056,484	1,025,352
Net increase in capital share activity	108,203,095	32,027,180	38,519,828
Shares outstanding at beginning of year	139,633,870	107,606,690	69,086,862
Shares Outstanding at End of Year	247,836,965	139,633,870	107,606,690

See notes to consolidated financial statements.

PROSPECT CAPITAL CORPORATION AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands, except share data)

	Year Ended		
	June 30, 2013	June 30, 2012	June 30, 2011
Cash Flows from Operating Activities:			
Net increase in net assets resulting from operations	\$ 220,856	\$ 190,904	\$ 118,238
Net realized loss (gain) on investments	26,234	(36,588)	(16,465)
Net change in unrealized depreciation (appreciation) on investments	77,834	32,368	(7,552)
Amortization of discounts and premiums	(11,016)	(7,284)	(23,035)
Amortization of deferred financing costs	8,232	8,511	5,365
Payment-in-kind interest	(10,947)	(5,647)	(9,634)
Structuring fees	(52,699)	(8,075)	(13,460)
Change in operating assets and liabilities:			
Payments for purchases of investments	(2,980,320)	(901,833)	(930,243)
Proceeds from sale of investments and collection of investment principal	931,534	500,952	285,862
Net (increase) decrease of investments in money market funds	(24,893)	(58,466)	8,968
Increase in interest receivable, net	(8,644)	(4,950)	(3,913)
(Increase) decrease in other receivables	(3,613)	(517)	153
(Increase) decrease in prepaid expenses	(119)	(320)	270
Decrease in other assets	—	—	534
Decrease in due to Broker	(945)	—	—
Increase (decrease) in due to Prospect Administration	708	446	(82)
Increase (decrease) in due to Prospect Capital Management	(2,589)	207	(1,300)
(Decrease) increase in accrued expenses	(580)	1,052	(1,998)
Increase in interest payable	17,661	2,720	3,817
Increase (decrease) in other liabilities	2,205	(1,361)	2,866
Net Cash Used In Operating Activities:	(1,811,101)	(287,881)	(581,609)
Cash Flows from Financing Activities:			
Borrowings under credit facility (Note 4)	223,000	726,800	465,900
Payments under credit facility (Note 4)	(195,000)	(715,000)	(482,000)
Issuance of Senior Convertible Notes (Note 5)	400,000	130,000	322,500
Repurchases under Senior Convertible Notes (Note 5)	—	(5,000)	—
Issuance of Senior Unsecured Notes	247,725	100,000	—
Issuance of Prospect Capital InterNotes® (Note 7)	343,139	20,638	—
Financing costs paid and deferred	(28,146)	(17,651)	(13,061)
Net proceeds from issuance of common stock	1,121,648	177,699	381,316
Offering costs from issuance of common stock	(1,815)	(708)	(1,388)
Dividends paid	(242,301)	(127,564)	(91,247)
Net Cash Provided By Financing Activities:	1,868,250	289,214	582,020
Total Increase in Cash	57,149	1,333	411
Cash balance at beginning of year	2,825	1,492	1,081
Cash Balance at End of Year	\$ 59,974	\$ 2,825	\$ 1,492
Cash Paid For Interest	\$ 45,363	\$ 24,515	\$ 6,101
Non-Cash Financing Activity:			
Amount of shares issued in connection with dividend reinvestment plan	\$ 16,087	\$ 10,530	\$ 10,934
Amount of shares issued in conjunction with controlled investments	\$ 59,251	\$ 160,571	\$ —

See notes to consolidated financial statements.

PROSPECT CAPITAL CORPORATION AND SUBSIDIARY

CONSOLIDATED SCHEDULE OF INVESTMENTS

June 30, 2013 and June 30, 2012

(in thousands, except share data)

			June 30, 2013			
Portfolio Company	Locale / Industry	Investments(1)	Principal Value	Cost	Fair Value(2)	% of Net Assets
LEVEL 3 PORTFOLIO INVESTMENTS:						
Control Investments (greater than 25.00% voting control)						
AIRMALL USA, 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%
		Convertible 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%
Ajax Rolled Ring & Machine, 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%
		Convertible Preferred Stock—Series A (6,142.6 shares)		6,057	—	0.0%
		Unrestricted Common Stock (6 shares)		—	—	0.0%
				45,494	39,437	1.4%
APH Property Holdings, LLC(32)	Georgia / Real Estate	Senior Secured Note (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%
		Common Stock (148,951 shares)		26,648	26,648	1.0%
				152,540	152,540	5.8%
AWCNC, LLC(19)	North Carolina / Machinery	Members Units—Class A (1,800,000 units)		—	—	0.0%
		Members Units—Class B-1 (1 unit)		—	—	0.0%
		Members Units—Class B-2 (7,999,999 units)		—	—	0.0%
Borga, Inc.	California / Manufacturing			—	—	0.0%
		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	0.0%
		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	—	0.0%
		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	—	0.0%
		Common Stock (100 shares)(21)		—	—	0.0%
		Warrants (33,750 warrants)(21)		—	—	0.0%
				3,302	586	0.0%

See notes to consolidated financial statements.

PROSPECT CAPITAL CORPORATION AND SUBSIDIARY
CONSOLIDATED SCHEDULE OF INVESTMENTS (Continued)

June 30, 2013 and June 30, 2012

(in thousands, except share data)

			June 30, 2013			
Portfolio Company	Locale / Industry	Investments(1)	Principal Value	Cost	Fair Value(2)	% of Net Assets
CCPI Holdings, Inc.(33)	Ohio / Manufacturing	Senior Secured Note (10.00%, due 12/31/2017) (3)	\$ 17,663	\$ 17,663	\$ 17,663	0.7%
		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	0.0%
				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%
		Common Stock (100 shares)		9,581	8,361	0.3%
		Net Revenue Interest (5% of Net Revenue)		—	4,019	0.2%
				47,663	50,462	1.9%
Energy Solutions Holdings, Inc.(8)	Texas / Gas Gathering and Processing	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 Freedom Marine Holdings, 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 Debt to Yatesville Coal Holdings, Inc. (Non-accrual status effective 1/1/2009, past due)	1,449	1,449	—	0.0%
		Escrow Receivable		—	—	0.0%
		Common Stock (100 shares)		8,318	6,247	0.2%
				34,270	26,696	0.9%
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%
		Common Stock (83,729,323 shares)		43,193	20,447	0.8%
		Net Revenue Interest (5% of Net Revenue & Distributions)		—	12,877	0.5%
				307,953	298,084	11.3%
Manx Energy, Inc. ("Manx")(12)	Kansas / Oil & Gas Production	Senior Secured Note (13.00%, in non-accrual status effective 1/19/2010, past due)	500	500	346	0.0%
		Preferred Stock (6,635 shares)		—	—	0.0%
		Common Stock (17,082 shares)		—	—	0.0%
			500	346	0.0%	

See notes to consolidated financial statements.

PROSPECT CAPITAL CORPORATION AND SUBSIDIARY
CONSOLIDATED SCHEDULE OF INVESTMENTS (Continued)

June 30, 2013 and June 30, 2012

(in thousands, except share data)

Portfolio Company	Locale / Industry	Investments(1)	June 30, 2013			% of Net Assets
			Principal Value	Cost	Fair Value(2)	
Nationwide Acceptance Holdings, LLC(22)(36)	Chicago / 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 Units (100 shares)		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	—	0.0%
		Series A Preferred Stock (4,400 shares)		4,400	—	0.0%
				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%
		Warrants (200,000 warrants, expiring 6/30/2017)		1,682	6,796	0.3%
		Common Stock (545,107 shares)		5,087	18,522	0.7%
				39,519	58,068	2.2%
The Healing Staff, Inc.(9)	North Carolina / Contracting	Secured Promissory Notes (15.00%, in non-accrual status effective 12/22/2010, past due)	1,688	1,686	—	0.0%
		Senior Demand Note (15.00%, in non-accrual status effective 11/1/2010, past due)	1,170	1,170	—	0.0%
		Common Stock (1,000 shares)		975	—	0.0%
				3,831	—	0.0%
Valley Electric Holdings I, Inc.	Washington / Construction & Engineering	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%
		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 (50,000 shares)		9,526	8,288	0.3%
		Net Revenue Interest (5% of Net Revenue)		—	1,238	0.1%
				53,615	53,615	2.1%

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CONSOLIDATED SCHEDULE OF INVESTMENTS (Continued)

June 30, 2013 and June 30, 2012

(in thousands, except share data)

			June 30, 2013				
Portfolio Company	Locale / Industry	Investments(1)	Principal Value	Cost	Fair Value(2)	% of Net Assets	
Wolf Energy Holdings, Inc. (12)(37)	Kansas / Oil & Gas Production	Senior Secured Promissory Note secured by assets formerly owned by H&M (18.00%, in non-accrual status effective 4/15/2013, due 4/15/2018)	\$ 22,000	\$ —	\$ 3,832	0.1%	
		Appalachian Energy Holdings, LLC ("AEH")—Senior Secured First Lien Note (8.00%, in non-accrual status effective 1/19/2010, past due)	2,642	2,000	546	0.0%	
		Appalachian Energy Holdings, LLC ("AEH")—Senior Secured First Lien Note (8.00%, in non-accrual status, past due)	51	50	51	0.0%	
		Coalbed, LLC—Senior Secured Note (8.00%, in non-accrual status effective 1/19/2010, past due)(6)	7,930	5,990	—	0.0%	
		Common Stock (100 shares)	—	—	—	0.0%	
		Net Profits Interest (8.00% payable on Equity distributions)(7)	—	520	—	0.0%	
			8,040	4,949	0.1%		
		Total Control Investments			830,151	811,634	30.6%
		Affiliate Investments (5.00% to 24.99% voting control)					
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%	
		Preferred Stock Series A (9,925,455 shares)(13)	—	2,300	2,832	0.1%	
		Preferred Stock Series B (1,753.64 shares)(13)	—	579	533	0.0%	
			32,429	32,915	1.2%		
Boxercraft Incorporated(20)	Georgia / Textiles & Leather	Senior Secured Term Loan A (10.00% plus 1.00% PIK, due 9/15/2015)	1,712	1,702	1,712	0.1%	
		Senior Secured Term Loan B (10.00% plus 1.00% PIK, due 9/15/2015)	4,892	4,809	4,892	0.2%	
		Senior Secured Term Loan C (10.00% plus 1.00% PIK, due 9/15/2015)	2,371	2,371	2,371	0.1%	
		Senior Secured Term Loan (10.00% plus 1.00% PIK, due 9/15/2015)	8,325	7,878	410	0.0%	
		Preferred Stock (1,000,000 shares)	—	—	—	0.0%	
		Common Stock (10,000 shares)	—	—	—	0.0%	
		Warrants (1 warrant, expiring 8/31/2022)	—	—	—	0.0%	
			16,760	9,385	0.4%		
Smart, LLC(14)	New York / Diversified / Conglomerate Service	Membership Interest	—	143	—	0.0%	
		—	143	0.0%			
Total Affiliate Investments			49,189	42,443	1.6%		

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PROSPECT CAPITAL CORPORATION AND SUBSIDIARY
CONSOLIDATED SCHEDULE OF INVESTMENTS (Continued)

June 30, 2013 and June 30, 2012

(in thousands, except share data)

			June 30, 2013			
Portfolio Company	Locale / Industry	Investments(1)	Principal Value	Cost	Fair Value(2)	% of Net Assets
Non-control/Non-affiliate Investments (less than 5.00% of voting control)						
ADAPCO, Inc.	Florida / Ecological	Common Stock (5,000 shares)		\$ 141	\$ 335	0.0%
				141	335	0.0%
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	Convertible Preferred Stock (32,500 units)		396	565	0.0%
				396	565	0.0%
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%
American Gilsonite Company	Utah / Specialty Minerals	Second Lien Term Loan (11.50%, due 9/1/2017)	38,500	38,500	38,500	1.4%
				—	4,058	0.2%
				38,500	42,558	1.6%
Apidos CLO VIII, Ltd.(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, Ltd.(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, Ltd.(22)	Cayman Islands / Diversified Financial Services	Subordinated Notes (Residual Interest)	38,340	39,239	37,972	1.4%
				39,239	37,972	1.4%
Apidos CLO XII, Ltd.(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.(4)	Canada / Food Products	Second Lien Term Loan (11.25% (LIBOR + 10.00% with 1.25% LIBOR floor), due 11/10/2019)	150,000	150,000	150,000	5.6%
				150,000	150,000	5.6%
Armor Holding II LLC(4)	New York / Diversified Financial Services	Second Lien Term Loan (9.25% (LIBOR + 8.00% with 1.25% LIBOR floor), due 12/26/2020)	7,000	6,860	7,000	0.3%
				6,860	7,000	0.3%

See notes to consolidated financial statements.

PROSPECT CAPITAL CORPORATION AND SUBSIDIARY
CONSOLIDATED SCHEDULE OF INVESTMENTS (Continued)

June 30, 2013 and June 30, 2012

(in thousands, except share data)

Portfolio Company	Locale / Industry	Investments(1)	June 30, 2013			% of Net Assets
			Principal Value	Cost	Fair Value(2)	
Atlantis Healthcare Group (Puerto Rico), Inc.(4)	Puerto Rico / Healthcare	Revolving Line of Credit—\$7,000 Commitment (10.00% (LIBOR + 8.00% with 2.00% LIBOR floor), due 2/21/2014)(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)	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%
				34,499	34,450	1.3%
Babson CLO Ltd 2012-IA(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-IIA(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.	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 &	Membership Units (13,220 shares)		—	104	0.0%
	Nondurable Consumer	Escrow Receivable		—	137	0.0%
	Products			—	241	0.0%

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CONSOLIDATED SCHEDULE OF INVESTMENTS (Continued)

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(in thousands, except share data)

Portfolio Company	Locale / Industry	Investments(1)	June 30, 2013			% of Net Assets
			Principal Value	Cost	Fair Value(2)	
Capstone Logistics, LLC(4)	Georgia / Commercial Services	Senior Secured Term Loan A (6.50% (LIBOR + 5.00% with 1.50% LIBOR floor), due 9/16/2016)(3)	\$ 97,291	\$ 97,291	\$ 97,291	3.7%
		Senior Secured Term Loan B (11.50% (LIBOR + 10.00% with 1.50% LIBOR floor), due 9/16/2016)	100,000	100,000	100,000	3.8%
			197,291	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	46,277	1.8%
Cent 17 CLO Limited(22)	Cayman Islands / Diversified Financial Services	Subordinated Notes (Residual Interest)	24,870	24,615	25,454	1.0%
			24,615	25,454	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	114,713	4.3%
CIFC Funding 2011-I, Ltd.(4) (22)	Cayman Islands / Diversified Financial Services	Secured Class D Notes (5.32% (LIBOR + 5.00%), due 1/19/2023)	19,000	15,029	15,844	0.6%
		Unsecured Class E Notes (7.32% (LIBOR + 7.00%), due 1/19/2023)	15,400	12,638	12,745	0.5%
			27,667	28,589	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	70,595	2.7%
The Copernicus Group, Inc.	North Carolina / Healthcare	Escrow Receivable		—	130	0.0%
				—	130	0.0%
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	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	39,303	1.5%

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CONSOLIDATED SCHEDULE OF INVESTMENTS (Continued)

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Portfolio Company	Locale / Industry	Investments(1)	June 30, 2013			% of Net Assets
			Principal Value	Cost	Fair Value(2)	
CP Well Testing, LLC	Oklahoma / Oil & Gas Products	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%
Delttek, 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 (15.00% payable on Equity distributions)(7)		—	—	0.0%
				—	—	0.0%
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	Illinois / Durable Consumer Products	Senior Secured Note (11.375%, due 2/1/2017)	15,700	15,332	14,650	0.6%
				15,332	14,650	0.6%
EXL Acquisition Corp	South Carolina / Biotechnology	Escrow Receivable	—	—	14	0.0%
				—	14	0.0%
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	0.0%
				—	149	0.0%
Fischbein, LLC	North Carolina / Machinery	Escrow Receivable		—	225	0.0%
				—	225	0.0%
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%

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Portfolio Company	Locale / Industry	Investments(1)	June 30, 2013			% of Net Assets
			Principal Value	Cost	Fair Value(2)	
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)	\$ 21,401	\$ 21,401	\$ 21,401	0.8%
		Common Stock (5,638 shares)		27	19	0.0%
				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-I, 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-I, 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 / Durable 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	0.0%
				20,822	20,553	0.7%
ICON Health & Fitness, Inc.	Utah / Durable Consumer Products	Senior Secured Note (11.875%, due 10/15/2016) (3)	43,100	43,310	33,929	1.3%
				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%

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Portfolio Company	Locale / Industry	Investments(1)	June 30, 2013		% of Net Assets
			Principal Value	Cost	Fair Value(2)
ING IM CLO 2012-II, Ltd.(22)	Cayman Islands / Diversified Financial Services	Subordinated Notes (Residual Interest)	\$ 38,070	\$ 34,904	\$ 36,848
				34,904	36,848
					1.4%
ING IM CLO 2012-III, Ltd.(22)	Cayman Islands / Diversified Financial Services	Subordinated Notes (Residual Interest)	46,632	44,454	46,361
				44,454	46,361
					1.7%
ING IM CLO 2012-IV, Ltd.(22)	Cayman Islands / Diversified Financial Services	Income Notes (Residual Interest)	40,613	39,255	41,153
				39,255	41,153
					1.5%
Injured Workers Pharmacy LLC	Massachusetts / Healthcare	Second Lien Debt (11.50% (LIBOR + 7.00% with 4.50% LIBOR floor) plus 1.00% PIK, due 5/31/2019)(3)(4)	22,430	22,430	22,430
				22,430	22,430
					0.8%
Interdent, Inc.(4)	California / Healthcare	Senior Secured Term Loan A (8.00% (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% (LIBOR + 10.00% with 3.00% LIBOR floor), due 8/3/2017)(3)	55,000	55,000	55,000
				108,475	108,475
					4.1%
JHH Holdings, Inc.	Texas / Healthcare	Second Lien Debt (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
				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)	—	—	—
					0.0%
		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
				37,031	37,031
					1.4%
LCM XIV CLO Ltd.(22)	Cayman Islands / Diversified Financial Services	Subordinated Notes (Residual Interest)	26,500	25,838	25,838
				25,838	25,838
					1.0%

See notes to consolidated financial statements.

PROSPECT CAPITAL CORPORATION AND SUBSIDIARY
CONSOLIDATED SCHEDULE OF INVESTMENTS (Continued)

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(in thousands, except share data)

Portfolio Company	Locale / Industry	Investments(1)	June 30, 2013			% of Net Assets
			Principal Value	Cost	Fair Value(2)	
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)	\$ —	\$ —	\$ —	0.0%
		Senior Subordinated Debt (10.50%, due 5/31/2015)(3)	2,865	2,865	2,865	0.1%
		Membership Interest (125 units)	—	216	245	0.0%
				3,081	3,110	0.1%
Madison Park Funding IX, Ltd. (22)	Cayman Islands / Diversified Financial Services	Income 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%
Maverick Healthcare, LLC	Arizona / Healthcare	Preferred Units (1,250,000 units)		1,252	780	0.0%
		Common Units (1,250,000 units)		—	—	0.0%
				1,252	780	0.0%
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%
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)	—	—	—	0.0%
		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%
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%

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PROSPECT CAPITAL CORPORATION AND SUBSIDIARY
CONSOLIDATED SCHEDULE OF INVESTMENTS (Continued)

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Portfolio Company	Locale / Industry	Investments(1)	June 30, 2013			% of Net Assets
			Principal Value	Cost	Fair Value(2)	
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)	\$ —	\$ —	\$ —	0.0%
		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%
				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%
Pegasus Business Intelligence, LP(4)	Texas / Diversified Financial Services	Revolving Line of Credit—\$2,500 Commitment (9.00% (LIBOR + 7.75% with 1.25% LIBOR floor), due 4/18/2014)(25)	—	—	—	0.0%
		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%
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%
Pelican Products, Inc.(16)	California / Durable Consumer Products	Subordinated Secured (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%

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PROSPECT CAPITAL CORPORATION AND SUBSIDIARY
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Portfolio Company	Locale / Industry	Investments(1)	June 30, 2013			% of Net Assets
			Principal Value	Cost	Fair Value(2)	
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%
				<u>9,815</u>	<u>10,000</u>	<u>0.4%</u>
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%
				<u>5,000</u>	<u>5,000</u>	<u>0.2%</u>
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%
				<u>9,888</u>	<u>10,000</u>	<u>0.4%</u>
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%
				<u>241,033</u>	<u>241,033</u>	<u>9.1%</u>
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%
				<u>19,719</u>	<u>20,000</u>	<u>0.8%</u>
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%
				<u>28,364</u>	<u>28,648</u>	<u>1.1%</u>
Ryan, LLC(4)	Texas / Business Services	Subordinated Secured (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%
				<u>70,000</u>	<u>70,000</u>	<u>2.6%</u>
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%
				<u>24,900</u>	<u>24,900</u>	<u>0.9%</u>
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%
				<u>13,254</u>	<u>13,310</u>	<u>0.5%</u>
SESAC Holdco II LLC	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%
				<u>5,914</u>	<u>6,000</u>	<u>0.2%</u>

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PROSPECT CAPITAL CORPORATION AND SUBSIDIARY
CONSOLIDATED SCHEDULE OF INVESTMENTS (Continued)

June 30, 2013 and June 30, 2012

(in thousands, except share data)

Portfolio Company	Locale / Industry	Investments(1)	June 30, 2013			% of Net Assets
			Principal Value	Cost	Fair Value(2)	
Skillsoft Public Limited Company(22)	Ireland / Software & Computer Services	Senior Unsecured (11.125%, due 6/1/2018)	\$ 15,000	\$ 14,927	\$ 15,000	0.6%
				<u>14,927</u>	<u>15,000</u>	<u>0.6%</u>
Snacks Holding Corporation	Minnesota / Food	Series A Preferred Stock (4,021.45 shares)		56	56	0.0%
	Products	Series B Preferred Stock (1,866.10 shares)		56	56	0.0%
		Warrant (to purchase 31,196.52 voting common shares, expires 11/12/2020)		479	484	0.0%
				<u>591</u>	<u>596</u>	<u>0.0%</u>
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%
				<u>17,565</u>	<u>18,267</u>	<u>0.7%</u>
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%
				<u>29,625</u>	<u>29,625</u>	<u>1.1%</u>
Speedy Group Holdings Corp.	Canada / Consumer Finance	Senior Unsecured (12.00%, due 11/15/2017)(22)	15,000	15,000	15,000	0.6%
				<u>15,000</u>	<u>15,000</u>	<u>0.6%</u>
Sport Helmets Holdings, LLC(14)	New York / Personal & Nondurable Consumer Products	Escrow Receivable		—	389	0.0%
				—	<u>389</u>	<u>0.0%</u>
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%
				<u>26,832</u>	<u>26,832</u>	<u>1.0%</u>
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	—	0.0%
		Overriding Royalty Interests(18)		—	—	0.0%
				<u>32,711</u>	<u>—</u>	<u>0.0%</u>

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PROSPECT CAPITAL CORPORATION AND SUBSIDIARY
CONSOLIDATED SCHEDULE OF INVESTMENTS (Continued)

June 30, 2013 and June 30, 2012

(in thousands, except share data)

Portfolio Company	Locale / Industry	Investments(1)	June 30, 2013			% of Net Assets
			Principal Value	Cost	Fair Value(2)	
Symphony CLO, IX Ltd.(22)	Cayman Islands / Diversified Financial Services	LP Certificates (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%
TB Corp.(3)	Texas / Consumer Service	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%
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%
TGG Medical Transitory, Inc.	New Jersey / Healthcare	Second Lien Term Loan (11.25% (LIBOR + 10.00% with 1.25% LIBOR floor), due 6/27/2018)(4)	8,000	7,773	8,000	0.3%
				7,773	8,000	0.3%
The Petroleum Place, Inc.	Colorado / Software & Computer Services	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%
				21,690	22,000	0.8%
Totes Isotoner Corporation	Ohio / 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%
Traeger Pellet Grills LLC(4)	Oregon / Durable Consumer Products	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%
		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%

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PROSPECT CAPITAL CORPORATION AND SUBSIDIARY
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June 30, 2013 and June 30, 2012

(in thousands, except share data)

			June 30, 2013			
Portfolio Company	Locale / Industry	Investments(1)	Principal Value	Cost	Fair Value(2)	% of Net Assets
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%
				<u>160,000</u>	<u>160,000</u>	<u>6.0%</u>
Wind River Resources Corp. and Wind River II Corp.	Utah / Oil & Gas Production	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) Net Profits Interest (5.00% payable on Equity distributions)(7)	15,000	14,750	—	0.0%
				<u>—</u>	<u>—</u>	<u>0.0%</u>
				<u>14,750</u>	<u>—</u>	<u>0.0%</u>
		Total Non-control/Non-affiliate Investments (Level 3 Investments)		<u>3,376,319</u>	<u>3,318,663</u>	<u>124.9%</u>
		Total Level 3 Portfolio Investments		<u>4,255,659</u>	<u>4,172,740</u>	<u>157.1%</u>
LEVEL 1 PORTFOLIO INVESTMENTS:						
Non-control/Non-affiliate Investments (less than 5.00% of voting control)						
Allied Defense Group, Inc.	Virginia / Aerospace & Defense	Common Stock (10,000 shares)		56	—	0.0%
				<u>56</u>	<u>—</u>	<u>0.0%</u>
Dover Saddlery, Inc.	Massachusetts / Retail	Common Stock (30,974 shares)		63	112	0.0%
				<u>63</u>	<u>112</u>	<u>0.0%</u>
		Total Non-control/Non-affiliate Investments (Level 1 Investments)		<u>119</u>	<u>112</u>	<u>0.0%</u>
		Total Portfolio Investments		<u>4,255,778</u>	<u>4,172,852</u>	<u>157.1%</u>
SHORT TERM INVESTMENTS: Money Market Funds (Level 2 Investments)						
Fidelity Institutional Money Market Funds—Government Portfolio (Class I)			 	83,456	83,456	3.1%
Fidelity Institutional Money Market Funds—Government Portfolio (Class I)(3)				49,804	49,804	1.9%
Victory Government Money Market Funds				10,002	10,002	0.4%
Total Money Market Funds				<u>143,262</u>	<u>143,262</u>	<u>5.4%</u>
Total Investments			\$ 4,399,040	\$ 4,316,114		162.5%

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(in thousands, except share data)

			June 30, 2012			% of Net Assets
Portfolio Company	Locale / Industry	Investments(1)	Principal Value	Cost	Fair Value(2)	
LEVEL 3 PORTFOLIO INVESTMENTS:						
Control Investments (greater than 25.00% voting control)						
AIRMALL USA, 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)	\$ 29,350	\$ 29,350	\$ 29,350	2.0%
		Senior Subordinated Term Loan (12.00% plus 6.00% PIK, due 12/31/2015)	12,500	12,500	12,500	0.8%
		Convertible Preferred Stock (9,919,684 shares)		9,920	6,132	0.4%
		Common Stock (100 shares)		—	—	0.0%
				51,770	47,982	3.2%
Ajax Rolled Ring & Machine, Inc.	South Carolina / Manufacturing	Senior Secured Note—Tranche A (10.50% (LIBOR + 7.50% with 3.00% LIBOR floor), due 4/01/2013)(3)(4)	20,167	20,167	20,167	1.3%
		Subordinated Secured Note—Tranche B (11.50% (LIBOR + 8.50% with 3.00% LIBOR floor) plus 6.00% PIK, due 4/01/2013)(3)(4)	15,035	15,035	15,035	1.0%
		Convertible Preferred Stock—Series A (6,142.6 shares)		6,057	17,191	1.1%
		Unrestricted Common Stock (6 shares)		—	17	0.0%
				41,259	52,410	3.4%
AWCNC, LLC(19)	North Carolina / Machinery	Members Units—Class A (1,800,000 units)		—	—	0.0%
		Members Units—Class B-1 (1 unit)		—	—	0.0%
		Members Units—Class B-2 (7,999,999 units)		—	—	0.0%
Borga, Inc.	California / Manufacturing			—	—	0.0%
		Revolving Line of Credit—\$1,000 Commitment (5.00% (PRIME + 1.75%) plus 3.00% default interest, in non-accrual status effective 03/02/2010, past due)(4)(25)	1,000	945	668	0.0%
		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)	1,612	1,500	—	0.0%
		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)	9,352	707	—	0.0%
		Common Stock (100 shares)(21)		—	—	0.0%
		Warrants (33,750 warrants)(21)		—	—	0.0%
				3,152	668	0.0%

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Portfolio Company	Locale / Industry	Investments(1)	June 30, 2012			% of Net Assets
			Principal Value	Cost	Fair Value(2)	
Energy Solutions Holdings, Inc.(8)	Texas / Gas Gathering and Processing	Senior Secured Note (18.00%, due 12/11/2016) (3)	\$ 25,000	\$ 25,000	\$ 25,000	1.7%
		Junior Secured Note (18.00%, due 12/12/2016) (3)	12,000	12,000	12,000	0.8%
		Senior Secured Note to Vessel Holdings LLC (18.00%, due 12/12/2016)	3,500	3,500	3,500	0.2%
		Subordinated Secured Note to Freedom Marine Holdings, LLC (12.00% (LIBOR + 6.11% with 5.89% LIBOR floor) plus 4.00% PIK, in non-accrual status effective 10/1/2010, due 12/31/2011)(4)	13,352	12,504	5,603	0.4%
		Senior Secured Debt to Yatesville Coal Holdings, Inc. (Non-accrual status effective 1/1/2009, past due)	1,449	1,449	—	0.0%
		Escrow Receivable	—	—	9,825	0.6%
		Common Stock (100 shares)	—	8,792	70,940	4.7%
			63,245	126,868	8.4%	
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)(25)	244,760	244,760	244,760	16.2%
		Common Stock (83,729,323 shares)	—	43,193	43,193	2.9%
		Net Revenue Interest (5% of Net Revenue & Distributions)	—	—	—	0.0%
			287,953	287,953	19.1%	
Integrated Contract Services, Inc.(9)	North Carolina / Contracting	Secured Promissory Notes (15.00%, in non-accrual status effective 12/22/2010, due 3/21/2012—12/18/2013)(10)	2,581	2,580	—	0.0%
		Senior Demand Note (15.00%, in non-accrual status effective 11/1/2010, past due)(10)	1,170	1,170	—	0.0%
		Senior Secured Note (7.00% plus 7.00% PIK plus 6.00% default interest, in non-accrual status effective 10/9/2007, past due)	300	—	—	0.0%
		Junior Secured Note (7.00% plus 7.00% PIK plus 6.00% default interest, in non-accrual status effective 10/9/2007, past due)	11,520	11,520	—	0.0%
		Preferred Stock—Series A (10 shares)	—	—	—	0.0%
		Common Stock (49 shares)	—	679	—	0.0%
			15,949	—	0.0%	
Manx Energy, Inc. ("Manx")(12)	Kansas / Oil & Gas Production	Senior Secured Note (13.00%, in non-accrual status effective 1/19/2010, due 6/21/2013)	3,550	3,550	—	0.0%
		Preferred Stock (6,635 shares)	—	6,307	—	0.0%
		Common Stock (17,082 shares)	—	1,170	—	0.0%
			11,027	—	0.0%	

See notes to consolidated financial statements.

PROSPECT CAPITAL CORPORATION AND SUBSIDIARY
CONSOLIDATED SCHEDULE OF INVESTMENTS (Continued)

June 30, 2013 and June 30, 2012

(in thousands, except share data)

			June 30, 2012				
Portfolio Company	Locale / Industry	Investments(1)	Principal Value	Cost	Fair Value(2)	% of Net Assets	
NMMB Holdings, Inc.(24)	New York / Media	Senior Term Loan (14.00%, due 5/6/2016)	\$ 21,700	\$ 21,700	\$ 21,700	1.4%	
		Senior Subordinated Term Loan (15.00%, due 5/6/2016)	2,800	2,800	2,800	0.2%	
		Series A Preferred Stock (4,400 shares)		4,400	252	0.0%	
				28,900	24,752	1.6%	
R-V Industries, Inc.	Pennsylvania / Manufacturing	Warrants (200,000 warrants, expiring 6/30/2017)		1,682	6,403	0.4%	
		Common Stock (545,107 shares)		5,087	17,453	1.2%	
				6,769	23,856	1.6%	
Wolf Energy Holdings, Inc. (12)	Kansas / Oil & Gas Production	Appalachian Energy Holdings, LLC ("AEH")—Senior Secured First Lien Note (8.00%, in non-accrual status effective 1/19/2010, due 6/21/2013)	2,437	2,000	—	0.0%	
		Coalbed, LLC—Senior Secured Note (8.00%, in non-accrual status effective 1/19/2010, due 6/21/2013)(6)	7,311	5,991	—	0.0%	
		Common Stock (100 Shares)		—	—	0.0%	
				7,991	—	0.0%	
		Total Control Investments			518,015	564,489	37.3%
		Affiliate Investments (5.00% to 24.99% voting control)					
BNN Holdings Corp. (f/k/a Biotronic NeuroNetwork)	Michigan / Healthcare	Senior Secured Note (11.50% (LIBOR + 7.00% with 4.50% LIBOR floor) plus 1.00% PIK, due 2/21/2013)(3)(4)	26,227	26,227	26,227	1.8%	
		Preferred Stock Series A (9,925.455 shares)(13)		2,300	2,151	0.2%	
		Preferred Stock Series B (1,753.64 shares)(13)		579	542	0.0%	
				29,106	28,920	2.0%	
Boxercraft Incorporated	Georgia / Textiles & Leather	Senior Secured Term Loan A (9.50% (LIBOR + 6.50% with 3.00% LIBOR floor), due 9/16/2013)(3)(4)	1,644	1,532	1,644	0.1%	
		Senior Secured Term Loan B (10.00% (LIBOR + 7.00% with 3.00% LIBOR floor), due 9/16/2013)(3)(4)	4,698	4,265	4,698	0.3%	
		Senior Secured Term Loan C (10.50% (LIBOR + 7.50% with 3.00% LIBOR floor), due 9/16/2013)(3)(4)	2,277	2,277	2,277	0.2%	
		Senior Secured Term Loan (12.00% plus 3.00% PIK, due 3/16/2014)(3)	7,966	7,049	7,966	0.5%	
		Preferred Stock (1,000,000 shares)		—	576	0.0%	
		Common Stock (10,000 shares)		—	—	0.0%	
				15,123	17,161	1.1%	
Smart, LLC(14)	New York / Diversified / Conglomerate Service	Membership Interest		—	35	0.0%	
				—	35	0.0%	
		Total Affiliate Investments			44,229	46,116	3.1%

See notes to consolidated financial statements.

PROSPECT CAPITAL CORPORATION AND SUBSIDIARY
CONSOLIDATED SCHEDULE OF INVESTMENTS (Continued)

June 30, 2013 and June 30, 2012

(in thousands, except share data)

			June 30, 2012			
Portfolio Company	Locale / Industry	Investments(1)	Principal Value	Cost	Fair Value(2)	% of Net Assets
Non-control/Non-affiliate Investments (less than 5.00% of voting control)						
ADAPCO, Inc.	Florida / Ecological	Common Stock (5,000 shares)		\$ 141	\$ 240	0.0%
				141	240	0.0%
Aircraft Fasteners International, LLC	California / Machinery	Convertible Preferred Stock (32,500 units)		396	471	0.0%
				396	471	0.0%
American Gilsonite Company	Utah / Specialty Minerals	Senior Subordinated Note (12.00% (LIBOR + 10.00% with 2.00% LIBOR floor) plus 2.50% PIK, due 3/10/2016)(3)(4)	\$ 30,232	30,232	30,232	2.0%
			7,500	7,500	7,500	0.5%

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PROSPECT CAPITAL CORPORATION AND SUBSIDIARY
CONSOLIDATED SCHEDULE OF INVESTMENTS (Continued)

June 30, 2013 and June 30, 2012

(in thousands, except share data)

Portfolio Company	Locale / Industry	Investments(1)	June 30, 2012			% of Net Assets
			Principal Value	Cost	Fair Value(2)	
Byrider Systems Acquisition Corp(22)	Indiana / Auto Finance	Senior Subordinated Notes (12.00% plus 2.00% PIK, due 11/3/2016)(3)	\$ 20,546	\$ 20,546	\$ 19,990	1.3%
				20,546	19,990	1.3%
Caleel + Hayden, LLC(14)(31)	Colorado / Personal & Nondurable Consumer Products	Membership Units (7,500 shares)		351	1,031	0.1%
				351	1,031	0.1%
Capstone Logistics, LLC(4)	Georgia / Commercial Services	Senior Secured Term Loan A (7.50% (LIBOR + 5.50% with 2.00% LIBOR floor), due 9/16/2016)	33,793	33,793	33,793	2.2%
		Senior Secured Term Loan B (13.50% (LIBOR + 11.50% with 2.00% LIBOR floor), due 9/16/2016)(3)	41,625	41,625	41,625	2.8%
				75,418	75,418	5.0%
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)	48,891	48,891	48,891	3.2%
		Common Equity (1.6 units)		1,639	1,886	0.1%
				50,530	50,777	3.3%
CIFC Funding 2011-I, Ltd.(4)	Cayman Islands / Diversified Financial Services	Secured Class D Notes (5.79% (LIBOR + 5.00%), due 1/19/2023)	19,000	14,778	15,229	1.0%
		Unsecured Class E Notes (7.79% (LIBOR + 7.00%), due 1/19/2023)	15,400	12,480	12,488	0.8%
				27,258	27,717	1.8%
The Copernicus Group, Inc.	North Carolina / Healthcare	Escrow Receivable		—	315	0.0%
				—	315	0.0%
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)	73,500	73,500	73,491	4.9%
				73,500	73,491	4.9%
Diamondback Operating, LP	Oklahoma / Oil & Gas Production	Net Profits Interest (15.00% payable on Equity distributions)(7)		—	—	0.0%
				—	—	0.0%
Empire Today, LLC	Illinois / Durable Consumer Products	Senior Secured Note (11.375%, due 2/1/2017)	15,700	15,255	15,700	1.0%
				15,255	15,700	1.0%
Fairchild Industrial Products, Co.	North Carolina / Electronics	Escrow Receivable		—	144	0.0%
				—	144	0.0%

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PROSPECT CAPITAL CORPORATION AND SUBSIDIARY
CONSOLIDATED SCHEDULE OF INVESTMENTS (Continued)

June 30, 2013 and June 30, 2012

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Portfolio Company	Locale / Industry	Investments(1)	June 30, 2012			% of Net Assets
			Principal Value	Cost	Fair Value(2)	
Fischbein, LLC	North Carolina / Machinery	Senior Subordinated Debt (12.00% plus 2.00% PIK, due 10/31/2016)	\$ 3,413	\$ 3,413	\$ 3,413	0.3%
		Escrow Receivable Escrow Escrow		—	565	0.0%
		Membership Class A (875,000 units)		875	2,036	0.1%
				4,288	6,014	0.4%
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)	15,000	14,711	14,711	1.0%
				14,711	14,711	1.0%
Galaxy XII CLO, Ltd.(22).	Cayman Islands / Diversified Financial Services	Subordinated Notes (Residual Interest)	22,000	21,526	21,897	1.4%
				21,526	21,897	1.4%
H&M Oil & Gas, LLC	Texas / Oil & Gas Production	Senior Secured Note (13.00% (LIBOR + 7.50% with 5.50% LIBOR floor) plus 3.00% PIK, plus 2.00% default interest, in non-accrual status effective 1/1/2011, past due)(4)	62,814	60,019	30,524	2.0%
		Senior Secured Note (18.00% PIK, in non-accrual status effective 4/27/2012, past due)	4,507	4,430	4,507	0.3%
		Net Profits Interest (8.00% payable on Equity distributions)(7)		—	—	0.0%
				64,449	35,031	2.3%
Hi-Tech Testing Service, Inc. and Wilson Inspection X-Ray Services, Inc.	Texas / Oil & Gas Equipment & Services	Senior Secured Term Loan (11.00%, due 9/26/2016)				
			7,400	7,188	7,391	0.5%
				7,188	7,391	0.5%
Hoffmaster Group, Inc.(4)	Wisconsin / Durable Consumer Products	Second Lien Term Loan (11.00% (LIBOR + 9.50% with 1.50% LIBOR floor), due 1/3/2019)	10,000	9,810	9,811	0.6%
		Second Lien Term Loan (10.25% (LIBOR + 9.00% with 1.25% LIBOR floor), due 1/3/2019)	1,000	990	951	0.1%
				10,800	10,762	0.7%
Hudson Products Holdings, Inc. (16)	Texas / Manufacturing	Senior Secured Term Loan (9.00% (PRIME + 5.00% with 4.00% PRIME floor), due 8/24/2015)(3)(4)	6,299	5,880	5,826	0.4%
				5,880	5,826	0.4%
ICON Health & Fitness, Inc.	Utah / Durable Consumer Products	Senior Secured Note (11.875% , due 10/15/2016)(3)	43,100	43,361	43,100	2.9%
				43,361	43,100	2.9%
IDQ Holdings, Inc.	Texas / Automobile	Senior Secured Note (11.50%, due 4/1/2017)	12,500	12,260	12,488	0.8%
				12,260	12,488	0.8%

See notes to consolidated financial statements.

PROSPECT CAPITAL CORPORATION AND SUBSIDIARY
CONSOLIDATED SCHEDULE OF INVESTMENTS (Continued)

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Portfolio Company	Locale / Industry	Investments(1)	June 30, 2012			% of Net Assets
			Principal Value	Cost	Fair Value(2)	
Injured Workers Pharmacy LLC	Massachusetts / Healthcare	Second Lien Debt (12.00% (LIBOR + 7.50% with 4.50% LIBOR floor) plus 1.00% PIK, due 11/4/2017)(3)(4)	\$ 15,100	\$ 15,100	\$ 15,100	1.0%
				15,100	15,100	1.0%
Iron Horse Coiled Tubing, Inc.(23)	Alberta, Canada / Production Services	Common Stock (3,821 shares)		268	2,040	0.1%
				268	2,040	0.1%
JHH Holdings, Inc.	Texas / Healthcare	Second Lien Debt (12.00% (LIBOR + 10.00% with 2.00% LIBOR floor) plus 2.50% PIK, due 6/23/2016)(3)(4)	15,736	15,736	15,736	1.0%
				15,736	15,736	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)	—	—	—	0.0%
		Senior Subordinated Debt (10.50%, due 5/31/2015)(3)	4,265	4,125	4,125	0.3%
		Membership Interest (125 units)		216	225	0.0%
				4,341	4,350	0.3%
Madison Park Funding IX, Ltd. (22)	Cayman Islands / Diversified Financial Services	Subordinated Notes (Residual Interest)	31,110	25,810	25,810	1.7%
				25,810	25,810	1.7%
Maverick Healthcare, LLC	Arizona / Healthcare	Preferred Units (1,250,000 units)		1,252	1,756	0.1%
		Common Units (1,250,000 units)		—	95	0.0%
				1,252	1,851	0.1%
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)	—	—	—	0.0%
		First Lien Term Loan (11.25% (LIBOR + 8.75% with 2.50% LIBOR floor), due 2/1/2016)(3)	17,317	17,317	17,317	1.1%
				17,317	17,317	1.1%
Mood Media Corporation(3) (16)(22)	Canada / Media	Senior Subordinated Term Loan (10.25% (LIBOR + 8.75% with 1.50% LIBOR floor), due 11/6/2018)(4)	15,000	14,866	15,000	1.0%
				14,866	15,000	1.0%

See notes to consolidated financial statements.

PROSPECT CAPITAL CORPORATION AND SUBSIDIARY
CONSOLIDATED SCHEDULE OF INVESTMENTS (Continued)

June 30, 2013 and June 30, 2012

(in thousands, except share data)

Portfolio Company	Locale / Industry	Investments(1)	June 30, 2012			% of Net Assets
			Principal Value	Cost	Fair Value(2)	
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 7/16/2017)	\$ 18,402	\$ 18,402	\$ 18,402	1.2%
				18,402	18,402	1.2%
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)	—	—	—	0.0%
		Senior Secured Term Loan (11.00% (LIBOR + 8.00% with 3.00% LIBOR floor), due 6/7/2017)	48,600	48,600	48,600	3.2%
				48,600	48,600	3.2%
New Meatco Provisions, LLC	California / Food Products	Senior Subordinated Term Loan (12.00% (LIBOR + 9.00% with 3.00% LIBOR floor) plus 4.00% PIK due 4/18/2016)(4)	12,438	12,438	6,571	0.4%
				12,438	6,571	0.4%
Nixon, Inc.	California / Durable Consumer Products	Senior Secured Term Loan (8.75% plus 2.75% PIK, due 4/16/2018)(16)	15,085	14,792	14,792	1.0%
				14,792	14,792	1.0%
Nobel Learning Communities, Inc.	Pennsylvania / Consumer Services	Subordinated Unsecured (11.50% plus 1.50% PIK, due 8/9/2017)	15,147	15,147	15,147	1.0%
				15,147	15,147	1.0%
Northwestern Management Services, LLC	Florida / Healthcare	Revolving Line of Credit—\$1,500 Commitment (10.50% (PRIME + 6.75% with 3.75% PRIME floor), due 7/30/2015)(4)(25)	200	200	200	0.0%
		Senior Secured Term Loan A (10.00% (LIBOR + 7.00% with 3.00% LIBOR floor), due 7/30/2015)(3)(4)	16,092	16,092	16,092	1.1%
		Common Stock (50 shares)		371	1,205	0.1%
				16,663	17,497	1.2%
NRG Manufacturing, Inc.	Texas / Manufacturing	Escrow Receivable		—	6,431	0.4%
				—	6,431	0.4%
Out Rage, LLC(4)	Wisconsin / Durable Consumer Products	Revolving Line of Credit—\$1,500 Commitment (11.0% (LIBOR + 8.00% with 3.00% LIBOR floor), due 3/02/2013)(25)	—	—	—	0.0%
		Senior Secured Term Loan (11.00% (LIBOR + 8.00% with 3.00% LIBOR floor), due 3/2/2015)	10,756	10,756	10,686	0.7%
				10,756	10,686	0.7%

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PROSPECT CAPITAL CORPORATION AND SUBSIDIARY
CONSOLIDATED SCHEDULE OF INVESTMENTS (Continued)

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(in thousands, except share data)

Portfolio Company	Locale / Industry	Investments(1)	June 30, 2012			% of Net Assets
			Principal Value	Cost	Fair Value(2)	
Pinnacle Treatment Centers, Inc.(4)	Pennsylvania / Healthcare	Revolving Line of Credit—\$1,000 Commitment (8.0% (LIBOR + 5.00% with 3.00% LIBOR floor), due 1/10/2016)(25)	\$ —	\$ —	\$ —	0.0%
		Senior Secured Term Loan (11.00% (LIBOR + 8.00% with 3.00% LIBOR floor), due 1/10/2016)(3)	17,475	17,475	17,475	1.2%
				17,475	17,475	1.2%
Potters Holdings II, L.P.(16)	Pennsylvania / Manufacturing	Senior Subordinated Term Loan (10.25% (LIBOR + 8.50% with 1.75% LIBOR floor), due 11/6/2017)(3)(4)	15,000	14,803	14,608	1.0%
				14,803	14,608	1.0%
Pre-Paid Legal Services, Inc.(16)	Oklahoma / Consumer Services	Senior Subordinated Term Loan (11.00% (LIBOR + 9.50% with 1.50% LIBOR floor), due 12/31/2016)(3)(4)	5,000	5,000	4,989	0.3%
				5,000	4,989	0.3%
Progrexion Holdings, Inc.(4)(28)	Utah / Consumer Services	Senior Secured Term Loan A (11.25% (LIBOR + 9.25% with 2.00% LIBOR floor), due 12/31/2014)(3)	34,502	34,502	34,502	2.3%
		Senior Secured Term Loan B (11.25% (LIBOR + 9.25% with 2.00% LIBOR floor), due 12/31/2014)	28,178	28,178	28,178	1.9%
				62,680	62,680	4.2%
Renaissance Learning, Inc.(16)	Wisconsin / Consumer Services	Second Lien Term Loan (12.00% (LIBOR + 10.50% with 1.50% LIBOR floor), due 10/19/2018)(4)	6,000	5,775	6,000	0.4%
				5,775	6,000	0.4%
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)	15,000	14,711	14,711	1.0%
				14,711	14,711	1.0%
Royal Adhesives & Sealants, LLC	Indiana / Chemicals	Senior Subordinated Unsecured Term Loan (12.00% plus 2.00% PIK due 11/29/2016)	27,798	27,798	27,798	1.8%
				27,798	27,798	1.8%
Seaton Corp.	Illinois / Business Services	Subordinated Secured (12.50% (LIBOR + 9.00% with 3.50% LIBOR floor) plus 2.00% PIK, due 3/14/2014)(3)(4)	3,288	3,164	3,288	0.2%
				3,164	3,288	0.2%

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CONSOLIDATED SCHEDULE OF INVESTMENTS (Continued)

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Portfolio Company	Locale / Industry	Investments(1)	June 30, 2012			% of Net Assets
			Principal Value	Cost	Fair Value(2)	
SG Acquisition, Inc.(4)	Georgia / Insurance	Senior Secured Term Loan A (8.50% (LIBOR + 6.50% with 2.00% LIBOR floor), due 3/18/2016)	\$ 27,469	\$ 27,469	\$ 27,469	1.8%
		Senior Secured Term Loan B (14.50% (LIBOR + 12.50% with 2.00% LIBOR floor), due 3/18/2016)(3)	29,625	29,625	29,625	2.0%
		Senior Secured Term Loan C (8.50% (LIBOR + 6.50% with 2.00% LIBOR floor), due 3/18/2016)	12,686	12,686	12,686	0.8%
		Senior Secured Term Loan D (14.50% (LIBOR + 12.50% with 2.00% LIBOR floor), due 3/18/2016)	13,681	13,681	13,681	0.9%
				83,461	83,461	5.5%
Shearer's Foods, Inc.	Ohio / Food Products	Junior Secured Debt (12.00% plus 3.75% PIK (3.75% LIBOR floor), due 3/31/2016)(3)(4)	37,639	37,639	37,639	2.5%
		Membership Interest in Mistral Chip Holdings, LLC—Common (2,000 units)(17)		2,000	2,161	0.1%
		Membership Interest in Mistral Chip Holdings, LLC 2—Common (595 units)(17)		1,322	643	0.0%
		Membership Interest in Mistral Chip Holdings, LLC 3—Preferred (67 units)(17)		673	883	0.1%
				41,634	41,326	2.7%
Skillsoft Public Limited Company(22)	Ireland / Software & Computer Services	Senior Unsecured (11.125%, due 6/1/2018)	15,000	14,918	15,000	1.0%
				14,918	15,000	1.0%
Snacks Holding Corporation	Minnesota / Food Products	Senior Subordinated Unsecured Term Loan (12.00% plus 1.00% PIK, due 11/12/2017)	15,250	14,754	5,250	1.0%
		Series A Preferred Stock (4,021.45 shares)		56	42	0.0%
		Series B Preferred Stock (1,866.10 shares)		56	42	0.0%
		Warrant (to purchase 31,196.52 voting common shares, expires 11/12/2020)		479	357	0.0%
				15,345	15,691	1.0%
Southern Management Corporation(22)(30)	South Carolina / Consumer Finance	Second Lien Term Loan (12.00% plus 5.00% PIK due 5/31/2017)	17,568	17,568	17,568	1.2%
				17,568	17,568	1.2%
Sport Helmets Holdings, LLC(14)	New York / Personal & Nondurable Consumer Products	Escrow Receivable		—	406	0.0%
				—	406	0.0%

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Portfolio Company	Locale / Industry	Investments(1)	June 30, 2012			% of Net Assets
			Principal Value	Cost	Fair Value(2)	
Springs Window Fashions, LLC	Wisconsin / Durable Consumer Products	Second Lien Term Loan (11.25% (LIBOR + 9.25% with 2.00% LIBOR floor), due 11/30/2017)(3)(4)	\$ 35,000	\$ 35,000	\$ 34,062	2.3%
				35,000	34,062	2.3%
ST Products, LLC	Pennsylvania / Manufacturing	Senior Secured Term Loan (12.00% (LIBOR + 9.00% with 3.00% LIBOR floor), due 6/16/2016)(3)(4)	23,328	23,328	23,328	1.5%
				23,328	23,328	1.5%
Stauber Performance Ingredients, Inc. (4)	California / Food Products	Senior Secured Term Loan (10.50% (LIBOR + 7.50% with 3.00% LIBOR floor), due 1/21/2016)(3)	22,058	22,058	22,058	1.5%
		Senior Secured Term Loan (10.50% (LIBOR + 7.50% with 3.00% LIBOR floor), due 5/21/2017)	10,500	10,500	10,500	0.7%
				32,558	32,558	2.2%
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)	33,444	32,711	—	0.0%
		Overriding Royalty Interests(18)		—	1,623	0.1%
				32,711	1,623	0.1%
Symphony CLO, IX Ltd.(22)	Cayman Islands / Diversified Financial Services	LP Certificates (Residual Interest)	45,500	42,864	43,612	2.9%
				42,864	43,612	2.9%
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)	23,760	23,363	23,760	1.6%
				23,363	23,760	1.6%
Totes Isotoner Corporation	Ohio / 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	38,531	2.5%
				39,000	38,531	2.5%
U.S. HealthWorks Holding Company, Inc. (16)	California / Healthcare	Second Lien Term Loan (10.50% (LIBOR + 9.00% with 1.50% LIBOR floor), due 6/15/2017)(3)(4)	25,000	25,000	25,000	1.7%
				25,000	25,000	1.7%
VanDeMark Chemicals, Inc. (3)	New York / Chemicals	Senior Secured Term Loan (12.20% (LIBOR + 10.20% with 2.0% LIBOR floor), due 12/31/2014)(4)	30,306	30,306	30,306	2.0%
				30,306	30,306	2.0%

See notes to consolidated financial statements.

PROSPECT CAPITAL CORPORATION AND SUBSIDIARY
CONSOLIDATED SCHEDULE OF INVESTMENTS (Continued)

June 30, 2013 and June 30, 2012

(in thousands, except share data)

Portfolio Company	Locale / Industry	Investments(1)	June 30, 2012			% of Net Assets
			Principal Value	Cost	Fair Value(2)	
Wind River Resources Corp. and Wind River II Corp.	Utah / Oil & Gas Production	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)	\$ 14,750	\$ 14,750	\$ 2,339	0.2%
		Net Profits Interest (5.00% payable on Equity distributions)(7)		—	—	0.0%
				<u>14,750</u>	<u>2,339</u>	<u>0.2%</u>
		Total Non-control/Non-affiliate Investments (Level 3 Investments)		<u>1,536,950</u>	<u>1,483,487</u>	<u>98.1%</u>
		Total Level 3 Portfolio Investments		<u>2,099,194</u>	<u>2,094,092</u>	<u>138.5%</u>
LEVEL 1 PORTFOLIO INVESTMENTS:						
Non-control/Non-affiliate Investments (less than 5.00% of voting control)						
Allied Defense Group, Inc.	Virginia / Aerospace & Defense	Common Stock (10,000 shares)		56	—	0.0%
				<u>56</u>	<u>—</u>	<u>0.0%</u>
Dover Saddlery, Inc.	Massachusetts / Retail	Common Stock (30,974 shares)		63	129	0.0%
				<u>63</u>	<u>129</u>	<u>0.0%</u>
		Total Non-control/Non-affiliate Investments (Level 1 Investments)		<u>119</u>	<u>129</u>	<u>0.0%</u>
		Total Portfolio Investments		<u>2,099,313</u>	<u>2,094,221</u>	<u>138.5%</u>
SHORT TERM INVESTMENTS: Money Market Funds (Level 2 Investments)						
Fidelity Institutional Money Market Funds—Government Portfolio (Class I)				86,596	86,596	5.7%
Fidelity Institutional Money Market Funds—Government Portfolio (Class I)(3)				31,772	31,772	2.1%
Victory Government Money Market Funds				1	1	0.0%
		Total Money Market Funds		<u>118,369</u>	<u>118,369</u>	<u>7.8%</u>
		Total Investments		<u>2,217,682</u>	<u>2,212,590</u>	<u>146.3%</u>

See notes to consolidated financial statements.

PROSPECT CAPITAL CORPORATION AND SUBSIDIARY
CONSOLIDATED SCHEDULE OF INVESTMENTS (Continued)

June 30, 2013 and June 30, 2012

(in thousands, except share data)

Endnote Explanations for the Consolidated Schedule of Investments as of June 30, 2013 and June 30, 2012

- (1) The securities in which Prospect Capital Corporation ("we", "us" or "our") has invested were acquired in transactions that were exempt from registration under the Securities Act of 1933, as amended, or the "Securities Act." These securities may be resold only in transactions that are exempt from registration under the Securities Act.
- (2) Fair value is determined by or under the direction of our Board of Directors. As of June 30, 2013 and June 30, 2012, two of our portfolio investments, Allied Defense Group, Inc. ("Allied") and Dover Saddlery, Inc. ("Dover") were publicly traded and classified as Level 1 within the valuation hierarchy established by Accounting Standards Codification ("ASC") 820, *Fair Value Measurements and Disclosures* ("ASC 820"). As of June 30, 2013 and June 30, 2012, 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. Our investments in money market funds are classified as Level 2. See Note 2 and Note 3 within the accompanying consolidated financial statements for further discussion.
- (3) Security, or a portion thereof, is held by Prospect Capital Funding LLC, 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 market values of these investments at June 30, 2013 and June 30, 2012 were \$883,114 and \$783,384, respectively; they represent 20.5% and 35.4% of total investments at fair value, respectively. Prospect Capital Funding LLC (See Note 1), our wholly-owned subsidiary, holds an aggregate market value of \$883,114 and \$783,384 of these investments as of June 30, 2013 and June 30, 2012, respectively.
- (4) 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, 2013 and June 30, 2012.
- (5) 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.
- (6) 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 own 1,000 shares of common stock in Coalbed Inc., representing 100% of the issued and outstanding common stock. Coalbed Inc., in turn owns 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 rollup, the Coalbed LLC assets and loan were assigned to Manx, the holding company. On June 30, 2012, Manx reassigned our investment in Coalbed to Wolf Energy Holdings, Inc. ("Wolf"), a newly-formed, separately owned holding company. Our Board of Directors set value at zero for the loan position in Coalbed LLC investment as of June 30, 2013 and June 30, 2012.

- (7) In addition to the stated returns, the net profits interest held will be realized upon sale of the borrower or a sale of the interests.

PROSPECT CAPITAL CORPORATION AND SUBSIDIARY
CONSOLIDATED SCHEDULE OF INVESTMENTS (Continued)

June 30, 2013 and June 30, 2012

(in thousands, except share data)

- (8) During the quarter ended December 31, 2011, our ownership of Change Clean Energy Holdings, Inc. ("CCEHI") and Change Clean Energy, Inc. ("CCEI"), Freedom Marine Holding, Inc. ("Freedom Marine") and Yatesville Coal Holdings, Inc. ("Yatesville") 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.
- (9) Entity was formed as a result of the debt restructuring of ESA Environmental Specialist, Inc. In early 2009, we foreclosed on the two loans on non-accrual status and purchased the underlying personal and real property. We own 1,000 shares of common stock in The Healing Staff ("THS"), f/k/a Lisamarie Fallon, Inc. representing 100% ownership. We own 1,500 shares of Vets Securing America, Inc. ("VSA"), representing 100% ownership.

During the three months ended December 31, 2012, we determined that the impairment of Integrated Contract Services, 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 ("THS"), an affiliate of ICS, was valued at zero as of June 30, 2013 and continues to provide staffing solutions for health care facilities and security staffing.

- (10) Loan is with THS, an affiliate of ICS.
- (11) Evanta Ventures, Inc. and Sports Leadership Institute, Inc. are joint borrowers on our investment.
- (12) On January 19, 2010, we modified the terms of our senior secured debt in AEH and Coalbed in conjunction with the formation of Manx Energy, 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 reassigned our investments in Coalbed and AEH to Wolf, a newly-formed, separately owned holding company. 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 market value. The Board of Directors set the fair value of our investment in Manx at \$346 as of June 30, 2013.
- (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.
- (15) We own 99.9999% of AGC/PEP, LLC. AGC/PEP, LLC owns 2,037.65 out of a total of 83,818.69 shares (including 5,111 vested and unvested management options) of American Gilsonite Holding Company which owns 100% of American Gilsonite Company.
- (16) Syndicated investment which had been originated by another financial institution and broadly distributed.
- (17) At June 30, 2012, Mistral Chip Holdings, LLC owns 44,800 shares of Chip Holdings, Inc. and Mistral Chip Holdings 2, LLC owns 11,975 shares in Chip Holdings, Inc. Chip Holdings, Inc. is the parent company of Shearer's Foods, Inc. and has 67,936 shares outstanding before adjusting for

PROSPECT CAPITAL CORPORATION AND SUBSIDIARY
CONSOLIDATED SCHEDULE OF INVESTMENTS (Continued)

June 30, 2013 and June 30, 2012

(in thousands, except share data)

management options. On November 7, 2012, we redeemed our membership interests in Mistral Chip Holdings, LLC, Mistral Chip Holdings 2, LLC and Mistral Chip Holdings 3, LLC in connection with the sale of Shearer's, receiving \$6,022 of net proceeds and realizing a gain of approximately \$2,027 on the redemption.

- (18) The overriding royalty interests held receive payments at the stated rates based upon operations of the borrower.
- (19) On December 31, 2009, we sold our investment in Aylward Enterprises, LLC. AWCNC, LLC is the remaining 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, 2013 and June 30, 2012.
- (20) We own a warrant to purchase 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 in Boxercraft Incorporated.
- (21) We own 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 Holding Corporation 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.
- (22) Certain investments that we have 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, qualifying assets represent at least 70% of our total assets. We monitor the status of these assets on an ongoing basis.
- (23) On January 1, 2010, we restructured our senior secured and bridge loans investment in Iron Horse Coiled Tubing, Inc. ("Iron Horse") and we reorganized Iron Horse's management structure. The senior secured loan and bridge loan were replaced with three new tranches of senior secured debt. During the period from June 30, 2011 to June 30, 2012, our fully diluted ownership of Iron Horse decreased from 57.8% to 5.0%, respectively, as we continued to transfer ownership interests to Iron Horse's management as they repaid our outstanding debt. Iron Horse management had an option to repurchase our remaining interest for \$2,040.

On July 24, 2012, we sold our 3,821 shares of Iron Horse Coiled Tubing, Inc. common stock in connection with the exercise of the equity buyout option, receiving \$2,040 of net proceeds and realizing a gain of approximately \$1,772 on the sale.
- (24) On May 6, 2011, we made a secured first lien \$24,250 debt investment to NMMB Acquisition, Inc., a \$2,800 secured debt and \$4,400 equity investment to NMMB Holdings, Inc. We own 100% of the Series A Preferred Stock in NMMB Holdings, Inc. NMMB Holdings, Inc. owns 100% of the Convertible Preferred in NMMB Acquisition, Inc. NMMB Acquisition, Inc. has a 5.8% dividend rate which is paid to NMMB Holdings, Inc. Our fully diluted ownership in NMMB Holdings, Inc. is 100% as of June 30, 2013 and June 30, 2012. Our fully diluted ownership in NMMB Acquisition, Inc. is 83.5% as of June 30, 2013 and June 30, 2012.

PROSPECT CAPITAL CORPORATION AND SUBSIDIARY
CONSOLIDATED SCHEDULE OF INVESTMENTS (Continued)

June 30, 2013 and June 30, 2012

(in thousands, except share data)

- (25) Undrawn committed revolvers incur commitment and unused fees ranging from 0.50% to 2.00%. As of June 30, 2013 and June 30, 2012, we had \$202,518 and \$180,646 of undrawn revolver commitments to our portfolio companies, respectively.
- (26) Stated interest rates are based on June 30, 2013 and June 30, 2012 one 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 secured first lien \$30,000 debt investment to AIRMALL USA, Inc., a \$12,500 secured second lien to AMU Holdings, Inc., and acquired 100% of the Convertible Preferred Stock and Common stock of AMU Holdings, Inc. Our Convertible Preferred Stock in AMU Holdings, Inc. has a 12.0% dividend rate which is paid from the dividends received from the underlying operating company, AIRMALL USA Inc. AMU Holdings, Inc. owns 100% of the common stock in AIRMALL USA, Inc.
- (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) Our wholly-owned entity, First Tower Holdings of Delaware, LLC, owns 80.1% of First Tower Holdings LLC, the operating company of First Tower, LLC.
- (30) 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, common and preferred interest.
- (32) Our wholly-owned entity, APH Property Holdings, LLC, owns 100% of the common equity of American Property Holdings Corp., a REIT which holds investments in several real estate properties.
- (33) Our wholly-owned entity, CCPI Holdings, Inc. owns 95.13% of CCPI Inc., the operating company.
- (34) Our wholly-owned entity, Credit Central Holdings of Delaware, LLC owns 74.8% of Credit Central Holdings, LLC, which owns 100% of each of Credit Central, LLC, Credit Central South, LLC and Credit Central of Tennessee, LLC, the operating companies.
- (35) Our wholly-owned entity, Valley Electric Holdings I, Inc. ("HoldCo"), owns 100% of Valley Electric Holdings, II, Inc. ("Valley II"). Valley II owns 96.3% of Valley Electric Co. of Mt. Vernon, Inc. ("OpCo"), the operating company. Our debt investments are with both HoldCo and OpCo.
- (36) Our wholly-owned entity, Nationwide Acceptance Holdings, LLC owns 93.8% of Nationwide Acceptance LLC, the operating company.

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CONSOLIDATED SCHEDULE OF INVESTMENTS (Continued)

June 30, 2013 and June 30, 2012

(in thousands, except share data)

- (37) On April 15, 2013, assets previously held by H&M were assigned to Wolf 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 sold the assets located in Martin County 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 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) As defined in the Investment Company Act, the Company is deemed to be both an "Affiliated Person" and "Control" this portfolio company because it owns more than 25% of the portfolio company's outstanding voting securities or it has the power to exercise control over the management or policies of such portfolio company (including through a management agreement). Transactions during the period for the year ended June 30, 2013 in which the issuer was both an Affiliated company and a portfolio company that the Company is deemed to Control are as follows:

Company	Purchases	Redemptions	Sales	Interest income	Dividend income	Structuring fee	Other income	Net realized gains (losses)	Net unrealized gains (losses)
AIRMAIL USA, Inc.	\$ —	\$ 600	\$ —	\$ 5,822	\$ —	\$ —	\$ —	\$ —	\$ 7,266
Ajax Rolled Ring & Machine, Inc.	23,300	19,065	—	5,176	—	155	—	—	(17,208)
APH Property Holdings, LLC	151,648	—	—	2,898	—	4,511	140	—	—
AWCNC, LLC	—	—	—	—	—	—	—	—	—
Borga, Inc.	150	—	—	—	—	—	—	—	(232)
CCPI Holdings, Inc.	34,081	338	—	1,792	—	575	32	—	—
Credit Central Holdings of Delaware, LLC	47,663	—	—	3,893	—	1,440	240	—	2,799
Energy Solutions Holdings, Inc.	—	28,500	475	24,809	53,820	—	—	—	(71,198)
First Tower Holdings of Delaware, LLC	20,000	—	—	52,476	—	—	2,426	—	(9,869)
Manx Energy, Inc.	—	—	—	—	—	—	—	(9,397)	18,865
Nationwide Acceptance Holdings, LLC	25,151	—	—	1,787	—	753	131	—	—
NMMB Holdings, Inc.	—	—	5,700	3,026	—	—	—	—	(5,903)
R-V Industries, Inc.	32,750	—	—	781	24,462	143	—	—	1,463
The Healing Staff, Inc.	975	—	894	2	—	—	—	(12,117)	12,117
Valley Electric Holdings I, Inc.	52,098	—	100	3,511	—	1,227	98	—	—
Wolf Energy Holdings, Inc.	50	—	—	452	—	3,960	991	11,826	(3,092)

- (39) As defined in the Investment Company Act, the Company is deemed to be an "Affiliated Person" of a portfolio company because it owns 5% or more of the portfolio company's outstanding voting securities or it has the power to exercise control over the management or policies of such portfolio

PROSPECT CAPITAL CORPORATION AND SUBSIDIARY
CONSOLIDATED SCHEDULE OF INVESTMENTS (Continued)

June 30, 2013 and June 30, 2012

(in thousands, except share data)

company (including through a management agreement). Transactions during the year ended June 30, 2013 in which the issuer was an Affiliated company (but not a portfolio company that the Company ("Controls") are as follows:

Company	Purchases (cost)	Redemptions (cost)	Sales (cost)	Interest income	Dividend income	Structuring fee	Other income	Net realized gains (losses)	Net unrealized gains (losses)
BNN Holdings Corp. (f/k/a Biotronic NeuroNetwork)	\$ 30,000	\$ 26,677	\$ —	\$ 3,159	\$ —	\$ 600	\$ 22	\$ —	\$ 672
Boxercraft Incorporated	—	—	—	3,356	—	—	—	—	(9,413)
Smart, LLC	—	—	—	—	728	—	—	—	108

- (40) As defined in the Investment Company Act, the Company is deemed to be both an "Affiliated Person" and "Control" this portfolio company because it owns more than 25% of the portfolio company's outstanding voting securities or it has the power to exercise control over the management or policies of such portfolio company (including through a management agreement). Transactions during the period for the year ended June 30, 2012 in which the issuer was both an Affiliated company and a portfolio company that the Company is deemed to Control are as follows:

Company	Purchases	Redemptions	Sales	Interest income	Dividend income	Structuring fee	Other income	Net realized gains (losses)	Net unrealized gains (losses)
AIRMALL USA, Inc.	\$ —	\$ 650	\$ —	\$ 5,900	\$ —	\$ —	\$ —	\$ —	\$ (3,094)
Ajax Rolled Ring & Machine, Inc.	—	440	—	4,849	—	—	—	—	18,973
AWCNC, LLC	—	—	—	—	—	—	—	—	—
Borga, Inc.	—	—	—	—	—	—	—	—	(1,023)
C&J Cladding LLC	—	—	580	—	—	1,500	—	2,420	(4,119)
Change Clean Energy Holdings, Inc.	—	—	—	—	—	—	—	—	2,540
Energy Solutions Holdings, Inc.	5,951	—	—	7,174	47,850	5,220	4,983	—	(63,403)
First Tower Holdings of Delaware, LLC	287,953	—	—	2,312	—	8,075	—	—	—
Integrated Contract Services, Inc.	1,033	1,054	—	—	—	—	—	—	503
Iron Horse Coiled Tubing, Inc.	—	14,338	—	324	—	—	—	—	802
Manx Energy, Inc.	—	—	—	—	—	—	—	—	(1,312)
NMMB Holdings, Inc.	—	2,550	—	3,683	—	—	—	—	(4,148)
NRG Manufacturing, Inc.	37,218	50,299	2,317	28,579	15,011	372	3,800	36,940	(23,655)
Nupla Corporation	—	1,995	—	587	—	1,500	14	2,907	(4,194)
R-V Industries, Inc.	—	—	—	—	283	—	—	—	15,740
Yatesville Coal Holdings, Inc.	—	—	—	—	—	—	—	—	1,035

- (41) As defined in the Investment Company Act, the Company is deemed to be an "Affiliated Person" of a portfolio company because it owns 5% or more of the portfolio company's outstanding voting securities or it has the power to exercise control over the management or policies of such portfolio company (including through a management agreement). Transactions during the year ended

PROSPECT CAPITAL CORPORATION AND SUBSIDIARY
CONSOLIDATED SCHEDULE OF INVESTMENTS (Continued)

June 30, 2013 and June 30, 2012

(in thousands, except share data)

June 30, 2012 in which the issuer was an Affiliated company (but not a portfolio company that the Company ("Controls") are as follows:

Company	Purchases (cost)	Redemptions (cost)	Sales (cost)	Interest income	Dividend income	Structuring fee	Other income	Net realized gains (losses)	Net unrealized gains (losses)
BNN Holdings Corp. (f/k/a Biotronic NeuroNetwork)	\$ —	\$ —	\$ —	\$ 3,333	\$ —	\$ —	\$ —	\$ —	\$ (5,099)
Boxercraft Incorporated	2,300	1,144	—	2,947	—	—	70	—	(662)
Smart, LLC	—	—	—	—	—	—	—	—	35
Sport Helmets Holdings, LLC	—	19,102	—	5,875	—	—	38	4,445	(7,483)

PROSPECT CAPITAL CORPORATION AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(In thousands, except share and per share data)

Note 1. Organization

References herein to "we", "us" or "our" refer to Prospect Capital Corporation ("Prospect") and its subsidiary unless the context specifically requires otherwise.

We were organized on April 13, 2004 and were funded in an initial public offering ("IPO"), completed on July 27, 2004. We are a closed-end investment company that has filed an election to be treated as a Business Development Company ("BDC"), under the Investment Company Act of 1940 (the "1940 Act"). As a BDC, we have qualified and 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 credit facility at PCF.

Note 2. Significant Accounting Policies

The following are significant accounting policies consistently applied by us:

Basis of Presentation

The accompanying consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP") and pursuant to the requirements for reporting on Form 10-K and 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 twelve months ended June 30, 2013.

Use of Estimates

The preparation of GAAP financial statements requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of income and expenses 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 rules, the regulations pursuant to Article 6 of Regulation S-X and the American Institute of Certified Public Accountants' Audit and Accounting Guide for Investment Companies, we are precluded from consolidating any entity other than another investment company or

PROSPECT CAPITAL CORPORATION AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(In thousands, except share and per share data)

Note 2. Significant Accounting Policies (Continued)

an operating company which provides substantially all of its services and benefits to us. Our consolidated financial statements include our accounts and the accounts of PCF, our only wholly-owned, closely-managed subsidiary that is also an investment company. All intercompany balances and transactions have been eliminated in consolidation.

Investment Classification

We are a non-diversified company within the meaning of 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. Affiliated investments and affiliated companies 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.

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. Investments in other, non-security financial instruments are recorded on the basis of subscription date or redemption date, as applicable. 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

The Company's 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 the Company would incur if the counterparties failed to perform pursuant to the terms of their agreements with the Company.

Liquidity Risk

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

PROSPECT CAPITAL CORPORATION AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(In thousands, except share and per share data)

Note 2. Significant Accounting Policies (Continued)

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 the Company's 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 assets, we follow the guidance of ASC 820 that defines fair value, establishes a framework for measuring fair value in conformity with accounting principles generally accepted in the United States or America, or GAAP, and requires disclosures about fair value measurements.

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 the Company 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.

ASC 820 applies to fair value measurements already required or permitted by other standards.

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.

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

PROSPECT CAPITAL CORPORATION AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(In thousands, except share and per share data)

Note 2. Significant Accounting Policies (Continued)

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 an independent valuation firm engaged by our Board of Directors;
- 2) the independent valuation firms conduct independent appraisals and make their own independent assessment;
- 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 shadow bond approach, a market approach, an income approach, a liquidation approach, or a combination of approaches, as appropriate. The shadow bond and market approaches use prices and other relevant information generated by market transactions involving identical or comparable assets or liabilities (including a business). The income approach uses valuation techniques to convert future amounts (for example, cash flows or earnings) to a single present value amount (discounted) calculated based on an appropriate discount rate. The measurement is based on the net present value indicated by current market expectations about those future amounts. In following these approaches, the types of factors that we may take into account in fair value pricing our investments include, as relevant: available current market data, including relevant and applicable market trading and transaction comparables, applicable market yields and multiples, security covenants, call protection provisions, information rights, the nature and realizable value of any collateral, the portfolio company's ability to make payments, its earnings and discounted cash flows, the markets in which the portfolio company does business, comparisons of financial ratios of peer companies that are public, M&A comparables, 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 security, the most appropriate valuation approach has been chosen from alternative approaches to ensure the most accurate valuation for each security. To value a CLO, both the assets and liabilities of the CLO capital structure need be modeled. We use a waterfall engine to store the collateral data, generate collateral cash flows from the assets, and distributes the cash flow to the liability structure based on the payment priorities, and discount them back using proper discount rates that incorporate all the risk factors. 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."

PROSPECT CAPITAL CORPORATION AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(In thousands, except share and per share data)

Note 2. Significant Accounting Policies (Continued)

Valuation of Other Financial Assets and Financial Liabilities

ASC Subtopic [820-10-05-1](#), *The Fair Value Option for Financial Assets and Financial Liabilities* ("ASC 820-10-05-1") permits an entity to elect fair value as the initial and subsequent measurement attribute for many of assets and liabilities for which the fair value option has been elected and similar assets and liabilities measured using another measurement attribute. We have elected not to value some assets and liabilities at fair value as would be permitted by ASC 820-10-05-1.

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 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 market value as of December 2, 2009, and continues to accrete until maturity or repayment of the respective loans.

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 325-40-35, *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.

Loans are placed on non-accrual status when there is reasonable doubt that principal or interest will be collected in accordance with the terms of the investment. 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 of collectability.

PROSPECT CAPITAL CORPORATION AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(In thousands, except share and per share data)

Note 2. Significant Accounting Policies (Continued)

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.

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 as taxable income is earned using an annual effective excise tax rate. The annual effective excise tax rate is determined by dividing the estimated annual excise tax by the estimated annual taxable income.

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 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

PROSPECT CAPITAL CORPORATION AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(In thousands, except share and per share data)

Note 2. Significant Accounting Policies (Continued)

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 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.

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 earnings for the quarter. Net realized capital gains, if any, are distributed at least annually.

Financing Costs

We record origination expenses related to our 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.

We record registration expenses related to shelf filings as prepaid assets. These expenses consist principally of Securities and Exchange Commission ("SEC") registration fees, legal fees and accounting fees incurred. These prepaid assets will be charged to capital upon the receipt of an equity offering proceeds or charged to expense if no offering 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 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 common share are calculated using the weighted average number of common shares outstanding for the period presented. In accordance with ASC 946, *Financial Services—Investment Companies*, convertible securities are not considered in the calculation of net assets per share.

Recent Accounting Pronouncements

In May 2011, the FASB issued Accounting Standards Update 2011-04, *Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs* ("ASU 2011-04"). ASU 2011-04 amends Accounting Standards Codification 820, *Fair Value*

PROSPECT CAPITAL CORPORATION AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(In thousands, except share and per share data)

Note 2. Significant Accounting Policies (Continued)

Measurements ("ASC 820") by: (1) clarifying that the highest-and-best-use and valuation-premise concepts only apply to measuring the fair value of non-financial assets; (2) allowing a reporting entity to measure the fair value of the net asset or net liability position in a manner consistent with how market participants would price the net risk position, if certain criteria are met; (3) providing a framework for considering whether a premium or discount can be applied in a fair value measurement; (4) providing that the fair value of an instrument classified in a reporting entity's shareholders' equity is estimated from the perspective of a market participant that holds the identical item as an asset; and (5) expanding the qualitative and quantitative fair value disclosure requirements. The expanded disclosures include, for Level 3 items, a description of the valuation process and a narrative description of the sensitivity of the fair value to changes in unobservable inputs and interrelationships between those inputs if a change in those inputs would result in a significantly different fair value measurement. ASU 2011-4 also requires disclosures about the highest-and-best-use of a non-financial asset when this use differs from the asset's current use and the reasons for such a difference. In addition, this ASU amends ASC 820, *Fair Value Measurements*, to require disclosures to include any transfers between Level 1 and Level 2 of the fair value hierarchy. These amendments were effective for fiscal years beginning after December 15, 2011 and for interim periods within those fiscal years. The adoption of the amended guidance in ASU 2011-04 did not have a significant effect on our financial statements. See Note 3 for the disclosure required by ASU 2011-04.

In August 2012, the FASB issued Accounting Standards Update 2012-03, *Technical Amendments and Corrections to SEC Sections: Amendments to SEC Paragraphs Pursuant to SEC Staff Accounting Bulletin No. 114 ("SAB No. 114")*, *Technical Amendments Pursuant to SEC Release No. 33-9250*, and *Corrections Related to FASB Accounting Standards Update 2010-22 ("ASU 2012-03")*. The update amends various SEC paragraphs pursuant to the issuance of SAB No. 114 and is effective upon issuance. The adoption of the amended guidance in ASU 2012-03 did not have a significant effect on our financial statements.

In October 2012, the FASB issued Accounting Standards Update 2012-04, *Technical Corrections and Improvements* ("ASU 2012-04"). The amendments in this update cover a wide range of Topics in the ASC. These amendments include technical corrections and improvements to the ASC and conforming amendments related to fair value measurements. The adoption of the amended guidance in ASU 2012-04 did not have a significant effect on our financial statements.

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"). ASU 2013-08 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 ASU 2013-08 is not expected to materially effect on our financial statements.

PROSPECT CAPITAL CORPORATION AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(In thousands, except share and per share data)

Note 3. Portfolio Investments

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 and at June 30, 2012, we had investments in 85 long-term portfolio investments, which had an amortized cost of \$2,099,313 and a fair value of \$2,094,221.

As of June 30, 2013, we own controlling interests in AIRMALL USA, Inc. ("Airmall"), Ajax Rolled Ring & Machine, Inc., APH Property Holdings, LLC ("APH"), AWCNC, LLC, Borga, Inc. ("Borga"), CCPI Holdings, Inc., Credit Central Holdings of Delaware, LLC, Energy Solutions Holdings, Inc. (f/k/a Gas Solutions Holdings, Inc.) ("Energy Solutions"), First Tower Holdings of Delaware, LLC ("First Tower Delaware"), Manx Energy, Inc. ("Manx"), Nationwide Acceptance Holdings, LLC, NMMB Holdings, Inc., R-V Industries, Inc., The Healing Staff, Inc. ("THS"), Valley Electric Holdings I, Inc. and Wolf Energy Holdings, Inc. ("Wolf"). We also own an affiliated interest in BNN Holdings Corp. (f/k/a Biotronic NeuroNetwork), Boxercraft Incorporated and Smart, LLC.

The composition of our investments and money market funds as of June 30, 2013 and June 30, 2012 at cost and fair value was as follows:

	June 30, 2013		June 30, 2012	
	Cost	Fair Value	Cost	Fair Value
Revolving Line of Credit	\$ 9,238	\$ 8,729	\$ 1,145	\$ 868
Senior Secured Debt	2,262,327	2,207,091	1,138,991	1,080,053
Subordinated Secured Debt	1,062,386	1,024,901	544,363	488,113
Subordinated Unsecured Debt	88,470	88,827	72,617	73,195
CLO Debt	27,667	28,589	27,258	27,717
CLO Residual Interest	660,619	658,086	214,559	218,009
Equity	145,071	156,629	100,380	206,266
Total Investments	4,255,778	4,172,852	2,099,313	2,094,221
Money Market Funds	143,262	143,262	118,369	118,369
Total Investments and Money Market Funds	<u>\$ 4,399,040</u>	<u>\$ 4,316,114</u>	<u>\$ 2,217,682</u>	<u>\$ 2,212,590</u>

PROSPECT CAPITAL CORPORATION AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(In thousands, except share and per share data)

Note 3. Portfolio Investments (Continued)

The fair values of our investments and money market funds as of June 30, 2013 disaggregated into the three levels of the ASC 820 valuation hierarchy are as follows:

	Quoted Prices in Active Markets for Identical Securities (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Investments at fair value				
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
Money Market Funds	—	143,262	—	143,262
Total Investments and Money Market Funds	\$ 112	\$ 143,262	\$ 4,172,740	\$ 4,316,114

	Fair Value Hierarchy			Total
	Level 1	Level 2	Level 3	
Investments at fair value				
Control investments	\$ —	\$ —	\$ 811,634	\$ 811,634
Affiliate investments	—	—	42,443	42,443
Non-control/non-affiliate investments	112	—	3,318,663	3,318,775
	112	—	4,172,740	4,172,852
Investments in money market funds	—	143,262	—	143,262
Total assets reported at fair value	\$ 112	\$ 143,262	\$ 4,172,740	\$ 4,316,114

PROSPECT CAPITAL CORPORATION AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(In thousands, except share and per share data)

Note 3. Portfolio Investments (Continued)

The fair values of our investments and money market funds as of June 30, 2012 disaggregated into the three levels of the ASC 820 valuation hierarchy are as follows:

	Quoted Prices in Active Markets for Identical Securities (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Investments at fair value				
Revolving Line of Credit	\$ —	\$ —	\$ 868	\$ 868
Senior Secured Debt	—	—	1,080,053	1,080,053
Subordinated Secured Debt	—	—	488,113	488,113
Subordinated Unsecured Debt	—	—	73,195	73,195
CLO Debt	—	—	27,717	27,717
CLO Residual Interest	—	—	218,009	218,009
Equity	129	—	206,137	206,266
Total Investments	129	—	2,094,092	2,094,221
Money Market Funds	—	118,369	—	118,369
Total Investments and Money Market Funds	\$ 129	\$ 118,369	\$ 2,094,092	\$ 2,212,590

	Fair Value Hierarchy			Total
	Level 1	Level 2	Level 3	
Investments at fair value				
Control investments	\$ —	\$ —	\$ 564,489	\$ 564,489
Affiliate investments	—	—	46,116	46,116
Non-control/non-affiliate investments	129	—	1,483,487	1,483,616
	129	—	2,094,092	2,094,221
Investments in money market funds	—	118,369	—	118,369
Total assets reported at fair value	\$ 129	\$ 118,369	\$ 2,094,092	\$ 2,212,590

PROSPECT CAPITAL CORPORATION AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(In thousands, except share and per share data)

Note 3. Portfolio Investments (Continued)

The aggregate values of Level 3 portfolio investments changed during the year ended June 30, 2013 as follows:

	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 purchase discount	—	922	10,095	11,017
Repayments and sales of portfolio investments	(68,710)	(26,676)	(836,023)	(931,409)
Transfers within Level 3	—	—	—	—
Transfers in (out) of Level 3	—	—	—	—
Fair value as of June 30, 2013	\$ 811,634	\$ 42,443	\$ 3,318,663	\$ 4,172,740

	Fair Value Measurements Using Unobservable Inputs (Level 3)							Total
	Revolver	Senior Secured Debt	Subordinated Secured Debt	Unsecured Debt	CLO Debt	CLO Residual Interest	Equity	
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
Amortization 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	—	12,966	(12,966)	—	—	—	—	—
Transfers in (out) of Level 3	—	—	—	—	—	—	—	—
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

PROSPECT CAPITAL CORPORATION AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(In thousands, except share and per share data)

Note 3. Portfolio Investments (Continued)

The aggregate values of Level 3 portfolio investments changed during the year ended June 30, 2012 as follows:

	Fair Value Measurements Using Unobservable Inputs (Level 3)			
	Control Investments	Affiliate Investments	Non-Control/ Non-Affiliate Investments	Total
Fair value as of June 30, 2011	\$ 310,072	\$ 72,337	\$ 1,080,421	\$ 1,462,830
Total realized loss (gain), net	42,267	4,445	(10,115)	36,597
Change in unrealized appreciation (depreciation)	6,776	(13,617)	(25,476)	(32,317)
Net realized and unrealized gain (loss)	49,043	(9,172)	(35,591)	4,280
Purchases of portfolio investments	332,156	2,300	780,556	1,115,012
Payment-in-kind interest	219	467	4,961	5,647
Accretion of purchase discount	81	4,874	2,329	7,284
Repayments and sales of portfolio investments	(118,740)	(24,690)	(357,531)	(500,961)
Transfers within Level 3	(8,342)	—	8,342	—
Transfers in (out) of Level 3	—	—	—	—
Fair value as of June 30, 2012	\$ 564,489	\$ 46,116	\$ 1,483,487	\$ 2,094,092

	Fair Value Measurements Using Unobservable Inputs (Level 3)						
	Revolver	Senior Secured Debt	Subordinated Secured Debt	Subordinated Unsecured Debt	CLO Debt	CLO Residual Interest	Equity
Fair value as of June 30, 2011	\$ 7,278	\$ 789,981	\$ 448,675	\$ 55,336	\$ —	\$ —	\$ 161,560
Total realized loss (gain), net	—	2,686	(14,606)	—	—	—	48,517
Change in unrealized appreciation (depreciation)	(412)	(26,340)	(13,737)	(67)	459	3,450	4,330
Net realized and unrealized (loss) gain	(412)	(23,654)	(28,343)	(67)	459	3,450	52,847
Purchases of portfolio investments	1,500	582,566	227,733	17,000	27,072	214,559	44,582
Payment-in-kind interest	—	304	4,485	858	—	—	—
Accretion of purchase discount	80	3,449	3,501	68	186	—	—
Repayments and sales of portfolio investments	(7,578)	(272,593)	(167,938)	—	—	—	(52,852)
Transfers within Level 3	—	—	—	—	—	—	—
Transfers in (out) of Level 3	—	—	—	—	—	—	—
Fair value as of June 30, 2012	\$ 868	\$ 1,080,053	\$ 488,113	\$ 73,195	\$ 27,717	\$ 218,009	\$ 206,137

For the year ended June 30, 2013 and 2012, the net change in unrealized appreciation on the investments that use Level 3 inputs was \$77,488 and \$18,866 for assets still held as of June 30, 2013 and 2012, respectively.

PROSPECT CAPITAL CORPORATION AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(In thousands, except share and per share data)

Note 3. Portfolio Investments (Continued)

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	\$ 2,215,820	Yield Analysis	Market Yield	5.7% - 20.8%	10.7%
Subordinated Secured	1,024,901	Yield Analysis	Market Yield	7.7% - 19.8%	11.6%
Subordinated Unsecured	88,827	Yield Analysis	Market Yield	6.1% - 14.6%	10.7%
CLO Debt	28,589	Discounted Cash Flow	Discount Rate	12.10% - 20.1%	15.7%
CLO Residual Interest	658,086	Discounted Cash Flow	Discount Rate	11.3% - 19.8%	15.3%
Equity	151,855	EV Market Multiple Analysis	EV Market Multiple Analysis	3.3x - 8.8x	6.2x
Escrow	4,662	Discounted Cash Flow	Discount Rate	6.5% - 7.5%	7.0%
Total	<u>\$ 4,172,740</u>				

The ranges of unobservable inputs used in the fair value measurement of our Level 3 investments as of June 30, 2012 were as follows:

Asset Category	Fair Value	Primary Valuation Technique	Unobservable Input		Weighted Average
			Input	Range	
Senior	\$ 1,080,921	Yield Analysis	Market Yield	6.7% - 30.0%	11.1%
Subordinated Secured	488,113	Yield Analysis	Market Yield	7.0% - 30.0%	12.6%
Subordinated Unsecured	73,195	Yield Analysis	Market Yield	8.7% - 13.5%	11.8%
CLO Debt	27,717	Discounted Cash Flow	Discount Rate	13.0% - 8.0%	13.0%
CLO Residual Interest	218,009	Discounted Cash Flow	Discount Rate	14.0%	10.2%
Equity	188,451	EV Market Multiple Analysis	EV Market Multiple Analysis	3.3x - 9.0x	6.6x
Escrow	17,686	Discounted Cash Flow	Discount Rate	6.5% - 8.5%	7.7%
Total	<u>\$2,094,092</u>				

The significant unobservable inputs used in the market approach of fair value measurement of our investments are the market multiples of earnings before income tax, depreciation and amortization ("EBITDA") of the comparable guideline public companies. The independent valuation firm selects a population of public companies for each investment with similar operations and attributes of the subject company. Using these guideline public companies' data, a range of multiples of enterprise value to EBITDA is calculated. The independent valuation firm selects percentages from the range of multiples for purposes of determining the subject company's estimated enterprise value based on said multiple and generally the latest twelve months EBITDA of the subject company (or other meaningful measure). Significant increases or decreases in the multiple will result in an increase or decrease in enterprise value, resulting in an increase or decrease in the fair value estimate of the equity investment.

The significant unobservable input used in the income approach of fair value measurement of our investments is the discount rate used to discount the estimated future cash flows expected to be

PROSPECT CAPITAL CORPORATION AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(In thousands, except share and per share data)

Note 3. Portfolio Investments (Continued)

received from the underlying investment, which include both future principal and interest payments. Significant increases or decreases in the discount rate would result in a decrease or increase in the fair value measurement. Included in the consideration and selection of discount rates are the following factors: risk of default, rating of the investment and comparable company investments, and call provisions.

Changes in market yields, discount rates or EBITDA multiples, each in isolation, may change the fair value of certain of our investments. Generally, an increase in market yields or discount rates 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, 2013, the valuation methodology for Airmall changed to incorporate the income method (discounted cash flow analysis) in addition to the market method (public comparable company analysis) used in previous quarters. Management adopted the income method to incorporate current financial projections in recognition of the time elapsed since the initial acquisition of the company in June 2010. As a result of this change and in recognition of recent improved company performance, we increased the fair value of our investment in Airmall to \$54,648 as of June 30, 2013, a premium of \$3,478 from its amortized cost, compared to the \$3,788 unrealized depreciation recorded at June 30, 2012.

During the year ended June 30, 2013, the valuation methodology for First Tower Delaware changed to incorporate the income method (discounted cash flow analysis) in addition to the market method (public comparable company analysis) used in previous quarters. Management adopted the income method in consideration of management forecasts not previously available. 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 First Tower Delaware to \$298,084 as of June 30, 2013, a discount of \$13,869 to its amortized cost, compared to \$287,953 as of June 30, 2012, equal to its amortized cost at that time.

During the year ended June 30, 2013, the valuation methodology for ICON Health & Fitness, Inc. ("ICON") changed to incorporate an enterprise value waterfall analysis in place of a trading analysis in addition to the income method (discounted cash flow analysis) used in previous quarters. Management adopted the enterprise value waterfall analysis due to the impairment of the senior term loan, and removed the trading analysis due to lack of trading activity during the quarter. As a result of this change and in recognition of recent company performance and current market conditions, we decreased

PROSPECT CAPITAL CORPORATION AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(In thousands, except share and per share data)

Note 3. Portfolio Investments (Continued)

the fair value of our investment in ICON to \$33,929 as of June 30, 2013, a discount of \$9,381 to its amortized cost, compared to the \$261 unrealized depreciation recorded at June 30, 2012.

In December 2011, we completed a reorganization of Gas Solutions Holdings, Inc. renaming the company Energy Solutions and transferring ownership of other operating companies owned by us that operate within the energy industry. As part of the reorganization, our equity interests in Change Clean Energy Holdings, Inc. and Change Clean Energy, Inc., Freedom Marine Holdings, LLC, a subsidiary of Energy Solutions ("Freedom Marine") and Yatesville Coal Holdings, Inc., a subsidiary of Energy Solutions ("Yatesville"), were transferred to Energy Solutions to consolidate all of our energy holdings under one management team strategically expanding Energy Solutions across energy sectors.

On January 4, 2012, Energy Solutions sold its gas gathering and processing assets ("Gas Solutions") for a sale price of \$199,805, adjusted for the final working capital settlement, including a potential earnout of \$28,000 that will be paid based on the future performance of Gas Solutions. After expenses, including structuring fees of \$9,966 paid to us, Energy Solutions received approximately \$158,687 in cash. Currently, a loan to Energy Solutions remains outstanding and is collateralized by the cash held by Energy Solutions after the sale transaction. 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. As a result, distributions from Energy Solutions to us were required to be 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 current year earnings and profits sufficient to support such recognition. During the year ended June 30, 2013, Energy Solutions repaid \$28,500 of senior and subordinated secured debt. We received \$19,543 of make-whole fees for early repayment of the outstanding loan receivables, which was recorded as interest income during the year ended June 30, 2013. During the year ended June 30, 2013, we received distributions of \$53,820 from Energy Solutions which were recorded as dividend income. Energy Solutions continues to hold \$23,979 of cash for future investment and repayment of the remaining debt.

During the year ended June 30, 2013, we provided \$125,892 and \$26,648 of debt and equity financing, respectively, to APH for the acquisition of various industrial and multi-family residential real estate properties in Florida and Georgia. APH is a holding company that owns 100% of the common equity of American Property Holdings Corp. ("APHC"). APHC is a Maryland corporation and qualified REIT for federal income tax purposes. During the year ended June 30, 2013, we received \$4,511 of structuring fees related to our investments in APH which were recorded as other income. As of June 30, 2013, APHC's real estate portfolio was comprised of seven investments. The following table shows the mortgages outstanding due to other parties for each of the seven properties:

No.	Property Name	City	Date of Acquisition	Purchase Price	Mortgage Outstanding
1	146 Forest Parkway	Forest Park, GA	10/24/2012	\$ 7,400	\$ —
2	Abbingdon Pointe	Marietta, GA	12/28/2012	23,500	15,275
3	Amberly Place	Tampa, FL	1/17/2013	63,400	39,600
4	Lofton Place	Tampa, FL	4/30/2013	26,000	16,965
5	Vista at Palma Sola	Bradenton, FL	4/30/2013	27,000	17,550
6	Arlington Park	Marietta, GA	5/8/2013	14,850	9,650
7	Arium Resort	Pembroke Pines, GA	6/24/2013	225,000	157,500

PROSPECT CAPITAL CORPORATION AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(In thousands, except share and per share data)

Note 3. Portfolio Investments (Continued)

At June 30, 2013, eight loan investments were on non-accrual status: Borga, Freedom Marine, THS, formerly a subsidiary of Integrated Contract Services, Inc. ("ICS"), Manx, Stryker Energy, LLC ("Stryker"), Wind River Resources Corp. and Wind River II Corp. ("Wind River"), Wolf and Yatesville. At June 30, 2012, nine loan investments were on non-accrual status: Borga, Freedom Marine, H&M Oil and Gas, LLC ("H&M"), THS, formerly a subsidiary of ICS, Manx, Stryker, Wind River, Wolf and Yatesville. Principal balances of these loans amounted to \$106,395 and \$171,149 as of June 30, 2013 and June 30, 2012, respectively. The fair value of these loans amounted to \$13,810 and \$43,641 as of June 30, 2013 and June 30, 2012, respectively. The fair values of these investments represent approximately 0.5% and 2.9% of our net assets as of June 30, 2013 and June 30, 2012, respectively. For the years ended June 30, 2013, June 30, 2012 and June 30, 2011, the income foregone as a result of not accruing interest on non-accrual debt investments amounted to \$25,965, \$25,460 and \$18,535, respectively.

On December 3, 2010, we exercised our warrants in Miller Petroleum, Inc ("Miller") and received 2,013,814 shares of Miller common stock. On December 27, 2010, we sold 1,397,510 of these shares receiving \$3.95 of net proceeds per share, realizing a gain of \$5,415. On January 10, 2011, we sold the remaining 616,304 shares of Miller common stock receiving \$4.23 of net proceeds per share, realizing an additional gain of \$2,561. The total gain was \$7,976 on the sale of the Miller common stock.

On May 2, 2011, we sold our membership interests in Fischbein, LLC ("Fischbein") for \$12,396 of gross proceeds, \$1,479 of which is deferred revenue held in escrow, realizing a gain of \$9,893, and received a repayment on the loan that was outstanding. We subsequently made a \$3,334 senior secured second lien term loan and invested \$875 in the common equity of Fischbein with the new ownership group.

During the year ended June 30, 2012, Deb Shops, Inc. ("Deb Shops") filed for bankruptcy and a plan for reorganization was proposed. The plan was approved by the bankruptcy court and our debt position was eliminated with no payment to us. We determined that the impairment of Deb Shops was other-than-temporary on September 30, 2011 and recorded a realized loss of \$14,607 for the full amount of the amortized cost. The asset was completely written off when the plan of reorganization was approved.

On December 28, 2011, we made a secured debt investment of \$37,218 to support the recapitalization of NRG Manufacturing, Inc. ("NRG"). After the financing, we received repayment of the \$13,080 loan that was previously outstanding and a dividend of \$6,711 as a result of our equity holdings. In addition, we sold 392 shares of NRG common stock held by us back to NRG for \$13,266, realizing a gain of \$12,131.

On February 2, 2012, NRG was sold to an outside buyer for \$123,258. In conjunction with the sale, the \$37,218 loan that was outstanding was repaid. We also received a \$26,936 make-whole fee for early repayment of the outstanding loan, which was recorded as interest income in the year ended June 30, 2012. Further, we received a \$3,800 advisory fee for the transaction, which was recorded as other income in the quarter ending March 31, 2012. After expenses, including the make whole and advisory fees discussed above, \$40,886 was available to be distributed to stockholders. While our 408 shares of NRG common stock represented 67.1% of the ownership, we received net proceeds of \$25,991 as our contribution to the escrow amount was proportionately higher than the other shareholders. In

PROSPECT CAPITAL CORPORATION AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(In thousands, except share and per share data)

Note 3. Portfolio Investments (Continued)

connection with the sales, we recognized a realized gain of \$24,810 during the year ended June 30, 2012. In total, we received proceeds of \$93,977 at closing. In addition, there was \$11,125 being held in escrow of which 80% is due to us upon release of the escrowed amounts. During the year ended June 30, 2013, we received \$3,251 upon release of escrowed amounts for which we recognized a gain in the same amount. As of June 30, 2013, the fair value of the remaining escrow amounts was \$3,618. This will be recognized as a gain if and when received.

On February 5, 2013, we received a distribution of \$3,250 related to our investment in NRG, for which we realized a gain of the same amount. This was a partial release of the amount held in escrow.

On June 15, 2012, we acquired 80.1% of the businesses of First Tower LLC ("First Tower") for \$110,200 in cash and 14,518,207 unregistered shares of our common stock. Based on our share price of \$11.06 at the time of issuance, we acquired our 80.1% interest in First Tower for approximately \$270,771. As consideration for our investment, First Tower Holdings of Delaware, which is 100% owned by us, recorded a secured revolving credit facility to us of \$244,760 and equity of \$43,193. First Tower Delaware owns 80.1% of First Tower Holdings LLC, the holding company of First Tower. The assets of First Tower acquired include, among other things, the subsidiaries owned by First Tower, which hold finance receivables, leaseholds, and tangible property associated with First Tower's businesses. We received \$8,075 in structuring fee income as part of the acquisition.

In December 2012, we determined that the impairment of 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 THS, an affiliate of ICS, was valued at zero as of June 30, 2013 and continues to provide staffing solutions for health care facilities and security staffing.

On March 28, 2013, we sold our investment in New Meatco Provisions, LLC for net proceeds of approximately \$1,965, recognizing a realized loss of \$10,814 on the sale.

On April 30, 2013, we sold our investment in Fischbein for net proceeds of \$3,168, recognizing a realized gain of \$2,293 on the sale. In addition, there is \$310 being held in escrow which will be recognized as additional gain if and when received.

On April 15, 2013, assets previously held by H&M were assigned to Wolf in exchange for a \$66,000 term loan secured by the assets. Our cost basis in this loan of \$44,632 was determined in accordance with ASC 310-40, *Troubled Debt Restructurings by Creditors*, and is equal to the fair value of assets at the time of transfer and we recorded a realized loss of \$19,647 in connection with the foreclosure on the assets. On May 17 2013, Wolf sold certain of the assets that had been previously held by H&M that were located in Martin County to Hibernia for \$66,000. Proceeds from the sale were primarily used to repay the loan and net profits interest receivable due to us and we recognized as a realized gain of \$11,826 partially offsetting the previously recorded loss. We received \$3,960 of structuring and advisory fees from Wolf 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 was other-than-temporary and recorded a realized loss of \$9,397 for the amount that the amortized cost exceeded the fair market value

PROSPECT CAPITAL CORPORATION AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(In thousands, except share and per share data)

Note 3. Portfolio Investments (Continued)

The original cost basis of debt placements and equity securities acquired, including follow-on investments for existing portfolio companies, totaled \$3,103,217, \$1,120,659 and \$953,337 during the years ended June 30, 2013, June 30, 2012 and June 30, 2011, respectively. Debt repayments and proceeds from sales of equity securities of \$931,534, \$500,952 and \$285,862 were received during the years ended June 30, 2013, June 30, 2012 and June 30, 2011, respectively.

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, 2012, we recognized \$6,613 of interest income due to purchase discount accretion from the assets acquired from Patriot. Included in the \$6,613 is \$3,083 of normal accretion and \$3,530 of accelerated accretion resulting from the repayment of Mac & Massey Holdings, LLC, Nupla Corporation, ROM Acquisition Corp and Sport Helmets Holdings, LLC.

During the year ended June 30, 2011, we recognized \$22,084 of interest income due to purchase discount accretion from the assets acquired from Patriot. Included in the \$22,084 is \$4,912 of normal accretion, \$12,035 of accelerated accretion resulting from the repayment of Impact Products, LLC, Label Corp Holdings Inc. and Prince Mineral Company, Inc., and \$4,968 of accelerated accretion resulting from the recapitalization of our debt investments in Arrowhead General Insurance Agency, Inc. ("Arrowhead"), The Copernicus Inc. ("Copernicus"), Fischbein and Northwestern Management Services, LLC ("Northwestern"). The restructured loans for Arrowhead, Copernicus, Fischbein and Northwestern were issued at market terms comparable other industry transactions. In accordance with ASC 320-20-35 the cost basis of the new loan was recorded at par value, which precipitated the acceleration of original purchase discount from the loan repayment which was recognized as interest income.

As of June 30, 2013, \$540 of purchase discount from the assets acquired from Patriot remains to be accreted as interest income, of which \$240 is expected to be amortized during the three months ending September 30, 2013.

As of June 30, 2013, \$3,005,298 of our loans bear interest at floating rates, \$2,976,709 of which have Libor floors ranging from 1.00% to 5.89%.

Undrawn committed revolvers incur commitment fees ranging from 0.50% to 2.00%. As of June 30, 2013 and June 30, 2012, we had \$202,518 and \$180,646 of undrawn revolver commitments to our portfolio companies, respectively.

Note 4. Revolving Credit Agreements

On June 11, 2010, we closed an extension and expansion of our existing credit facility with a syndicate of lenders through PCF (the "2010 Facility"). The 2010 Facility, which had \$325,000 total commitments as of June 30, 2011, included an accordion feature which allowed the 2010 Facility to accept up to an aggregate total of \$400,000 of commitments, a limit which was met on September 1, 2011. Interest on borrowings under the 2010 Facility was one-month Libor plus 325 basis points, subject to a minimum Libor floor of 100 basis points. Additionally, the lenders charged a fee on the unused

PROSPECT CAPITAL CORPORATION AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(In thousands, except share and per share data)

Note 4. Revolving Credit Agreements (Continued)

portion of the 2010 Facility equal to either 75 basis points if at least half of the credit facility was used or 100 basis points otherwise.

On March 27, 2012, we renegotiated the 2010 Facility and closed on an expanded five-year \$650,000 revolving credit facility (the "2012 Facility"). The lenders have extended commitments of \$552,500 under the 2012 Facility as of June 30, 2013. The 2012 Facility includes an accordion feature which allows commitments to be increased up to \$650,000 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. At June 30, 2013, we were in compliance with the applicable covenants.

Interest on borrowings under the 2012 Facility is one-month Libor plus 275 basis points with no minimum Libor floor. Additionally, the lenders charge a fee on the unused portion of the 2012 Facility equal to either 50 basis points if at least half of the credit facility is drawn or 100 basis points otherwise. The 2012 Facility requires us to pledge assets as collateral in order to borrow under the credit facility. As of June 30, 2013 and June 30, 2012, we had \$473,508 and \$418,980, respectively, available to us for borrowing under our 2012 Facility, of which the amount outstanding was \$124,000 and \$96,000, respectively. As additional investments that are eligible are transferred to PCF and pledged under the 2012 Facility, PCF will generate additional availability up to the commitment amount of \$552,500. At June 30, 2013, the investments used as collateral for the 2012 Facility had an aggregate market value of \$833,310, which represents 31.37% of our net assets. These assets have been transferred to PCF, a bankruptcy remote special purpose entity, which owns these investments and as such, these investments are not available to our general creditors. PCF, a bankruptcy remote special purpose entity and our wholly-owned subsidiary, holds all of these investments at market value as of June 30, 2013. 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 \$11,150 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 \$6,722 remains to be amortized.

During the years ended June 30, 2013, June 30, 2012 and June 30, 2011, we recorded \$9,082, \$14,883 and \$8,507 of interest costs, unused fees and amortization of financing costs on our credit facility as interest expense, respectively.

PROSPECT CAPITAL CORPORATION AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(In thousands, except share and per share data)

Note 5. Senior Convertible Notes

On December 21, 2010, we issued \$150,000 in aggregate principal amount of our 6.25% senior convertible notes due 2015 ("2015 Notes") for net proceeds following underwriting expenses of approximately \$145,200. Interest on the 2015 Notes is paid semi-annually in arrears on June 15 and December 15, at a rate of 6.25% per year, commencing June 15, 2011. The 2015 Notes mature on December 15, 2015 unless converted earlier. The 2015 Notes are convertible into shares of common stock at an initial conversion rate and conversion rate at June 30, 2013 of 88.0902 and 88.1429 shares of common stock, respectively, per \$1 principal amount of 2015 Notes, which is equivalent to a conversion price of approximately \$11.35 per share of common stock, subject to adjustment in certain circumstances. The conversion price in effect at June 30, 2013 was last calculated on the anniversary of the issuance (December 21, 2012) and will next be adjusted on the next anniversary, unless the exercise price shall have changed by more than 1% before the anniversary. The conversion rate for the 2015 Notes is increased if monthly cash dividends paid to common shares exceed the rate of \$0.101125 cents per share, subject to adjustment.

On February 18, 2011, we issued \$172,500 in aggregate principal amount of our 5.50% senior convertible notes due 2016 ("2016 Notes") for net proceeds following underwriting expenses of approximately \$167,325. Between January 30, 2012 and February 2, 2012, we repurchased \$5,000 of our 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. Interest on the remaining \$167,500 of 2016 Notes is paid semi-annually in arrears on February 15 and August 15, at a rate of 5.50% per year, commencing August 15, 2011. The 2016 Notes mature on August 15, 2016 unless converted earlier. The 2016 Notes are convertible into shares of common stock at an initial conversion rate and conversion rate at June 30, 2013 of 78.3699 and 78.5395 shares, respectively, of common stock per \$1 principal amount of 2016 Notes, which is equivalent to a conversion price of approximately \$12.73 per share of common stock, subject to adjustment in certain circumstances. The conversion price in effect at June 30, 2013 was last calculated on the anniversary of the issuance (February 14, 2012) and will next be adjusted on the next anniversary, unless the exercise price shall have changed by more than 1% before the anniversary. The conversion rate for the 2016 Notes is increased when monthly cash dividends paid to common shares exceed the monthly dividend rate of \$0.101150 per share.

On April 16, 2012, we issued \$130,000 in aggregate principal amount of our 5.375% senior convertible notes due 2017 ("2017 Notes") for net proceeds following underwriting expenses of approximately \$126,035. Interest on the 2017 Notes is paid semi-annually in arrears on October 15 and April 15, at a rate of 5.375% per year, commencing October 15, 2012. The 2017 Notes mature on October 15, 2017 unless converted earlier. The 2017 Notes are convertible into shares of common stock at an initial conversion rate and conversion rate at June 30, 2013 of 85.8442 and 86.1162 shares of common stock, respectively, per \$1 principal amount of 2017 Notes, which is equivalent to a conversion price of approximately \$11.61 per share of common stock, subject to adjustment in certain circumstances. The conversion price in effect at June 30, 2013 was last calculated on the anniversary of the issuance (April 16, 2012) and will next be adjusted on the next anniversary, unless the exercise price shall have changed by more than 1% before the anniversary. The conversion rate for the 2017 Notes is increased when monthly cash dividends paid to common shares exceed the monthly dividend rate of \$0.10150 per share.

PROSPECT CAPITAL CORPORATION AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(In thousands, except share and per share data)

Note 5. Senior Convertible Notes (Continued)

On August 14, 2012, we issued \$200,000 in aggregate principal amount of our 5.75% senior convertible notes due 2018 ("2018 Notes") for net proceeds following underwriting expenses of approximately \$193,600. Interest on the 2018 Notes is paid semi-annually in arrears on March 15 and September 15, at a rate of 5.75% per year, commencing March 15, 2013. The 2018 Notes mature on March 15, 2018 unless converted earlier. The 2018 Notes are convertible into shares of common stock at an initial conversion rate and conversion rate at June 30, 2013 of 82.3451 shares of common stock per \$1 principal amount of 2018 Notes, which is equivalent to a conversion price of approximately \$12.07 per share of common stock, subject to adjustment in certain circumstances. The conversion price has not been adjusted since the issuance (August 14, 2012) and will next be adjusted on the first anniversary, unless the exercise price shall have changed by more than 1% before the anniversary. The conversion rate for the 2018 Notes is increased when monthly cash dividends paid to common shares exceed the monthly dividend rate of \$0.101600 per share.

On December 21, 2012, we issued \$200,000 in aggregate principal amount of 5.875% senior convertible notes due 2019 (the "2019 Notes") for net proceeds following underwriting and other expenses of approximately \$193,600. Interest on the 2019 Notes is paid semi-annually in arrears on January 15 and July 15, at a rate of 5.875% per year, commencing July 15, 2013. The 2019 Notes mature on January 15, 2019 unless converted earlier. The 2019 Notes are convertible into shares of common stock at an initial conversion rate and conversion rate at June 30, 2013 of 79.7766 shares of common stock per \$1 principal amount of 2019 Notes, which is equivalent to a conversion price of approximately \$12.54 per share of common stock, subject to adjustment in certain circumstances. The conversion price has not been adjusted since the issuance (December 21, 2012) and will next be adjusted on the first anniversary, unless the exercise price shall have changed by more than 1% before the anniversary. The conversion rate for the 2019 Notes is increased when monthly cash dividends paid to common shares exceed the monthly dividend rate of \$0.110025 per share.

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

PROSPECT CAPITAL CORPORATION AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(In thousands, except share and per share data)

Note 5. Senior Convertible Notes (Continued)

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 2015 Notes and 2016 Notes (collectively, "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 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 Notes upon a fundamental change at a price equal to 100% of the principal amount of the 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 \$27,032 of fees which are being amortized over the terms of the notes in accordance with ASC 470-50, *Debt Modifications and Extinguishments*, of which \$20,254 remains to be amortized and is included within deferred financing costs on the consolidated statements of assets and liabilities as of June 30, 2013.

During the years ended June 30, 2013, June 30, 2012 and June 30, 2011, we recorded \$45,878, \$22,197 and \$9,090 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 in aggregate principal amount of 6.95% senior unsecured notes due 2022 for proceeds net of offering expenses of \$97,000 (the "2022 Notes"). Interest on the 2022 Notes is paid quarterly in arrears on August 15, November 15, February 15 and May 15, at a rate of 6.95% per year, commencing on August 15, 2012. The 2022 Notes mature on November 15, 2022. These notes will be our direct unsecured obligations and rank equally with all of our unsecured senior indebtedness from time to time outstanding.

On March 15, 2013, we issued \$250,000 in aggregate principal amount of 5.875% senior unsecured notes due 2023 (the "2023 Notes") for net proceeds following underwriting and other expenses of approximately \$245,885. Interest on the 2023 Notes is paid semi-annually. The 2023 Notes mature on March 15, 2023. These notes will be our 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 2022 Notes and 2023 Notes (collectively the "Senior Unsecured Notes"), we incurred \$7,480 of fees which are being amortized over the term of the notes in

PROSPECT CAPITAL CORPORATION AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(In thousands, except share and per share data)

Note 6. Senior Unsecured Notes (Continued)

accordance with ASC 470-50, *Debt Modifications and Extinguishments*, of which \$7,114 remains to be amortized and is included within deferred financing costs on the consolidated statements of assets and liabilities.

During the years ended June 30, 2013 and June 30, 2012, we recorded \$11,672 and \$1,178 of interest costs and amortization of financing costs on the Senior Unsecured Notes as interest expense, respectively.

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 subsequently increased to \$1,000,000. Additional agents appointed by us from time to time in connection with the InterNotes Offering may become parties to the Selling Agent Agreement.

These notes are direct unsecured senior obligations and will 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, 2013, we issued \$343,139 in aggregate principal amount of our Prospect Capital InterNotes® for net proceeds of approximately \$334,243. These notes were issued with stated interest rates ranging from 3.28% to 6.63% with a weighted average rate of 5.59%. These notes mature between July 15, 2019 and June 15, 2043.

PROSPECT CAPITAL CORPORATION AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(In thousands, except share and per share data)

Note 7. Prospect Capital InterNotes® (Continued)

The bonds outstanding as of June 30, 2013 are:

Date of Issuance	Principal Amount	Interest Rate Range	Weighted Average Interest Rate	Maturity Date
March 1, 2012 - March 8, 2012	\$ 5,465	6.90% - 7.00%	6.97%	March 15, 2022
April 5, 2012 - April 26, 2012	8,516	6.50% - 6.85%	6.72%	April 15, 2022
June 14, 2012	2,657	6.95%	6.95%	June 15, 2022
June 28, 2012	4,000	6.55%	6.55%	June 15, 2019
July 6, 2012 - July 26, 2012	20,928	6.20% - 6.45%	6.31%	July 15, 2019
August 2, 2012 - August 23, 2012	17,545	6.05% - 6.15%	6.09%	August 15, 2019
September 7, 2012 - September 27, 2012	29,406	5.85% - 6.00%	5.92%	September 15, 2019
October 4, 2012	7,172	5.70%	5.70%	October 19, 2019
November 23, 2012 - November 29, 2012	13,754	5.00% - 5.13%	5.09%	November 15, 2019
November 29, 2012	1,979	5.75%	5.75%	November 15, 2032
November 23, 2012 - November 29, 2012	16,437	6.50% - 6.63%	6.58%	November 15, 2042
December 6, 2012 - December 28, 2012	9,339	4.50% - 4.86%	4.73%	December 15, 2019
December 6, 2012	1,127	5.63%	5.63%	December 15, 2032
December 13, 2012 - December 28, 2012	3,702	5.00% - 5.13%	5.11%	December 15, 2030
December 6, 2012 - December 28, 2012	22,966	6.00% - 6.38%	6.21%	December 15, 2042
January 4, 2013 - January 31, 2013	4,427	4.00% - 4.375%	4.15%	January 15, 2020
January 4, 2013 - January 31, 2013	2,388	4.50% - 4.875%	4.74%	January 15, 2031
January 4, 2013 - January 31, 2013	9,338	5.50% - 5.875%	5.63%	January 15, 2043
February 4, 2013 - February 28, 2013	2,619	4.00%	4.00%	February 15, 2031
February 4, 2013 - February 28, 2013	664	4.50%	4.50%	February 15, 2031
February 4, 2013 - February 28, 2013	4,623	5.50%	5.50%	February 15, 2043
March 4, 2013 - March 28, 2013	3,832	4.00%	4.00%	March 15, 2020
March 4, 2013 - March 28, 2013	984	4.125% - 4.50%	4.24%	March 15, 2031
March 4, 2013 - March 28, 2013	4,308	5.50%	5.50%	March 15, 2043
March 14, 2013 - March 28, 2013	1,225	L+3.00%	3.27%	March 15, 2023
April 4, 2013 - April 25, 2013	29,528	4.50% - 5.00%	4.96%	April 15, 2020
April 4, 2013 - April 25, 2013	264	L+3.50%	3.78%	April 15, 2023
April 4, 2013 - April 25, 2013	5,164	4.63% - 5.50%	5.34%	April 15, 2031
April 4, 2013 - April 25, 2013	12,280	6.00%	6.00%	April 15, 2043
May 2, 2013 - May 31, 2013	42,482	5.00%	5.00%	May 15, 2020
May 2, 2013 - May 31, 2013	10,000	5.00%	5.00%	May 15, 2028
May 2, 2013 - May 31, 2013	7,548	5.75%	5.75%	May 15, 2031
May 2, 2013 - May 31, 2013	33,641	6.25%	6.25%	May 15, 2043
June 6, 2013 - June 27, 2013	9,905	5.00% - 5.25%	5.04%	June 15, 2020
June 6, 2013 - June 27, 2013	5,000	5.00%	5.00%	June 15, 2028
June 6, 2013 - June 27, 2013	1,707	5.75% - 6.00%	5.85%	June 15, 2031
June 6, 2013 - June 27, 2013	6,857	6.25% - 6.50%	6.31%	June 15, 2043
	<u>\$ 363,777</u>			

PROSPECT CAPITAL CORPORATION AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(In thousands, except share and per share data)

Note 7. Prospect Capital InterNotes® (Continued)

In connection with the issuance of the Prospect Capital InterNotes®, we incurred \$10,598 of fees which are being amortized over the term of the notes in accordance with ASC 470-50, *Debt Modifications and Extinguishments*, of which \$10,248 remains to be amortized and is included within deferred financing costs on the consolidated statements of assets and liabilities.

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

Note 8. Financial Instruments Disclosed, But Not Carried, At Fair Value

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	
Credit facility payable(1)	\$ —	\$ 124,000	\$ —	\$ 124,000
Senior convertible notes(2)	—	886,210	—	886,210
Senior unsecured notes(2)	101,800	242,013	—	343,813
Prospect Capital InterNotes®(3)	—	336,055	—	336,055
Total	\$ 101,800	\$ 1,588,278	\$ —	\$ 1,690,078

- (1) The carrying value of our credit facility payable 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 estimated current market rates.

The fair values of our financial liabilities disclosed, but not carried, at fair value as of June 30, 2012 disaggregated into the three levels of the ASC 820 valuation hierarchy are as follows:

	Fair Value Hierarchy			Total
	Level 1	Level 2	Level 3	
Credit facility payable(1)	\$ —	\$ 96,000	\$ —	\$ 96,000
Senior convertible notes(2)	—	456,671	—	456,671
Senior unsecured notes(2)	99,560	—	—	99,560
Prospect Capital InterNotes ®(3)	—	20,280	—	20,280
Total	\$ 99,560	\$ 572,951	\$ —	\$ 672,511

- (1) The carrying value of our credit facility payable 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 estimated current market rates.

PROSPECT CAPITAL CORPORATION AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(In thousands, except share and per share data)

Note 9. Equity Offerings, Offering Expenses, and Distributions

We issued 106,752,517 and 30,970,696 shares of our common stock during the years ended June 30, 2013 and June 30, 2012, 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 Raised	Underwriting Fees	Offering Expenses	Average Offering Price
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	\$ 300	\$ 11.15
July 27, 2012	3,150,000	\$ 35,123	\$ 315	\$ —	\$ 11.15
September 13, 2012 - October 9, 2012(2)	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(3)	467,928	\$ 5,021	\$ —	\$ —	\$ 10.73
December 28, 2012(3)	897,906	\$ 9,581	\$ —	\$ —	\$ 10.67
December 31, 2012(3)	4,141,547	\$ 44,650	\$ —	\$ —	\$ 10.78
January 7, 2013 - February 5, 2013(4)	10,248,051	\$ 115,315	\$ 1,153	\$ —	\$ 11.25
February 14, 2013 - May 3, 2013(5)	17,230,253	\$ 191,897	\$ 1,788	\$ —	\$ 11.14
May 14, 2013 - May 31, 2013(6)	4,359,200	\$ 47,532	\$ 399	\$ 245	\$ 10.90
During the year ended June 30, 2012:					
June 12, 2012 - June 29, 2012(1)	2,952,489	\$ 33,130	\$ 331	\$ 184	\$ 11.220
June 15, 2012(7)	14,518,207	\$ 160,571	\$ —	\$ —	\$ 11.060
February 28, 2012	12,000,000	\$ 131,400	\$ 1,560	\$ 360	\$ 10.950
July 18, 2011	1,500,000	\$ 15,225	\$ 165	\$ 165	\$ 10.150

- (1) On June 1, 2012, we established an at-the-market program through which we may sell, from time to time and at our sole discretion 9,500,000 shares of our common stock. Through this program we issued 5,199,764 shares of our common stock at an average price of \$11.38 per share, raising \$59,170 of gross proceeds, from June 12, 2012 through July 12, 2012.
- (2) On September 10, 2012, we established an at-the-market program through which we may sell, from time to time and at our sole discretion 9,750,000 shares of our common stock. Through this program we issued 8,010,357 shares of our common stock at an average price of \$11.81 per share, raising \$94,610 of gross proceeds, from September 13, 2012 through October 9, 2012.
- (3) On December 13, 2012, December 28, 2012 and December 31, 2012, we issued 467,928, 897,906 and 4,141,547 shares of our common stock, respectively, in conjunction with investments in controlled portfolio companies.
- (4) On December 21, 2012, we established an at-the-market program through which we may sell, from time to time and at our sole discretion 17,500,000 shares of our common stock. Through this program we issued 10,248,051 shares of our common stock at an average price of \$11.25 per share, raising \$115,315 of gross proceeds.
- (5) On February 11, 2013, we established an at-the-market program through which we may sell, from time to time and at our sole discretion 45,000,000 shares of our common stock. Through this

PROSPECT CAPITAL CORPORATION AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(In thousands, except share and per share data)

Note 9. Equity Offerings, Offering Expenses, and Distributions (Continued)

program we issued 17,230,253 shares of our common stock at an average price of \$11.14 per share, raising \$191,897 of gross proceeds.

- (5) On May 8, 2013, we established an at-the-market program through which we may sell, from time to time and at our sole discretion 45,000,000 shares of our common stock. Through this program we issued 4,539,200 shares of our common stock at an average price of \$10.90 per share, raising \$47,532 of gross proceeds.
- (7) On June 15, 2012, we completed the acquisition of the businesses of First Tower. We acquired 80.1% of First Tower's businesses for \$110,200 in cash and 14,518,207 unregistered shares of our common stock.

Our shareholders' equity accounts at June 30, 2013 and June 30, 2012 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, 2013 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. The last notice was more than six months ago, therefore notice would be necessary before such repurchase could be effected.

On October 29, 2012, our Registration Statement on Form N-2 was declared effective by the SEC. Under this Shelf Registration Statement, as of June 30, 2013 we can issue up to \$1,743,217 of additional debt and equity securities in the public market.

On May 6, 2013, we announced the declaration of monthly dividends in the following amounts and with the following dates:

- \$0.110125 per share for May 2013 to holders of record on May 31, 2013 with a payment date of June 20, 2013;
- \$0.110150 per share for June 2013 to holders of record on June 28, 2013 with a payment date of July 18, 2013;
- \$0.110175 per share for July 2013 to holders of record on July 31, 2013 with a payment date of August 22, 2013; and
- \$0.110200 per share for August 2013 to holders of record on August 30, 2013 with a payment date of September 19, 2013.

PROSPECT CAPITAL CORPORATION AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(In thousands, except share and per share data)

Note 9. Equity Offerings, Offering Expenses, and Distributions (Continued)

On June 17, 2013, we announced the declaration of monthly dividends in the following amounts and with the following dates:

- \$0.110225 per share for September 2013 to holders of record on September 30, 2013 with a payment date of October 24, 2013;
- \$0.110250 per share for October 2013 to holders of record on October 31, 2013 with a payment date of November 21, 2013;
- \$0.110275 per share for November 2013 to holders of record on November 29, 2013 with a payment date of December 19, 2013; and
- \$0.110300 per share for December 2013 to holders of record on December 31, 2013 with a payment date of January 23, 2014.

During the years ended June 30, 2013 and June 30, 2012, we issued 1,450,578 and 1,056,484 shares, respectively, of our common stock in connection with the dividend reinvestment plan.

At June 30 2013, we have reserved 70,246,258 shares of our common stock for issuance upon conversion of the Senior Convertible Notes (See Note 5).

Note 10. Other Investment Income

Other investment income consists of structuring fees, overriding royalty interests, revenue receipts related to net profit interests, deal deposits, administrative agent fee, and other miscellaneous and sundry cash receipts. Income from such sources was \$58,176, \$36,493 and \$19,930 for the years ended June 30, 2013, June 30, 2012 and June 30, 2011, respectively.

Income Source	For The Year Ended		
	June 30, 2013	June 30, 2012	June 30, 2011
Structuring, advisory and amendment fees (Note 3)	\$ 53,708	\$ 35,976	\$ 19,589
Overriding royalty interests	4,122	224	154
Administrative agent fee	346	293	187
Other Investment Income	<u>\$ 58,176</u>	<u>\$ 36,493</u>	<u>\$ 19,930</u>

Note 11. Net Increase in Net Assets per Common Share

The following information sets forth the computation of net increase in net assets resulting from operations per common share for the years ended June 30, 2013, 2012 and 2011, respectively.

	For The Year Ended		
	June 30, 2013	June 30, 2012	June 30, 2011
Net increase in net assets resulting from operations	\$ 220,856	\$ 190,904	\$ 118,238
Weighted average common shares outstanding	207,069,971	114,394,554	85,978,757
Net increase in net assets resulting from operations per common share	<u>\$ 1.07</u>	<u>\$ 1.67</u>	<u>\$ 1.38</u>

PROSPECT CAPITAL CORPORATION AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(In thousands, except share and per share data)

Note 12. Related Party Agreements and Transactions

Investment Advisory Agreement

We have entered into an investment advisory and management agreement with Prospect Capital Management (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.

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 2.00% 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 fees earned by and paid to Prospect Capital Management for the years ended June 30, 2013, June 30, 2012 and June 30, 2011 were \$69,800, \$35,836 and \$22,496, respectively.

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

The net investment income used to calculate this part of the incentive fee is also included in the amount of the gross assets used to calculate the 2.00% base management fee. We pay the Investment

PROSPECT CAPITAL CORPORATION AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(In thousands, except share and per share data)

Note 12. Related Party Agreements and Transactions (Continued)

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.

Income incentive fees totaling \$81,231, \$46,671 and \$23,555 were earned for the years ended June 30, 2013, June 30, 2012 and June 30, 2011, respectively. No capital gains incentive fees were earned for years ended June 30, 2013, June 30, 2012 and June 30, 2011, respectively.

PROSPECT CAPITAL CORPORATION AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(In thousands, except share and per share data)

Note 12. Related Party Agreements and Transactions (Continued)

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, 2013, 2012 and 2011, the reimbursement was approximately \$8,737, \$6,848 and \$4,979, 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. The Administration Agreement may be terminated by either party without penalty upon 60 days' written notice to the other party. Prospect Administration is a wholly owned subsidiary of the Investment Adviser.

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

Managerial Assistance

As a business development company, we offer, and must provide upon request, managerial assistance to certain of our portfolio companies. This assistance could involve, among other things, monitoring the operations of our portfolio companies, participating in board and management meetings, consulting with and advising officers of portfolio companies and providing other organizational and financial guidance. As of June 30, 2013 and June 30, 2012, \$1,291 and \$165 of managerial assistance fees remain on the consolidated statements of assets and liabilities as a payable to the Administrator for reimbursement of its cost in providing such assistance.

Note 13. 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

PROSPECT CAPITAL CORPORATION AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(In thousands, except share and per share data)

Note 13. Litigation (Continued)

will be subject to various uncertainties and, even if such claims are without merit, could result in the expenditure of significant financial and managerial resources. We are not aware of any such material litigation as of the date of this report.

Note 14. Financial Highlights

	Year Ended June 30, 2013	Year Ended June 30, 2012	Year Ended June 30, 2011	Year Ended June 30, 2010	Year Ended June 30, 2009
Per Share Data(1):					
Net asset value at beginning of period	\$ 10.83	\$ 10.36	\$ 10.30	\$ 12.40	\$ 14.55
Net investment income	1.57	1.63	1.10	1.13	1.87
Realized (loss) gain	(0.13)	0.32	0.19	(0.87)	(1.24)
Net unrealized (depreciation) appreciation	(0.37)	(0.28)	0.09	0.07	0.48
Net increase (decrease) in net assets as a result of public offering	0.13	0.04	(0.08)	(0.85)	(2.11)
Net increase in net assets as a result of shares issued for Patriot acquisition	—	—	—	0.12	—
Dividends to shareholders	(1.31)	(1.24)	(1.24)	(1.70)	(1.15)
Net asset value at end of period	<u>\$ 10.72</u>	<u>\$ 10.83</u>	<u>\$ 10.36</u>	<u>\$ 10.30</u>	<u>\$ 12.40</u>
Per share market value at end of period	\$ 10.80	\$ 11.39	\$ 10.11	\$ 9.65	\$ 9.20
Total return based on market value(2)	6.24%	27.21%	17.22%	17.66%	(18.60)%
Total return based on net asset value(2)	10.91%	18.03%	12.54%	(6.82)%	(0.61)%
Shares outstanding at end of period	247,836,965	139,633,870	107,606,690	69,086,862	42,943,084
Average weighted shares outstanding for period	207,069,971	114,394,554	85,978,757	59,429,222	31,559,905
Ratio / Supplemental Data:					
Net assets at end of period (in thousands)	\$ 2,656,494	\$ 1,511,974	\$ 1,114,357	\$ 711,424	\$ 532,596
Portfolio turnover rate	29.24%	29.06%	27.63%	21.61%	4.99%
Annualized ratio of operating expenses to average net assets	11.50%	10.73%	8.47%	7.54%	9.03%
Annualized ratio of net investment income to average net assets	14.86%	14.92%	10.60%	10.69%	13.14%

(1) Financial highlights are based on weighted average shares.

(2) Total return based on market value is based on the change in market price per share between the opening and ending market prices per share in each 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 SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(In thousands, except share and per share data)

Note 15. Selected Quarterly Financial Data (Unaudited)

Quarter Ended	Investment Income		Net Investment Income		Net Realized and Unrealized Gains (Losses)		Net Increase (Decrease) in Net Assets from Operations	
	Total	Per Share(1)	Total	Per Share(1)	Total	Per Share(1)	Total	Per Share(1)
September 30, 2010	35,212	0.47	20,995	0.28	4,585	0.06	25,580	0.34
December 31, 2010	33,300	0.40	19,080	0.23	12,861	0.16	31,940	0.38
March 31, 2011	44,573	0.51	23,956	0.27	9,803	0.11	33,759	0.38
June 30, 2011	56,391	0.58	30,190	0.31	(3,232)	(0.03)	26,959	0.28
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

(1) Per share amounts are calculated using weighted average shares during period.

(2) As adjusted for increase in earnings from Patriot.

Note 16. Subsequent Events

During the period from July 1, 2013 to August 21, 2013, we issued \$58,607 in aggregate principal amount of our Prospect Capital InterNotes® for net proceeds of \$57,344. In addition, we sold \$7,682 in aggregate principal amount of our Prospect Capital InterNotes® for net proceeds of \$7,513 with expected closing on August 22, 2013.

During the period from July 1, 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 \$106,822 after commissions to the broker-dealer on shares sold and offering costs.

On July 1, 2013, Pre-Paid Legal Services, Inc. repaid the \$5,000 loan receivable to us.

On July 9, 2013, Southern Management Corporation repaid the \$17,565 loan receivable to us.

On July 12, 2013, we provided \$11,000 of secured second lien financing to Water PIK, Inc., a leader in developing innovative personal and oral healthcare products.

On July 23, 2013, we made a \$2,000 investment in Carolina Beverage Group, LLC ("Carolina Beverage"), a contract beverage manufacturer.

On July 24, 2013, we sold our \$2,000 investment in Carolina Beverage and realized a gain of \$45 on this investment.

PROSPECT CAPITAL CORPORATION AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(In thousands, except share and per share data)

Note 16. Subsequent Events (Continued)

On July 26, 2013, we made a \$2,000 follow-on senior secured debt investment in Spartan Energy Services, LLC, a leading provider of thru tubing and flow control services to oil and gas companies.

On July 26, 2013, we made a \$20,000 follow-on secured second lien investment in Royal Adhesives & Sealants, LLC ("Royal"), a leading producer of proprietary, high-performance adhesives and sealants.

On July 31, 2013, we made a \$5,100 follow-on investment in Coverall North America, Inc., a leading franchiser of commercial cleaning businesses.

On July 31, 2013, Royal repaid the \$28,364 subordinated unsecured loan receivable to us.

On July 31, 2013, Cargo Airport Services USA, LLC repaid the \$43,399 loan receivable to us.

On August 1, 2013, Medical Security Card Company, LLC repaid the \$13,214 loan receivable to us.

On August 2, 2013, we made an investment of \$44,100 to purchase 90% of the subordinated notes in CIFIC Funding 2013-III, Ltd.

On August 2, 2013, we funded a recapitalization of CP Energy Services, Inc. ("CP Energy") with \$81,273 of debt and \$12,741 of equity financing. Through the recapitalization, we acquired a controlling interest in CP Energy for \$73,009 in cash and 1,918,342 unregistered shares of our common stock. After the financing, we received repayment of the \$18,991 loan previously outstanding.

On August 12, 2013, we provided \$80,000 in senior secured loans and a senior secured revolving loan facility, of which \$70,000 was funded at closing, for the recapitalization of Matrixx Initiatives, Inc., owner of Zicam, a leading developer and marketer of OTC cold remedy products under the Zicam brand.

On August 14, 2013, we announced the revised conversion rate on the 2018 Notes of 82.8631 shares of common stock per \$1 principal amount of 2018 Notes, which is equivalent to a conversion price of approximately \$12.07.

On August 15, 2013, we announced an increase of \$15,000 to our commitments to our credit facility. The commitments to the credit facility now stand at \$567,500.

On August 15, 2013, we made a \$14,000 follow-on investment in Totes Isotoner Corporation, a leading designer, distributor and retailer of high quality, branded functional accessories.

On August 21, 2013, we announced the declaration of monthly dividends in the following amounts and with the following dates:

- \$0.110325 per share for January 2014 to holders of record on January 31, 2014 with a payment date of February 20, 2014;
- \$0.110350 per share for February 2014 to holders of record on February 28, 2014 with a payment date of March 20, 2014; and
- \$0.110375 per share for March 2014 to holders of record on March 31, 2014 with a payment date of April 17, 2014.

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Item 9. Changes in and Disagreements With Accountants on Accounting and Financial Disclosure.

None.

Item 9A. Controls and Procedures.

As of June 30, 2013, we evaluated the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rule 13a-15(e) of the 1934 Act). Based on that evaluation, our management, including the Chief Executive Officer and Chief Financial Officer, concluded that our disclosure controls and procedures were effective and provided reasonable assurance that information required to be disclosed in our periodic SEC filings is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure. However, in evaluating the disclosure controls and procedures, management recognized that any controls and procedures, no matter how well designed and operated can provide only reasonable assurance of achieving the desired control objectives, and management necessarily was required to apply its judgment in evaluating the cost-benefit relationship of such possible controls and procedures.

Report of Management on Internal Control Over Financial Reporting

Management is responsible for establishing and maintaining adequate internal control over financial reporting, and for performing an assessment of the effectiveness of internal control over financial reporting as of June 30, 2013. 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, 2013 based upon criteria in Internal Control—Integrated Framework 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, 2012 based on the criteria on Internal Control—Integrated Framework issued by COSO. There were no changes in our internal control over financial reporting during the quarter ended June 30, 2013 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, 2013 has been audited by BDO USA, LLP, an independent registered public accounting firm, as stated in their report which appears herein.

Report of Independent Registered Public Accounting Firm

Board of Directors and Shareholders
Prospect Capital Corporation
New York, New York

We have audited Prospect Capital Corporation's internal control over financial reporting as of June 30, 2013, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). Prospect Capital Corporation's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying "Item 9A, Report of Management on Internal Control Over Financial Reporting". Our responsibility is to express an opinion on the company's internal control over financial reporting based on our audit.

We conducted our audit 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 effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, Prospect Capital Corporation maintained, in all material respects, effective internal control over financial reporting as of June 30, 2013, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated statement of assets and liabilities of Prospect Capital Corporation as of June 30, 2013 and 2012, 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, 2013, and the financial highlights for each of the five years in the period ended June 30, 2013, and our report dated August 21, 2013 expressed an unqualified opinion thereon.

/s/ BDO USA, LLP
New York, New York
August 21, 2013

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Item 9B. Other Information

None.

PART III

We will file a definitive Proxy Statement for our 2013 Annual Meeting of Stockholders, or the 2013 Proxy Statement, with the SEC, pursuant to Regulation 14A, not later than 120 days after the end of our fiscal year. Accordingly, certain information required by Part III has been omitted under General Instruction G(3) to Form 10-K. Only those sections of the 2013 Proxy Statement that specifically address the items set forth herein are incorporated by reference.

Item 10. Directors, Executive Officers and Corporate Governance.

Section 16(a) Beneficial Ownership Reporting Compliance

Section 16(a) of the Securities Exchange Act of 1934, as amended, requires the Company's directors and executive officers, and persons who own more than 10% of the Company's common stock to file reports of ownership and changes in ownership with the Securities and Exchange Commission ("SEC"). To the Company's knowledge, during the fiscal year ended June 30, 2013, the Company's officers, directors and greater than 10% stockholders had complied with all Section 16(a) filing requirements.

The information required by Item 10 is hereby incorporated by reference from our 2013 Proxy Statement.

Code of Ethics

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

Item 11. Executive Compensation.

The information required by Item 11 is hereby incorporated by reference from our 2013 Proxy Statement.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters.

The information required by Item 12 is hereby incorporated by reference from our 2013 Proxy Statement.

Item 13. Certain Relationships and Related Transactions, and Director Independence.

The information required by Item 13 is hereby incorporated by reference from our 2013 Proxy Statement.

Item 14. Principal Accounting Fees and Services.

The information required by Item 14 is hereby incorporated by reference from our 2013 Proxy Statement.

PART IV

Item 15 Exhibits, Financial Statement Schedules

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

- 3.1 Articles of Amendment and Restatement(1)
- 3.2 Amended and Restated Bylaws(2)
- 4.1 Form of Share Certificate(3)
- 10.1 Investment Advisory Agreement between the Registrant and Prospect Capital Management LLC(3)
- 10.2 Administration Agreement between the Registrant and Prospect Administration LLC(3)
- 10.3 Dividend Reinvestment Plan(3)
- 10.4 License Agreement between the Registrant and Prospect Capital Management LLC(3)
- 10.5 Transfer Agency and Service Agreement(4)
- 10.6 Master Purchase and Sale and Contribution Agreement, dated as of March 19, 2012, by and among the Registrant, First Tower Corp., certain other entities related to the Registrant and certain shareholders of First Tower Corp.(5)
- 10.7 Fourth Amended and Restated Loan and Servicing Agreement, dated March 27, 2012, among Prospect Capital Funding LLC, the Registrant, the lenders from time to time party thereto, the managing agents from time to time party thereto, Key Equipment Finance Inc. and Royal Bank of Canada as Syndication Agents, U.S. Bank National Association as Calculation Agent, Paying Agent and Documentation Agent, Key Equipment Finance Inc. as Facility Agent, and Key Equipment Finance Inc. as Structuring Agent, Sole Lead Arranger and Sole Bookrunner(6)
- 10.8 Indenture dated as of December 21, 2010 relating to the 6.25% Senior Convertible Notes, by and between the Registrant and American Stock Transfer & Trust Company, as Trustee(7)
- 10.9 Form of 6.25% Senior Convertible Note due 2015(8)
- 10.10 Indenture dated as of February 18, 2011 relating to the 5.50% Senior Convertible Notes, by and between the Registrant and American Stock Transfer & Trust Company, as Trustee(9)
- 10.11 Form of 5.50% Senior Convertible Note due 2016(10)
- 10.12 Indenture dated as of February 16, 2012, by and between the Registrant and American Stock Transfer & Trust Company, LLC, as Trustee(11)
- 10.13 First Supplemental Indenture dated as of March 1, 2012, to the Indenture dated as of February 16, 2012, by and between the Registrant and American Stock Transfer & Trust Company, LLC, as Trustee(11)
- 10.14 Form of 7.00% Prospect Capital InterNote® due 2022 (included as part of Exhibit 10.13)(11)
- 10.15 Second Supplemental Indenture dated as of March 8, 2012, to the Indenture dated as of February 16, 2012, by and between the Registrant and American Stock Transfer & Trust Company, LLC, as Trustee(12)
- 10.16 Form of 6.900% Prospect Capital InterNote® due 2022 (included as part of Exhibit 10.15)(12)

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- 10.17 Joinder Supplemental Indenture dated as of March 8, 2012, to the Indenture dated as of February 16, 2012, by and among the Registrant, American Stock Transfer & Trust Company, LLC, as Original Trustee, and U.S. Bank National Association, as Series Trustee(12)
- 10.18 Agreement of Resignation, Appointment and Acceptance dated as of March 12, 2012, by and among the Registrant, American Stock Transfer & Trust Company, LLC, as Retiring Trustee, and U.S. Bank National Association, as Successor Trustee(13)
- 10.19 Third Supplemental Indenture dated as of April 5, 2012, to the Indenture dated as of February 16, 2012, as amended by that certain Agreement of Resignation, Appointment and Acceptance dated as of March 12, 2012, by and among the Registrant, American Stock Transfer & Trust Company, LLC, as Retiring Trustee, and U.S. Bank National Association, as Successor Trustee, by and between the Registrant and U.S. Bank National Association, as Trustee(14)
- 10.20 Form of 6.850% Prospect Capital InterNote® due 2022 (included as part of Exhibit 10.19)(14)
- 10.21 Fourth Supplemental Indenture dated as of April 12, 2012, to the Indenture dated as of February 16, 2012, as amended by that certain Agreement of Resignation, Appointment and Acceptance dated as of March 12, 2012, by and among the Registrant, American Stock Transfer & Trust Company, LLC, as Retiring Trustee, and U.S. Bank National Association, as Successor Trustee, by and between the Registrant and U.S. Bank National Association, as Trustee(15)
- 10.22 Form of 6.700% Prospect Capital InterNote® due 2022 (included as part of Exhibit 10.21)(15)
- 10.23 Indenture dated as of April 16, 2012 relating to the 5.375% Senior Convertible Notes, by and between the Registrant and American Stock Transfer & Trust Company, as Trustee(16)
- 10.24 Form of 5.375% Senior Convertible Note due 2017(17)
- 10.25 Fifth Supplemental Indenture dated as of April 26, 2012, to the Indenture dated as of February 16, 2012, as amended by that certain Agreement of Resignation, Appointment and Acceptance dated as of March 12, 2012, by and among the Registrant, American Stock Transfer & Trust Company, LLC, as Retiring Trustee, and U.S. Bank National Association, as Successor Trustee, by and between the Registrant and U.S. Bank National Association, as Trustee(18)
- 10.26 Form of 6.500% Prospect Capital InterNote® due 2022 (included as part of Exhibit 10.25)(18)
- 10.27 Supplemental Indenture dated as of May 1, 2012, to the Indenture dated as of February 16, 2012, as amended by that certain Agreement of Resignation, Appointment and Acceptance dated as of March 12, 2012, by and among the Registrant, American Stock Transfer & Trust Company, LLC, as Retiring Trustee, and U.S. Bank National Association, as Successor Trustee, by and between the Registrant and U.S. Bank National Association, as Trustee(19)
- 10.28 Form of Global Note 6.95% Senior Note due 2022(20)
- 10.29 Sixth Supplemental Indenture dated as of June 14, 2012, to the Indenture dated as of February 16, 2012, as amended by that certain Agreement of Resignation, Appointment and Acceptance dated as of March 12, 2012, by and among the Registrant, American Stock Transfer & Trust Company, LLC, as Retiring Trustee, and U.S. Bank National Association, as Successor Trustee, by and between the Registrant and U.S. Bank National Association, as Trustee(21)
- 10.30 Form of 6.950% Prospect Capital InterNote® due 2022 (included as part of Exhibit 10.29)(21)

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- 10.31 Seventh Supplemental Indenture dated as of June 28, 2012, to the Indenture dated as of February 16, 2012, as amended by that certain Agreement of Resignation, Appointment and Acceptance dated as of March 12, 2012, by and among the Registrant, American Stock Transfer & Trust Company, LLC, as Retiring Trustee, and U.S. Bank National Association, as Successor Trustee, by and between the Registrant and U.S. Bank National Association, as Trustee(22)
- 10.32 Form of 6.550% Prospect Capital InterNote® due 2019 (included as part of Exhibit 10.31)(22)
- 10.33 Eighth Supplemental Indenture dated as of July 6, 2012, to the Indenture dated as of February 16, 2012, as amended by that certain Agreement of Resignation, Appointment and Acceptance dated as of March 12, 2012, by and among the Registrant, American Stock Transfer & Trust Company, LLC, as Retiring Trustee, and U.S. Bank National Association, as Successor Trustee, by and between the Registrant and U.S. Bank National Association, as Trustee(23)
- 10.34 Form of 6.450% Prospect Capital InterNote® due 2019 (included as part of Exhibit 10.33)(23)
- 10.35 Ninth Supplemental Indenture dated as of July 12, 2012, to the Indenture dated as of February 16, 2012, as amended by that certain Agreement of Resignation, Appointment and Acceptance dated as of March 12, 2012, by and among the Registrant, American Stock Transfer & Trust Company, LLC, as Retiring Trustee, and U.S. Bank National Association, as Successor Trustee, by and between the Registrant and U.S. Bank National Association, as Trustee(24)
- 10.36 Form of 6.350% Prospect Capital InterNote® due 2019 (included as part of Exhibit 10.35)(24)
- 10.37 Tenth Supplemental Indenture dated as of July 19, 2012, to the Indenture dated as of February 16, 2012, as amended by that certain Agreement of Resignation, Appointment and Acceptance dated as of March 12, 2012, by and among the Registrant, American Stock Transfer & Trust Company, LLC, as Retiring Trustee, and U.S. Bank National Association, as Successor Trustee, by and between the Registrant and U.S. Bank National Association, as Trustee(25)
- 10.38 Form of 6.300% Prospect Capital InterNote® due 2019 (included as part of Exhibit 10.37)(25)
- 10.39 Eleventh Supplemental Indenture dated as of July 26, 2012, to the Indenture dated as of February 16, 2012, as amended by that certain Agreement of Resignation, Appointment and Acceptance dated as of March 12, 2012, by and among the Registrant, American Stock Transfer & Trust Company, LLC, as Retiring Trustee, and U.S. Bank National Association, as Successor Trustee, by and between the Registrant and U.S. Bank National Association, as Trustee(26)
- 10.40 Form of 6.200% Prospect Capital InterNote® due 2019 (included as part of Exhibit 10.39)(26)
- 10.41 Twelfth Supplemental Indenture dated as of August 2, 2012, to the Indenture dated as of February 16, 2012, as amended by that certain Agreement of Resignation, Appointment and Acceptance dated as of March 12, 2012, by and among the Registrant, American Stock Transfer & Trust Company, LLC, as Retiring Trustee, and U.S. Bank National Association, as Successor Trustee, by and between the Registrant and U.S. Bank National Association, as Trustee(27)
- 10.42 Form of 6.150% Prospect Capital InterNote® due 2019 (included as part of Exhibit 10.41)(27)

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- 10.43 Thirteenth Supplemental Indenture dated as of August 9, 2012, to the Indenture dated as of February 16, 2012, as amended by that certain Agreement of Resignation, Appointment and Acceptance dated as of March 12, 2012, by and among the Registrant, American Stock Transfer & Trust Company, LLC, as Retiring Trustee, and U.S. Bank National Association, as Successor Trustee, by and between the Registrant and U.S. Bank National Association, as Trustee(28)
- 10.44 Form of 6.150% Prospect Capital InterNote® due 2019 (included as part of Exhibit 10.43)(28)
- 10.45 Indenture dated as of August 14, 2012 relating to the 5.75% Senior Convertible Notes, by and between the Registrant and American Stock Transfer & Trust Company, as Trustee(29)
- 10.46 Form of 5.75% Senior Convertible Note due 2018(30)
- 10.47 Fourteenth Supplemental Indenture dated as of August 16, 2012, to the Indenture dated as of February 16, 2012, as amended by that certain Agreement of Resignation, Appointment and Acceptance dated as of March 12, 2012, by and among the Registrant, American Stock Transfer & Trust Company, LLC, as Retiring Trustee, and U.S. Bank National Association, as Successor Trustee, by and between the Registrant and U.S. Bank National Association, as Trustee(31)
- 10.48 Form of 6.100% Prospect Capital InterNote® due 2019 (included as part of Exhibit 10.47)(31)
- 10.49 Fifteenth Supplemental Indenture dated as of August 23, 2012, to the Indenture dated as of February 16, 2012, as amended by that certain Agreement of Resignation, Appointment and Acceptance dated as of March 12, 2012, by and among the Registrant, American Stock Transfer & Trust Company, LLC, as Retiring Trustee, and U.S. Bank National Association, as Successor Trustee, by and between the Registrant and U.S. Bank National Association, as Trustee(32)
- 10.50 Form of 6.050% Prospect Capital InterNote® due 2019 (included as part of Exhibit 10.49)(32)
- 10.51 Sixteenth Supplemental Indenture dated as of September 7, 2012, to the Indenture dated as of February 16, 2012, as amended by that certain Agreement of Resignation, Appointment and Acceptance dated as of March 12, 2012, by and among the Registrant, American Stock Transfer & Trust Company, LLC, as Retiring Trustee, and U.S. Bank National Association, as Successor Trustee, by and between the Registrant and U.S. Bank National Association, as Trustee(33)
- 10.52 Form of 6.000% Prospect Capital InterNote® due 2019 (included as part of Exhibit 10.51)(33)
- 10.53 Seventeenth Supplemental Indenture dated as of September 13, 2012, to the Indenture dated as of February 16, 2012, as amended by that certain Agreement of Resignation, Appointment and Acceptance dated as of March 12, 2012, by and among the Registrant, American Stock Transfer & Trust Company, LLC, as Retiring Trustee, and U.S. Bank National Association, as Successor Trustee, by and between the Registrant and U.S. Bank National Association, as Trustee(34)
- 10.54 Form of 5.950% Prospect Capital InterNote® due 2019 (included as part of Exhibit 10.53)(34)
- 10.55 Eighteenth Supplemental Indenture dated as of September 20, 2012, to the Indenture dated as of February 16, 2012, as amended by that certain Agreement of Resignation, Appointment and Acceptance dated as of March 12, 2012, by and among the Registrant, American Stock Transfer & Trust Company, LLC, as Retiring Trustee, and U.S. Bank National Association, as Successor Trustee, by and between the Registrant and U.S. Bank National Association, as Trustee(35)

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- 10.56 Form of 5.900% Prospect Capital InterNote® due 2019 (included as part of Exhibit 10.55)(35)
- 10.57 Nineteenth Supplemental Indenture dated as of September 27, 2012, to the Indenture dated as of February 16, 2012, as amended by that certain Agreement of Resignation, Appointment and Acceptance dated as of March 12, 2012, by and among the Registrant, American Stock Transfer & Trust Company, LLC, as Retiring Trustee, and U.S. Bank National Association, as Successor Trustee, by and between the Registrant and U.S. Bank National Association, as Trustee(36)
- 10.58 Form of 5.850% Prospect Capital InterNote® due 2019 (included as part of Exhibit 10.57)(36)
- 10.59 Twentieth Supplemental Indenture dated as of October 4, 2012, to the Indenture dated as of February 16, 2012, as amended by that certain Agreement of Resignation, Appointment and Acceptance dated as of March 12, 2012, by and among the Registrant, American Stock Transfer & Trust Company, LLC, as Retiring Trustee, and U.S. Bank National Association, as Successor Trustee, by and between the Registrant and U.S. Bank National Association, as Trustee(37)
- 10.60 Form of 5.700% Prospect Capital InterNote® due 2019 (included as part of Exhibit 10.59)(37)
- 10.61 Twenty-First Supplemental Indenture dated as of November 23, 2012, to the Indenture dated as of February 16, 2012, as amended by that certain Agreement of Resignation, Appointment and Acceptance dated as of March 12, 2012, by and among the Registrant, American Stock Transfer & Trust Company, LLC, as Retiring Trustee, and U.S. Bank National Association, as Successor Trustee, by and between the Registrant and U.S. Bank National Association, as Trustee(38)
- 10.62 Form of 5.125% Prospect Capital InterNote® due 2019 (included as part of Exhibit 10.61)(38)
- 10.63 Twenty-Second Supplemental Indenture dated as of November 23, 2012, to the Indenture dated as of February 16, 2012, as amended by that certain Agreement of Resignation, Appointment and Acceptance dated as of March 12, 2012, by and among the Registrant, American Stock Transfer & Trust Company, LLC, as Retiring Trustee, and U.S. Bank National Association, as Successor Trustee, by and between the Registrant and U.S. Bank National Association, as Trustee(38)
- 10.64 Form of 6.625% Prospect Capital InterNote® due 2042 (included as part of Exhibit 10.63)(38)
- 10.65 Twenty-Third Supplemental Indenture dated as of November 29, 2012, to the Indenture dated as of February 16, 2012, as amended by that certain Agreement of Resignation, Appointment and Acceptance dated as of March 12, 2012, by and among the Registrant, American Stock Transfer & Trust Company, LLC, as Retiring Trustee, and U.S. Bank National Association, as Successor Trustee, by and between the Registrant and U.S. Bank National Association, as Trustee(39)
- 10.66 Form of 5.000% Prospect Capital InterNote® due 2019 (included as part of Exhibit 10.65)(39)
- 10.67 Twenty-Fourth Supplemental Indenture dated as of November 29, 2012, to the Indenture dated as of February 16, 2012, as amended by that certain Agreement of Resignation, Appointment and Acceptance dated as of March 12, 2012, by and among the Registrant, American Stock Transfer & Trust Company, LLC, as Retiring Trustee, and U.S. Bank National Association, as Successor Trustee, by and between the Registrant and U.S. Bank National Association, as Trustee(39)
- 10.68 Form of 5.750% Prospect Capital InterNote® due 2032 (included as part of Exhibit 10.67)(39)

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- 10.69 Twenty-Fifth Supplemental Indenture dated as of November 29, 2012, to the Indenture dated as of February 16, 2012, as amended by that certain Agreement of Resignation, Appointment and Acceptance dated as of March 12, 2012, by and among the Registrant, American Stock Transfer & Trust Company, LLC, as Retiring Trustee, and U.S. Bank National Association, as Successor Trustee, by and between the Registrant and U.S. Bank National Association, as Trustee(39)
- 10.70 Form of 6.500% Prospect Capital InterNote® due 2042 (included as part of Exhibit 10.69)(39)
- 10.71 Twenty-Sixth Supplemental Indenture dated as of December 6, 2012, to the Indenture dated as of February 16, 2012, as amended by that certain Agreement of Resignation, Appointment and Acceptance dated as of March 12, 2012, by and among the Registrant, American Stock Transfer & Trust Company, LLC, as Retiring Trustee, and U.S. Bank National Association, as Successor Trustee, by and between the Registrant and U.S. Bank National Association, as Trustee(40)
- 10.72 Form of 4.875% Prospect Capital InterNote® due 2019 (included as part of Exhibit 10.71)(40)
- 10.73 Twenty-Seventh Supplemental Indenture dated as of December 6, 2012, to the Indenture dated as of February 16, 2012, as amended by that certain Agreement of Resignation, Appointment and Acceptance dated as of March 12, 2012, by and among the Registrant, American Stock Transfer & Trust Company, LLC, as Retiring Trustee, and U.S. Bank National Association, as Successor Trustee, by and between the Registrant and U.S. Bank National Association, as Trustee(40)
- 10.74 Form of 5.625% Prospect Capital InterNote® due 2032 (included as part of Exhibit 10.73)(40)
- 10.75 Twenty-Eighth Supplemental Indenture dated as of December 6, 2012, to the Indenture dated as of February 16, 2012, as amended by that certain Agreement of Resignation, Appointment and Acceptance dated as of March 12, 2012, by and among the Registrant, American Stock Transfer & Trust Company, LLC, as Retiring Trustee, and U.S. Bank National Association, as Successor Trustee, by and between the Registrant and U.S. Bank National Association, as Trustee(40)
- 10.76 Form of 6.375% Prospect Capital InterNote® due 2042 (included as part of Exhibit 10.75)(40)
- 10.77 Twenty-Ninth Supplemental Indenture dated as of December 13, 2012, to the Indenture dated as of February 16, 2012, as amended by that certain Agreement of Resignation, Appointment and Acceptance dated as of March 12, 2012, by and among the Registrant, American Stock Transfer & Trust Company, LLC, as Retiring Trustee, and U.S. Bank National Association, as Successor Trustee, by and between the Registrant and U.S. Bank National Association, as Trustee(41)
- 10.78 Form of 4.750% Prospect Capital InterNote® due 2019 (included as part of Exhibit 10.77)(41)
- 10.79 Thirtieth Supplemental Indenture dated as of December 13, 2012, to the Indenture dated as of February 16, 2012, as amended by that certain Agreement of Resignation, Appointment and Acceptance dated as of March 12, 2012, by and among the Registrant, American Stock Transfer & Trust Company, LLC, as Retiring Trustee, and U.S. Bank National Association, as Successor Trustee, by and between the Registrant and U.S. Bank National Association, as Trustee(41)
- 10.80 Form of 5.250% Prospect Capital InterNote® due 2030 (included as part of Exhibit 10.79)(41)

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- 10.81 Thirty-First Supplemental Indenture dated as of December 13, 2012, to the Indenture dated as of February 16, 2012, as amended by that certain Agreement of Resignation, Appointment and Acceptance dated as of March 12, 2012, by and among the Registrant, American Stock Transfer & Trust Company, LLC, as Retiring Trustee, and U.S. Bank National Association, as Successor Trustee, by and between the Registrant and U.S. Bank National Association, as Trustee(41)
- 10.82 Form of 6.250% Prospect Capital InterNote® due 2042 (included as part of Exhibit 10.81)(41)
- 10.83 Thirty-Second Supplemental Indenture dated as of December 20, 2012, to the Indenture dated as of February 16, 2012, as amended by that certain Agreement of Resignation, Appointment and Acceptance dated as of March 12, 2012, by and among the Registrant, American Stock Transfer & Trust Company, LLC, as Retiring Trustee, and U.S. Bank National Association, as Successor Trustee, by and between the Registrant and U.S. Bank National Association, as Trustee(42)
- 10.84 Form of 4.625% Prospect Capital InterNote® due 2019 (included as part of Exhibit 10.83)(42)
- 10.85 Thirty-Third Supplemental Indenture dated as of December 20, 2012, to the Indenture dated as of February 16, 2012, as amended by that certain Agreement of Resignation, Appointment and Acceptance dated as of March 12, 2012, by and among the Registrant, American Stock Transfer & Trust Company, LLC, as Retiring Trustee, and U.S. Bank National Association, as Successor Trustee, by and between the Registrant and U.S. Bank National Association, as Trustee(42)
- 10.86 Form of 5.125% Prospect Capital InterNote® due 2030 (included as part of Exhibit 10.85)(42)
- 10.87 Thirty-Fourth Supplemental Indenture dated as of December 20, 2012, to the Indenture dated as of February 16, 2012, as amended by that certain Agreement of Resignation, Appointment and Acceptance dated as of March 12, 2012, by and among the Registrant, American Stock Transfer & Trust Company, LLC, as Retiring Trustee, and U.S. Bank National Association, as Successor Trustee, by and between the Registrant and U.S. Bank National Association, as Trustee(42)
- 10.88 Form of 6.125% Prospect Capital InterNote® due 2042 (included as part of Exhibit 10.87)(42)
- 10.89 Indenture dated as of December 21, 2012, by and between the Registrant and American Stock Transfer & Trust Company, as Trustee(43)
- 10.90 Form of Global Note 5.875% Convertible Senior Note Due 2019(44)
- 10.91 Thirty-Fifth Supplemental Indenture dated as of December 28, 2012, to the Indenture dated as of February 16, 2012, as amended by that certain Agreement of Resignation, Appointment and Acceptance dated as of March 12, 2012, by and among the Registrant, American Stock Transfer & Trust Company, LLC, as Retiring Trustee, and U.S. Bank National Association, as Successor Trustee, by and between the Registrant and U.S. Bank National Association, as Trustee(45)
- 10.92 Form of 4.500% Prospect Capital InterNote® due 2019 (included as part of Exhibit 10.91)(45)
- 10.93 Thirty-Sixth Supplemental Indenture dated as of December 28, 2012, to the Indenture dated as of February 16, 2012, as amended by that certain Agreement of Resignation, Appointment and Acceptance dated as of March 12, 2012, by and among the Registrant, American Stock Transfer & Trust Company, LLC, as Retiring Trustee, and U.S. Bank National Association, as Successor Trustee, by and between the Registrant and U.S. Bank National Association, as Trustee(45)

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- 10.94 Form of 5.000% Prospect Capital InterNote® due 2030 (included as part of Exhibit 10.93)(45)
- 10.95 Thirty-Seventh Supplemental Indenture dated as of December 28, 2012, to the Indenture dated as of February 16, 2012, as amended by that certain Agreement of Resignation, Appointment and Acceptance dated as of March 12, 2012, by and among the Registrant, American Stock Transfer & Trust Company, LLC, as Retiring Trustee, and U.S. Bank National Association, as Successor Trustee, by and between the Registrant and U.S. Bank National Association, as Trustee(45)
- 10.96 Form of 6.000% Prospect Capital InterNote® due 2042 (included as part of Exhibit 10.95)(45)
- 10.97 Thirty-Eighth Supplemental Indenture dated as of January 4, 2013, to the Indenture dated as of February 16, 2012, as amended by that certain Agreement of Resignation, Appointment and Acceptance dated as of March 12, 2012, by and among the Registrant, American Stock Transfer & Trust Company, LLC, as Retiring Trustee, and U.S. Bank National Association, as Successor Trustee, by and between the Registrant and U.S. Bank National Association, as Trustee(46)
- 10.98 Form of 4.375% Prospect Capital InterNote® due 2020 (included as part of Exhibit 10.97)(46)
- 10.99 Thirty-Ninth Supplemental Indenture dated as of January 4, 2013, to the Indenture dated as of February 16, 2012, as amended by that certain Agreement of Resignation, Appointment and Acceptance dated as of March 12, 2012, by and among the Registrant, American Stock Transfer & Trust Company, LLC, as Retiring Trustee, and U.S. Bank National Association, as Successor Trustee, by and between the Registrant and U.S. Bank National Association, as Trustee(46)
- 10.100 Form of 4.875% Prospect Capital InterNote® due 2031 (included as part of Exhibit 10.99)(46)
- 10.101 Fortieth Supplemental Indenture dated as of January 4, 2013, to the Indenture dated as of February 16, 2012, as amended by that certain Agreement of Resignation, Appointment and Acceptance dated as of March 12, 2012, by and among the Registrant, American Stock Transfer & Trust Company, LLC, as Retiring Trustee, and U.S. Bank National Association, as Successor Trustee, by and between the Registrant and U.S. Bank National Association, as Trustee(46)
- 10.102 Form of 5.875% Prospect Capital InterNote® due 2043 (included as part of Exhibit 10.101)(46)
- 10.103 Forty-First Supplemental Indenture dated as of January 10, 2013, to the Indenture dated as of February 16, 2012, as amended by that certain Agreement of Resignation, Appointment and Acceptance dated as of March 12, 2012, by and among the Registrant, American Stock Transfer & Trust Company, LLC, as Retiring Trustee, and U.S. Bank National Association, as Successor Trustee, by and between the Registrant and U.S. Bank National Association, as Trustee(47)
- 10.104 Form of 4.250% Prospect Capital InterNote® due 2020 (included as part of Exhibit 10.103)(47)
- 10.105 Forty-Second Supplemental Indenture dated as of January 10, 2013, to the Indenture dated as of February 16, 2012, as amended by that certain Agreement of Resignation, Appointment and Acceptance dated as of March 12, 2012, by and among the Registrant, American Stock Transfer & Trust Company, LLC, as Retiring Trustee, and U.S. Bank National Association, as Successor Trustee, by and between the Registrant and U.S. Bank National Association, as Trustee(47)

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- 10.106 Form of 4.750% Prospect Capital InterNote® due 2031 (included as part of Exhibit 10.105)(47)
- 10.107 Forty-Third Supplemental Indenture dated as of January 10, 2013, to the Indenture dated as of February 16, 2012, as amended by that certain Agreement of Resignation, Appointment and Acceptance dated as of March 12, 2012, by and among the Registrant, American Stock Transfer & Trust Company, LLC, as Retiring Trustee, and U.S. Bank National Association, as Successor Trustee, by and between the Registrant and U.S. Bank National Association, as Trustee(47)
- 10.108 Form of 5.750% Prospect Capital InterNote® due 2043 (included as part of Exhibit 10.107)(47)
- 10.109 Forty-Fourth Supplemental Indenture dated as of January 17, 2013, to the Indenture dated as of February 16, 2012, as amended by that certain Agreement of Resignation, Appointment and Acceptance dated as of March 12, 2012, by and among the Registrant, American Stock Transfer & Trust Company, LLC, as Retiring Trustee, and U.S. Bank National Association, as Successor Trustee, by and between the Registrant and U.S. Bank National Association, as Trustee(48)
- 10.110 Form of 4.125% Prospect Capital InterNote® due 2020 (included as part of Exhibit 10.109)(48)
- 10.111 Forty-Fifth Supplemental Indenture dated as of January 17, 2013, to the Indenture dated as of February 16, 2012, as amended by that certain Agreement of Resignation, Appointment and Acceptance dated as of March 12, 2012, by and among the Registrant, American Stock Transfer & Trust Company, LLC, as Retiring Trustee, and U.S. Bank National Association, as Successor Trustee, by and between the Registrant and U.S. Bank National Association, as Trustee(48)
- 10.112 Form of 4.625% Prospect Capital InterNote® due 2031 (included as part of Exhibit 10.111)(48)
- 10.113 Forty-Sixth Supplemental Indenture dated as of January 17, 2013, to the Indenture dated as of February 16, 2012, as amended by that certain Agreement of Resignation, Appointment and Acceptance dated as of March 12, 2012, by and among the Registrant, American Stock Transfer & Trust Company, LLC, as Retiring Trustee, and U.S. Bank National Association, as Successor Trustee, by and between the Registrant and U.S. Bank National Association, as Trustee(48)
- 10.114 Form of 5.625% Prospect Capital InterNote® due 2043 (included as part of Exhibit 10.113)(48)
- 10.115 Custody Agreement, dated as of January 23, 2013 by and between the Registrant and U.S. Bank National Association(60)
- 10.116 Forty-Seventh Supplemental Indenture dated as of January 25, 2013, to the Indenture dated as of February 16, 2012, as amended by that certain Agreement of Resignation, Appointment and Acceptance dated as of March 12, 2012, by and among the Registrant, American Stock Transfer & Trust Company, LLC, as Retiring Trustee, and U.S. Bank National Association, as Successor Trustee, by and between the Registrant and U.S. Bank National Association, as Trustee(49)
- 10.117 Form of 4.000% Prospect Capital InterNote® due 2020 (included as part of Exhibit 10.116)(49)

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- 10.118 Forty-Eighth Supplemental Indenture dated as of January 25, 2013, to the Indenture dated as of February 16, 2012, as amended by that certain Agreement of Resignation, Appointment and Acceptance dated as of March 12, 2012, by and among the Registrant, American Stock Transfer & Trust Company, LLC, as Retiring Trustee, and U.S. Bank National Association, as Successor Trustee, by and between the Registrant and U.S. Bank National Association, as Trustee(49)
- 10.119 Form of 4.500% Prospect Capital InterNote® due 2031 (included as part of Exhibit 10.118)(49)
- 10.120 Forty-Ninth Supplemental Indenture dated as of January 25, 2013, to the Indenture dated as of February 16, 2012, as amended by that certain Agreement of Resignation, Appointment and Acceptance dated as of March 12, 2012, by and among the Registrant, American Stock Transfer & Trust Company, LLC, as Retiring Trustee, and U.S. Bank National Association, as Successor Trustee, by and between the Registrant and U.S. Bank National Association, as Trustee(49)
- 10.121 Form of 5.500% Prospect Capital InterNote® due 2043 (included as part of Exhibit 10.120)(49)
- 10.122 Fiftieth Supplemental Indenture dated as of January 31, 2013, to the Indenture dated as of February 16, 2012, as amended by that certain Agreement of Resignation, Appointment and Acceptance dated as of March 12, 2012, by and among the Registrant, American Stock Transfer & Trust Company, LLC, as Retiring Trustee, and U.S. Bank National Association, as Successor Trustee, by and between the Registrant and U.S. Bank National Association, as Trustee(50)
- 10.123 Form of 4.000% Prospect Capital InterNote® due 2020 (included as part of Exhibit 10.122)(50)
- 10.124 Fifty-First Supplemental Indenture dated as of January 31, 2013, to the Indenture dated as of February 16, 2012, as amended by that certain Agreement of Resignation, Appointment and Acceptance dated as of March 12, 2012, by and among the Registrant, American Stock Transfer & Trust Company, LLC, as Retiring Trustee, and U.S. Bank National Association, as Successor Trustee, by and between the Registrant and U.S. Bank National Association, as Trustee(50)
- 10.125 Form of 4.500% Prospect Capital InterNote® due 2031 (included as part of Exhibit 10.124)(50)
- 10.126 Fifty-Second Supplemental Indenture dated as of January 31, 2013, to the Indenture dated as of February 16, 2012, as amended by that certain Agreement of Resignation, Appointment and Acceptance dated as of March 12, 2012, by and among the Registrant, American Stock Transfer & Trust Company, LLC, as Retiring Trustee, and U.S. Bank National Association, as Successor Trustee, by and between the Registrant and U.S. Bank National Association, as Trustee(50)
- 10.127 Form of 5.500% Prospect Capital InterNote® due 2043 (included as part of Exhibit 10.126)(50)
- 10.128 Fifty-Third Supplemental Indenture dated as of February 7, 2013, to the Indenture dated as of February 16, 2012, as amended by that certain Agreement of Resignation, Appointment and Acceptance dated as of March 12, 2012, by and among the Registrant, American Stock Transfer & Trust Company, LLC, as Retiring Trustee, and U.S. Bank National Association, as Successor Trustee, by and between the Registrant and U.S. Bank National Association, as Trustee(51)

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- 10.129 Form of 4.000% Prospect Capital InterNote® due 2020 (included as part of Exhibit 10.128)(51)
- 10.130 Fifty-Fourth Supplemental Indenture dated as of February 7, 2013, to the Indenture dated as of February 16, 2012, as amended by that certain Agreement of Resignation, Appointment and Acceptance dated as of March 12, 2012, by and among the Registrant, American Stock Transfer & Trust Company, LLC, as Retiring Trustee, and U.S. Bank National Association, as Successor Trustee, by and between the Registrant and U.S. Bank National Association, as Trustee(51)
- 10.131 Form of 4.500% Prospect Capital InterNote® due 2031 (included as part of Exhibit 10.130)(51)
- 10.132 Fifty-Fifth Supplemental Indenture dated as of February 7, 2013, to the Indenture dated as of February 16, 2012, as amended by that certain Agreement of Resignation, Appointment and Acceptance dated as of March 12, 2012, by and among the Registrant, American Stock Transfer & Trust Company, LLC, as Retiring Trustee, and U.S. Bank National Association, as Successor Trustee, by and between the Registrant and U.S. Bank National Association, as Trustee(51)
- 10.133 Form of 5.500% Prospect Capital InterNote® due 2043 (included as part of Exhibit 10.132)(51)
- 10.134 Fifty-Sixth Supplemental Indenture dated as of February 22, 2013, to the Indenture dated as of February 16, 2012, as amended by that certain Agreement of Resignation, Appointment and Acceptance dated as of March 12, 2012, by and among the Registrant, American Stock Transfer & Trust Company, LLC, as Retiring Trustee, and U.S. Bank National Association, as Successor Trustee, by and between the Registrant and U.S. Bank National Association, as Trustee(52)
- 10.135 Form of 4.000% Prospect Capital InterNote® due 2020 (included as part of Exhibit 10.134)(52)
- 10.136 Fifty-Seventh Supplemental Indenture dated as of February 22, 2013, to the Indenture dated as of February 16, 2012, as amended by that certain Agreement of Resignation, Appointment and Acceptance dated as of March 12, 2012, by and among the Registrant, American Stock Transfer & Trust Company, LLC, as Retiring Trustee, and U.S. Bank National Association, as Successor Trustee, by and between the Registrant and U.S. Bank National Association, as Trustee(52)
- 10.137 Form of 4.500% Prospect Capital InterNote® due 2031 (included as part of Exhibit 10.136)(52)
- 10.138 Fifty-Eighth Supplemental Indenture dated as of February 22, 2013, to the Indenture dated as of February 16, 2012, as amended by that certain Agreement of Resignation, Appointment and Acceptance dated as of March 12, 2012, by and among the Registrant, American Stock Transfer & Trust Company, LLC, as Retiring Trustee, and U.S. Bank National Association, as Successor Trustee, by and between the Registrant and U.S. Bank National Association, as Trustee(52)
- 10.139 Form of 5.500% Prospect Capital InterNote® due 2043 (included as part of Exhibit 10.138)(52)

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- 10.140 Fifty-Ninth Supplemental Indenture dated as of February 28, 2013, to the Indenture dated as of February 16, 2012, as amended by that certain Agreement of Resignation, Appointment and Acceptance dated as of March 12, 2012, by and among the Registrant, American Stock Transfer & Trust Company, LLC, as Retiring Trustee, and U.S. Bank National Association, as Successor Trustee, by and between the Registrant and U.S. Bank National Association, as Trustee(53)
- 10.141 Form of 4.000% Prospect Capital InterNote® due 2020 (included as part of Exhibit 10.140)(53)
- 10.142 Sixtieth Supplemental Indenture dated as of February 28, 2013, to the Indenture dated as of February 16, 2012, as amended by that certain Agreement of Resignation, Appointment and Acceptance dated as of March 12, 2012, by and among the Registrant, American Stock Transfer & Trust Company, LLC, as Retiring Trustee, and U.S. Bank National Association, as Successor Trustee, by and between the Registrant and U.S. Bank National Association, as Trustee(53)
- 10.143 Form of 4.500% Prospect Capital InterNote® due 2031 (included as part of Exhibit 10.142)(53)
- 10.144 Sixty-First Supplemental Indenture dated as of February 28, 2013, to the Indenture dated as of February 16, 2012, as amended by that certain Agreement of Resignation, Appointment and Acceptance dated as of March 12, 2012, by and among the Registrant, American Stock Transfer & Trust Company, LLC, as Retiring Trustee, and U.S. Bank National Association, as Successor Trustee, by and between the Registrant and U.S. Bank National Association, as Trustee(53)
- 10.145 Form of 5.500% Prospect Capital InterNote® due 2043 (included as part of Exhibit 10.144)(53)
- 10.146 Sixty-Second Supplemental Indenture dated as of March 7, 2013, to the Indenture dated as of February 16, 2012, as amended by that certain Agreement of Resignation, Appointment and Acceptance dated as of March 12, 2012, by and among the Registrant, American Stock Transfer & Trust Company, LLC, as Retiring Trustee, and U.S. Bank National Association, as Successor Trustee, by and between the Registrant and U.S. Bank National Association, as Trustee(54)
- 10.147 Form of 4.000% Prospect Capital InterNote® due 2020 (included as part of Exhibit 10.146)(54)
- 10.148 Sixty-Third Supplemental Indenture dated as of March 7, 2013, to the Indenture dated as of February 16, 2012, as amended by that certain Agreement of Resignation, Appointment and Acceptance dated as of March 12, 2012, by and among the Registrant, American Stock Transfer & Trust Company, LLC, as Retiring Trustee, and U.S. Bank National Association, as Successor Trustee, by and between the Registrant and U.S. Bank National Association, as Trustee(54)
- 10.149 Form of 4.500% Prospect Capital InterNote® due 2031 (included as part of Exhibit 10.148)(54)
- 10.150 Sixty-Fourth Supplemental Indenture dated as of March 7, 2013, to the Indenture dated as of February 16, 2012, as amended by that certain Agreement of Resignation, Appointment and Acceptance dated as of March 12, 2012, by and among the Registrant, American Stock Transfer & Trust Company, LLC, as Retiring Trustee, and U.S. Bank National Association, as Successor Trustee, by and between the Registrant and U.S. Bank National Association, as Trustee(54)

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- 10.151 Form of 5.500% Prospect Capital InterNote® due 2043 (included as part of Exhibit 10.150)(54)
- 10.152 Sixty-Fifth Supplemental Indenture dated as of March 14, 2013, to the Indenture dated as of February 16, 2012, as amended by that certain Agreement of Resignation, Appointment and Acceptance dated as of March 12, 2012, by and among the Registrant, American Stock Transfer & Trust Company, LLC, as Retiring Trustee, and U.S. Bank National Association, as Successor Trustee, by and between the Registrant and U.S. Bank National Association, as Trustee(55)
- 10.153 Form of 4.000% Prospect Capital InterNote® due 2020 (included as part of Exhibit 10.152)(55)
- 10.154 Sixty-Sixth Supplemental Indenture dated as of March 14, 2013, to the Indenture dated as of February 16, 2012, as amended by that certain Agreement of Resignation, Appointment and Acceptance dated as of March 12, 2012, by and among the Registrant, American Stock Transfer & Trust Company, LLC, as Retiring Trustee, and U.S. Bank National Association, as Successor Trustee, by and between the Registrant and U.S. Bank National Association, as Trustee(55)
- 10.155 Form of 4.125% to 6.000% Prospect Capital InterNote® due 2031 (included as part of Exhibit 10.154)(55)
- 10.156 Sixty-Seventh Supplemental Indenture dated as of March 14, 2013, to the Indenture dated as of February 16, 2012, as amended by that certain Agreement of Resignation, Appointment and Acceptance dated as of March 12, 2012, by and among the Registrant, American Stock Transfer & Trust Company, LLC, as Retiring Trustee, and U.S. Bank National Association, as Successor Trustee, by and between the Registrant and U.S. Bank National Association, as Trustee(55)
- 10.157 Form of 5.500% Prospect Capital InterNote® due 2043 (included as part of Exhibit 10.156)(55)
- 10.158 Sixty-Eighth Supplemental Indenture dated as of March 14, 2013, to the Indenture dated as of February 16, 2012, as amended by that certain Agreement of Resignation, Appointment and Acceptance dated as of March 12, 2012, by and among the Registrant, American Stock Transfer & Trust Company, LLC, as Retiring Trustee, and U.S. Bank National Association, as Successor Trustee, by and between the Registrant and U.S. Bank National Association, as Trustee(55)
- 10.159 Form of Floating Prospect Capital InterNote® due 2023 (included as part of Exhibit 10.158)(55)
- 10.160 Supplemental Indenture dated as of March 15, 2013, to the Indenture dated as of February 16, 2012, as amended by that certain Agreement of Resignation, Appointment and Acceptance dated as of March 12, 2012, by and among the Registrant, American Stock Transfer & Trust Company, LLC, as Retiring Trustee, and U.S. Bank National Association, as Successor Trustee, by and between the Registrant and U.S. Bank National Association, as Trustee(56)
- 10.161 Form of Global Note 5.875% Senior Note due 2023(57)

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- 10.162 Sixty-Ninth Supplemental Indenture dated as of March 21, 2013, to the Indenture dated as of February 16, 2012, as amended by that certain Agreement of Resignation, Appointment and Acceptance dated as of March 12, 2012, by and among the Registrant, American Stock Transfer & Trust Company, LLC, as Retiring Trustee, and U.S. Bank National Association, as Successor Trustee, by and between the Registrant and U.S. Bank National Association, as Trustee(58)
- 10.163 Form of 4.000% Prospect Capital InterNote® due 2020 (included as part of Exhibit 10.162)(58)
- 10.164 Seventieth Supplemental Indenture dated as of March 21, 2013, to the Indenture dated as of February 16, 2012, as amended by that certain Agreement of Resignation, Appointment and Acceptance dated as of March 12, 2012, by and among the Registrant, American Stock Transfer & Trust Company, LLC, as Retiring Trustee, and U.S. Bank National Association, as Successor Trustee, by and between the Registrant and U.S. Bank National Association, as Trustee(58)
- 10.165 Form of 4.125% to 6.000% Prospect Capital InterNote® due 2031 (included as part of Exhibit 10.164)(58)
- 10.166 Seventy-First Supplemental Indenture dated as of March 21, 2013, to the Indenture dated as of February 16, 2012, as amended by that certain Agreement of Resignation, Appointment and Acceptance dated as of March 12, 2012, by and among the Registrant, American Stock Transfer & Trust Company, LLC, as Retiring Trustee, and U.S. Bank National Association, as Successor Trustee, by and between the Registrant and U.S. Bank National Association, as Trustee(58)
- 10.167 Form of 5.500% Prospect Capital InterNote® due 2043 (included as part of Exhibit 10.166)(58)
- 10.168 Seventy-Second Supplemental Indenture dated as of March 21, 2013, to the Indenture dated as of February 16, 2012, as amended by that certain Agreement of Resignation, Appointment and Acceptance dated as of March 12, 2012, by and among the Registrant, American Stock Transfer & Trust Company, LLC, as Retiring Trustee, and U.S. Bank National Association, as Successor Trustee, by and between the Registrant and U.S. Bank National Association, as Trustee(58)
- 10.169 Form of Floating Prospect Capital InterNote® due 2023 (included as part of Exhibit 10.168)(58)
- 10.170 Seventy-Third Supplemental Indenture dated as of March 28, 2013, to the Indenture dated as of February 16, 2012, as amended by that certain Agreement of Resignation, Appointment and Acceptance dated as of March 12, 2012, by and among the Registrant, American Stock Transfer & Trust Company, LLC, as Retiring Trustee, and U.S. Bank National Association, as Successor Trustee, by and between the Registrant and U.S. Bank National Association, as Trustee(59)
- 10.171 Form of 4.000% Prospect Capital InterNote® due 2020 (included as part of Exhibit 10.170)(59)
- 10.172 Seventy-Fourth Supplemental Indenture dated as of March 28, 2013, to the Indenture dated as of February 16, 2012, as amended by that certain Agreement of Resignation, Appointment and Acceptance dated as of March 12, 2012, by and among the Registrant, American Stock Transfer & Trust Company, LLC, as Retiring Trustee, and U.S. Bank National Association, as Successor Trustee, by and between the Registrant and U.S. Bank National Association, as Trustee(59)

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- 10.173 Form of 4.125% to 6.000% Prospect Capital InterNote® due 2031 (included as part of Exhibit 10.172)(59)
- 10.174 Seventy-Fifth Supplemental Indenture dated as of March 28, 2013, to the Indenture dated as of February 16, 2012, as amended by that certain Agreement of Resignation, Appointment and Acceptance dated as of March 12, 2012, by and among the Registrant, American Stock Transfer & Trust Company, LLC, as Retiring Trustee, and U.S. Bank National Association, as Successor Trustee, by and between the Registrant and U.S. Bank National Association, as Trustee(59)
- 10.175 Form of 5.500% Prospect Capital InterNote® due 2043 (included as part of Exhibit 10.174)(59)
- 10.176 Seventy-Sixth Supplemental Indenture dated as of March 28, 2013, to the Indenture dated as of February 16, 2012, as amended by that certain Agreement of Resignation, Appointment and Acceptance dated as of March 12, 2012, by and among the Registrant, American Stock Transfer & Trust Company, LLC, as Retiring Trustee, and U.S. Bank National Association, as Successor Trustee, by and between the Registrant and U.S. Bank National Association, as Trustee(59)
- 10.177 Form of Floating Prospect Capital InterNote® due 2023 (included as part of Exhibit 10.176)(59)
- 10.178 Seventy-Seventh Supplemental Indenture dated as of April 4, 2013, to the Indenture dated as of February 16, 2012, as amended by that certain Agreement of Resignation, Appointment and Acceptance dated as of March 12, 2012, by and among the Registrant, American Stock Transfer & Trust Company, LLC, as Retiring Trustee, and U.S. Bank National Association, as Successor Trustee, by and between the Registrant and U.S. Bank National Association, as Trustee(61)
- 10.179 Form of 4.000% Prospect Capital InterNote® due 2020 (included as part of Exhibit 10.178)(61)
- 10.180 Seventy-Eighth Supplemental Indenture dated as of April 4, 2013, to the Indenture dated as of February 16, 2012, as amended by that certain Agreement of Resignation, Appointment and Acceptance dated as of March 12, 2012, by and among the Registrant, American Stock Transfer & Trust Company, LLC, as Retiring Trustee, and U.S. Bank National Association, as Successor Trustee, by and between the Registrant and U.S. Bank National Association, as Trustee(61)
- 10.181 Form of 4.625% to 6.500% Prospect Capital InterNote® due 2031 (included as part of Exhibit 10.180)(61)
- 10.182 Seventy-Ninth Supplemental Indenture dated as of April 4, 2013, to the Indenture dated as of February 16, 2012, as amended by that certain Agreement of Resignation, Appointment and Acceptance dated as of March 12, 2012, by and among the Registrant, American Stock Transfer & Trust Company, LLC, as Retiring Trustee, and U.S. Bank National Association, as Successor Trustee, by and between the Registrant and U.S. Bank National Association, as Trustee(61)
- 10.183 Form of 5.500% Prospect Capital InterNote® due 2043 (included as part of Exhibit 10.182)(61)

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- 10.184 Eightieth Supplemental Indenture dated as of April 4, 2013, to the Indenture dated as of February 16, 2012, as amended by that certain Agreement of Resignation, Appointment and Acceptance dated as of March 12, 2012, by and among the Registrant, American Stock Transfer & Trust Company, LLC, as Retiring Trustee, and U.S. Bank National Association, as Successor Trustee, by and between the Registrant and U.S. Bank National Association, as Trustee(61)
- 10.185 Form of Floating Prospect Capital InterNote® due 2023 (included as part of Exhibit 10.184)(61)
- 10.186 Eighty-First Supplemental Indenture dated as of April 11, 2013, to the Indenture dated as of February 16, 2012, as amended by that certain Agreement of Resignation, Appointment and Acceptance dated as of March 12, 2012, by and among the Registrant, American Stock Transfer & Trust Company, LLC, as Retiring Trustee, and U.S. Bank National Association, as Successor Trustee, by and between the Registrant and U.S. Bank National Association, as Trustee(62)
- 10.187 Form of 4.500% Prospect Capital InterNote® due 2020 (included as part of Exhibit 10.186)(62)
- 10.188 Eighty-Second Supplemental Indenture dated as of April 11, 2013, to the Indenture dated as of February 16, 2012, as amended by that certain Agreement of Resignation, Appointment and Acceptance dated as of March 12, 2012, by and among the Registrant, American Stock Transfer & Trust Company, LLC, as Retiring Trustee, and U.S. Bank National Association, as Successor Trustee, by and between the Registrant and U.S. Bank National Association, as Trustee(62)
- 10.189 Form of 5.500% Prospect Capital InterNote® due 2031 (included as part of Exhibit 10.188)(62)
- 10.190 Eighty-Third Supplemental Indenture dated as of April 11, 2013, to the Indenture dated as of February 16, 2012, as amended by that certain Agreement of Resignation, Appointment and Acceptance dated as of March 12, 2012, by and among the Registrant, American Stock Transfer & Trust Company, LLC, as Retiring Trustee, and U.S. Bank National Association, as Successor Trustee, by and between the Registrant and U.S. Bank National Association, as Trustee(62)
- 10.191 Form of 6.000% Prospect Capital InterNote® due 2043 (included as part of Exhibit 10.190)(62)
- 10.192 Eighty-Fourth Supplemental Indenture dated as of April 11, 2013, to the Indenture dated as of February 16, 2012, as amended by that certain Agreement of Resignation, Appointment and Acceptance dated as of March 12, 2012, by and among the Registrant, American Stock Transfer & Trust Company, LLC, as Retiring Trustee, and U.S. Bank National Association, as Successor Trustee, by and between the Registrant and U.S. Bank National Association, as Trustee(62)
- 10.193 Form of Floating Prospect Capital InterNote® due 2023 (included as part of Exhibit 10.192)(62)
- 10.194 Eighty-Fifth Supplemental Indenture dated as of April 18, 2013, to the Indenture dated as of February 16, 2012, as amended by that certain Agreement of Resignation, Appointment and Acceptance dated as of March 12, 2012, by and among the Registrant, American Stock Transfer & Trust Company, LLC, as Retiring Trustee, and U.S. Bank National Association, as Successor Trustee, by and between the Registrant and U.S. Bank National Association, as Trustee(63)

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- 10.195 Form of 5.000% Prospect Capital InterNote® due 2020 (included as part of Exhibit 10.194)(63)
- 10.196 Eighty-Sixth Supplemental Indenture dated as of April 18, 2013, to the Indenture dated as of February 16, 2012, as amended by that certain Agreement of Resignation, Appointment and Acceptance dated as of March 12, 2012, by and among the Registrant, American Stock Transfer & Trust Company, LLC, as Retiring Trustee, and U.S. Bank National Association, as Successor Trustee, by and between the Registrant and U.S. Bank National Association, as Trustee(63)
- 10.197 Form of 5.500% Prospect Capital InterNote® due 2031 (included as part of Exhibit 10.196)(63)
- 10.198 Eighty-Seventh Supplemental Indenture dated as of April 18, 2013, to the Indenture dated as of February 16, 2012, as amended by that certain Agreement of Resignation, Appointment and Acceptance dated as of March 12, 2012, by and among the Registrant, American Stock Transfer & Trust Company, LLC, as Retiring Trustee, and U.S. Bank National Association, as Successor Trustee, by and between the Registrant and U.S. Bank National Association, as Trustee(63)
- 10.199 Form of 6.000% Prospect Capital InterNote® due 2043 (included as part of Exhibit 10.198)(63)
- 10.200 Eighty-Eighth Supplemental Indenture dated as of April 25, 2013, to the Indenture dated as of February 16, 2012, as amended by that certain Agreement of Resignation, Appointment and Acceptance dated as of March 12, 2012, by and among the Registrant, American Stock Transfer & Trust Company, LLC, as Retiring Trustee, and U.S. Bank National Association, as Successor Trustee, by and between the Registrant and U.S. Bank National Association, as Trustee(64)
- 10.201 Form of 5.000% Prospect Capital InterNote® due 2020 (included as part of Exhibit 10.200)(64)
- 10.202 Eighty-Ninth Supplemental Indenture dated as of April 25, 2013, to the Indenture dated as of February 16, 2012, as amended by that certain Agreement of Resignation, Appointment and Acceptance dated as of March 12, 2012, by and among the Registrant, American Stock Transfer & Trust Company, LLC, as Retiring Trustee, and U.S. Bank National Association, as Successor Trustee, by and between the Registrant and U.S. Bank National Association, as Trustee(64)
- 10.203 Form of 5.500% Prospect Capital InterNote® due 2031 (included as part of Exhibit 10.202)(64)
- 10.204 Ninetieth Supplemental Indenture dated as of April 25, 2013, to the Indenture dated as of February 16, 2012, as amended by that certain Agreement of Resignation, Appointment and Acceptance dated as of March 12, 2012, by and among the Registrant, American Stock Transfer & Trust Company, LLC, as Retiring Trustee, and U.S. Bank National Association, as Successor Trustee, by and between the Registrant and U.S. Bank National Association, as Trustee(64)
- 10.205 Form of 6.000% Prospect Capital InterNote® due 2043 (included as part of Exhibit 10.204)(64)

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- 10.206 Ninety-First Supplemental Indenture dated as of May 2, 2013, to the Indenture dated as of February 16, 2012, as amended by that certain Agreement of Resignation, Appointment and Acceptance dated as of March 12, 2012, by and among the Registrant, American Stock Transfer & Trust Company, LLC, as Retiring Trustee, and U.S. Bank National Association, as Successor Trustee, by and between the Registrant and U.S. Bank National Association, as Trustee(65)
- 10.207 Form of 5.000% Prospect Capital InterNote® due 2020 (included as part of Exhibit 10.206)(65)
- 10.208 Ninety-Second Supplemental Indenture dated as of May 2, 2013, to the Indenture dated as of February 16, 2012, as amended by that certain Agreement of Resignation, Appointment and Acceptance dated as of March 12, 2012, by and among the Registrant, American Stock Transfer & Trust Company, LLC, as Retiring Trustee, and U.S. Bank National Association, as Successor Trustee, by and between the Registrant and U.S. Bank National Association, as Trustee(65)
- 10.209 Form of 5.750% Prospect Capital InterNote® due 2031 (included as part of Exhibit 10.208)(65)
- 10.210 Ninety-Third Supplemental Indenture dated as of May 2, 2013, to the Indenture dated as of February 16, 2012, as amended by that certain Agreement of Resignation, Appointment and Acceptance dated as of March 12, 2012, by and among the Registrant, American Stock Transfer & Trust Company, LLC, as Retiring Trustee, and U.S. Bank National Association, as Successor Trustee, by and between the Registrant and U.S. Bank National Association, as Trustee(65)
- 10.211 Form of 6.250% Prospect Capital InterNote® due 2043 (included as part of Exhibit 10.210)(65)
- 10.212 Ninety-Fourth Supplemental Indenture dated as of May 9, 2013, to the Indenture dated as of February 16, 2012, as amended by that certain Agreement of Resignation, Appointment and Acceptance dated as of March 12, 2012, by and among the Registrant, American Stock Transfer & Trust Company, LLC, as Retiring Trustee, and U.S. Bank National Association, as Successor Trustee, by and between the Registrant and U.S. Bank National Association, as Trustee(66)
- 10.213 Form of 5.000% Prospect Capital InterNote® due 2020 (included as part of Exhibit 10.212)(66)
- 10.214 Ninety-Fifth Supplemental Indenture dated as of May 9, 2013, to the Indenture dated as of February 16, 2012, as amended by that certain Agreement of Resignation, Appointment and Acceptance dated as of March 12, 2012, by and among the Registrant, American Stock Transfer & Trust Company, LLC, as Retiring Trustee, and U.S. Bank National Association, as Successor Trustee, by and between the Registrant and U.S. Bank National Association, as Trustee(66)
- 10.215 Form of 5.750% Prospect Capital InterNote® due 2031 (included as part of Exhibit 10.214)(66)
- 10.216 Ninety-Sixth Supplemental Indenture dated as of May 9, 2013, to the Indenture dated as of February 16, 2012, as amended by that certain Agreement of Resignation, Appointment and Acceptance dated as of March 12, 2012, by and among the Registrant, American Stock Transfer & Trust Company, LLC, as Retiring Trustee, and U.S. Bank National Association, as Successor Trustee, by and between the Registrant and U.S. Bank National Association, as Trustee(66)

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- 10.217 Form of 6.250% Prospect Capital InterNote® due 2043 (included as part of Exhibit 10.216)(66)
- 10.218 Ninety-Seventh Supplemental Indenture dated as of May 23, 2013, to the Indenture dated as of February 16, 2012, as amended by that certain Agreement of Resignation, Appointment and Acceptance dated as of March 12, 2012, by and among the Registrant, American Stock Transfer & Trust Company, LLC, as Retiring Trustee, and U.S. Bank National Association, as Successor Trustee, by and between the Registrant and U.S. Bank National Association, as Trustee(67)
- 10.219 Form of 5.000% Prospect Capital InterNote® due 2020 (included as part of Exhibit 10.218)(67)
- 10.220 Ninety-Eighth Supplemental Indenture dated as of May 23, 2013, to the Indenture dated as of February 16, 2012, as amended by that certain Agreement of Resignation, Appointment and Acceptance dated as of March 12, 2012, by and among the Registrant, American Stock Transfer & Trust Company, LLC, as Retiring Trustee, and U.S. Bank National Association, as Successor Trustee, by and between the Registrant and U.S. Bank National Association, as Trustee(67)
- 10.221 Form of 5.750% Prospect Capital InterNote® due 2031 (included as part of Exhibit 10.220)(67)
- 10.222 Ninety-Ninth Supplemental Indenture dated as of May 23, 2013, to the Indenture dated as of February 16, 2012, as amended by that certain Agreement of Resignation, Appointment and Acceptance dated as of March 12, 2012, by and among the Registrant, American Stock Transfer & Trust Company, LLC, as Retiring Trustee, and U.S. Bank National Association, as Successor Trustee, by and between the Registrant and U.S. Bank National Association, as Trustee(67)
- 10.223 Form of 6.250% Prospect Capital InterNote® due 2043 (included as part of Exhibit 10.222)(67)
- 10.224 One Hundredth Supplemental Indenture dated as of May 23, 2013, to the Indenture dated as of February 16, 2012, as amended by that certain Agreement of Resignation, Appointment and Acceptance dated as of March 12, 2012, by and among the Registrant, American Stock Transfer & Trust Company, LLC, as Retiring Trustee, and U.S. Bank National Association, as Successor Trustee, by and between the Registrant and U.S. Bank National Association, as Trustee(67)
- 10.225 Form of 5.000% to 7.000% Prospect Capital InterNote® due 2028 (included as part of Exhibit 10.224)(67)
- 10.226 One Hundred-First Supplemental Indenture dated as of May 31, 2013, to the Indenture dated as of February 16, 2012, as amended by that certain Agreement of Resignation, Appointment and Acceptance dated as of March 12, 2012, by and among the Registrant, American Stock Transfer & Trust Company, LLC, as Retiring Trustee, and U.S. Bank National Association, as Successor Trustee, by and between the Registrant and U.S. Bank National Association, as Trustee(68)
- 10.227 Form of 5.000% Prospect Capital InterNote® due 2020 (included as part of Exhibit 10.226)(68)

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- 10.228 One Hundred-Second Supplemental Indenture dated as of May 31, 2013, to the Indenture dated as of February 16, 2012, as amended by that certain Agreement of Resignation, Appointment and Acceptance dated as of March 12, 2012, by and among the Registrant, American Stock Transfer & Trust Company, LLC, as Retiring Trustee, and U.S. Bank National Association, as Successor Trustee, by and between the Registrant and U.S. Bank National Association, as Trustee(68)
- 10.229 Form of 5.750% Prospect Capital InterNote® due 2031 (included as part of Exhibit 10.228)(68)
- 10.230 One Hundred-Third Supplemental Indenture dated as of May 31, 2013, to the Indenture dated as of February 16, 2012, as amended by that certain Agreement of Resignation, Appointment and Acceptance dated as of March 12, 2012, by and among the Registrant, American Stock Transfer & Trust Company, LLC, as Retiring Trustee, and U.S. Bank National Association, as Successor Trustee, by and between the Registrant and U.S. Bank National Association, as Trustee(68)
- 10.231 Form of 6.250% Prospect Capital InterNote® due 2043 (included as part of Exhibit 10.230)(68)
- 10.232 One Hundred-Fourth Supplemental Indenture dated as of June 6, 2013, to the Indenture dated as of February 16, 2012, as amended by that certain Agreement of Resignation, Appointment and Acceptance dated as of March 12, 2012, by and among the Registrant, American Stock Transfer & Trust Company, LLC, as Retiring Trustee, and U.S. Bank National Association, as Successor Trustee, by and between the Registrant and U.S. Bank National Association, as Trustee(69)
- 10.233 Form of 5.000% Prospect Capital InterNote® due 2020 (included as part of Exhibit 10.232)(69)
- 10.234 One Hundred-Fifth Supplemental Indenture dated as of June 6, 2013, to the Indenture dated as of February 16, 2012, as amended by that certain Agreement of Resignation, Appointment and Acceptance dated as of March 12, 2012, by and among the Registrant, American Stock Transfer & Trust Company, LLC, as Retiring Trustee, and U.S. Bank National Association, as Successor Trustee, by and between the Registrant and U.S. Bank National Association, as Trustee(69)
- 10.235 Form of 5.750% Prospect Capital InterNote® due 2031 (included as part of Exhibit 10.234)(69)
- 10.236 One Hundred-Sixth Supplemental Indenture dated as of June 6, 2013, to the Indenture dated as of February 16, 2012, as amended by that certain Agreement of Resignation, Appointment and Acceptance dated as of March 12, 2012, by and among the Registrant, American Stock Transfer & Trust Company, LLC, as Retiring Trustee, and U.S. Bank National Association, as Successor Trustee, by and between the Registrant and U.S. Bank National Association, as Trustee(69)
- 10.237 Form of 6.250% Prospect Capital InterNote® due 2043 (included as part of Exhibit 10.236)(69)
- 10.238 One Hundred-Seventh Supplemental Indenture dated as of June 6, 2013, to the Indenture dated as of February 16, 2012, as amended by that certain Agreement of Resignation, Appointment and Acceptance dated as of March 12, 2012, by and among the Registrant, American Stock Transfer & Trust Company, LLC, as Retiring Trustee, and U.S. Bank National Association, as Successor Trustee, by and between the Registrant and U.S. Bank National Association, as Trustee(69)

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- 10.239 Form of 5.000% to 7.000% Prospect Capital InterNote® due 2028 (included as part of Exhibit 10.238)(69)
- 10.240 One Hundred-Eighth Supplemental Indenture dated as of June 13, 2013, to the Indenture dated as of February 16, 2012, as amended by that certain Agreement of Resignation, Appointment and Acceptance dated as of March 12, 2012, by and among the Registrant, American Stock Transfer & Trust Company, LLC, as Retiring Trustee, and U.S. Bank National Association, as Successor Trustee, by and between the Registrant and U.S. Bank National Association, as Trustee(70)
- 10.241 Form of 5.000% Prospect Capital InterNote® due 2020 (included as part of Exhibit 10.240)(70)
- 10.242 One Hundred-Ninth Supplemental Indenture dated as of June 13, 2013, to the Indenture dated as of February 16, 2012, as amended by that certain Agreement of Resignation, Appointment and Acceptance dated as of March 12, 2012, by and among the Registrant, American Stock Transfer & Trust Company, LLC, as Retiring Trustee, and U.S. Bank National Association, as Successor Trustee, by and between the Registrant and U.S. Bank National Association, as Trustee(70)
- 10.243 Form of 5.750% Prospect Capital InterNote® due 2031 (included as part of Exhibit 10.242)(70)
- 10.244 One Hundred-Tenth Supplemental Indenture dated as of June 13, 2013, to the Indenture dated as of February 16, 2012, as amended by that certain Agreement of Resignation, Appointment and Acceptance dated as of March 12, 2012, by and among the Registrant, American Stock Transfer & Trust Company, LLC, as Retiring Trustee, and U.S. Bank National Association, as Successor Trustee, by and between the Registrant and U.S. Bank National Association, as Trustee(70)
- 10.245 Form of 6.250% Prospect Capital InterNote® due 2043 (included as part of Exhibit 10.244)(70)
- 10.246 One Hundred-Eleventh Supplemental Indenture dated as of June 20, 2013, to the Indenture dated as of February 16, 2012, as amended by that certain Agreement of Resignation, Appointment and Acceptance dated as of March 12, 2012, by and among the Registrant, American Stock Transfer & Trust Company, LLC, as Retiring Trustee, and U.S. Bank National Association, as Successor Trustee, by and between the Registrant and U.S. Bank National Association, as Trustee(71)
- 10.247 Form of 5.000% Prospect Capital InterNote® due 2020 (included as part of Exhibit 10.246)(71)
- 10.248 One Hundred-Twelfth Supplemental Indenture dated as of June 20, 2013, to the Indenture dated as of February 16, 2012, as amended by that certain Agreement of Resignation, Appointment and Acceptance dated as of March 12, 2012, by and among the Registrant, American Stock Transfer & Trust Company, LLC, as Retiring Trustee, and U.S. Bank National Association, as Successor Trustee, by and between the Registrant and U.S. Bank National Association, as Trustee(71)
- 10.249 Form of 5.750% Prospect Capital InterNote® due 2031 (included as part of Exhibit 10.248)(71)

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10.250	One Hundred-Thirteenth Supplemental Indenture dated as of June 20, 2013, to the Indenture dated as of February 16, 2012, as amended by that certain Agreement of Resignation, Appointment and Acceptance dated as of March 12, 2012, by and among the Registrant, American Stock Transfer & Trust Company, LLC, as Retiring Trustee, and U.S. Bank National Association, as Successor Trustee, by and between the Registrant and U.S. Bank National Association, as Trustee(71)
10.251	Form of 6.250% Prospect Capital InterNote® due 2043 (included as part of Exhibit 10.250)(71)
10.252	One Hundred-Fourteenth Supplemental Indenture dated as of June 27, 2013, to the Indenture dated as of February 16, 2012, as amended by that certain Agreement of Resignation, Appointment and Acceptance dated as of March 12, 2012, by and among the Registrant, American Stock Transfer & Trust Company, LLC, as Retiring Trustee, and U.S. Bank National Association, as Successor Trustee, by and between the Registrant and U.S. Bank National Association, as Trustee(72)
10.253	Form of 5.250% Prospect Capital InterNote® due 2020 (included as part of Exhibit 10.252)(72)
10.254	One Hundred-Fifteenth Supplemental Indenture dated as of June 27, 2013, to the Indenture dated as of February 16, 2012, as amended by that certain Agreement of Resignation, Appointment and Acceptance dated as of March 12, 2012, by and among the Registrant, American Stock Transfer & Trust Company, LLC, as Retiring Trustee, and U.S. Bank National Association, as Successor Trustee, by and between the Registrant and U.S. Bank National Association, as Trustee(72)
10.255	Form of 6.000% Prospect Capital InterNote® due 2031 (included as part of Exhibit 10.254)(72)
10.256	One Hundred-Sixteenth Supplemental Indenture dated as of June 27, 2013, to the Indenture dated as of February 16, 2012, as amended by that certain Agreement of Resignation, Appointment and Acceptance dated as of March 12, 2012, by and among the Registrant, American Stock Transfer & Trust Company, LLC, as Retiring Trustee, and U.S. Bank National Association, as Successor Trustee, by and between the Registrant and U.S. Bank National Association, as Trustee(72)
10.257	Form of 6.500% Prospect Capital InterNote® due 2043 (included as part of Exhibit 10.256)(72)
10.258	Custody Agreement, dated as of April 24, 2013 by and between the Registrant and Israel Discount Bank of New York Ltd.*
11	Computation of Per Share Earnings (included in the notes to the financial statements contained in this report)
12	Computation of Ratios (included in the notes to the financial statements contained in this report)
14	Code of Ethics*
21	Subsidiaries of the Registrant (included in the notes to the consolidated financial statements contained in this annual report)
22.1	Proxy Statement(73)
22.2	Published report regarding matters submitted to vote of security holders(74)

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- 31.1 Certification of Chief Executive Officer pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934, as amended*
 - 31.2 Certification of Chief Financial Officer pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934, as amended*
 - 32.1 Certification of Chief Executive Officer pursuant to Section 906 of The Sarbanes-Oxley Act of 2002 (18 U.S.C. 1350)*
 - 32.2 Certification of Chief Financial Officer pursuant to Section 906 of The Sarbanes-Oxley Act of 2002 (18 U.S.C. 1350)*
-

* Filed herewith.

- (1) Incorporated by reference to Exhibit 3.1 of the Registrant's Form 8-K filed on July 30, 2012.
- (2) Incorporated by reference to Exhibit 3.1 of the Registrant's Form 8-K filed on August 26, 2011.
- (3) Incorporated by reference from Pre-Effective Amendment No. 2 to the Registrant's Registration Statement, filed on July 6, 2004.
- (4) Incorporated by reference from Pre-Effective Amendment No. 3 to the Registrant's Registration Statement, filed on July 23, 2004.
- (5) Incorporated by reference to Exhibit 2.1 of the Registrant's Form 8-K filed on March 21, 2012.
- (6) Incorporated by reference to Exhibit 99.1 of the Registrant's Form 8-K filed on April 2, 2012.
- (7) Incorporated by reference to Exhibit 4.1 of the Registrant's Form 8-K filed on December 21, 2010.
- (8) Incorporated by reference to Exhibit 4.2 of the Registrant's Form 8-K filed on December 21, 2010.
- (9) Incorporated by reference to Exhibit 4.1 of the Registrant's Form 8-K filed on February 18, 2011.
- (10) Incorporated by reference to Exhibit 4.2 of the Registrant's Form 8-K filed on February 18, 2011.
- (11) Incorporated by reference from Post-Effective Amendment No. 1 to the Registrant's Registration Statement, filed on March 1, 2012.
- (12) Incorporated by reference from Post-Effective Amendment No. 2 to the Registrant's Registration Statement, filed on March 8, 2012.
- (13) Incorporated by reference from Post-Effective Amendment No. 3 to the Registrant's Registration Statement, filed on March 14, 2012.
- (14) Incorporated by reference from Post-Effective Amendment No. 5 to the Registrant's Registration Statement, filed on April 5, 2012.
- (15) Incorporated by reference from Post-Effective Amendment No. 6 to the Registrant's Registration Statement, filed on April 12, 2012.
- (16) Incorporated by reference to Exhibit 4.1 of the Registrant's Form 8-K filed on April 16, 2012.
- (17) Incorporated by reference to Exhibit 4.2 of the Registrant's Form 8-K filed on April 16, 2012.
- (18) Incorporated by reference from Post-Effective Amendment No. 8 to the Registrant's Registration Statement, filed on April 26, 2012.
- (19) Incorporated by reference to Exhibit 4.1 of the Registrant's Form 8-K filed on May 7, 2012.
- (20) Incorporated by reference to Exhibit 4.2 of the Registrant's Form 8-K filed on May 7, 2012.

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- (21) Incorporated by reference from Post-Effective Amendment No. 10 to the Registrant's Registration Statement, filed on June 14, 2012.
- (22) Incorporated by reference from Post-Effective Amendment No. 11 to the Registrant's Registration Statement, filed on June 28, 2012.
- (23) Incorporated by reference from Post-Effective Amendment No. 12 to the Registrant's Registration Statement, filed on July 6, 2012.
- (24) Incorporated by reference from Post-Effective Amendment No. 13 to the Registrant's Registration Statement, filed on July 12, 2012.
- (25) Incorporated by reference from Post-Effective Amendment No. 15 to the Registrant's Registration Statement, filed on July 19, 2012.
- (26) Incorporated by reference from Post-Effective Amendment No. 16 to the Registrant's Registration Statement, filed on July 26, 2012.
- (27) Incorporated by reference from Post-Effective Amendment No. 17 to the Registrant's Registration Statement, filed on August 2, 2012.
- (28) Incorporated by reference from Post-Effective Amendment No. 18 to the Registrant's Registration Statement, filed on August 9, 2012.
- (29) Incorporated by reference to Exhibit 4.1 of the Registrant's Form 8-K filed on August 14, 2012.
- (30) Incorporated by reference to Exhibit 4.2 of the Registrant's Form 8-K filed on August 14, 2012.
- (31) Incorporated by reference from Post-Effective Amendment No. 19 to the Registrant's Registration Statement, filed on August 16, 2012.
- (32) Incorporated by reference from Post-Effective Amendment No. 20 to the Registrant's Registration Statement, filed on August 23, 2012.
- (33) Incorporated by reference from Post-Effective Amendment No. 22 to the Registrant's Registration Statement, filed on September 7, 2012.
- (34) Incorporated by reference from Post-Effective Amendment No. 24 to the Registrant's Registration Statement, filed on September 13, 2012.
- (35) Incorporated by reference from Post-Effective Amendment No. 25 to the Registrant's Registration Statement, filed on September 20, 2012.
- (36) Incorporated by reference from Post-Effective Amendment No. 26 to the Registrant's Registration Statement, filed on September 27, 2012.
- (37) Incorporated by reference from Post-Effective Amendment No. 27 to the Registrant's Registration Statement, filed on October 4, 2012.
- (38) Incorporated by reference from Post-Effective Amendment No. 2 to the Registrant's Registration Statement, filed on November 23, 2012.
- (39) Incorporated by reference from Post-Effective Amendment No. 3 to the Registrant's Registration Statement, filed on November 29, 2012.
- (40) Incorporated by reference from Post-Effective Amendment No. 4 to the Registrant's Registration Statement, filed on December 6, 2012.
- (41) Incorporated by reference from Post-Effective Amendment No. 5 to the Registrant's Registration Statement, filed on December 13, 2012.

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- (42) Incorporated by reference from Post-Effective Amendment No. 6 to the Registrant's Registration Statement, filed on December 20, 2012.
- (43) Incorporated by reference to Exhibit 4.1 of the Registrant's Form 8-K filed on December 21, 2012.
- (44) Incorporated by reference to Exhibit 4.2 of the Registrant's Form 8-K filed on December 21, 2012.
- (45) Incorporated by reference from Post-Effective Amendment No. 8 to the Registrant's Registration Statement, filed on December 28, 2012.
- (46) Incorporated by reference from Post-Effective Amendment No. 9 to the Registrant's Registration Statement, filed on January 4, 2013.
- (47) Incorporated by reference from Post-Effective Amendment No. 10 to the Registrant's Registration Statement, filed on January 10, 2013.
- (48) Incorporated by reference from Post-Effective Amendment No. 11 to the Registrant's Registration Statement, filed on January 17, 2013.
- (49) Incorporated by reference from Post-Effective Amendment No. 12 to the Registrant's Registration Statement, filed on January 25, 2013.
- (50) Incorporated by reference from Post-Effective Amendment No. 13 to the Registrant's Registration Statement, filed on January 31, 2013.
- (51) Incorporated by reference from Post-Effective Amendment No. 14 to the Registrant's Registration Statement, filed on February 7, 2013.
- (52) Incorporated by reference from Post-Effective Amendment No. 16 to the Registrant's Registration Statement, filed on February 22, 2013.
- (53) Incorporated by reference from Post-Effective Amendment No. 17 to the Registrant's Registration Statement, filed on February 28, 2013.
- (54) Incorporated by reference from Post-Effective Amendment No. 18 to the Registrant's Registration Statement, filed on March 7, 2013.
- (55) Incorporated by reference from Post-Effective Amendment No. 19 to the Registrant's Registration Statement, filed on March 14, 2013.
- (56) Incorporated by reference to Exhibit 4.1 of the Registrant's Form 8-K filed on March 15, 2013.
- (57) Incorporated by reference to Exhibit 4.2 of the Registrant's Form 8-K filed on March 15, 2013.
- (58) Incorporated by reference from Post-Effective Amendment No. 21 to the Registrant's Registration Statement, filed on March 21, 2013.
- (59) Incorporated by reference from Post-Effective Amendment No. 22 to the Registrant's Registration Statement, filed on March 28, 2013.
- (60) Incorporated by reference from the Registrant's Quarterly Report on Form 10-Q filed on May 6, 2013.
- (61) Incorporated by reference from Post-Effective Amendment No. 23 to the Registrant's Registration Statement, filed on April 4, 2013.
- (62) Incorporated by reference from Post-Effective Amendment No. 24 to the Registrant's Registration Statement, filed on April 11, 2013.
- (63) Incorporated by reference from Post-Effective Amendment No. 25 to the Registrant's Registration Statement, filed on April 18, 2013.

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- (64) Incorporated by reference from Post-Effective Amendment No. 26 to the Registrant's Registration Statement, filed on April 25, 2013.
- (65) Incorporated by reference from Post-Effective Amendment No. 27 to the Registrant's Registration Statement, filed on May 2, 2013.
- (66) Incorporated by reference from Post-Effective Amendment No. 29 to the Registrant's Registration Statement, filed on May 9, 2013.
- (67) Incorporated by reference from Post-Effective Amendment No. 30 to the Registrant's Registration Statement, filed on May 23, 2013.
- (68) Incorporated by reference from Post-Effective Amendment No. 31 to the Registrant's Registration Statement, filed on May 31, 2013.
- (69) Incorporated by reference from Post-Effective Amendment No. 32 to the Registrant's Registration Statement, filed on June 6, 2013.
- (70) Incorporated by reference from Post-Effective Amendment No. 33 to the Registrant's Registration Statement, filed on June 13, 2013.
- (71) Incorporated by reference from Post-Effective Amendment No. 34 to the Registrant's Registration Statement, filed on June 20, 2013.
- (72) Incorporated by reference from Post-Effective Amendment No. 35 to the Registrant's Registration Statement, filed on June 27, 2013.
- (73) Incorporated by reference from the Registrant's Proxy Statement filed on September 10, 2012.
- (74) Incorporated by reference to Item 5.07 of the Registrant's Form 8-K filed on December 12, 2012.

SIGNATURE

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized August 21, 2013.

PROSPECT CAPITAL CORPORATION

By: /s/ JOHN F. BARRY III

 John F. Barry III
 Chief Executive Officer and
 Chairman of the Board

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

<u>SIGNATURE</u>	<u>TITLE</u>	<u>DATE</u>
<u> /s/ JOHN F. BARRY III </u> John F. Barry, III	Chairman of the Board, Chief Executive Officer, Director	August 21, 2013
<u> /s/ BRIAN H. OSWALD </u> Brian H. Oswald	Chief Financial Officer	August 21, 2013
<u> /s/ M. GRIER ELIASEK </u> M. Grier Eliasek	President, Chief Operations Officer, Director	August 21, 2013
<u> /s/ ANDREW C. COOPER </u> Andrew C. Cooper	Director	August 21, 2013
<u> /s/ WILLIAM J. GREMP </u> William J. Grempe	Director	August 21, 2013
<u> /s/ EUGENE S. STARK </u> Eugene S. Stark	Director	August 21, 2013

Exhibit 6

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

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

For the fiscal year ended June 30, 2015

OR

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

Commission File Number: 814-00659

PROSPECT CAPITAL CORPORATION

(Exact name of Registrant as specified in its charter)

Maryland

43-2048643

(State or other jurisdiction of
incorporation or organization)

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

10 East 40th Street, 42nd Floor

New York, New York

10016

(Address of principal executive offices)

(Zip Code)

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

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

Title of each class

Name of each exchange on which registered

Common Stock, par value \$0.001 per share

NASDAQ Global Select Market

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

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

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

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

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

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

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

Large accelerated filer ☒

Accelerated filer ☐

Non-accelerated filer ☐

Smaller reporting company ☐

(Do not check if a smaller reporting company)

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

The aggregate market value of the common equity held by non-affiliates of the Registrant as of December 31, 2014 was \$2.913 billion (based on the closing price on that date of \$8.26 on the NASDAQ Global Select Market). For the purposes of calculating this amount only, all executive officers and Directors are "affiliates" of the Registrant.

As of August 25, 2015, there were 355,278,797 shares of the Registrant's common stock outstanding.

Documents Incorporated by Reference

Portions of the Registrant's definitive Proxy Statement relating to the 2015 Annual Meeting of Stockholders, to be filed with the Securities and Exchange Commission, are incorporated by reference in Part III of this Annual Report on Form 10-K to the extent described therein.

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FORWARD-LOOKING STATEMENTS

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

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

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

PART I

Item 1. Business

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

General

Prospect Capital Corporation is a financial services company that primarily lends to and invests in middle market privately-held companies. We are a closed-end investment company incorporated in Maryland. We have elected to be regulated as a business development company (“BDC”) under the Investment Company Act of 1940 (the “1940 Act”). As a BDC, we have elected to be treated as a regulated investment company (“RIC”), under Subchapter M of the Internal Revenue Code of 1986 (the “Code”). We were organized on April 13, 2004 and were funded in an initial public offering completed on July 27, 2004. We are one of the largest BDCs with approximately \$6.8 billion of total assets as of June 30, 2015.

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

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

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

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

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

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

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

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

Real Estate Investments - We make investments in real estate through our three wholly-owned tax-efficient real estate investment trusts (“REITs”), American Property REIT Corp. (“APRC”), National Property REIT Corp. (“NPRC”) and United Property REIT Corp. (“UPRC” and collectively with APRC and NPRC, “our REITs”). Our real estate investments are in various classes of fully developed and occupied real estate properties that generate current yields. We seek to identify properties that have historically high occupancy and steady cash flow generation. Our REITs partner with established property managers with experience in managing the property type to manage such properties after acquisition. This is a more recent investment strategy that has comprised approximately 5%-10% of our business.

Investments in Syndicated Debt - On an opportunistic basis, we make investments in loans and high yield bonds that have been sold to a syndicate of buyers. Here we look for investments with attractive risk-adjusted returns after we have completed a fundamental credit analysis. These investments are purchased with a long term, buy-and-hold outlook and we look to provide significant structuring input by providing anchoring orders. This strategy has comprised approximately 5%-10% of our business.

Aircraft Leasing - We invest debt as well as equity in aircraft assets subject to commercial leases to credit-worthy airlines across the globe. These investments present attractive return opportunities due to cash flow consistency from long-lived assets coupled with hard asset collateral. We seek to deliver risk-adjusted returns with strong downside protection by analyzing relative value characteristics across the spectrum of aircraft types of all vintages. Our target portfolio includes both in-production and out-of-production jet and turboprop aircraft and engines, operated by airlines across the globe. This strategy comprised approximately 1.5% of our business in the fiscal year ended June 30, 2014 and approximately 1% as of June 30, 2015.

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 and less than 5% as of June 30, 2015.

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.

“Spin-Offs” of Certain Business Strategies

We previously announced that we intend to unlock value by “spinning off” certain “pure play” business strategies to our shareholders. We desire through these transactions to (i) transform some of the business strategies we have successfully grown and developed inside Prospect into pure play public companies with the potential for increased earnings multiples, (ii) allow for continued revenue and earnings growth through more flexible non-BDC formats (which are expected to benefit from not having one or more of the (a) 30% basket, (b) leverage, and (c) control basket constraints with which BDCs must comply), and (iii) free up our 30% basket and leverage capacity for new originations at Prospect. The business strategies we intend to enable our shareholders to participate in on a “pure play” basis have grown faster than our overall growth rate in the past few years, with outlets in less constraining structures required to continue this strong growth. We anticipate these non-BDC companies will have tax efficient structures.

We initially intend on focusing these efforts on three separate companies consisting of portions of our (i) consumer online lending business, (ii) real estate business and (iii) structured credit business. We are seeking to divest these businesses in conjunction with rights offering capital raises in which existing Prospect shareholders could elect to participate in each offering or sell their rights. The goals of these dispositions include leverage and earnings neutrality for Prospect. Our primary objective is to maximize the valuation of each offering (declining to proceed with any offering if we find any valuation not to be attractive).

The sizes and likelihood of these dispositions, some of which are expected to be partial rather than complete spin-offs, remain to be determined, but we currently expect the collective size of these three dispositions to be approximately 10% of our asset base. We seek to complete the first of these dispositions late in calendar year 2015 and the others in 2016 in a sequential fashion. The consummation of any of the spin-offs depends upon, among other things: market conditions, regulatory and exchange listing approval, and sufficient investor demand, and there can be no guarantee that we will consummate any of these spin-offs.

On March 11, 2015, Prospect Yield Corporation, LLC (“Prospect Yield”), our wholly-owned subsidiary, filed a registration statement with the SEC in connection with our rights offering disposition of a portion of our structured credit business, and Prospect Yield filed an amendment on April 17, 2015. We are a selling stockholder under the registration statement. We seek but cannot guarantee consummation of this disposition, which is subject to regulatory review, during calendar year 2016.

On May 6, 2015, Prospect Finance Company, LLC (“Prospect Finance”), our indirect wholly-owned subsidiary, filed a confidential registration statement with the SEC in connection with our rights offering disposition of our online consumer lending business, and Prospect Finance filed confidential amendments on June 16, July 20 and August 12, 2015. We are a selling stockholder under the registration statement. We seek but cannot guarantee consummation of this disposition, which is subject to regulatory review, late in calendar year 2015.

On May 6, 2015, Prospect Realty Income Trust Corp. (“Prospect Realty”), our wholly-owned subsidiary, filed a confidential registration statement with the SEC in connection with our rights offering disposition of a portion of our real estate business, and Prospect Realty filed confidential amendments on June 30, July 27 and August 12, 2015. We are a selling stockholder under the registration statement. We seek but cannot guarantee consummation of this disposition, which is subject to regulatory review, during calendar year 2016.

On May 19, 2015, Prospect, Prospect Capital Management, Prospect Yield, Prospect Finance and Prospect Realty filed an application for an exemptive order authorizing a joint transaction that may otherwise be prohibited by Section 57(a)(4) of the 1940 Act in order to complete each of the rights offerings described above and are awaiting comments from the SEC.

We expect to continue as a BDC in the future to pursue our multi-line origination strategy (including continuing to invest in the businesses discussed above) as a value-added differentiating factor compared with other BDCs.

Our Investment Objective and Policies

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

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

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

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

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

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

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

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

Industry Sectors

Our portfolio is invested across 28 industry categories. Excluding our CLO investments, which do not have industry concentrations, no individual industry comprises more than 10.8% 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 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 the Investment Adviser and that of the independent valuation firms.
4. The Board of Directors discusses valuations and determines the fair value of each investment in our portfolio in good faith based on the input of the Investment Adviser, the respective independent valuation firm and the Audit Committee.

Our non-CLO investments are valued utilizing a yield 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 for loans, dividend yields for certain investments 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 valuing our investments may include, as we deem relevant: security covenants, call protection provisions, and information rights; the nature and realizable value of any collateral; the portfolio company’s ability to make payments; the principal markets in which the portfolio company does business; publicly available financial ratios of peer companies; the principal market; and enterprise values, among other factors.

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

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

Managerial Assistance

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

Prospect Administration, when performing a managerial assistance agreement executed with each portfolio company to which we provide managerial assistance, arranges for the provision of such managerial assistance on our behalf. When doing so, Prospect Administration utilizes personnel of our Investment Adviser. We, on behalf of Prospect Administration, invoice portfolio companies receiving and paying for managerial assistance, and we remit to Prospect Administration its cost of providing such services, including the charges deemed appropriate by our Investment Adviser for providing such managerial assistance. No income was recognized by Prospect.

Investment Adviser

Prospect Capital Management manages our investments as the Investment Adviser. Prospect Capital Management is a Delaware limited partnership 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.

Investment Advisory Agreement

Terms

We have entered into an investment advisory and management agreement with Prospect Capital Management (the “Investment Advisory Agreement”) under which the Investment Adviser, subject to the overall supervision of our Board of Directors, manages our day-to-day operations and provides us with investment advisory services. 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.

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 2.00% 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. 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, is calculated and payable quarterly in arrears based on our pre-incentive fee net investment income for the immediately preceding calendar quarter. For this purpose, pre-incentive fee net investment income means interest income, dividend income and any other income (including any other fees (other than fees for providing managerial assistance), such as commitment, origination, structuring, diligence and consulting fees and other fees that we receive from portfolio companies) accrued during the calendar quarter, minus our operating expenses for the quarter (including the base management fee, expenses payable under the Administration Agreement described below, and any interest expense and dividends paid on any issued and outstanding preferred stock, but excluding the incentive fee). Pre-incentive fee net investment income includes, in the case of investments with a deferred interest feature (such as original issue discount, debt instruments with payment in kind interest and zero coupon securities), accrued income that we have not yet received in cash. Pre-incentive fee net investment income does not include any realized capital gains, realized capital losses or unrealized capital appreciation or depreciation. Pre-incentive fee net investment income, expressed as a rate of return on the value of our net assets at the end of the immediately preceding calendar quarter, is compared to a “hurdle rate” of 1.75% per quarter (7.00% annualized).

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

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

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

The second part of the incentive fee, the capital gains incentive fee, is determined and payable in arrears as of the end of each calendar year (or upon termination of the Investment Advisory Agreement, as of the termination date), and equals 20.00% of our realized capital gains for the calendar year, if any, computed net of all realized capital losses and unrealized capital depreciation at the end of such year. In determining the capital gains incentive fee payable to the Investment Adviser, we calculate the aggregate realized capital gains, aggregate realized capital losses and aggregate unrealized capital depreciation, as applicable, with respect to each investment that has been in our portfolio. For the purpose of this calculation, an "investment" is defined as the total of all rights and claims which may be asserted against a portfolio company arising 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 of. 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.

Examples of Quarterly Incentive Fee Calculation

*Example 1: Income Incentive Fee**

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

Alternative 1

Assumptions

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

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

Alternative 2

Assumptions

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

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

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

$$= (100\% \times (2.00\% - 1.75\%)) + 0\%$$

$$= 100\% \times 0.25\% + 0\%$$

$$= 0.25\%$$

Alternative 3

Assumptions

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

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

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

$$= (100\% \times (2.1875\% - 1.75\%)) + \text{the greater of } 0\% \text{ AND } (20\% \times (2.30\% - 2.1875\%))$$

$$= (100\% \times 0.4375\%) + (20\% \times 0.1125\%)$$

$$= 0.4375\% + 0.0225\%$$

$$= 0.46\%$$

(1) Represents 7% annualized hurdle rate.

(2) Represents 2% annualized base management fee.

(3) Excludes organizational and offering expenses.

Example 2: Capital Gains Incentive Fee

Alternative 1

Assumptions

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

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

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

Alternative 2

Assumptions

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

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

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

Alternative 3

Assumptions

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

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

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

Alternative 4

Assumptions

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

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

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

Duration and Termination

The Investment Advisory Agreement was originally approved by our Board of Directors on June 23, 2004 and was recently re-approved by the Board of Directors on May 5, 2015 for an additional one-year term expiring June 22, 2016. Unless terminated earlier as described below, it will remain in effect from year to year thereafter if approved annually by our Board of Directors or by the affirmative vote of the holders of a majority of our outstanding voting securities, including, in either case, approval by a majority of our directors who are not interested persons. The Investment Advisory Agreement will automatically terminate in the event of its assignment. The Investment Advisory Agreement may be terminated by either party without penalty upon not more than 60 days' written notice to the other. See "Risk Factors - Risks Relating to Our Business - We are dependent upon Prospect Capital Management's key management personnel for our future success."

Indemnification

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

Administration Agreement

We have also entered into an administration agreement with Prospect Administration (the "Administration Agreement") 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 Brian H. Oswald, our Chief Financial Officer and Chief Compliance Officer, and his staff, including the internal legal staff. Under this agreement, Prospect Administration furnishes us with office facilities, equipment and clerical, bookkeeping and record keeping services at such facilities. Prospect Administration also performs, or oversees the performance of, our required administrative services, which include, among other things, being responsible for the financial records that we are required to maintain and preparing reports to our stockholders and reports filed with the SEC. In addition, Prospect Administration assists us in determining and publishing our net asset value, overseeing the preparation and filing of our tax returns and the printing and dissemination of reports to our stockholders, and generally oversees the payment of our expenses and the performance of administrative and professional services rendered to us by others. Under the Administration Agreement, Prospect Administration also provides on our behalf managerial assistance to those portfolio companies to which we are required to provide such assistance (see "Ongoing Relationships with Portfolio Companies - Managerial Assistance"). 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.

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

Payment of Our Expenses

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

printing costs; our allocable portion of the fidelity bond, directors and officers/errors and omissions liability insurance, and any other insurance premiums; direct costs and expenses of administration, including auditor and legal costs; and all other expenses incurred by us, by the Investment Adviser or by Prospect Administration in connection with administering our business, such as our allocable portion of overhead under the Administration Agreement, including rent and our allocable portion of the costs of our Chief Financial Officer and Chief Compliance Officer and the respective staffs.

License Agreement

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

Determination of Net Asset Value

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

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

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

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

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

Determination of fair values involves subjective judgments and estimates 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.

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 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 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 assumes that investors hold our common stock as capital assets (within the meaning of the Code). The discussion is based upon the Code, Treasury regulations, and administrative and judicial interpretations, each as of the date of this report and all of which are subject to change, possibly retroactively, which could affect the continuing validity of this discussion. This summary does not discuss any aspects of U.S. estate or gift tax or foreign, state or local tax. It does not discuss the special treatment under U.S. federal income tax laws that could result if we invested in tax-exempt securities or certain other investment assets.

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

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

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

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

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

Election to be Taxed as a RIC

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

Taxation as a RIC

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

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

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

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

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

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

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

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

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

On June 26, 2014, we received a private letter ruling from the Internal Revenue Service (the “IRS”) permitting us to pay up to 80% of our required dividends in stock for the tax years ending August 31, 2014 and August 31, 2015. We have filed an application for a similar private letter ruling for our taxable years ending August 31, 2016 and August 31, 2017. Any dividends paid in stock will be taxable to the shareholder as if the dividend had been paid in cash and we will receive a dividend paid deduction for such distribution.

If we fail to satisfy the Annual Distribution Requirement or otherwise fail to qualify as a RIC in any taxable year, we would be subject to tax on all of our taxable income at regular corporate rates. We would not be able to deduct distributions to stockholders, nor would we be required to make distributions. Distributions would generally be taxable to our individual and other non-corporate taxable stockholders as ordinary dividend income eligible for the reduced maximum rate applicable to qualified dividend income to the extent of our current and accumulated earnings and profits, provided certain holding period and other requirements are met. Subject to certain limitations under the Code, corporate distributees would be eligible for the dividends-received deduction. To qualify again to be taxed as a RIC in a subsequent year, we would be required to distribute to our shareholders our accumulated earnings and profits attributable to non-RIC years 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.

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 or accumulated earnings and profits, whether paid in cash or reinvested in additional common stock. Provided that certain holding period and other requirements are met, such distributions (if 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 his, her or its proportionate share of the deemed distribution in income as if it had been actually distributed to the U.S. Stockholder, and the U.S. Stockholder will be entitled to claim a credit equal to its allocable share of the tax paid thereon by us. The amount of the deemed distribution net of such tax will be added to the U.S. Stockholder’s tax basis for his, her or its common stock. 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 a stockholder’s liability for U.S. federal income tax. A stockholder that is not subject to U.S. federal income tax or otherwise required to file a U.S. federal income tax return would be required to file a U.S. federal income tax return on the appropriate form in order to claim a refund for the taxes we paid. In order to utilize the deemed distribution approach, we must provide written notice to our stockholders prior to the expiration of 60 days after the close of the relevant taxable year. We cannot treat any of our investment company taxable income as a “deemed distribution.”

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

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

A U.S. Stockholder generally will recognize taxable gain or loss if such U.S. Stockholder sells or otherwise disposes of its shares of our common stock. Any gain or loss arising from such sale or taxable disposition generally will be treated as long-term capital gain or loss if the U.S. Stockholder has held his, her or its shares for more than one year. Otherwise, it would be classified as short-term capital gain or loss. However, any capital loss arising from the sale or taxable disposition of shares of our common stock held for six months or less will be treated as long-term capital loss to the extent of the amount of capital gain dividends received, or undistributed capital gain deemed received, with respect to such shares. In addition, all or a portion of any loss recognized upon a taxable disposition of shares of our common stock may be disallowed if other substantially identical shares are purchased (whether through reinvestment of distributions or otherwise) within 30 days before or after the disposition. Capital losses are deductible only to the extent of capital gains (subject to an exception for individuals under which a limited amount of capital losses may be offset against ordinary income).

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

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

We will make available to each of our U.S. Stockholders, as promptly as possible after the end of each calendar year, a notice detailing, on a per share basis, the amounts includible in such U.S. Stockholder’s taxable income for such year as ordinary income and as long-term capital gain. 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 or substitute form). In the case of shares held through an intermediary, the intermediary may withhold even if we report the payment as qualified net interest income or qualified short-term capital gain. Non-U.S. Stockholders should contact their intermediaries with respect to the application of these rules to their accounts. There can be no assurance as to what portion of our distributions will qualify for favorable treatment as qualified net interest income or qualified short-term capital gains.

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

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

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

In addition, after June 30, 2014, withholding at a rate of 30% will be 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. An intergovernmental agreement between the United States and an applicable foreign country, or future Treasury regulations or other guidance, may modify these requirements. 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 to us that such entity does not have any “substantial United States owners” or (ii) provides certain information regarding the entity’s “substantial United States owners,” which we will in turn provide to the IRS. We will not pay any additional amounts to stockholders in respect of any amounts withheld. Non-U.S. Stockholders are encouraged to consult their tax advisors regarding the possible implications of the legislation on their investment in our shares.

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

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

Failure to Obtain RIC Tax Treatment

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

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

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

Regulation as a Business Development Company

General

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

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

Qualifying Assets

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

1. Securities purchased in transactions not involving any public offering from the issuer of such securities, which issuer (subject to certain limited exceptions) is an eligible portfolio company, or from any person who is, or has been during the preceding 13 months, an affiliated person of an eligible portfolio company, or from any other person, subject to such rules as may be prescribed by the SEC. An “eligible portfolio company” is defined in the 1940 Act and rules adopted pursuant thereto as any issuer which:
 - a. is organized under the laws of, and has its principal place of business in, the United States;
 - b. is not an investment company (other than a small business investment company wholly owned by the business development company) or a company that would be an investment company but for certain exclusions under the 1940 Act for certain financial companies such as banks, brokers, commercial finance companies, mortgage companies and insurance companies; and
 - c. satisfies any of the following:
 - i. does not have any class of securities with respect to which a broker or dealer may extend margin credit;
 - ii. is controlled by a business development company or a group of companies including a business development company and the business development company has an affiliated person who is a director of the eligible portfolio company;
 - iii. is a small and solvent company having total assets of not more than \$4 million and capital and surplus of not less than \$2 million;
 - iv. does not have any class of securities listed on a national securities exchange; or
 - v. has a class of securities listed on a national securities exchange, but has an aggregate market value of outstanding voting and non-voting common equity of less than \$250 million.
2. Securities in companies that were eligible portfolio companies when we made our initial investment if certain other requirements are satisfied.
3. Securities of any eligible portfolio company which we control.
4. Securities purchased in a private transaction from a U.S. issuer that is not an investment company or from an affiliated person of the issuer, or in transactions incident thereto, if the issuer is in bankruptcy and subject to reorganization or if the issuer, immediately prior to the purchase of its securities was unable to meet its obligations as they came due without material assistance other than conventional lending or financing agreements.

5. Securities of an eligible portfolio company purchased from any person in a private transaction if there is no ready market for such securities and we already own 60% of the outstanding equity of the eligible portfolio company.
6. Securities received in exchange for or distributed on or with respect to securities described in (1) through (4) above, or pursuant to the exercise of warrants or rights relating to such securities.
7. Cash, cash equivalents, U.S. government securities or high-quality debt securities maturing in one year or less from the time of investment.

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

Managerial Assistance to Portfolio Companies

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

Temporary Investments

Pending investment in other types of "qualifying assets," as described above, our investments may consist of cash, cash equivalents, including money market funds, U.S. government securities or high quality debt securities maturing in one year or less from the time of investment, which we refer to, collectively, as temporary investments, so that 70% of our assets are qualifying assets. Typically, we will invest in money market funds, U.S. Treasury bills or in repurchase agreements that are fully collateralized by cash or securities issued by the U.S. government or its agencies. A repurchase agreement involves the purchase by an investor, such as us, of a specified security and the simultaneous agreement by the seller to repurchase it at an agreed upon future date and at a price which is greater than the purchase price by an amount that reflects an agreed-upon interest rate. There is no percentage restriction on the proportion of our assets that may be invested in such repurchase agreements. However, if more than 25% of our total assets constitute repurchase agreements from a single counterparty, we would not meet the Diversification Tests in order to qualify as a RIC for U.S. federal income tax purposes. Thus, we do not intend to enter into repurchase agreements with a single counterparty in excess of this limit. The Investment Adviser will monitor the creditworthiness of the counterparties with which we enter into repurchase agreement transactions.

Senior Securities

We are permitted, under specified conditions, to issue multiple classes of indebtedness and one class of stock senior to our common stock if our asset coverage, as defined in the 1940 Act, is at least equal to 200% immediately after each such issuance. In addition, while any preferred stock or public debt securities remain outstanding, we must make provisions to prohibit any distribution to our stockholders or the repurchase of such securities or shares unless we meet the applicable asset coverage ratios after giving effect to such distribution or repurchase. We may also borrow amounts up to 5% of the value of our total assets for temporary or emergency purposes without regard to asset coverage. For a discussion of the risks associated with leverage, see "Risk Factors - Risks Relating to Our Securities."

Code of Ethics

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

Compliance Policies and Procedures

We and the Investment Adviser have adopted and implemented written policies and procedures reasonably designed to prevent violation of the U.S. federal securities laws and are required to review these compliance policies and procedures annually for their adequacy and the effectiveness of their implementation and to designate a Chief Compliance Officer to be responsible for administering the policies and procedures. 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: (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 (as discussed below). Finally, the committee monitors adherence to guidelines, and reviews the policies contained in this statement from time to time.

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

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

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

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

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

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

Sarbanes-Oxley Act of 2002

The Sarbanes-Oxley Act of 2002 imposes a variety of regulatory requirements on publicly-held companies. In addition to our Chief Executive and Chief Financial Officers' required certifications as to the accuracy of our financial reporting, we are also required to disclose the effectiveness of our disclosure controls and procedures as well as report on our assessment of our internal controls over financial reporting, the latter of which must be audited by our independent registered public accounting firm.

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

Available Information

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

Item 1A. Risk Factors

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

Our \$150.0 million of 6.25% convertible notes due 2015 are referred to as the 2015 Notes. Our \$167.5 million of 5.50% convertible notes due 2016 are referred to as the 2016 Notes. Our \$130.0 million of 5.375% convertible notes due 2017 are referred to as the 2017 Notes. Our \$200.0 million of 5.75% convertible notes due 2018 are referred to as the 2018 Notes. Our \$200.0 million of 5.875% convertible notes due 2019 are referred to as the 2019 Notes. Our \$392.0 million of 4.75% convertible notes due 2020 are referred to as the 2020 Notes, and collectively with the 2015 Notes, the 2016 Notes, the 2017 Notes, the 2018 Notes and the 2019 Notes, the Convertible Notes. Our recently called \$100.0 million of 6.95% unsecured notes due 2022 are referred to as the 2022 Notes. Our \$250.0 million of 5.875% unsecured notes due 2023 are referred to as the 2023 Notes. Our \$300.0 million of 5.00% unsecured notes due 2019 are referred to as the 5.00% 2019 Notes, and collectively with the 2022 Notes and the 2023 Notes, the Public Notes. Any corporate notes issued pursuant to our medium term notes program with Incapital LLC are referred to as Prospect Capital InterNotes®, and together with the Convertible Notes and the Public Notes, the Unsecured Notes.

Risks Relating to Our Business

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

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

Market conditions may in the future make it difficult to extend the maturity of or refinance our existing indebtedness, including the final maturity of our credit facility in March 2019, and any failure to do so could have a material adverse effect on our business. The illiquidity of our investments may make it difficult for us to sell such investments if required. As a result, we may realize significantly less than the value at which we have recorded our investments.

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

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

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

The downgrade of the U.S. credit rating and economic crisis in Europe could negatively impact our business, financial condition and earnings.

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

In October 2014, the Federal Reserve announced that it was concluding its bond-buying program. It is unknown what effect, if any, the conclusion of this program will have on credit markets and the value of our investments. These and any future developments and reactions of the credit markets toward these developments could cause interest rates and borrowing costs to rise, which may negatively impact our ability to obtain debt financing on favorable terms. Additionally, in January 2015, the Federal Reserve reaffirmed its view that the current target range for the federal funds rate was appropriate based on current economic conditions. However, if key economic indicators, such as the unemployment rate or inflation, do not progress at a rate consistent with the Federal Reserve's objectives, the target range for the federal funds rate may increase and cause interest rates and borrowing costs to rise, which may negatively impact our ability to access the debt markets on favorable terms.

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

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

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

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

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

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

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

Volatility in the global financial markets resulting from relapse of the Eurozone crisis, geopolitical developments in Eastern Europe, turbulence in the Chinese stock markets and global commodity markets or otherwise could have a material adverse effect on our business, financial condition and results of operations.

Volatility in the global financial markets could have an adverse effect on the economic recovery in the United States and could result from a number of causes, including a relapse in the Eurozone crisis, geopolitical developments in Eastern Europe, turbulence in the Chinese stock markets and global commodity markets or otherwise. The effects of the Eurozone crisis, which began in late 2009 as part of the global economic and financial crisis, continued to impact the global financial markets through 2015. Numerous factors continued to fuel the Eurozone crisis, including continued high levels of government debt, the undercapitalization and liquidity problems of many banks in the Eurozone and relatively low levels of economic growth. These factors made it difficult or impossible for some countries in the Eurozone, including Greece, Ireland and Portugal, to repay or refinance their debt without the assistance of third parties. As a combination of austerity programs, debt write-downs and the European Central Bank's commitment to restore financial stability to the Eurozone and the finalization of the primary European Stability Mechanism bailout fund, in 2013 and into 2014 interest rates began to fall and stock prices began to increase. Although these trends helped to stabilize the effects of the Eurozone crisis in the first half of 2014, the underlying causes of the crisis were not completely eliminated. As a result, the financial markets relapsed toward the end of 2014. In particular, Greece's newly elected government, which campaigned against austerity measures, has been unable to reach an acceptable solution to the country's debt crisis with the European Union, and in June 2015, Greece failed to make a scheduled debt repayment to the International Monetary Fund, falling into arrears. Following further unsuccessful negotiations between the government of Greece and the European Union to solve the Greek debt crisis, on July 5, 2015, Greek voters rejected a bailout package submitted by the European Commission, the European Central Bank and the International Monetary Fund, and while the European Central Bank continues to extend credit to Greece, it is uncertain how long such support will last, whether Greece will receive and accept any future bailout packages and whether Greece will default on future payments. The result of continued defaults and the removal of credit support for Greek banks may cause Greece to exit the European Union, which could lead to significant economic uncertainty and abandonment of the Euro common currency, resulting in destabilization in the financial markets. Continued financial instability in Greece and in other similarly situated Eurozone countries could have a continued contagion effect on the financial markets. Stock prices in China have experienced a significant drop in the second quarter of 2015, resulting primarily from continued sell-off of shares trading in Chinese markets. The volatility has been followed by volatility in stock markets around the world, including in the United States, as well as increased turbulence in commodity markets, such as reductions in prices of crude oil. Although the Chinese government has already taken steps to halt the collapse, it is uncertain what effect such measures will have, if any. Continued sell-off and price drops in the Chinese stock markets may have a contagion effect across the financial markets. In addition, Russian intervention in Ukraine during 2014 significantly increased regional geopolitical tensions. In response to Russian actions, U.S. and European governments have imposed sanctions on a limited number of Russian individuals and business entities. The situation remains fluid with potential for further escalation of geopolitical tensions, increased severity of sanctions against Russian interests, and possible Russian counter-measures. Further economic sanctions could destabilize the economic environment and result in increased volatility. Should the economic recovery in the United States be adversely impacted by increased volatility in the global financial markets caused by continued contagion from the Eurozone crisis, developments in respect of the Russian sanctions, further turbulence in Chinese stock markets and global commodity markets or for any other reason, loan and asset growth and liquidity conditions at U.S. financial institutions, including us, may deteriorate.

We may suffer credit losses.

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

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

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

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

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

We operate in a highly competitive market for investment opportunities.

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

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

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

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

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

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

A portion of the debt investments we make bears interest at fixed rates and other debt investments bear interest at variable rates with floors and the value of these investments could be negatively affected by increases in market interest rates. In addition, as the interest rate on our revolving credit facility is at a variable rate based on an index, an increase in interest rates would make it more expensive to use debt to finance our investments. As a result, an increase in market interest rates could both reduce the value of our portfolio investments and increase our cost of capital, which could reduce our net investment income or net increase in net assets resulting from operations.

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

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

We may experience fluctuations in our quarterly results.

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

Our most recent NAV was calculated on June 30, 2015 and our NAV when calculated effective September 30, 2015 and thereafter may be higher or lower.

Our most recently estimated NAV per share is \$10.35 on an adjusted basis solely to give effect to our issuance of 346,788 shares of our common stock since June 30, 2015 in connection with our dividend reinvestment plan and our repurchase of 4,158,750 shares of our common stock during the period from July 28, 2015 through August 14, 2015, \$0.04 higher than the \$10.31 determined by us as of June 30, 2015. NAV per share as of September 30, 2015 may be higher or lower than \$10.35 based on potential changes in valuations, issuances of securities, repurchases of securities, dividends paid and earnings for the quarter then ended. Our Board of Directors has not yet determined the fair value of portfolio investments at any date subsequent to June 30, 2015. Our Board of Directors determines the fair value of our portfolio investments on a quarterly basis in connection with the preparation of quarterly financial statements and based on input from independent valuation firms, the Investment Adviser, the Administrator and the Audit Committee of our Board of Directors.

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

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

Potential conflicts of interest could impact our investment returns.

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

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

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

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

We have entered into a royalty-free license agreement with Prospect Capital Management. Under this agreement, Prospect Capital Management agrees to grant us a non-exclusive license to use the name “Prospect Capital.” Under the license agreement, we have the right to use the “Prospect Capital” name for so long as Prospect Capital Management or one of its affiliates remains our investment adviser. In addition, we rent office space from Prospect Administration, an affiliate of Prospect Capital Management, and pay Prospect Administration our allocable portion of overhead and other expenses incurred by Prospect Administration in performing its obligations as Administrator under the Administration Agreement, including rent and our allocable portion of the costs of our Chief Financial Officer and Chief Compliance Officer and their respective staffs. This may create conflicts of interest that our Board of Directors monitors.

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

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

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

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

The Investment Adviser is entitled to incentive compensation for each fiscal quarter based, in part, on our pre-incentive fee net investment income if any, for the immediately preceding calendar quarter above a performance threshold for that quarter. Accordingly, since the performance threshold is based on a percentage of our net asset value, decreases in our net asset value make it easier to achieve the performance threshold. Our pre-incentive fee net investment income for incentive compensation purposes excludes realized and unrealized capital losses or depreciation that we may incur in the fiscal quarter, even if such capital losses or depreciation result in a net loss on our statement of operations for that quarter. Thus, we may be required to pay the Investment Adviser incentive compensation for a fiscal quarter even if there is a decline in the value of our portfolio or we incur a net loss for that quarter.

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

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

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

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

Foreign and domestic political risk may adversely affect our business.

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

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

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

We face cyber-security risks.

Our business operations rely upon secure information technology systems for data processing, storage and reporting. Despite careful security and controls design, implementation and updating, our information technology systems could become subject to cyber-attacks. Network, system, application and data breaches could result in operational disruptions or information misappropriation, which could have a material adverse effect on our business, results of operations and financial condition.

The failure in cyber-security systems, as well as the occurrence of events unanticipated in our disaster recovery systems and management continuity planning, could impair our ability to conduct business effectively.

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

We depend heavily upon computer systems to perform necessary business functions. Despite our implementation of a variety of security measures, our computer systems could be subject to cyber-attacks and unauthorized access, such as physical and electronic break-ins or unauthorized tampering. Like other companies, we may experience threats to our data and systems, including malware and computer virus attacks, unauthorized access, system failures and disruptions. If one or more of these events occurs, it could potentially jeopardize the confidential, proprietary and other information processed and stored in, and transmitted through, our computer systems and networks, or otherwise cause interruptions or malfunctions in our operations, which could result in damage to our reputation, financial losses, litigation, increased costs, regulatory penalties and/or customer dissatisfaction or loss.

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

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

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

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

Risks Relating to Our Operation as a Business Development Company

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

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

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

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

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

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

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

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

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

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

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

Regulations governing our operation as a business development company affect our ability to raise, and the way in which we raise, additional capital.

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

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

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

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

Securitization of our assets subjects us to various risks.

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

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

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

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

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

We may also engage in transactions utilizing SPEs and securitization techniques where the assets sold or contributed to the SPE remain on our balance sheet for accounting purposes. If, for example, we sell the assets to the SPE with recourse or provide a guarantee or other credit support to the SPE, its assets will remain on our balance sheet. Consolidation would also generally result if we, in consultation with the SEC, determine that consolidation would result in a more accurate reflection of our assets, liabilities and results of operations. In these structures, the risks will be essentially the same as in other securitization transactions but the assets will remain our assets for purposes of the limitations described above on investing in assets that are not qualifying assets and the leverage incurred by the SPE will be treated as borrowings incurred by us for purposes of our limitation on the issuance of senior securities.

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

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

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

Risks Relating to Our Investments

We may not realize gains or income from our investments.

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

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

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

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

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

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

As a BDC, we are required to carry our investments at market value or, if no market value is ascertainable, at fair value as determined in good faith by or under the direction of our Board of Directors. As part of the valuation process, the types of factors that we may take into account in determining the fair value of our investments include, as relevant and among other factors: available current market data, including relevant and applicable market trading and transaction comparables, applicable market yields and multiples, security covenants, call protection provisions, information rights, the nature and realizable value of any collateral, the portfolio company’s ability to make payments, its earnings and discounted cash flows, the markets in which the portfolio company does business, comparisons of financial ratios of peer companies that are public, merger and acquisition comparables, our principal market (as the reporting entity) and enterprise values. Decreases in the market values or fair values of our investments are recorded as unrealized depreciation. The effect of all of these factors on our portfolio can reduce our net asset value by increasing net unrealized depreciation in our portfolio. Depending on market conditions, we could incur substantial realized losses and may suffer additional unrealized losses in future periods, which could have a material adverse impact on our business, financial condition and results of operations.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Our portfolio companies may be highly leveraged.

Some of our portfolio companies may be highly leveraged, which may have adverse consequences to these companies and to us as an investor. These companies may be subject to restrictive financial and operating covenants and the leverage may impair these companies' ability to finance their future operations and capital needs. As a result, these companies' flexibility to respond to changing business and economic conditions and to take advantage of business opportunities may be limited. Further, a leveraged company's income and net assets will tend to increase or decrease at a greater rate than if borrowed money were not used.

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

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

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

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

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

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

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

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

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

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

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

- Our debt investments may be in the form of unsecured loans, therefore our liens on the collateral, if any, are subordinated to those of the senior secured debt of the portfolio companies, if any. As a result, we may not be able to control remedies with respect to the collateral.
- The collateral may not be valuable enough to satisfy all of the obligations under our secured loan, particularly after giving effect to the repayment of secured debt of the portfolio company that ranks senior to our loan.
- Bankruptcy laws may limit our ability to realize value from the collateral and may delay the realization process.
- Our rights in the collateral may be adversely affected by the failure to perfect security interests in the collateral.
- The need to obtain regulatory and contractual consents could impair or impede how effectively the collateral would be liquidated and could affect the value received.
- Some or all of the collateral may be illiquid and may have no readily ascertainable market value. The liquidity and value of the collateral could be impaired as a result of changing economic conditions, competition, and other factors, including the availability of suitable buyers.

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

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

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

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

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

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

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

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

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

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

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

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

Our CLO investments are exposed to leveraged credit risk.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

We expect that a majority of our portfolio will consist of equity and junior debt investments in CLOs, which involve a number of significant risks. CLOs are typically highly levered up to approximately 10 times, and therefore the junior debt and equity tranches that we will invest in are subject to a higher risk of total loss. In particular, investors in CLOs indirectly bear risks of the underlying debt investments held by such CLOs. We will generally have the right to receive payments only from the CLOs, and will generally not have direct rights against the underlying borrowers or the entities that sponsored the CLOs. Although it is difficult to predict whether the prices of indices and securities underlying CLOs will rise or fall, these prices, and, therefore, the prices of the CLOs will be influenced by the same types of political and economic events that affect issuers of securities and capital markets generally.

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

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

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

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

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

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

The Volcker Rule may impact how we operate our business.

Section 13 of the Bank Holding Company Act of 1956, as amended, often referred to as the “Volcker Rule,” is expected to impose significant restrictions on banking entities’ ability to sponsor or invest in hedge funds, private equity funds or commodity pools, collectively referred to as covered funds. Certain CLOs will be considered covered funds under the Volcker Rule and banking entities’ investments in such CLOs may be considered ownership interests that are prohibited. The rules are highly complex, and many aspects of the implementation of the Volcker Rule remain unclear. We are in the process of assessing the impact of the Volcker Rule on our investments, CLOs and on our industry. The Volcker Rule may have a material adverse effect on our ability to invest in bank-sponsored CLOs in the future and therefore may adversely affect our share price.

Risks affecting investments in real estate.

We make investments in commercial and multi-family residential real estate through our three wholly-owned real estate investment trusts (“REITs”), American Property REIT Corp., National Property REIT Corp. and United Property REIT Corp. (collectively, “our REITs”). A number of factors may prevent each of our REITs’ properties and assets from generating sufficient net cash flow or may adversely affect their value, or both, resulting in less cash available for distribution, or a loss, to us. These factors include:

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

To the extent OID and PIK interest constitute a portion of our income, we will be exposed to typical risks associated with such income being required to be included in taxable and accounting income prior to receipt of cash representing such income.

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

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

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

Risks Relating to Our Securities

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

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

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

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

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

- A likelihood of greater volatility in the net asset value and market price of our common stock;
- Diminished operating flexibility as a result of asset coverage or investment portfolio composition requirements required by lenders or investors that are more stringent than those imposed by the 1940 Act;
- The possibility that investments will have to be liquidated at less than full value or at inopportune times to comply with debt covenants or to pay interest or dividends on the leverage;
- Increased operating expenses due to the cost of leverage, including issuance and servicing costs;
- Convertible or exchangeable securities, such as the Convertible Notes outstanding or those issued in the future may have rights, preferences and privileges more favorable than those of our common stock;

- Subordination to lenders' superior claims on our assets as a result of which lenders will be able to receive proceeds available in the case of our liquidation before any proceeds will be distributed to our stockholders;
- Making it more difficult for us to meet our payment and other obligations under the Senior Notes and our other outstanding debt;
- The occurrence of an event of default if we fail to comply with the financial and/or other restrictive covenants contained in our debt agreements, including the credit agreement and each indenture governing the Senior Notes, which event of default could result in all or some of our debt becoming immediately due and payable;
- Reduced availability of our cash flow to fund investments, acquisitions and other general corporate purposes, and limiting our ability to obtain additional financing for these purposes;
- The risk of increased sensitivity to interest rate increases on our indebtedness with variable interest rates, including borrowings under our amended senior credit facility; and
- Reduced flexibility in planning for, or reacting to, and increasing our vulnerability to, changes in our business, the industry in which we operate and the general economy.

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

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

Illustration. The following table illustrates the effect of leverage on returns from an investment in our common stock assuming various annual returns, net of interest expense. The calculations in the table below are hypothetical and actual returns may be higher or lower than those appearing below. The calculation assumes (i) \$6.8 billion in total assets, (ii) an average cost of funds of 5.02%, (iii) \$3.0 billion in debt outstanding and (iv) \$3.8 billion of shareholders' equity.

Assumed Return on Our Portfolio (net of expenses)	(10)%	(5)%	0%	5%	10%
Corresponding Return to Stockholder	(21.9)%	(12.9)%	(4.0)%	5.0%	13.9%

The assumed portfolio return is required by regulation of the SEC and is not a prediction of, and does not represent, our projected or actual performance. Actual returns may be greater or less than those appearing in the table.

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

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

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

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

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

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

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

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

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

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

As of June 30, 2015, we were in compliance with these covenants. However, our continued compliance with these covenants depends on many factors, some of which are beyond our control. Accordingly, there are no assurances that we will continue to comply with the covenants in our credit facility. Failure to comply with these covenants would result in a default under this facility which, if we were unable to obtain a waiver from the lenders thereunder, could result in an acceleration of repayments under the facility and thereby have a material adverse impact on our business, financial condition and results of operations.

Failure to extend our existing credit facility, the revolving period of which is currently scheduled to expire on March 27, 2019, could have a material adverse effect on our results of operations and financial position and our ability to pay expenses and make distributions.

The revolving period for our credit facility with a syndicate of lenders is currently scheduled to terminate on March 27, 2019, with an additional one year amortization period (with distributions allowed) after the completion of the revolving period. During such one year amortization period, all principal payments on the pledged assets will be applied to reduce the balance. At the end of the one year amortization period, the remaining balance will become due, if required by the lenders. If the credit facility is not renewed or extended by the participant banks by March 27, 2019, we will not be able to make further borrowings under the facility after such date and the outstanding principal balance on that date will be due and payable on March 27, 2020. As of June 30, 2015, we had \$368.7 million of outstanding borrowings under our credit facility. Interest on borrowings under the credit facility is one-month LIBOR plus 225 basis points with no minimum LIBOR floor. Additionally, the lenders charge a fee on the unused portion of the credit facility equal to either 50 basis points if at least 35% of the credit facility is drawn or 100 basis points otherwise.

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

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

The Unsecured Notes mature at various dates from December 15, 2015 to October 15, 2043. If we are unable to refinance the Unsecured Notes or find a new source of borrowing on acceptable terms, we will be required to pay down the amounts outstanding at maturity under the facility during the two-year term-out period through one or more of the following: (1) borrowing additional funds under our then current credit facility, (2) issuance of additional common stock or (3) possible liquidation of some or all of our loans and other assets, any of which could have a material adverse effect on our results of operations and financial position. In addition, our stock price could decline significantly; we would be restricted in our ability to acquire new investments and, in connection with our year-end audit, our independent registered accounting firm could raise an issue as to our ability to continue as a going concern.

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

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

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

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

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

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

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

Shares of closed-end investment companies frequently trade at a market price that is less than the net asset value that is attributable to those shares. This characteristic of closed-end investment companies is separate and distinct from the risk that our net asset value per share may decline. It is not possible to predict whether any shares of our common stock will trade at, above, or below net asset value. The stocks of BDCs as an industry, including shares of our common stock, currently trade below net asset value as a result of concerns over liquidity, interest rate changes, leverage restrictions and distribution requirements. When our common stock is trading below its net asset value per share, we will not be able to issue additional shares of our common stock at its market price without first obtaining approval for such issuance from our stockholders and our independent directors. At our 2014 annual meeting of stockholders held on December 5, 2014, our stockholders approved our ability, subject to the condition that the maximum number of shares salable below net asset value pursuant to this authority in any particular offering that could result in such dilution is limited to 25% of our then outstanding common stock immediately prior to each such offering, to sell shares of our common stock at any level of discount from net asset value per share during the 12 month period following December 5, 2014.

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

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

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

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

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

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

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

All dividends declared in cash payable to stockholders that are participants in our dividend reinvestment plan are automatically reinvested in shares of our common stock. As a result, our stockholders that opt out of our dividend reinvestment plan will experience dilution in their ownership percentage of our common stock over time.

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

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

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

At our 2014 annual meeting of stockholders held on December 5, 2014, our stockholders approved our ability, subject to the condition that the maximum number of shares salable below net asset value pursuant to this authority in any particular offering that could result in such dilution is limited to 25% of our then outstanding common stock immediately prior to each such offering, to sell shares of our common stock at any level of discount from net asset value per share during the 12 month period following December 5, 2014. The issuance or sale by us of shares of our common stock or securities to subscribe for or are convertible into shares of our common stock at a discount to net asset value poses a risk of dilution to our stockholders. In particular, stockholders who do not purchase additional shares of common stock at or below the discounted price in proportion to their current ownership will experience an immediate decrease in net asset value per share (as well as in the aggregate net asset value of their shares of common stock if they do not participate at all). These stockholders will also experience a disproportionately greater decrease in their participation in our earnings and assets and their voting power than the increase we experience in our assets, potential earning power and voting interests from such issuance or sale. In addition, such sales may adversely affect the price at which our common stock trades. We have sold shares of our common stock at prices below net asset value per share in the past and may do so to the future. We have not issued any shares of our common stock at prices below net asset value per share since December 3, 2014.

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

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

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

The market price of our securities may fluctuate significantly.

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

- significant volatility in the market price and trading volume of securities of business development companies or other companies in the energy industry, which are not necessarily related to the operating performance of these companies;
- price and volume fluctuations in the overall stock market from time to time;
- changes in regulatory policies or tax guidelines, particularly with respect to RICs or business development companies;
- loss of RIC qualification;
- changes in earnings or variations in operating results;

- changes in the value of our portfolio of investments;
- any shortfall in revenue or net income or any increase in losses from levels expected by investors or securities analysts;
- departure of one or more of Prospect Capital Management's key personnel;
- operating performance of companies comparable to us;
- short-selling pressure with respect to shares of our common stock or BDCs generally;
- future sales of our securities convertible into or exchangeable or exercisable for our common stock or the conversion of such securities, including the Convertible Notes;
- uncertainty surrounding the strength of the U.S. economic recovery;
- concerns regarding European sovereign debt;
- changes in prevailing interest rates;
- litigation matters;
- general economic trends and other external factors; and
- loss of a major funding source.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

We may distribute taxable dividends that are payable in part in our stock. The IRS has issued a private letter ruling on cash/stock dividends paid by us if certain requirements are satisfied, and the ruling permits us to declare such taxable cash/stock dividends, up to 80% in stock, with respect to our taxable years ending August 31, 2014 and August 31, 2015. We have filed an application for a similar private letter ruling for our taxable years ending August 31, 2016 and August 31, 2017. Taxable stockholders receiving such dividends would be required to include the full amount of the dividend as ordinary income (or as long-term capital gain to the extent such distribution is properly designated as a capital gain dividend) to the extent of our current and accumulated earnings and profits for United States federal income tax purposes. As a result, a U.S. Stockholder (as defined in “Material U.S. Federal Income Tax Considerations”) may be required to pay tax with respect to such dividends in excess of any cash received. If a U.S. Stockholder sells the stock it receives as a dividend in order to pay this tax, it may be subject to transaction fees (e.g., broker fees or transfer agent fees) and the sales proceeds may be less than the amount included in income with respect to the dividend, depending on the market price of its stock at the time of the sale. Furthermore, with respect to Non-U.S. Stockholders (as defined in “Material U.S. Federal Income Tax Considerations”), we may be required to withhold U.S. tax with respect to such dividends, including in respect of all or a portion of such dividend that is payable in stock. In addition, if a significant number of our stockholders determine to sell shares of our stock in order to pay taxes owed on dividends, it may put downward pressure on the trading price of our stock. It is unclear whether and to what extent we will be able to pay dividends in cash and our stock.

Item 1B. Unresolved Staff Comments

Not applicable.

Item 2. Properties

We do not own any real estate or other physical properties materially important to our operation. Our principal executive offices are located at 10 East 40th Street, New York, New York 10016, where we occupy our office space pursuant to our Administration Agreement with Prospect Administration. The office facilities, which are shared with the Investment Adviser and Administrator, consist of approximately 30,216 square feet, with various leases expiring up to and through 2023. We believe that our office facilities are suitable and adequate for our business as currently conducted.

Item 3. Legal Proceedings

From time to time, we may become involved in various investigations, claims and legal proceedings that arise in the ordinary course of our business. These matters may relate to intellectual property, employment, tax, regulation, contract or other matters. The resolution of such of these matters as may arise will be subject to various uncertainties and, even if such claims are without merit, could result in the expenditure of significant financial and managerial resources. We are not aware of any such litigation as of June 30, 2015.

Item 4. Mine Safety Disclosures

Not applicable.

PART II

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

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

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

Year Ended	Net Asset Value Per Share(1)	Sales Price		Premium (Discount) of High Sales Price to Net Asset Value	Premium (Discount) of Low Sales Price to Net Asset Value
		High	Low		
June 30, 2014					
First quarter	\$ 10.72	\$ 11.61	\$ 10.76	8.3%	0.4%
Second quarter	10.73	11.48	10.80	7.0%	0.7%
Third quarter	10.68	11.39	10.73	6.6%	0.5%
Fourth quarter	10.56	10.99	9.64	4.1%	(8.7%)
June 30, 2015					
First quarter	\$ 10.47	\$ 11.00	\$ 9.90	5.1%	(5.4%)
Second quarter	10.35	9.92	8.11	(4.2%)	(21.6%)
Third quarter	10.30	8.81	8.23	(14.5%)	(20.1%)
Fourth quarter	10.31	8.65	7.22	(16.1%)	(30.0%)

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

As of August 25, 2015, there were 124 shareholders of record of our common stock. This figure does not include a substantially greater number of beneficial holders of our common stock, whose shares are held in the names of brokers, dealers and clearing agencies.

Distribution Policy

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

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

We had an excise tax liability of \$461 for the calendar year ended December 31, 2014. Through June 30, 2015, we have an accrued excise tax payable of \$305. Tax characteristics of all distributions will be reported to stockholders, as appropriate, on Form 1099-DIV after the end of the calendar year.

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

During the years ended June 30, 2015 and June 30, 2014, we distributed approximately \$421.6 million and \$403.2 million, respectively, to our stockholders. The following table summarizes our distributions declared and payable for the years ended June 30, 2014 and June 30, 2015.

Declaration Date	Record Date	Payment Date	Amount Per Share	Amount Distributed (in thousands)
5/6/2013	7/31/2013	8/22/2013	\$ 0.110175	\$ 28,001
5/6/2013	8/30/2013	9/19/2013	0.110200	28,759
6/17/2013	9/30/2013	10/24/2013	0.110225	29,915
6/17/2013	10/31/2013	11/21/2013	0.110250	31,224
6/17/2013	11/29/2013	12/19/2013	0.110275	32,189
6/17/2013	12/31/2013	1/23/2014	0.110300	33,229
8/21/2013	1/31/2014	2/20/2014	0.110325	34,239
8/21/2013	2/28/2014	3/20/2014	0.110350	35,508
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 the year ended June 30, 2014				\$ 403,188
2/3/2014	7/31/2014	8/21/2014	\$ 0.110475	\$ 37,863
2/3/2014	8/29/2014	9/18/2014	0.110500	37,885
2/3/2014	9/30/2014	10/22/2014	0.110525	38,519
5/6/2014	10/31/2014	11/20/2014	0.110550	38,977
5/6/2014	11/28/2014	12/18/2014	0.110575	39,583
5/6/2014	12/31/2014	1/22/2015	0.110600	39,623
9/24/2014	1/30/2015	2/19/2015	0.110625	39,648
12/8/2014	2/27/2015	3/19/2015	0.083330	29,878
12/8/2014	3/31/2015	4/23/2015	0.083330	29,887
12/8/2014	4/30/2015	5/21/2015	0.083330	29,898
5/6/2015	5/29/2015	6/18/2015	0.083330	29,910
5/6/2015	6/30/2015	7/23/2015	0.083330	29,923
Total declared and payable for the year ended June 30, 2015				\$ 421,594

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, 2015 and June 30, 2014. It does not include distributions previously declared to stockholders of record on any future dates, as those amounts are not yet determinable. The following dividends were previously declared and will be payable subsequent to June 30, 2015:

- \$0.08333 per share for July 2015 to holders of record on July 31, 2015 with a payment date of August 20, 2015;
- \$0.08333 per share for August 2015 to holders of record on August 31, 2015 with a payment date of September 17, 2015;
- \$0.08333 per share for September 2015 to holders of record on September 30, 2015 with a payment date of October 22, 2015; and
- \$0.08333 per share for October 2015 to holders of record on October 30, 2015 with a payment date of November 19, 2015.

Dividend Reinvestment Plan

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

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

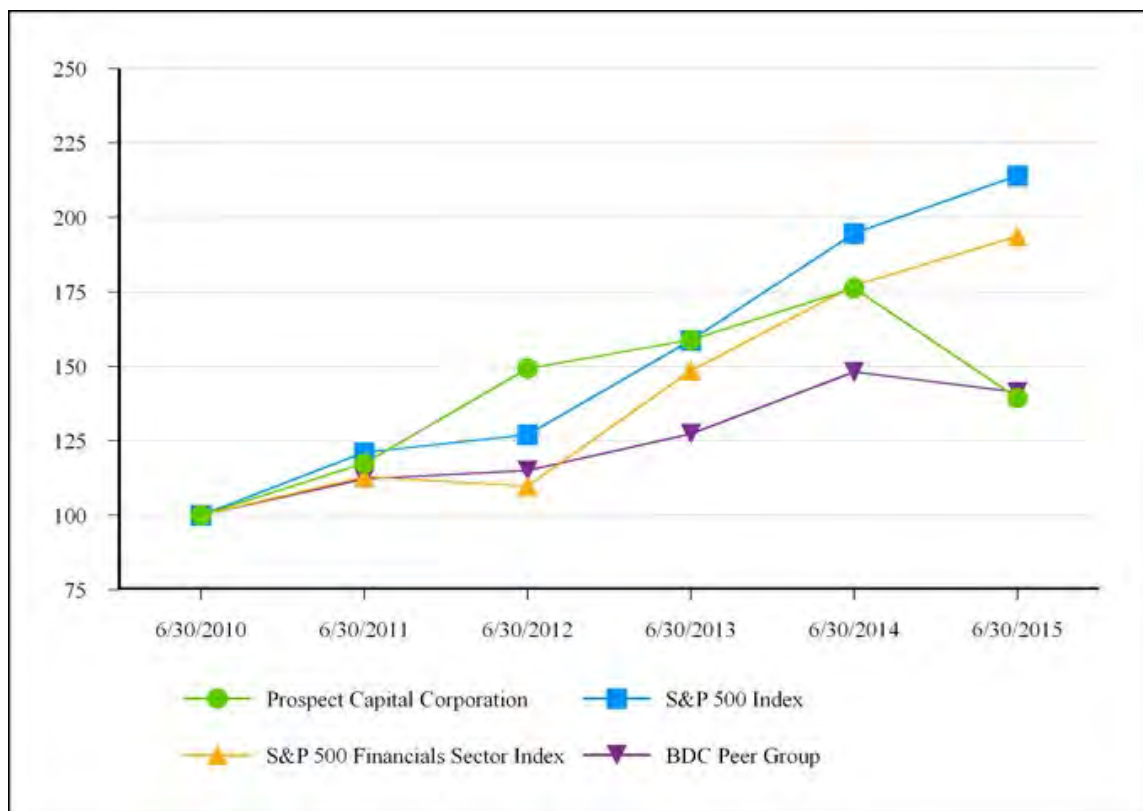
During the years ended June 30, 2015 and June 30, 2014, we distributed 1,618,566 and 1,408,070 shares of our common stock, respectively, in connection with the dividend reinvestment plan. All of the shares distributed were new issues. The following table summarizes the shares issued through the reinvestment of dividends in the years ended June 30, 2014 and June 30, 2015.

Record Date	Payment Date	Shares Issued	Value of Shares (in thousands)	% of Distribution
6/28/2013	7/18/2013	109,437	\$ 1,208	4.4%
7/31/2013	8/22/2013	113,610	1,246	4.4%
8/30/2013	9/19/2013	132,597	1,540	5.4%
9/30/2013	10/24/2013	135,212	1,548	5.2%
10/31/2013	11/21/2013	206,586	2,343	7.5%
11/29/2013	12/19/2013	106,620	1,208	3.8%
12/31/2013	1/23/2014	109,087	1,237	3.7%
1/31/2014	2/20/2014	88,112	995	2.9%
2/28/2014	3/20/2014	93,735	1,011	2.8%
3/31/2014	4/17/2014	86,333	938	2.5%
4/30/2014	5/22/2014	114,111	1,132	3.0%
5/30/2014	6/19/2014	112,630	1,168	3.1%
Total issued in the year ended June 30, 2014		1,408,070	\$ 15,574	
6/30/2014	7/24/2014	98,503	\$ 1,074	2.8%
7/31/2014	8/21/2014	129,435	1,412	3.7%
8/29/2014	9/18/2014	113,020	1,154	3.0%
9/30/2014	10/22/2014	138,721	1,346	3.5%
10/31/2014	11/20/2014	136,076	1,314	3.4%
11/28/2014	12/18/2014	162,173	1,370	3.5%
12/31/2014	1/22/2015	151,538	1,279	3.2%
1/30/2015	2/19/2015	146,186	1,279	3.2%
2/27/2015	3/19/2015	113,596	971	3.2%
3/31/2015	4/23/2015	131,971	1,140	3.8%
4/30/2015	5/21/2015	137,878	1,122	3.8%
5/29/2015	6/18/2015	159,469	1,220	4.1%
Total issued in the year ended June 30, 2015		1,618,566	\$ 14,681	

Registered stockholders who opt out of the dividend reinvestment plan must notify the plan administrator prior to the payment date in order for that distribution to be paid in cash. As such, the table above includes distributions with payment dates during the years ended June 30, 2015 and June 30, 2014. It does not include distributions previously declared and recorded as payable to stockholders on any future dates, as those amounts are not yet determinable.

Stock Performance Graph

The following graph compares a shareholder's cumulative total return for the last five fiscal years as if such amounts had been invested in: (i) our common stock; (ii) the stocks included in the S&P 500 Index; (iii) the stocks included in the S&P 500 Financials Sector Index; and (iv) a customized BDC Peer Group composed of Apollo Investment Corporation, Ares Capital Corporation, BlackRock Capital Investment Corporation, Gladstone Capital Corporation, and MVC Capital, Inc. The graph is based on historical stock prices and measures total shareholder return, which takes into account both changes in stock price and dividends. The total return assumes that dividends were reinvested daily and is based on a \$100 investment on June 30, 2010.



SOURCE: S&P Capital IQ

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

Item 6. Selected Financial Data

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

	Year Ended June 30,				
	2015	2014	2013	2012	2011
Summary of Operations					
Total investment income	\$ 791,084	\$ 712,291	\$ 576,336	\$ 320,910	\$ 169,476
Total operating expenses	428,337	355,068	251,412	134,226	75,255
Net investment income	362,747	357,223	324,924	186,684	94,221
Net realized and unrealized (losses) gains on investments	(12,458)	(38,203)	(104,068)	4,220	24,017
Net realized losses on extinguishment of debt	(3,950)	-	-	-	-
Net increase in net assets resulting from operations	346,339	319,020	220,856	190,904	118,238
Per Share Data					
Net investment income(1)	\$ 1.03	\$ 1.19	\$ 1.57	\$ 1.63	\$ 1.10
Net increase in net assets resulting from operations(1)	0.98	1.06	1.07	1.67	1.38
Dividends to shareholders	(1.19)	(1.32)	(1.28)	(1.22)	(1.21)
Net asset value at end of year	10.31	10.56	10.72	10.83	10.36
Balance Sheet Data					
Total assets	\$ 6,798,054	\$ 6,477,269	\$ 4,448,217	\$ 2,255,254	\$ 1,549,317
Total debt outstanding	2,983,736	2,773,051	1,683,002	664,138	406,700
Net assets	3,703,049	3,618,182	2,656,494	1,511,974	1,114,357
Other Data					
Investment purchases for the year	\$ 2,088,988	\$ 2,952,356	\$ 3,103,217	\$ 1,120,659	\$ 953,337
Investment sales and repayments for the year	\$ 1,633,073	\$ 786,969	\$ 931,534	\$ 500,952	\$ 285,562
Number of portfolio companies at year end	131	142	124	85	72
Total return based on market value(2)	(20.8%)	10.9%	6.2%	27.2%	17.2%
Total return based on net asset value(2)	11.5%	11.0%	10.9%	18.0%	12.5%
Weighted average yield on debt portfolio at year end(3)	12.7%	12.1%	13.6%	13.9%	12.8%

- (1) Per share data is based on the weighted average number of common shares outstanding for the period presented (except for dividends to shareholders which is based on actual rate per share).
- (2) 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.
- (3) Excludes equity investments and non-performing loans.

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

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

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

Overview

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

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

Effective July 1, 2014, we began consolidating certain of our wholly-owned and substantially wholly-owned holding companies formed by us in order to facilitate our investment strategy. The following companies have been included in our consolidated financial statements since July 1, 2014: AMU Holdings Inc.; APH Property Holdings, LLC; Arctic Oilfield Equipment USA, Inc.; CCPI Holdings Inc.; CP Holdings of Delaware LLC; Credit Central Holdings of Delaware, LLC; Energy Solutions Holdings Inc.; First Tower Holdings of Delaware LLC; Harbortouch Holdings of Delaware Inc.; MITY Holdings of Delaware Inc.; Nationwide Acceptance Holdings LLC; NMMB Holdings, Inc.; NPH Property Holdings, LLC; STI Holding, Inc.; UPH Property Holdings, LLC; Valley Electric Holdings I, Inc.; Valley Electric Holdings II, Inc.; and Wolf Energy Holdings Inc. On October 10, 2014, concurrent with the sale of the operating company, our ownership increased to 100% of the outstanding equity of ARRM Services, Inc. which was renamed SB Forging Company, Inc. ("SB Forging"). As such, we began consolidating SB Forging on October 11, 2014. We collectively refer to these entities as the "Consolidated Holding Companies."

We are externally managed by our investment adviser, Prospect Capital Management L.P. ("Prospect Capital Management" or the "Investment Adviser"). Prospect Administration LLC ("Prospect Administration" or the "Administrator") provides administrative services and facilities necessary for us to operate.

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

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

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

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

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

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

Investments in Structured Credit - We make investments in 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. ("APRC"), National Property REIT Corp. ("NPRC") and United Property REIT Corp. ("UPRC" and collectively with APRC and NPRC, "our REITs"). Our real estate investments are in various classes of fully developed and occupied real estate properties that generate current yields. We seek to identify properties that have historically high occupancy and steady cash flow generation. Our REITs partner with established property managers with experience in managing the property type to manage such properties after acquisition. This is a more recent investment strategy that has comprised approximately 5%-10% of our business.

Investments in Syndicated Debt - On an opportunistic basis, we make investments in loans and high yield bonds that have been sold to a syndicate of buyers. Here we look for investments with attractive risk-adjusted returns after we have completed a fundamental credit analysis. These investments are purchased with a long term, buy-and-hold outlook and we look to provide significant structuring input by providing anchoring orders. This strategy has comprised approximately 5%-10% of our business.

Aircraft Leasing - We invest debt as well as equity in aircraft assets subject to commercial leases to credit-worthy airlines across the globe. These investments present attractive return opportunities due to cash flow consistency from long-lived assets coupled with hard asset collateral. We seek to deliver risk-adjusted returns with strong downside protection by analyzing relative value characteristics across the spectrum of aircraft types of all vintages. Our target portfolio includes both in-production and out-of-production jet and turboprop aircraft and engines, operated by airlines across the globe. This strategy comprised approximately 1.5% of our business in the fiscal year ended June 30, 2014 and approximately 1% as of June 30, 2015.

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 and less than 5% as of June 30, 2015.

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

We hold many of our control investments in a two-tier structure consisting of a holding company and one or more related operating companies for tax purposes. These holding companies serve various business purposes including concentration of management teams, optimization of third party borrowing costs, improvement of supplier, customer, and insurance terms, and enhancement of co-investments by the management teams. In these cases, our investment in the holding company, generally as equity, its equity investment in the operating company and along with any debt from us directly to the operating company structure represents our total exposure for the investment. As of June 30, 2015, as shown in our Consolidated Schedule of Investments, the cost basis and fair value of our investments in controlled companies was \$1,894,644 and \$1,974,202, respectively. This structure gives rise to several of the risks described in our public documents and highlighted elsewhere in this Annual Report. On July 1, 2014, we began consolidating all wholly-owned and substantially wholly-owned holding companies formed by us for the purpose of holding our controlled investments in operating companies. There were no significant effects of consolidating these holding companies as they hold minimal assets other than their investments in the controlled operating companies. Investment company accounting prohibits the consolidation of any operating companies.

We seek to be a long-term investor with our portfolio companies. The aggregate fair value of our portfolio investments was \$6,609,558 and \$6,253,739 as of June 30, 2015 and June 30, 2014, respectively. During the year ended June 30, 2015, our net cost of investments increased by \$187,854, or 2.9%, as a result of the following: twenty-three new investments, several follow-on investments, and thirteen revolver advances totaling \$2,059,711 (including structuring fees of \$20,916); payment-in-kind interest of \$29,277; net amortization of discounts and premiums of \$87,638; and full repayments on eighteen investments, sale of twelve investments, and several partial prepayments and amortization payments totaling \$1,633,073, net of realized losses totaling \$180,423.

Compared to the end of last fiscal year (ended June 30, 2014), net assets increased by \$84,867, or 2.3%, during the year ended June 30, 2015, from \$3,618,182 to \$3,703,049. This increase resulted from the issuance of new shares of our common stock (less offering costs) in the amount of \$145,441, dividend reinvestments of \$14,681, and \$346,339 from operations. These increases, in turn, were offset by \$421,594 in dividend distributions to our stockholders. The \$346,339 from operations is net of the following: net investment income of \$362,747, net realized losses on investments of \$180,423, net change in unrealized appreciation on investments of \$167,965, and net realized losses on extinguishment of debt of \$3,950.

Fourth Quarter Highlights

Investment Transactions

During the three months ended June 30, 2015, we acquired \$257,053 of new investments, completed follow-on investments in existing portfolio companies totaling approximately \$171,426, funded \$18,696 of revolver advances, and recorded PIK interest of \$12,792, resulting in gross investment originations of \$459,967. During the three months ended June 30, 2015, we received full repayments on eight investments and received several partial prepayments and amortization payments totaling \$437,729, including realized losses totaling \$29,450. The more significant of these transactions are discussed in "Portfolio Investment Activity."

Debt Issuances and Redemptions

During the three months ended June 30, 2015, we issued \$50,729 aggregate principal amount of Prospect Capital InterNotes® for net proceeds of \$49,910. These notes were issued with stated interest rates ranging from 3.375% to 5.10% with a weighted average interest rate of 4.74%. These notes mature between August 15, 2020 and June 15, 2022. The following table summarizes the Prospect Capital InterNotes® issued during the three months ended June 30, 2015.

Tenor at Origination (in years)	Principal Amount	Interest Rate Range	Weighted Average Interest Rate	Maturity Date Range
5.25	\$ 7,126	4.625%	4.625%	August 15, 2020 - September 15, 2020
5.5	31,397	4.75%	4.75%	October 15, 2020 - November 15, 2020
6	2,197	3.375%	3.375%	April 15, 2021 - May 15, 2021
6.5	3,912	5.10%	5.10%	December 15, 2021
7	6,097	5.10%	5.10%	May 15, 2022 - June 15, 2022
	<u>\$ 50,729</u>			

On May 15, 2015, we redeemed \$100,000 aggregate principal amount of the 2022 Notes (as defined below) at par. As a result of this transaction, we recorded a loss in the amount of the difference between the reacquisition price and the net carrying amount of the notes, net of the proportionate amount of unamortized debt issuance costs. The net loss on the extinguishment of the 2022 Notes in the three months ended June 30, 2015 was \$2,600.

During the three months ended June 30, 2015, we repaid \$2,005 aggregate principal amount of Prospect Capital InterNotes® at par in accordance with the Survivor's Option, as defined in the InterNotes® Offering prospectus. As a result of these transactions, we recorded a loss in the amount of the difference between the reacquisition price and the net carrying amount of the notes, net of the proportionate amount of unamortized debt issuance costs. The net loss on the extinguishment of Prospect Capital InterNotes® in the three months ended June 30, 2015 was \$126.

Equity Issuances

On April 23, 2015, May 21, 2015 and June 18, 2015, we issued 131,971, 137,878 and 159,469 shares of our common stock in connection with the dividend reinvestment plan, respectively.

"Spin-Offs" of Certain Business Strategies

We previously announced that we intend to unlock value by "spinning off" certain "pure play" business strategies to our shareholders. We desire through these transactions to (i) transform some of the business strategies we have successfully grown and developed inside Prospect into pure play public companies with the potential for increased earnings multiples, (ii) allow for continued revenue and earnings growth through more flexible non-BDC formats (which are expected to benefit from not having one or more of the (a) 30% basket, (b) leverage, and (c) control basket constraints with which BDCs must comply), and (iii) free up our 30% basket and leverage capacity for new originations at Prospect. The business strategies we intend to enable our shareholders to participate in on a "pure play" basis have grown faster than our overall growth rate in the past few years, with outlets in less constraining structures required to continue this strong growth. We anticipate these non-BDC companies will have tax efficient structures.

We initially intend on focusing these efforts on three separate companies consisting of portions of our (i) consumer online lending business, (ii) real estate business and (iii) structured credit business. We are seeking to divest these businesses in conjunction with rights offering capital raises in which existing Prospect shareholders could elect to participate in each offering or sell their rights. The goals of these dispositions include leverage and earnings neutrality for Prospect. Our primary objective is to maximize the valuation of each offering (declining to proceed with any offering if we find any valuation not to be attractive).

The sizes and likelihood of these dispositions, some of which are expected to be partial rather than complete spin-offs, remain to be determined, but we currently expect the collective size of these three dispositions to be approximately 10% of our asset base. We seek to complete the first of these dispositions late in calendar year 2015 and the others in 2016 in a sequential fashion. The consummation of any of the spin-offs depends upon, among other things: market conditions, regulatory and exchange listing approval, and sufficient investor demand, and there can be no guarantee that we will consummate any of these spin-offs.

On March 11, 2015, Prospect Yield Corporation, LLC ("Prospect Yield"), our wholly-owned subsidiary, filed a registration statement with the SEC in connection with our rights offering disposition of a portion of our structured credit business, and Prospect Yield filed an amendment on April 17, 2015. We are a selling stockholder under the registration statement. We seek but cannot guarantee consummation of this disposition, which is subject to regulatory review, during calendar year 2016.

On May 6, 2015, Prospect Finance Company, LLC ("Prospect Finance"), our indirect wholly-owned subsidiary, filed a confidential registration statement with the SEC in connection with our rights offering disposition of our online consumer lending business, and Prospect Finance filed confidential amendments on June 16, July 20 and August 12, 2015. We are a selling stockholder under the registration statement. We seek but cannot guarantee consummation of this disposition, which is subject to regulatory review, late in calendar year 2015.

On May 6, 2015, Prospect Realty Income Trust Corp. ("Prospect Realty"), our wholly-owned subsidiary, filed a confidential registration statement with the SEC in connection with our rights offering disposition of a portion of our real estate business, and Prospect Realty filed confidential amendments on June 30, July 27 and August 12, 2015. We are a selling stockholder under the registration statement. We seek but cannot guarantee consummation of this disposition, which is subject to regulatory review, during calendar year 2016.

On May 19, 2015, Prospect, Prospect Capital Management, Prospect Yield, Prospect Finance and Prospect Realty filed an application for an exemptive order authorizing a joint transaction that may otherwise be prohibited by Section 57(a)(4) of the 1940 Act in order to complete each of the rights offerings described above and are awaiting comments from the SEC.

We expect to continue as a BDC in the future to pursue our multi-line origination strategy (including continuing to invest in the businesses discussed above) as a value-added differentiating factor compared with other BDCs.

Investment Holdings

As of June 30, 2015, we continue to pursue our investment strategy. At June 30, 2015, approximately \$6,609,558, or 178.5%, of our net assets are invested in 131 long-term portfolio investments and CLOs.

During the year ended June 30, 2015, we originated \$2,088,988 of new investments, primarily composed of \$1,435,647 of debt and equity financing to non-controlled portfolio investments, \$432,562 of debt and equity financing to controlled investments, and \$220,779 of subordinated notes in CLOs. Our origination efforts are focused primarily on secured lending to non-control investments to reduce the risk in the portfolio by investing primarily in first lien loans, though we also continue to close select junior debt and equity investments. Our annualized current yield was 12.1% and 12.7% as of June 30, 2014 and June 30, 2015, respectively, across all performing interest bearing investments. The increase in our current yield is primarily the result of an increase in the interest rate for First Tower, LLC and increased investments in small business whole loans as well as online consumer lending. Monetization of equity positions that we hold and loans on non-accrual status are not included in this yield calculation. In many of our portfolio companies we hold equity positions, ranging from minority interests to majority stakes, which we expect over time to contribute to our investment returns. Some of these equity positions include features such as contractual minimum internal rates of returns, preferred distributions, flip structures and other features expected to generate additional investment returns, as well as contractual protections and preferences over junior equity, in addition to the yield and security offered by our cash flow and collateral debt protections.

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

As of June 30, 2015, we own controlling interests in the following portfolio companies: American Property REIT Corp.; Arctic Energy Services, LLC; CCPI Inc.; CP Energy Services Inc.; Credit Central Loan Company, LLC; Echelon Aviation LLC; Edmentum Ultimate Holdings, LLC; First Tower Finance Company LLC; Freedom Marine Solutions, LLC; Gulf Coast Machine & Supply Company; Harbortouch Payments, LLC; MITY, Inc.; National Property REIT Corp.; Nationwide Loan Company LLC (f/k/a Nationwide Acceptance LLC); NMMB, Inc.; R-V Industries, Inc.; United Property REIT Corp.; Valley Electric Company, Inc.; and Wolf Energy, LLC. We also own an affiliated interest in BNN Holdings Corp.

The following shows the composition of our investment portfolio by level of control as of June 30, 2015 and June 30, 2014:

Level of Control	June 30, 2015				June 30, 2014			
	Cost	% of Portfolio	Fair Value	% of Portfolio	Cost	% of Portfolio	Fair Value	% of Portfolio
Control Investments	\$ 1,894,644	28.9%	\$ 1,974,202	29.9%	\$ 1,719,242	27.0%	\$ 1,640,454	26.2%
Affiliate Investments	45,150	0.7%	45,945	0.7%	31,829	0.5%	32,121	0.5%
Non-Control/Non-Affiliate Investments	4,619,582	70.4%	4,589,411	69.4%	4,620,451	72.5%	4,581,164	73.3%
Total Investments	\$ 6,559,376	100.0%	\$ 6,609,558	100.0%	\$ 6,371,522	100.0%	\$ 6,253,739	100.0%

The following shows the composition of our investment portfolio by type of investment as of June 30, 2015 and June 30, 2014:

Type of Investment	June 30, 2015				June 30, 2014			
	Cost	% of Portfolio	Fair Value	% of Portfolio	Cost	% of Portfolio	Fair Value	% of Portfolio
Revolving Line of Credit	\$ 30,546	0.5%	\$ 30,546	0.5%	\$ 3,445	0.1%	\$ 2,786	-%
Senior Secured Debt	3,617,111	55.1%	3,533,447	53.5%	3,578,339	56.2%	3,514,198	56.2%
Subordinated Secured Debt	1,234,701	18.8%	1,205,303	18.2%	1,272,275	20.0%	1,200,221	19.2%
Subordinated Unsecured Debt	145,644	2.2%	144,271	2.2%	85,531	1.3%	85,531	1.4%
Small Business Loans	50,558	0.8%	50,892	0.8%	4,637	0.1%	4,252	0.1%
CLO Debt	28,613	0.4%	32,398	0.5%	28,118	0.4%	33,199	0.5%
CLO Residual Interest	1,072,734	16.4%	1,113,023	16.8%	1,044,656	16.4%	1,093,985	17.5%
Preferred Stock	41,047	0.6%	4,361	0.1%	78,448	1.2%	9,370	0.1%
Common Stock	181,404	2.8%	164,984	2.5%	83,129	1.3%	78,074	1.3%
Membership Interest	148,192	2.3%	278,537	4.2%	190,671	3.0%	221,168	3.6%
Participating Interest(1)	-	-%	42,787	0.6%	-	-%	213	-%
Escrow Receivable	7,144	0.1%	5,984	0.1%	-	-%	1,589	-%
Warrants	1,682	-%	3,025	-%	2,273	-%	9,153	0.1%
Total Investments	\$ 6,559,376	100.0%	\$ 6,609,558	100.0%	\$ 6,371,522	100.0%	\$ 6,253,739	100.0%

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

The following shows our investments in interest bearing securities by type of investment as of June 30, 2015 and June 30, 2014:

Type of Investment	June 30, 2015				June 30, 2014			
	Cost	% of Portfolio	Fair Value	% of Portfolio	Cost	% of Portfolio	Fair Value	% of Portfolio
First Lien	\$ 3,642,761	58.9%	\$ 3,559,097	58.3%	\$ 3,581,784	59.5%	\$ 3,516,984	59.3%
Second Lien	1,239,597	20.0%	1,210,199	19.8%	1,272,275	21.1%	1,200,221	20.2%
Unsecured	145,644	2.4%	144,271	2.4%	85,531	1.4%	85,531	1.4%
Small Business Loans	50,558	0.8%	50,892	0.8%	4,637	0.1%	4,252	0.1%
CLO Debt	28,613	0.5%	32,398	0.5%	28,118	0.5%	33,199	0.6%
CLO Residual Interest	1,072,734	17.4%	1,113,023	18.2%	1,044,656	17.4%	1,093,985	18.4%
Total Debt Investments	\$ 6,179,907	100.0%	\$ 6,109,880	100.0%	\$ 6,017,001	100.0%	\$ 5,934,172	100.0%

The following shows the composition of our investment portfolio by geographic location as of June 30, 2015 and June 30, 2014:

Geographic Location	June 30, 2015				June 30, 2014			
	Cost	% of Portfolio	Fair Value	% of Portfolio	Cost	% of Portfolio	Fair Value	% of Portfolio
Canada	\$ 15,000	0.2%	\$ 15,000	0.2%	\$ 15,000	0.2%	\$ 15,000	0.2%
Cayman Islands	1,101,347	16.8%	1,145,421	17.3%	1,072,774	16.8%	1,127,184	18.0%
France	10,145	0.2%	9,734	0.2%	10,170	0.2%	10,339	0.2%
Midwest US	797,002	12.2%	822,591	12.4%	787,864	12.4%	753,932	12.1%
Northeast US	1,085,569	16.5%	1,151,510	17.4%	1,224,403	19.2%	1,181,533	18.9%
Puerto Rico	40,911	0.6%	37,539	0.6%	41,307	0.6%	36,452	0.6%
Southeast US	1,561,990	23.8%	1,606,305	24.3%	1,570,451	24.6%	1,539,076	24.6%
Southwest US	762,454	11.6%	693,138	10.5%	680,351	10.8%	659,322	10.5%
Western US	1,184,958	18.1%	1,128,320	17.1%	969,202	15.2%	930,901	14.9%
Total Investments	\$ 6,559,376	100.0%	\$ 6,609,558	100.0%	\$ 6,371,522	100.0%	\$ 6,253,739	100.0%

The following shows the composition of our investment portfolio by industry as of June 30, 2015 and June 30, 2014:

Industry	June 30, 2015				June 30, 2014			
	Cost	% of Portfolio	Fair Value	% of Portfolio	Cost	% of Portfolio	Fair Value	% of Portfolio
Aerospace & Defense	\$ 70,860	1.1%	\$ 78,675	1.2%	\$ 102,803	1.6%	\$ 102,967	1.6%
Auto Finance	-	-%	-	-%	11,139	0.2%	11,139	0.2%
Automobile	-	-%	-	-%	22,296	0.3%	22,452	0.4%
Business Services	646,021	9.8%	711,541	10.8%	598,940	9.4%	611,286	9.8%
Chemicals	4,963	0.1%	5,000	0.1%	19,648	0.3%	19,713	0.3%
Commercial Services	245,913	3.8%	241,620	3.6%	301,610	4.7%	301,610	4.8%
Construction & Engineering	58,837	0.9%	30,497	0.4%	56,860	0.9%	33,556	0.5%
Consumer Finance	426,697	6.5%	486,977	7.4%	425,497	6.7%	434,348	6.9%
Consumer Services	190,037	2.9%	190,216	2.9%	502,862	7.9%	504,647	8.1%
Contracting	-	-%	-	-%	3,831	0.1%	-	-%
Diversified Financial Services	120,327	1.8%	119,919	1.8%	37,937	0.6%	37,937	0.6%
Durable Consumer Products	439,172	6.7%	422,033	6.4%	377,205	5.9%	375,329	6.0%
Food Products	282,185	4.3%	281,365	4.3%	173,375	2.7%	174,603	2.8%
Healthcare	435,893	6.6%	434,446	6.6%	329,408	5.2%	326,142	5.2%
Hotels, Restaurants & Leisure	177,748	2.7%	177,926	2.7%	132,193	2.1%	132,401	2.1%
Machinery	376	-%	563	-%	396	-%	621	-%
Manufacturing	163,380	2.5%	126,921	1.9%	204,394	3.2%	171,577	2.7%
Media	361,825	5.5%	350,365	5.3%	362,738	5.7%	344,278	5.5%
Metal Services & Minerals	25,670	0.4%	23,745	0.4%	48,402	0.8%	51,977	0.8%
Oil & Gas Production	3,000	-%	22	-%	55,451	0.9%	3,599	0.1%
Oil & Gas Services	289,803	4.4%	246,817	3.7%	305,418	4.8%	312,532	5.0%
Online Lending	213,143	3.2%	213,477	3.2%	4,637	0.1%	4,252	0.1%
Personal & Nondurable Consumer Products	213,796	3.4%	193,046	2.8%	10,604	0.2%	11,034	0.2%
Pharmaceuticals	74,951	1.1%	74,588	1.1%	78,069	1.2%	73,690	1.2%
Property Management	5,880	0.1%	3,814	0.1%	57,500	0.9%	45,284	0.7%
Real Estate	462,895	7.1%	512,245	7.8%	353,506	5.5%	355,236	5.7%
Retail	63	-%	260	-%	14,231	0.2%	14,625	0.2%
Software & Computer Services	217,429	3.3%	217,472	3.3%	240,469	3.8%	241,260	3.9%
Telecommunication Services	4,573	0.1%	4,595	0.1%	79,630	1.2%	79,654	1.3%
Textiles, Apparel & Luxury Goods	252,200	3.8%	252,200	3.8%	275,023	4.3%	259,690	4.2%
Transportation	70,392	1.1%	63,792	1.0%	112,676	1.8%	69,116	1.1%
Subtotal	\$ 5,458,029	83.2%	\$ 5,464,137	82.7%	\$ 5,298,748	83.2%	\$ 5,126,555	82.0%
Structured Finance(1)	1,101,347	16.8%	1,145,421	17.3%	1,072,774	16.8%	1,127,184	18.0%
Total Investments	\$ 6,559,376	100.0%	\$ 6,609,558	100.0%	\$ 6,371,522	100.0%	\$ 6,253,739	100.0%

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

Portfolio Investment Activity

During the year ended June 30, 2015, we acquired \$929,023 of new investments, completed follow-on investments in existing portfolio companies totaling approximately \$1,073,492, funded \$57,196 of revolver advances, and recorded PIK interest of \$29,277, resulting in gross investment originations of \$2,088,988. The more significant of these transactions are briefly described below.

On July 17, 2014, we restructured our investments in BXC Company, Inc. (“BXC”) and Boxercraft Incorporated (“Boxercraft”), a wholly-owned subsidiary of BXC. The existing Senior Secured Term Loan A and a portion of the existing Senior Secured Term Loan B were replaced with a new Senior Secured Term Loan A to Boxercraft. The remainder of the existing Senior Secured Term Loan B and the existing Senior Secured Term Loan C, Senior Secured Term Loan D, and Senior Secured Term Loan E were replaced with a new Senior Secured Term Loan B to Boxercraft. The existing Senior Secured Term Loan to Boxercraft was converted into Series D Preferred Stock in BXC.

On August 5, 2014, we made an investment of \$39,105 to purchase 70.94% of the subordinated notes in CIFC Funding 2014-IV Investor, Ltd. in a co-investment transaction with Priority Income Fund, Inc., a closed-end fund managed by an affiliate of Prospect Capital Management.

On August 13, 2014, we provided \$210,000 of first lien senior secured financing, of which \$200,000 was funded at closing, to support the recapitalization of Trinity Services Group, Inc. (“Trinity”), a leading food services company in the H.I.G. Capital portfolio. We invested \$100,000 in Term Loan A notes and \$100,000 in Term Loan B notes. The Term Loan A bears interest in cash at the greater of 6.5% or LIBOR plus 5.5% and has a final maturity of August 13, 2019. The Term Loan B bears interest in cash at the greater of 11.5% or LIBOR plus 10.5% and has a final maturity of August 13, 2019. The \$10,000 senior secured revolver, which was unfunded at closing, bore interest in cash at the greater of 9.0% or LIBOR plus 8.0% and was terminated upon maturity on June 5, 2015.

On August 19, 2014 and August 27, 2014, we made a combined \$10,670 follow-on investment in UPRC to acquire Michigan Storage, LLC, a portfolio of seven self-storage facilities located in Michigan. We invested \$1,281 of equity through UPH Property Holdings, LLC and \$9,389 of debt directly to UPRC. The senior secured term loan bears interest in cash at the greater of 6.0% or LIBOR plus 4.0% and payment-in-kind interest of 5.5% and has a final maturity of April 1, 2019. These properties were subsequently contributed to NPRC.

On August 29, 2014, we made a first lien senior secured investment of \$44,000 to support the recapitalization of BNN Holdings Corp. We invested an equal amount in Term Loan A notes and Term Loan B notes. The Term Loan A bears interest in cash at the greater of 6.5% or LIBOR plus 5.5% and has a final maturity of August 29, 2019. The Term Loan B bears interest in cash at the greater of 11.5% or LIBOR plus 10.5% and has a final maturity of August 29, 2019. As part of the recapitalization, we received repayment of the \$28,950 loan previously outstanding.

On September 10, 2014, we made a \$55,869 follow-on first lien senior secured debt investment in Onyx Payments (“Onyx”), of which \$50,869 was funded at closing, to fund an acquisition. We invested an additional \$25,028 in Term Loan A notes and \$25,841 in Term Loan B notes. The Term Loan A bears interest in cash at the greater of 6.5% or LIBOR plus 5.5% and has a final maturity of September 10, 2019. The Term Loan B bears interest in cash at the greater of 13.5% or LIBOR plus 12.5% and has a final maturity of September 10, 2019. The \$5,000 senior secured revolver, which was unfunded at closing, originally bore interest in cash at the greater of 9.0% or LIBOR plus 7.75%. Effective November 25, 2014, the terms of the revolver changed to the greater of 9.0% or LIBOR plus 8.0%. The revolver has a final maturity of September 10, 2015.

On September 26, 2014, we provided \$215,000 of first lien senior secured financing, of which \$202,500 was funded at closing, to Pacific World Corporation (“Pacific World”), a supplier of nail and beauty care products to food, drug, mass, and value retail channels worldwide. The \$200,000 term loan originally bore interest in cash at the greater of 8.0% or LIBOR plus 7.0%. On December 31, 2014, the outstanding \$200,000 term loan was split into equal tranches of Term Loan A notes and Term Loan B notes. The Term Loan A bears interest in cash at the greater of 6.0% or LIBOR plus 5.0% and has a final maturity of September 26, 2020. The Term Loan B bears interest in cash at the greater of 10.0% or LIBOR plus 9.0% and has a final maturity of September 26, 2020. The \$15,000 senior secured revolver, of which \$2,500 was funded at closing, bears interest in cash at the greater of 8.0% or LIBOR plus 7.0% and has a final maturity of September 26, 2020.

On September 29, 2014, we made a second lien secured investment of \$144,000 to support the recapitalization of PGX Holdings, Inc. (“Progrexion”). The second lien term loan bears interest in cash at the greater of 10.0% or LIBOR plus 9.0% and has a final maturity of September 29, 2021. As part of the recapitalization, we received repayment of the \$436,647 loan previously outstanding.

On September 29, 2014, we made a \$22,618 follow-on investment in UPRC to acquire Canterbury Green Apartments Holdings, LLC, a multi-family property located in Fort Wayne, Indiana. We invested \$3,393 of equity through UPH and \$19,225 of debt directly to UPRC. The senior secured term loan bears interest in cash at the greater of 6.0% or LIBOR plus 4.0% and payment-in-kind interest of 5.5% and has a final maturity of April 1, 2019.

On September 30, 2014, we made a \$26,431 follow-on first lien senior secured debt investment in Harbortouch Payments, LLC (“Harbortouch”) to support an acquisition. The Term Loan C bears interest in cash at the greater of 13.0% or LIBOR plus 9.0% and has a final maturity of September 29, 2018.

On September 30, 2014, we made a \$42,200 follow-on first lien senior secured debt investment in PrimeSport, Inc. (“PrimeSport”) to fund a dividend recapitalization. We invested an equal amount in Term Loan A notes and Term Loan B notes. The Term Loan A originally bore interest in cash at the greater of 7.5% or LIBOR plus 6.5% and had a final maturity of December 23, 2019. The Term Loan B originally bore interest in cash at the greater of 11.5% or LIBOR plus 10.5% and payment-in-kind interest of 1.0% and had a final maturity of December 23, 2019. On February 11, 2015, we made a \$20,268 follow-on first lien senior secured debt investment in PrimeSport to support its acquisition by a new financial sponsor. We invested an additional \$10,680 in Term Loan A notes and \$9,588 in Term Loan B notes. In connection with the incremental funding, we amended the terms of the investments. The Term Loan A bears interest in cash at the greater of 7.0% or LIBOR plus 6.0% and has a final maturity of February 11, 2021. The Term Loan B bears interest in cash at the greater of 12.0% or LIBOR plus 11.0% and has a final maturity of February 11, 2021.

On September 30, 2014 and October 29, 2014, we made a combined \$22,688 follow-on investment in UPRC to acquire Columbus OH Apartment Holdco, LLC, a portfolio of eight multi-family residential properties located in Ohio. We invested \$3,398 of equity through UPH and \$19,290 of debt directly to UPRC. The senior secured term loan bears interest in cash at the greater of 6.0% or LIBOR plus 4.0% and payment-in-kind interest of 5.5% and has a final maturity of April 1, 2019.

On October 6, 2014, we made a \$35,221 follow-on first lien senior secured debt investment in Onyx to fund an acquisition. We invested an equal amount in Term Loan A notes and Term Loan B notes. The Term Loan A bears interest in cash at the greater of 6.5% or LIBOR plus 5.5% and has a final maturity of September 10, 2019. The Term Loan B bears interest in cash at the greater of 13.5% or LIBOR plus 12.5% and has a final maturity of September 10, 2019.

On October 8, 2014, we made a \$65,000 second lien secured debt investment in Capstone Logistics Acquisition, Inc. (“Capstone”), a logistics services portfolio company. The second lien term loan originally bore interest in cash at the greater of 8.75% or LIBOR plus 7.75%. On June 12, 2015, we made a \$37,500 follow-on second lien senior secured debt investment in Capstone to support an acquisition. In connection with the incremental funding, we amended the terms of this investment to the greater of 9.25% or LIBOR plus 8.25%. The investment has a final maturity of October 7, 2022.

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 in a co-investment transaction with Priority Income Fund, Inc., a closed-end fund managed by an affiliate of Prospect Capital Management.

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 21, 2014, we made a \$22,500 first lien senior secured debt investment in Hollander Sleep Products, LLC, a manufacturer of bed pillows and mattress pads in the United States. The first lien term loan bears interest in cash at the greater of 9.0% or LIBOR plus 8.0% and has a final maturity of October 21, 2020.

On November 17, 2014, we made a \$35,000 follow-on first lien senior secured debt investment in System One Holdings, LLC, of which \$23,500 was funded at closing, to fund a dividend recapitalization. We invested an additional \$23,500 of first lien term loan which bears interest in cash at the greater of 10.5% or LIBOR plus 9.5% and has a final maturity of November 17, 2020. We also provided \$11,500 of delayed draw term loan commitment to support a future dividend recapitalization. The delayed draw term loan, which was unfunded at closing, would increase the existing first lien term loan and bear the same terms and conditions as the initial loan, if drawn.

On November 25, 2014, we made a \$127,000 follow-on first lien senior secured debt investment in InterDent, Inc. (“InterDent”), of which \$120,000 was funded at closing, as part of an add-on acquisition growth and recapitalization strategy. We invested an additional \$60,000 in Term Loan A notes and \$60,000 in Term Loan B notes. The Term Loan A bears interest in cash at the greater of 6.25% or LIBOR plus 5.25% and has a final maturity of August 3, 2017. The Term Loan B bears interest in cash at the greater of 11.25% or LIBOR plus 10.25% and has a final maturity of August 3, 2017. We also provided \$7,000 of delayed draw term loan commitment to support future acquisitions. The delayed draw term loan, which was unfunded

at closing, was fully drawn on December 23, 2014, increasing the existing Term Loan A and Term Loan B on a pro rata basis and bearing the same terms and conditions as the initial loans.

On December 19, 2014, we provided a \$25,000 loan to support the growth of Security Alarm Financing Enterprises, L.P., a national security alarm company. The senior subordinated note bears interest in cash at the greater of 11.5% or LIBOR plus 9.5% and has a final maturity of December 19, 2020.

On January 16, 2015, we made a \$13,871 follow-on investment in NPRC to acquire five additional properties in Michigan Storage, LLC, a portfolio of twelve self-storage facilities located in Michigan. We invested \$2,061 of equity through NPH Property Holdings, LLC and \$11,810 of debt directly to NPRC. The senior secured Term Loan A bears interest in cash at the greater of 6.0% or LIBOR plus 4.0% and payment-in-kind interest of 5.5% and has a final maturity of April 1, 2019.

On March 30, 2015, we made a \$74,700 follow-on first lien senior secured debt investment in Instant Web, LLC ("IWCO"), of which \$58,700 was funded at closing, to support a recapitalization of the business. We invested an additional \$22,100 in Term Loan A notes, \$22,100 in Term Loan B notes, and \$14,500 in Term Loan C notes. The Term Loan A bears interest in cash at the greater of 5.5% or LIBOR plus 4.5% and has a final maturity of March 28, 2019. The Term Loan B bears interest in cash at the greater of 12.0% or LIBOR plus 11.0% and has a final maturity of March 28, 2019. The Term Loan C bears interest in cash at the greater of 12.75% or LIBOR plus 11.75% and has a final maturity of March 28, 2019. We also provided \$16,000 of delayed draw term loan commitment to support a future dividend recapitalization. The delayed draw term loan, which was unfunded at closing, would increase the existing Term Loan A and Term Loan B on a pro rata basis and bear the same terms and conditions as the initial loans, if drawn.

On April 15, 2015, we provided \$48,500 of first lien senior secured financing, of which \$43,500 was funded at closing, to USG Intermediate, LLC, an entrepreneur-owned direct marketing company. The Term Loan A bears interest in cash at the greater of 7.5% or LIBOR plus 6.5% and has a final maturity of April 15, 2020. The Term Loan B bears interest in cash at the greater of 12.5% or LIBOR plus 11.5% and has a final maturity of April 15, 2020. The \$5,000 senior secured revolver, which was unfunded at closing, bears interest in cash at the greater of 10.0% or LIBOR plus 9.0% and has a final maturity of April 15, 2016.

On April 16, 2015, we made a \$10,000 second lien secured debt investment in SESAC Holdco II LLC, a performance rights organization based in Nashville, Tennessee. The second lien term loan bears interest in cash at the greater of 9.0% or LIBOR plus 8.0% and has a final maturity of April 22, 2021.

On May 13, 2015, we made an investment of \$44,645 to purchase 81.48% of the subordinated notes in Mountain View CLO IX Ltd. in a co-investment transaction with Priority Income Fund, Inc., a closed-end fund managed by an affiliate of Prospect Capital Management.

On May 28, 2015, we made a \$15,000 follow-on first lien senior secured debt investment in Traeger Pellet Grills LLC in connection with a delayed purchase price payment. We invested an additional \$7,500 in Term Loan A notes and \$7,500 in Term Loan B notes. The Term Loan A bears interest in cash at the greater of 6.5% or LIBOR plus 4.5% and has a final maturity of June 18, 2018. The Term Loan B bears interest in cash at the greater of 11.5% or LIBOR plus 9.5% and has a final maturity of June 18, 2018.

On June 5, 2015, we made an investment of \$15,106 to purchase 50.07% of the subordinated notes in HarbourView CLO VII, Ltd. in a co-investment transaction with Priority Income Fund, Inc., a closed-end fund managed by an affiliate of Prospect Capital Management.

On June 9, 2015, we provided additional debt and equity financing to support the recapitalization of Edmentum, Inc. ("Edmentum"). As part of the recapitalization, we exchanged 100% of the \$50,000 second lien term loan previously outstanding for \$26,365 of junior PIK notes and 370,964.14 Class A common units representing 37.1% equity ownership in Edmentum Ultimate Holdings, LLC ("Edmentum Holdings"). In addition, we invested \$5,875 in senior PIK notes and committed \$7,834 as part of a second lien revolving credit facility, of which \$4,896 was funded at closing. The unsecured senior PIK note issued by Edmentum Holdings bears payment-in-kind interest of 8.5% and has a final maturity of June 9, 2020. The unsecured junior PIK note issued by Edmentum Holdings bears payment-in-kind interest of 10.0% and has a final maturity of June 9, 2020. The second lien revolver issued by Edmentum bears interest in cash at 5.0% and has a final maturity of June 9, 2020. On June 9, 2015, we determined that the impairment of Edmentum was other-than-temporary and recorded a realized loss of \$22,116 for the amount that the amortized cost exceeded the fair value, reducing the amortized cost to \$37,216.

On June 12, 2015, we made a second lien secured investment of \$5,000 to support the recapitalization of Royal Holdings, Inc., a manufacturer of high-value specialty adhesives and sealants. The second lien term loan bears interest in cash at the greater of 8.5% or LIBOR plus 7.5% and has a final maturity of June 19, 2023. As part of the recapitalization, on June 22, 2015, we received repayment of the \$20,000 loan previously outstanding from Royal Adhesives and Sealants, LLC, a wholly-owned subsidiary of Royal Holdings, Inc.

On June 19, 2015, we made a \$10,000 second lien secured investment in Prime Security Services Borrower, LLC to support the simultaneous acquisitions of two providers of alarm monitoring services in the United States. The second lien term loan bears interest in cash at the greater of 9.75% or LIBOR plus 8.75% and has a final maturity of July 1, 2022.

On June 23, 2015, we made a \$10,000 second lien secured investment in PlayPower, Inc., a global designer and manufacturer of commercial playgrounds as well as indoor and outdoor recreational equipment. The second lien term loan bears interest in cash at the greater of 9.75% or LIBOR plus 8.75% and has a final maturity of June 23, 2022.

On June 26, 2015, we made a \$21,400 follow-on first lien senior secured debt investment in Global Employment Solutions, Inc. to support an acquisition. In connection with the incremental funding, we amended the terms of this investment to the greater of 10.25% or LIBOR plus 9.25% and extended the final maturity to June 26, 2020.

On June 26, 2015, we made an investment of \$16,928 to purchase 56.52% of the subordinated notes in Jefferson Mill CLO Ltd. in a co-investment transaction with Priority Income Fund, Inc., a closed-end fund managed by an affiliate of Prospect Capital Management.

On June 30, 2015, we provided \$58,500 of first lien senior secured financing, of which \$44,000 was funded at closing, to BAART Programs, Inc., an operator of outpatient opioid treatment service clinics. We invested \$21,500 in Term Loan A notes and \$21,500 in Term Loan B notes. The Term Loan A bears interest in cash at the greater of 6.25% or LIBOR plus 5.75% and has a final maturity of June 30, 2020. The Term Loan B bears interest in cash at the greater of 11.25% or LIBOR plus 10.75% and has a final maturity of June 30, 2020. The \$5,000 senior secured revolver, of which \$1,000 was funded at closing, bears interest in cash at the greater of 8.75% or LIBOR plus 8.25% and has a final maturity of June 30, 2018. We also provided \$10,500 of delayed draw term loan commitment to fund a future earnout payment to the sellers. The delayed draw term loan, which was unfunded at closing, would increase the existing Term Loan A and Term Loan B on a pro rata basis and bear the same terms and conditions as the initial loans, if drawn.

In addition to the purchases noted above, during the year ended June 30, 2015, we made thirty-six follow-on investments in NPRC totaling \$224,200 to support the online consumer lending initiative. We invested \$52,350 of equity through NPH Property Holdings, LLC and \$171,850 of debt directly to NPRC and its wholly-owned subsidiaries.

Additionally, during the year ended June 30, 2015, our wholly-owned subsidiary PSBL purchased \$96,380 of small business whole loans from OnDeck and Direct Capital.

During the year ended June 30, 2015, we received full repayments on eighteen investments, sold twelve investments, and received several partial prepayments and amortization payments totaling \$1,633,073, net of realized losses totaling \$180,423. The more significant of these transactions are briefly described below.

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

On August 1, 2014, we sold our investments in Airmall Inc. ("Airmall") for net proceeds of \$51,379 and realized a loss of \$3,473 on the sale. In addition, there is \$6,000 being held in escrow, of which 98% is due to Prospect, which will be recognized as an additional realized loss if it is not received. On October 22, 2014, we received a tax refund of \$665 related to our investment in Airmall for which we realized a gain of the same amount.

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

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 loans receivable to us.

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

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

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

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

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

On October 10, 2014, ARRM Services, Inc. (“ARRM”) sold Ajax Rolled Ring & Machine, LLC (“Ajax”) to a third party and repaid the \$19,337 loan receivable to us and we recorded a realized loss of \$23,560 related to the sale. Concurrent with the sale, our ownership increased to 100% of the outstanding equity of ARRM Services, Inc. which was renamed SB Forging Company, Inc. (“SB Forging”). As such, we began consolidating SB Forging on October 11, 2014. In addition, there is \$3,000 being held in escrow of which \$802 was received on May 6, 2015 for which we realized a gain of the same amount. The remainder will be recognized as additional gain if and when received.

On October 20, 2014, we sold our \$22,000 investment in Galaxy XII CLO, Ltd. and realized a loss of \$2,435 on the sale.

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

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

On December 24, 2014, Focus Products Group International, LLC repaid the \$19,745 loan receivable to us.

On February 13, 2015, CRT MIDCO, LLC repaid the \$46,754 loan receivable to us.

On April 2, 2015, we sold our \$74,654 investment in American Broadband Holding Company. There was no gain or loss realized on the sale.

On April 8, 2015, we sold 60% of the outstanding principal balance of the senior secured Term Loan A investment in Trinity for \$59,253. There was no gain or loss realized on the sale.

On April 10, 2015, Sandow Media, LLC repaid the \$24,425 loan receivable to us.

On April 16, 2015, Ikaria, Inc. repaid the \$20,000 loan receivable to us.

On May 22, 2015, Blue Coat Systems, Inc. repaid the \$11,000 loan receivable to us.

On June 2, 2015, we sold 100% of the outstanding principal balance of the senior secured Term Loan A investment in Fleetwash, Inc. for \$24,079. There was no gain or loss realized on the sale.

On June 5, 2015, we sold our equity investment in Vets Securing America, Inc. (“VSA”) and realized a net loss of \$975 on the sale. In connection with the sale, VSA was released as a borrower on the secured promissory notes, leaving The Healing Staff, Inc. (“THS”) as the sole borrower. During the year ended June 30, 2015, THS ceased operations and we recorded a realized loss of \$2,956, reducing the amortized cost to zero.

On June 8, 2015, we sold an additional 10% of the total outstanding principal balance of the senior secured Term Loan A investment in Trinity for \$9,876. There was no gain or loss realized on the sale.

On June 22, 2015, IDQ Holdings, Inc. repaid the \$12,500 loan receivable to us.

On June 22, 2015, we sold 26.85% of the outstanding principal balance of the senior secured Term Loan A investment in PrimeSport for \$19,950. There was no gain or loss realized on the sale.

On June 22, 2015, we sold an additional 20% of the total outstanding principal balance of the senior secured Term Loan A investment in Trinity for \$19,751. There was no gain or loss realized on the sale.

On June 25, 2015, Deltek, Inc. repaid the \$12,000 loan receivable to us.

In addition to the repayments noted above, during the year ended June 30, 2015, we received partial repayments of \$31,365 of the NPRC loan previously outstanding and \$5,577 as a return of capital on the equity investment in NPRC.

The following table provides a summary of our investment activity for each quarter within the three years ending June 30, 2015:

Quarter Ended	Acquisitions(1)	Dispositions(2)
September 30, 2012	\$ 747,937	\$ 158,123
December 31, 2012	772,125	349,269
March 31, 2013	784,395	102,527
June 30, 2013	798,760	321,615
September 30, 2013	556,843	164,167
December 31, 2013	608,153	255,238
March 31, 2014	1,343,256	197,947
June 30, 2014	444,104	169,617
September 30, 2014	887,205	863,144
December 31, 2014	522,705	224,076
March 31, 2015	219,111	108,124
June 30, 2015	459,967	437,729

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

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

Investment Valuation

In determining the fair value of our portfolio investments at June 30, 2015, the Audit Committee considered valuations from the independent valuation firms and from management having an aggregate range of \$6,304,870 to \$6,736,378, excluding money market investments.

In determining the range of value for debt instruments except CLOs and debt investments in controlled portfolio companies, management and the independent valuation firm generally estimate corporate and security credit ratings and identify corresponding yields to maturity for each loan from relevant market data. A discounted cash flow analysis was then prepared using the appropriate yield to maturity as the discount rate, to determine range of value. For non-traded equity investments, the enterprise value was determined by applying EBITDA multiples or book value multiples for similar guideline public companies and/or similar recent investment transactions. For stressed equity investments, a liquidation analysis was prepared.

In determining the range of value for our investments in CLOs, management and the independent valuation firm used a discounted cash flow model. The valuations were accomplished through the analysis of the CLO deal structures to identify the risk exposures from the modeling point of view as well as to determine an appropriate call date. For each CLO security, the most appropriate valuation approach was chosen from alternative approaches to ensure the most accurate valuation for such security. A waterfall engine 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 to anticipated maturity and call dates.

The Board of Directors looked at several factors in determining where within the range to value the asset including: recent operating and financial trends for the asset, independent ratings obtained from third parties, comparable multiples for recent sales of companies within the industry and discounted cash flow models for our investments in CLOs. The composite of all these analyses, applied to each investment, was a total valuation of \$6,609,558.

Our portfolio companies are generally lower middle market companies, outside of the financial sector, with less than \$150,000 of annual EBITDA. We believe our market has experienced less volatility than others because we believe there are more buy and hold investors who own these less liquid investments.

Control investments offer increased risk and reward over straight debt investments. Operating results and changes in market multiples can result in dramatic changes in values from quarter to quarter. Significant downturns in operations can further result in our looking to recoveries on sales of assets rather than the enterprise value of the investment. Transactions between our controlled investments and us have been detailed in Note 14 to the accompanying consolidated financial statements. Several control investments in our portfolio are under enhanced scrutiny by our senior management and our Board of Directors and are discussed below.

American Property REIT Corp.

APRC is a Maryland corporation and a qualified REIT for federal income tax purposes. APRC was formed to hold for investment, operate, finance, lease, manage, and sell a portfolio of real estate assets and engage in any and all other activities as may be necessary, incidental or convenient to carry out the foregoing. APRC acquires real estate assets, including, but not limited to, industrial, commercial, and multi-family properties. APRC may acquire real estate assets directly or through joint ventures by making a majority equity investment in a property-owning entity. As of June 30, 2015, we own 100% of the fully-diluted common equity of APRC.

During the year ended June 30, 2015, we provided \$1,381 and \$107 of debt and equity financing, respectively, to APRC for the acquisition of real estate properties and to fund capital expenditures for existing properties. During the year ended June 30, 2015, APRC transferred its investments in certain properties to NPRC. As a result, our investments in APRC related to these properties also transferred to NPRC. The investments transferred consisted of \$12,985 of equity and \$95,576 of debt. There was no gain or loss realized on these transactions. In addition, during the year ended June 30, 2015, we received \$8 as a return of capital on the equity investment in APRC.

As of June 30, 2015, APRC's real estate portfolio was comprised of twelve multi-family properties and one commercial property. The following table shows the location, acquisition date, purchase price, and mortgage outstanding due to other parties for each of the properties held by APRC as of June 30, 2015.

No.	Property Name	City	Acquisition Date	Purchase Price	Mortgage Outstanding
1	1557 Terrell Mill Road, LLC	Marietta, GA	12/28/2012	\$ 23,500	\$ 15,164
2	Lofton Place, LLC	Tampa, FL	4/30/2013	26,000	16,965
3	Vista Palma Sola, LLC	Bradenton, FL	4/30/2013	27,000	17,550
4	Arlington Park Marietta, LLC	Marietta, GA	5/8/2013	14,850	9,650
5	Cordova Regency, LLC	Pensacola, FL	11/15/2013	13,750	9,026
6	Crestview at Oakleigh, LLC	Pensacola, FL	11/15/2013	17,500	11,488
7	Inverness Lakes, LLC	Mobile, AL	11/15/2013	29,600	19,400
8	Kings Mill Pensacola, LLC	Pensacola, FL	11/15/2013	20,750	13,622
9	Plantations at Pine Lake, LLC	Tallahassee, FL	11/15/2013	18,000	11,817
10	Verandas at Rock Ridge, LLC	Birmingham, AL	11/15/2013	15,600	10,205
11	Plantations at Hillcrest, LLC	Mobile, AL	1/17/2014	6,930	4,972
12	Crestview at Cordova, LLC	Pensacola, FL	1/17/2014	8,500	4,950
13	Taco Bell, OK	Yukon, OK	6/4/2014	1,719	-
				<u>\$ 223,699</u>	<u>\$ 144,809</u>

Due to an increase in same property values driven by an increase in net operating income and a decrease in observed market capitalization rates for the properties, the Board of Directors increased the fair value of our investment in APRC to \$118,256 as of June 30, 2015, a premium of \$18,064 to its amortized cost, compared to the \$3,392 unrealized appreciation recorded at June 30, 2014.

First Tower Finance Company LLC

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

On June 15, 2012, we acquired 80.1% of First Tower businesses for \$110,200 in cash and 14,518,207 unregistered shares of our common stock. Based on our share price of \$11.06 at the time of issuance, we acquired our 80.1% interest in First Tower for approximately \$270,771. The assets of First Tower acquired include, among other things, the subsidiaries owned by First Tower, which hold finance receivables, leaseholds, and tangible property associated with First Tower’s businesses. As part of the transaction, we received \$4,038 in structuring fee income from First Tower. On October 18, 2012, we funded an additional \$20,000 of senior secured debt to support seasonally high demand during the holiday season. On December 30, 2013, we funded an additional \$10,000 to again support seasonal demand and received \$8,000 of structuring fees related to the renegotiation and expansion of First Tower’s revolver with a third party which was recognized as other income. As of June 30, 2015, First Tower had total assets of approximately \$605,260 including \$400,451 of finance receivables net of unearned charges. As of June 30, 2015, First Tower’s total debt outstanding to parties senior to us was \$334,637.

Due to First Tower’s maintained positive momentum driven by strong volumes and historically low delinquencies, the Board of Directors increased the fair value of our investment in First Tower Finance to \$365,950 as of June 30, 2015, a premium of \$47,899 to its amortized cost, compared to the \$7,134 unrealized appreciation recorded at June 30, 2014.

Harbortouch Payments, LLC

Harbortouch is a merchant processor headquartered in Allentown, Pennsylvania. The company offers a range of payment processing equipment and services that facilitate the exchange of goods and services provided by small to medium-sized merchants located in the United States for payments made by credit, debit, prepaid, electronic gift, and loyalty cards. Harbortouch provides point-of-sale equipment free of cost to merchants and then manages the process whereby transaction information is sent to a consumer’s bank from the point-of-sale (front-end processing), and then funds are transferred from the consumer’s account to the merchant’s account (back-end processing).

On March 31, 2014, we acquired a controlling interest in Harbortouch for \$147,898 in cash and 2,306,294 unregistered shares of our common stock. We funded \$130,796 of senior secured term debt, \$123,000 of subordinated term debt and \$24,898 of equity at closing. As part of the transaction, we received \$7,536 of structuring fee income from Harbortouch. On April 1, 2014, we restructured our investment in Harbortouch and \$14,226 of equity was converted into additional debt investment. On September 30, 2014, we made a \$26,431 follow-on investment in Harbortouch to support an acquisition. As part of the transaction, we received \$529 of structuring fee income and \$50 of amendment fee income from Harbortouch which was recorded as other income. On December 19, 2014, we made an additional \$1,292 equity investment in Harbortouch Class C voting units. As of June 30, 2015, we own 100% of the Class C voting units of Harbortouch, which provide for a 53.5% residual profits allocation.

Due to improved operating results and a corresponding increase in Harbortouch’s enterprise value, the Board of Directors increased the fair value of our investment in Harbortouch to \$376,936 as of June 30, 2015, a premium of \$71,477 to its amortized cost, compared to the \$12,620 unrealized appreciation recorded at June 30, 2014.

National Property REIT Corp.

NPRC is a Maryland corporation and a qualified REIT for federal income tax purposes. NPRC was formed to hold for investment, operate, finance, lease, manage, and sell a portfolio of real estate assets and engage in any and all other activities as may be necessary, incidental or convenient to carry out the foregoing. NPRC acquires real estate assets, including, but not limited to, industrial, commercial, and multi-family properties. NPRC may acquire real estate assets directly or through joint ventures by making a majority equity investment in a property-owning entity. Additionally, through its wholly-owned subsidiaries, NPRC invests in online consumer loans. As of June 30, 2015, we own 100% of the fully-diluted common equity of NPRC.

During the year ended June 30, 2015, we provided \$171,850 and \$52,350 of debt and equity financing, respectively, to NPRC to enable certain of its wholly-owned subsidiaries to invest in online consumer loans. In addition, during the year ended June 30, 2015, we received partial repayments of \$32,883 of the loans previously outstanding and \$5,577 as a return of capital on the equity investment in NPRC.

The online consumer loan investments held by certain of NPRC's wholly-owned subsidiaries are unsecured obligations of individual borrowers that are issued in amounts ranging from \$1 to \$35, with fixed interest rates and fixed terms of either 36 or 60 months. As of June 30, 2015, the investment in online consumer loans by certain of NPRC's wholly-owned subsidiaries had a fair value of \$366,014. The average outstanding individual loan balance is approximately \$9 and the loans mature on dates ranging from October 31, 2016 to June 29, 2020. Fixed interest rates range from 5.3% to 29.0% with a weighted-average current interest rate of 19.6%.

During the year ended June 30, 2015, we provided \$12,046 and \$2,077 of debt and equity financing, respectively, to NPRC for the acquisition of real estate properties and to fund capital expenditures for existing properties. During the year ended June 30, 2015, APRC and UPRC transferred their investments in certain properties to NPRC. As a result, our investments in APRC and UPRC related to these properties also transferred to NPRC. The investments transferred consisted of \$14,266 of equity and \$105,020 of debt. There was no gain or loss realized on these transactions.

As of June 30, 2015, NPRC's real estate portfolio was comprised of eleven multi-family properties and thirteen commercial properties. The following table shows the location, acquisition date, purchase price, and mortgage outstanding due to other parties for each of the properties held by NPRC as of June 30, 2015.

No.	Property Name	City	Acquisition Date	Purchase Price	Mortgage Outstanding
1	146 Forest Parkway, LLC	Forest Park, GA	10/24/2012	\$ 7,400	\$ -
2	5100 Live Oaks Blvd, LLC	Tampa, FL	1/17/2013	63,400	39,600
3	NPRC Carroll Resort, LLC	Pembroke Pines, FL	6/24/2013	225,000	157,500
4	APH Carroll 41, LLC	Marietta, GA	11/1/2013	30,600	22,097
5	Matthews Reserve II, LLC	Matthews, NC	11/19/2013	22,063	17,571
6	City West Apartments II, LLC	Orlando, FL	11/19/2013	23,562	18,533
7	Vinings Corner II, LLC	Smyrna, GA	11/19/2013	35,691	26,640
8	Uptown Park Apartments II, LLC	Altamonte Springs, FL	11/19/2013	36,590	27,471
9	Mission Gate II, LLC	Plano, TX	11/19/2013	47,621	36,148
10	St. Marin Apartments II, LLC	Coppell, TX	11/19/2013	73,078	53,863
11	APH Carroll Bartram Park, LLC	Jacksonville, FL	12/31/2013	38,000	28,500
12	APH Carroll Atlantic Beach, LLC	Atlantic Beach, FL	1/31/2014	13,025	8,916
13	23 Mile Road Self Storage, LLC	Chesterfield, MI	8/19/2014	5,804	4,350
14	36th Street Self Storage, LLC	Wyoming, MI	8/19/2014	4,800	3,600
15	Ball Avenue Self Storage, LLC	Grand Rapids, MI	8/19/2014	7,281	5,460
16	Ford Road Self Storage, LLC	Westland, MI	8/29/2014	4,642	3,480
17	Ann Arbor Kalamazoo Self Storage, LLC	Ann Arbor, MI	8/29/2014	4,458	3,345
18	Ann Arbor Kalamazoo Self Storage, LLC	Scio, MI	8/29/2014	8,927	6,695
19	Ann Arbor Kalamazoo Self Storage, LLC	Kalamazoo, MI	8/29/2014	2,363	1,775
20	Jolly Road Self Storage, LLC	Okemos, MI	1/16/2015	7,492	5,620
21	Eaton Rapids Road Self Storage, LLC	Lansing West, MI	1/16/2015	1,741	1,305
22	Haggerty Road Self Storage, LLC	Novi, MI	1/16/2015	6,700	5,025
23	Waldon Road Self Storage, LLC	Lake Orion, MI	1/16/2015	6,965	5,225
24	Tyler Road Self Storage, LLC	Ypsilanti, MI	1/16/2015	3,507	2,630
				<u>\$ 680,710</u>	<u>\$ 485,349</u>

Due to an increase in same property values driven by an increase in net operating income and a decrease in observed market capitalization rates for the properties, the Board of Directors increased the fair value of our investment in NPRC to \$471,889 as of June 30, 2015, a premium of \$22,229 to its amortized cost, compared to the \$2,088 unrealized depreciation recorded at June 30, 2014.

United Property REIT Corp.

UPRC is a Delaware limited liability company and a qualified REIT for federal income tax purposes. UPRC was formed to hold for investment, operate, finance, lease, manage, and sell a portfolio of real estate assets and engage in any and all other activities as may be necessary, incidental or convenient to carry out the foregoing. UPRC acquires real estate assets, including, but not limited to, industrial, commercial, and multi-family properties. UPRC may acquire real estate assets directly or through joint ventures by making a majority equity investment in a property-owning entity. As of June 30, 2015, we own 100% of the fully-diluted common equity of UPRC.

During the year ended June 30, 2015, we provided \$53,022 and \$9,100 of debt and equity financing, respectively, to UPRC for the acquisition of certain properties and to fund capital expenditures for existing properties. During the year ended June 30, 2015, UPRC transferred its investments in certain properties to NPRC. As a result, our investments in UPRC related to these properties also transferred to NPRC. The investments transferred consisted of \$1,281 of equity and \$9,444 of debt. There was no gain or loss realized on the transaction.

As of June 30, 2015, UPRC's real estate portfolio was comprised of fifteen multi-families properties and one commercial property. The following table shows the location, acquisition date, purchase price, and mortgage outstanding due to other parties for each of the properties held by UPRC as of June 30, 2015.

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

Due to an increase in same property values driven by an increase in net operating income and a decrease in observed market capitalization rates for the properties, the Board of Directors increased the fair value of our investment in UPRC to \$84,685 as of June 30, 2015, a premium of \$9,057 to its amortized cost, compared to the \$426 unrealized appreciation recorded at June 30, 2014.

Valley Electric Company, Inc.

We own 94.99% of Valley Electric Company, Inc. (“Valley Electric”) as of June 30, 2015. Valley Electric owns 100% of the equity of VE Company, Inc., which owns 100% of the equity of Valley Electric Co. of Mt. Vernon, Inc. (“Valley”). Valley is a leading provider of specialty electrical services in the state of Washington and is among the top 50 electrical contractors in the U.S. The company, with its headquarters in Everett, Washington, offers a comprehensive array of contracting services, primarily for commercial, industrial, and transportation infrastructure applications, including new installation, engineering and design, design-build, traffic lighting and signalization, low to medium voltage power distribution, construction management, energy management and control systems, 24-hour electrical maintenance and testing, as well as special projects and tenant improvement services. Valley was founded in 1982 by the Ward family, who held the company until the end of 2012.

On December 31, 2012, we acquired 96.3% of the outstanding shares of Valley. We funded the recapitalization of Valley with \$42,572 of debt and \$9,526 of equity financing. Through the recapitalization, we acquired a controlling interest in Valley for \$7,449 in cash and 4,141,547 unregistered shares of our common stock. On June 24, 2014, Prospect and management of Valley formed Valley Electric and contributed their shares of Valley stock to Valley Electric. Valley management made an additional equity investment in Valley Electric, reducing our ownership to 94.99%.

Due to soft operating results, the Board of Directors decreased the fair value of our investment in Valley Electric to \$30,497 as of June 30, 2015, a discount of \$28,340 from its amortized cost, compared to the \$23,304 unrealized depreciation recorded at June 30, 2014.

Equity positions in the portfolio are susceptible to potentially significant changes in value, both increases as well as decreases, due to changes in operating results. Several of our controlled companies experienced such volatility and we recorded corresponding fluctuations in valuations during the year ended June 30, 2015. See above for discussions regarding the fluctuations in APRC, First Tower, Harbortouch, NPRC, UPRC, and Valley Electric. During the year ended June 30, 2015, the value of our investment in CP Energy Services Inc. (“CP Energy”) decreased by \$41,927 as a result of depressed earnings resulting from softness of the energy markets; Gulf Coast Machine & Supply Company (“Gulf Coast”) decreased by \$16,041 due to a decline in operating results; and R-V Industries, Inc. (“R-V”) decreased by \$16,052 due to lower sales profitability. In total, thirteen of the controlled investments are valued at the original investment amounts or higher, and six of the controlled investments have been valued at discounts to the original investment. Overall, at June 30, 2015, control investments are valued at \$79,558 above their amortized cost.

We hold one affiliate investment at June 30, 2015. Our affiliate portfolio company did not experience a significant change in valuation during the year ended June 30, 2015.

With the non-control/non-affiliate investments, generally, there is less volatility related to our total investments because our equity positions tend to be smaller than with our control/affiliate investments, and debt investments are generally not as susceptible to large swings in value as equity investments. For debt investments, the fair value is generally limited on the high side to each loan’s par value, plus any prepayment premia that could be imposed. Many of the debt investments in this category have not experienced a significant change in value, as they were previously valued at or near par value. Non-control/non-affiliate investments did not experience significant changes and are generally performing as expected or better than expected. During the year ended June 30, 2015, the value of our investment in Pacific World decreased by \$21,328 due to a decline in operating results. Overall, at June 30, 2015, non-control/non-affiliate investments are valued at \$30,171 below their amortized cost.

Capitalization

Our investment activities are capital intensive and the availability and cost of capital is a critical component of our business. We capitalize our business with a combination of debt and equity. Our debt as of June 30, 2015 consists of: a Revolving Credit Facility availing us of the ability to borrow debt subject to borrowing base determinations; Convertible Notes which we issued in December 2010, February 2011, April 2012, August 2012, December 2012 and April 2014; Public Notes which we issued in March 2013 and April 2014; and Prospect Capital InterNotes® which we may issue from time to time. Our equity capital is comprised entirely of common equity.

The following table shows the maximum draw amounts and outstanding borrowings of our Revolving Credit Facility, Convertible Notes, Public Notes and Prospect Capital InterNotes® as of June 30, 2015 and June 30, 2014.

	June 30, 2015		June 30, 2014	
	Maximum Draw Amount	Amount Outstanding	Maximum Draw Amount	Amount Outstanding
Revolving Credit Facility	\$ 885,000	\$ 368,700	\$ 857,500	\$ 92,000
Convertible Notes	1,239,500	1,239,500	1,247,500	1,247,500
Public Notes	548,094	548,094	647,881	647,881
Prospect Capital InterNotes®	827,442	827,442	785,670	785,670
Total	\$ 3,500,036	\$ 2,983,736	\$ 3,538,551	\$ 2,773,051

The following table shows the contractual maturities of our Revolving Credit Facility, Convertible Notes, Public Notes and Prospect Capital InterNotes® as of June 30, 2015.

	Payments Due by Period				
	Total	Less than 1 Year	1 - 3 Years	3 - 5 Years	After 5 Years
Revolving Credit Facility	\$ 368,700	\$ -	\$ -	\$ 368,700	\$ -
Convertible Notes	1,239,500	150,000	497,500	592,000	-
Public Notes	548,094	-	-	300,000	248,094
Prospect Capital InterNotes®	827,442	-	54,509	369,938	402,995
Total Contractual Obligations	\$ 2,983,736	\$ 150,000	\$ 552,009	\$ 1,630,638	\$ 651,089

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

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

Historically, we have funded a portion of our cash needs through borrowings from banks, issuances of senior securities, including secured, unsecured and convertible debt securities, or issuances of common equity. For flexibility, we maintain a universal shelf registration statement that allows for the public offering and sale of our debt securities, common stock, preferred stock, subscription rights, and warrants and units to purchase such securities in an amount up to \$5,000,000 less issuances to date. As of June 30, 2015, we can issue up to \$4,822,626 of additional debt and equity securities in the public market under this shelf registration. We may from time to time issue securities pursuant to the shelf registration statement or otherwise pursuant to private offerings. The issuance of debt or equity securities will depend on future market conditions, funding needs and other factors and there can be no assurance that any such issuance will occur or be successful.

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

Revolving Credit Facility

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

On August 29, 2014, we renegotiated the 2012 Facility and closed an expanded five and a half year revolving credit facility (the “2014 Facility” and collectively with the 2012 Facility, the “Revolving Credit Facility”). The lenders have extended commitments of \$885,000 under the 2014 Facility as of June 30, 2015. The 2014 Facility includes an accordion feature which allows commitments to be increased up to \$1,500,000 in the aggregate. The revolving period of the 2014 Facility extends through March 2019, with an additional one year amortization period (with distributions allowed) after the completion of the revolving period. During such one year amortization period, all principal payments on the pledged assets will be applied to reduce the balance. At the end of the one year amortization period, the remaining balance will become due, if required by the lenders.

The 2014 Facility contains restrictions pertaining to the geographic and industry concentrations of funded loans, maximum size of funded loans, interest rate payment frequency of funded loans, maturity dates of funded loans and minimum equity requirements. The 2014 Facility also contains certain requirements relating to portfolio performance, including required minimum portfolio yield and limitations on delinquencies and charge-offs, violation of which could result in the early termination of the 2014 Facility. The 2014 Facility also requires the maintenance of a minimum liquidity requirement. As of June 30, 2015, we were in compliance with the applicable covenants.

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

As of June 30, 2015 and June 30, 2014, we had \$721,800 and \$780,620, respectively, available to us for borrowing under the Revolving Credit Facility, of which the amount outstanding was \$368,700 and \$92,000, respectively. As additional eligible investments are transferred to PCF and pledged under the Revolving Credit Facility, PCF will generate additional availability up to the current commitment amount of \$885,000. As of June 30, 2015, the investments, including money market funds, used as collateral for the Revolving Credit Facility had an aggregate fair value of \$1,539,763, which represents 22.9% of our total investments and money market funds. These assets are held and owned by PCF, a bankruptcy remote special purpose entity, and as such, these investments are not available to our general creditors. The release of any assets from PCF requires the approval of the facility agent.

In connection with the origination and amendments of the Revolving Credit Facility, we incurred \$8,866 of new fees and \$3,539 of fees carried over for continuing participants from the previous facility, which are being amortized over the term of the facility in accordance with ASC 470-50, of which \$10,280 remains to be amortized and is included within deferred financing costs on the Consolidated Statement of Assets and Liabilities as of June 30, 2015. In accordance with ASC 470-50, we expensed \$332 of fees relating to credit providers in the 2012 Facility who did not commit to the 2014 Facility.

During the years ended June 30, 2015, 2014 and 2013, we recorded \$14,424, \$12,216 and \$9,082, respectively, of interest costs, unused fees and amortization of financing costs on the Revolving Credit Facility as interest expense.

Convertible Notes

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

On February 18, 2011, we issued \$172,500 aggregate principal amount of convertible notes that mature on August 15, 2016 (the “2016 Notes”), unless previously converted or repurchased in accordance with their terms. The 2016 Notes bear interest at a rate of 5.50% per year, payable semi-annually on February 15 and August 15 of each year, beginning August 15, 2011. Total proceeds from the issuance of the 2016 Notes, net of underwriting discounts and offering costs, were \$167,325. Between January 30, 2012 and February 2, 2012, we repurchased \$5,000 aggregate principal amount of the 2016 Notes at a price of 97.5, including commissions. The transactions resulted in our recognizing \$10 of loss in the year ended June 30, 2012.

On April 16, 2012, we issued \$130,000 aggregate principal amount of convertible notes that mature on October 15, 2017 (the “2017 Notes”), unless previously converted or repurchased in accordance with their terms. The 2017 Notes bear interest at a rate of 5.375% per year, payable semi-annually on April 15 and October 15 of each year, beginning October 15, 2012. Total proceeds from the issuance of the 2017 Notes, net of underwriting discounts and offering costs, were \$126,035.

On August 14, 2012, we issued \$200,000 aggregate principal amount of convertible notes that mature on March 15, 2018 (the “2018 Notes”), unless previously converted or repurchased in accordance with their terms. The 2018 Notes bear interest at a rate of 5.75% per year, payable semi-annually on March 15 and September 15 of each year, beginning March 15, 2013. Total proceeds from the issuance of the 2018 Notes, net of underwriting discounts and offering costs, were \$193,600.

On December 21, 2012, we issued \$200,000 aggregate principal amount of convertible notes that mature on January 15, 2019 (the “2019 Notes”), unless previously converted or repurchased in accordance with their terms. The 2019 Notes bear interest at a rate of 5.875% per year, payable semi-annually on January 15 and July 15 of each year, beginning July 15, 2013. Total proceeds from the issuance of the 2019 Notes, net of underwriting discounts and offering costs, were \$193,600.

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

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, 2015(1)(2)	89.9752	80.2196	87.7516	83.6661	79.8248	80.6670
Conversion price at June 30, 2015(2)(3)	\$ 11.11	\$ 12.47	\$ 11.40	\$ 11.95	\$ 12.53	\$ 12.40
Last conversion price calculation date	12/21/2014	2/18/2015	4/16/2015	8/14/2014	12/21/2014	4/11/2015
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.

(3) The conversion price in effect at June 30, 2015 was calculated on the last anniversary of the issuance and will be adjusted again on the next anniversary, unless the exercise price shall have changed by more than 1% before the anniversary.

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

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

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

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

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

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

In connection with the issuance of the Convertible Notes, we incurred \$39,678 of fees which are being amortized over the terms of the notes, of which \$21,274 remains to be amortized and is included within deferred financing costs on the Consolidated Statement of Assets and Liabilities as of June 30, 2015.

During the years ended June 30, 2015, 2014 and 2013, we recorded \$74,365, \$58,042 and \$45,880, respectively, of interest costs and amortization of financing costs on the Convertible Notes as interest expense.

Public Notes

On May 1, 2012, we issued \$100,000 aggregate principal amount of unsecured notes that were scheduled to mature on November 15, 2022 (the “2022 Notes”). The 2022 Notes bore 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 May 15, 2015, we redeemed \$100,000 aggregate principal amount of the 2022 Notes at par. As a result of this transaction, we recorded a loss in the amount of the difference between the reacquisition price and the net carrying amount of the notes, net of the proportionate amount of unamortized debt issuance costs. The net loss on the extinguishment of the 2022 Notes in the year ended June 30, 2015 was \$2,600.

On March 15, 2013, we issued \$250,000 aggregate principal amount of unsecured notes that mature on March 15, 2023 (the “2023 Notes”). The 2023 Notes bear interest at a rate of 5.875% per year, payable semi-annually on March 15 and September 15 of each year, beginning September 15, 2013. Total proceeds from the issuance of the 2023 Notes, net of underwriting discounts and offering costs, were \$245,885.

On April 7, 2014, we issued \$300,000 aggregate principal amount of unsecured notes that mature on July 15, 2019 (the “5.00% 2019 Notes”). Included in the issuance is \$45,000 of Prospect Capital InterNotes® that were exchanged for the 5.00% 2019 Notes. The 5.00% 2019 Notes bear interest at a rate of 5.00% per year, payable semi-annually on January 15 and July 15 of each year, beginning July 15, 2014. Total proceeds from the issuance of the 5.00% 2019 Notes, net of underwriting discounts and offering costs, were \$250,775.

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

In connection with the issuance of the 2023 Notes and the 5.00% 2019 Notes, we incurred \$8,036 of fees which are being amortized over the term of the notes, of which \$6,604 remains to be amortized and is included within deferred financing costs on the Consolidated Statement of Assets and Liabilities as of June 30, 2015.

During the years ended June 30, 2015, 2014 and 2013, we recorded \$37,063, \$25,988 and \$11,672, respectively, of interest costs and amortization of financing costs on the Public Notes as interest expense.

Prospect Capital InterNotes®

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

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

During the year ended June 30, 2015, we issued \$125,696 aggregate principal amount of Prospect Capital InterNotes® for net proceeds of \$123,641. These notes were issued with stated interest rates ranging from 3.375% to 5.10% with a weighted average interest rate of 4.65%. These notes mature between May 15, 2020 and June 15, 2022. The following table summarizes the Prospect Capital InterNotes® issued during the year ended June 30, 2015.

Tenor at Origination (in years)	Principal Amount	Interest Rate Range	Weighted Average Interest Rate	Maturity Date Range
5.25	\$ 7,126	4.625%	4.625%	August 15, 2020 - September 15, 2020
5.5	106,364	4.25%-4.75%	4.63%	May 15, 2020 - November 15, 2020
6	2,197	3.375%	3.375%	April 15, 2021 - May 15, 2021
6.5	3,912	5.10%	5.10%	December 15, 2021
7	6,097	5.10%	5.10%	May 15, 2022 - June 15, 2022
	<u>\$ 125,696</u>			

During the year ended June 30, 2014, we issued \$473,762 aggregate principal amount of 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. The following table summarizes the Prospect Capital InterNotes® issued during the year ended June 30, 2014.

Tenor at Origination (in years)	Principal Amount	Interest Rate Range	Weighted Average Interest Rate	Maturity Date Range
3	\$ 5,710	4.00%	4.00%	October 15, 2016
3.5	3,149	4.00%	4.00%	April 15, 2017
4	45,751	3.75%-4.00%	3.92%	November 15, 2017 - May 15, 2018
5	207,915	4.25%-5.00%	4.92%	July 15, 2018 - May 15, 2019
5.5	53,820	4.75%-5.00%	4.86%	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
	<u>\$ 473,762</u>			

During the year ended June 30, 2015, we redeemed \$76,931 aggregate principal amount of Prospect Capital InterNotes® at par with a weighted average interest rate of 6.06% in order to replace debt with higher interest rates with debt with lower rates. During the year ended June 30, 2015, we repaid \$6,993 aggregate principal amount of Prospect Capital InterNotes® at par in accordance with the Survivor's Option, as defined in the InterNotes® Offering prospectus. As a result of these transactions, we recorded a loss in the amount of the difference between the reacquisition price and the net carrying amount of the notes, net of the proportionate amount of unamortized debt issuance costs. The net loss on the extinguishment of Prospect Capital InterNotes® in the year ended June 30, 2015 was \$1,682. The following table summarizes the Prospect Capital InterNotes® outstanding as of June 30, 2015.

Tenor at Origination (in years)	Principal Amount	Interest Rate Range	Weighted Average Interest Rate	Maturity Date Range
3	\$ 5,710	4.00%	4.00%	October 15, 2016
3.5	3,109	4.00%	4.00%	April 15, 2017
4	45,690	3.75%-4.00%	3.92%	November 15, 2017 - May 15, 2018
5	207,719	4.25%-5.00%	4.92%	July 15, 2018 - May 15, 2019
5.25	7,126	4.625%	4.63%	August 15, 2020 - September 15, 2020
5.5	115,184	4.25%-5.00%	4.65%	February 15, 2019 - November 15, 2020
6.0	2,197	3.375%	3.38%	April 15, 2021 - May 15, 2021
6.5	5,712	5.10%-5.50%	5.23%	February 15, 2020 - December 15, 2021
7	191,549	4.00%-5.85%	5.13%	September 15, 2019 - June 15, 2022
7.5	1,996	5.75%	5.75%	February 15, 2021
10	36,925	3.29%-7.00%	6.11%	March 15, 2022 - May 15, 2024
12	2,978	6.00%	6.00%	November 15, 2025 - December 15, 2025
15	17,385	5.00%-6.00%	5.14%	May 15, 2028 - November 15, 2028
18	22,729	4.125%-6.25%	5.52%	December 15, 2030 - August 15, 2031
20	4,530	5.75%-6.00%	5.89%	November 15, 2032 - October 15, 2033
25	36,320	6.25%-6.50%	6.39%	August 15, 2038 - May 15, 2039
30	120,583	5.50%-6.75%	6.23%	November 15, 2042 - October 15, 2043
	<u>\$ 827,442</u>			

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

Tenor at Origination (in years)	Principal Amount	Interest Rate Range	Weighted Average Interest Rate	Maturity Date Range
3	\$ 5,710	4.00%	4.00%	October 15, 2016
3.5	3,149	4.00%	4.00%	April 15, 2017
4	45,751	3.75%-4.00%	3.92%	November 15, 2017 - May 15, 2018
5	207,915	4.25%-5.00%	4.92%	July 15, 2018 - August 15, 2019
5.5	8,820	5.00%	4.86%	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
	<u>\$ 785,670</u>			

In connection with the issuance of Prospect Capital InterNotes®, we incurred \$20,168 of fees which are being amortized over the term of the notes, of which \$16,262 remains to be amortized and is included within deferred financing costs on the Consolidated Statement of Assets and Liabilities as of June 30, 2015.

During the years ended June 30, 2015, 2014 and 2013, we recorded \$44,808, \$33,857 and \$9,707, 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, 2015, we issued \$160,122 of additional equity, net of underwriting and offering costs, by issuing 16,464,122 shares of our common stock. During the year ended June 30, 2015, we sold 14,845,556 shares of our common stock at an average price of \$9.89 per share, and raised \$146,827 of gross proceeds, under our at-the-market offering program (the “ATM Program”). Net proceeds were \$145,441 after commissions to the broker-dealer on shares sold and offering costs. During the year ended June 30, 2015, we issued 1,618,566 shares of our common stock in connection with the dividend reinvestment plan. The following table shows the calculation of net asset value per share as of June 30, 2015 and June 30, 2014.

	June 30, 2015		June 30, 2014
Net assets	\$ 3,703,049	\$	3,618,182
Shares of common stock issued and outstanding	359,090,759		342,626,637
Net asset value per share	\$ 10.31	\$	10.56

Results of Operations

Net increase in net assets resulting from operations for the years ended June 30, 2015, 2014 and 2013 was \$346,339, \$319,020 and \$220,856, respectively. During the year ended June 30, 2015, the significant increase in the asset base resulted in an additional \$135,233 of interest income which was partially offset by increased interest costs from the leverage utilized of \$40,557 and increased base management fees of \$25,600. Also reducing the net increase in net assets resulting from operations for the year ended June 30, 2015 versus June 30, 2014 were significant declines in the dividends received from Airmall, Borga, and Credit Central, and a decrease in other income of \$37,266. The decrease in other income is primarily from a reduction in structuring fees from lower origination levels and purchases of online consumer and commercial loans, which do not generate structuring fees. (See “Investment Income” for more details on our originations in each period.) These decreases were partially offset by a \$25,745 favorable decrease in net realized and unrealized losses on investments. (See “Net Realized Losses” and “Net Change in Unrealized Appreciation (Depreciation)” for further discussion.)

During the year ended June 30, 2014, the significant increase in the asset base resulted in an additional \$178,286 of interest income which was partially offset by increased interest costs from the leverage utilized of \$53,762 and increased base management fees of \$39,190. Also reducing the net increase in net assets resulting from operations for the year ended June 30, 2014 versus June 30, 2013 were significant declines in the dividends received from Energy Solutions. These decreases were partially offset by a \$65,865 favorable decrease in net realized and unrealized losses on investments. (See “Net Realized Losses” and “Net Change in Unrealized Appreciation (Depreciation)” for further discussion.)

Net increase in net assets resulting from operations for the years ended June 30, 2015, 2014 and 2013 was \$0.98, \$1.06 and \$1.07 per weighted average share, respectively. During the year ended June 30, 2015, the decrease is primarily due to a \$0.14 per weighted average share decrease in other income driven by reduced structuring fees and a \$0.07 per weighted average share decrease in dividend income received from our investments in Airmall, Borga, and Credit Central. These decreases were partially offset by a \$0.04 per weighted average share decrease in income incentive fees and a \$0.09 per weighted average share favorable decrease in net realized and unrealized losses on investments.

During the year ended June 30, 2014, the decrease is primarily due to a \$0.41 per weighted average share decrease in investment income driven by a \$0.31 per weighted average share decrease in dividend income received from our investment in Energy Solutions. The decrease is also attributable to a \$0.06 per weighted average share increase in interest costs from the leverage utilized. These decreases were partially offset by a \$0.09 per weighted average share decrease in income incentive fees and a \$0.37 per weighted average share favorable decrease in net realized and unrealized losses on investments.

While we seek to maximize gains and minimize losses, our investments in portfolio companies can expose our capital to risks greater than those we may anticipate. These companies 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 \$791,084, \$712,291 and \$576,336 for the years ended June 30, 2015, 2014 and 2013, respectively. The increases are primarily the result of a larger income producing portfolio. The following table describes the various components of investment income and the related levels of debt investments:

	Year Ended June 30,		
	2015	2014	2013
Interest income	\$ 748,974	\$ 613,741	\$ 435,455
Dividend income	7,663	26,837	82,705
Other income	34,447	71,713	58,176
Total investment income	<u>\$ 791,084</u>	<u>\$ 712,291</u>	<u>\$ 576,336</u>
Average debt principal of performing investments	\$ 6,183,163	\$ 4,886,910	\$ 2,878,417
Weighted average interest rate earned on performing debt and equity investments	12.11%	12.56%	15.13%

Average interest income producing assets increased from \$2,878,417 for the year ended June 30, 2013 to \$4,886,910 for the year ended June 30, 2014 to \$6,183,163 for the year ended June 30, 2015. The average interest earned on interest bearing performing assets decreased from 15.13% for the year ended June 30, 2013 to 12.56% for the year ended June 30, 2014 to 12.11% for the year ended June 30, 2015. The decrease in returns during the respective periods is primarily due to originations at lower rates than our average existing portfolio yield and, to a lesser extent, a decline in prepayment penalty income. Excluding the adjustment for prepayment penalty income, our annual return would have been 14.13% for the year ended June 30, 2013, 12.28% for the year ended June 30, 2014, and 11.97% for the year ended June 30, 2015.

Investment income is also generated from dividends and other income. Dividend income decreased from \$26,837 for the year ended June 30, 2014 to \$7,663 for the year ended June 30, 2015. The decrease in dividend income is primarily attributed to a \$12,000 decrease in the level of dividends received from our investment in Airmall. We received dividends of \$12,000 from Airmall during the year ended June 30, 2014. No such dividends were received from Airmall during the year ended June 30, 2015. The decrease in dividend income is further attributed to a \$4,682 and \$3,246 decrease in the level of dividends received from our investments in Credit Central and Borga (f/k/a STI Holding, Inc.), respectively. We received dividends of \$159 and \$4,841 from Credit Central during the years ended June 30, 2015 and June 30, 2014, respectively. We received dividends of \$3,246 from Borga during the year ended June 30, 2014. No dividends were received from Borga during the year ended June 30, 2015. The decrease in dividend income was partially offset by dividends of \$1,929 received from our investment in First Tower during the year ended June 30, 2015. No dividends were received from First Tower during the year ended June 30, 2014.

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 Code, at Energy Solutions for calendar year 2012. In accordance with ASC 946, the distributions we received from Energy Solutions during calendar year 2012 were required to be recognized as dividend income, as there were current year earnings and profits sufficient to support such recognition. As a result, we recognized dividends of \$53,820 from Energy Solutions during the year ended June 30, 2013. No such dividends were received from Energy Solutions during the year ended June 30, 2014. The decrease in dividend income is also attributed to a \$23,362 decrease in the level of dividends received from our investment in R-V. We received dividends of \$1,100 and \$24,462 from R-V during the years ended June 30, 2014 and June 30, 2013, respectively. The dividends from R-V during the year ended June 30, 2013 included a distribution received as part of the portfolio company's recapitalization in November 2012 for which we provided an additional \$9,500 of senior secured financing. 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 from Credit Central and Nationwide

included distributions received as part of the portfolio companies' recapitalizations in March 2014 for which we provided an additional \$2,500 and \$4,000 of financing, respectively. No dividends were received from Airmall, Credit Central or Nationwide during the year ended June 30, 2013.

Other income has come primarily from structuring fees, royalty interests, and settlement of net profits interests. Income from other sources decreased from \$71,713 for the year ended June 30, 2014 to \$34,447 for the year ended June 30, 2015. The decrease is primarily due to a \$30,568 decrease in structuring fees. These fees are primarily generated from originations and will fluctuate as levels of originations and types of originations fluctuate. During the fiscal year ended June 30, 2015, we elected to suspend our equity raising activities. The curtailment of capital raising activities suppressed our levels of origination. Total originations decreased from \$2,952,356 in the year ended June 30, 2014 to \$2,088,988 in the year ended June 30, 2015. As a result, structuring fees fell from \$57,697 in the year ended June 30, 2014 to \$27,129 in the year ended June 30, 2015. Included within the \$27,129 of structuring fees recognized during the year ended June 30, 2015 is a \$3,000 fee from Airmall related to the sale of the operating company for which a fee was received in August 2014 and a \$2,000 fee from Ajax related to the sale of the operating company for which a fee was received in October 2014. The remaining \$22,129 of structuring fees recognized during the year ended June 30, 2015 resulted from follow-on investments in existing portfolio companies and new originations, primarily from our investments in InterDent, IWCO, Pacific World, PrimeSport, Trinity, and UPRC, as discussed above. To a lesser extent, the decrease in other income resulted from a decrease in miscellaneous income due to the receipt of \$5,825 of legal cost reimbursement from a litigation settlement during the year ended June 30, 2014 which had been expensed in prior years. No such income was received during the year ended June 30, 2015.

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 June 30, 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.

Operating Expenses

Our primary operating expenses consist of investment advisory fees (base management and income incentive fees), borrowing costs, legal and professional fees and other operating and overhead-related expenses. These expenses include our allocable portion of overhead under the Administration Agreement with Prospect Administration under which Prospect Administration provides administrative services and facilities for us. Our investment advisory fees compensate the Investment Adviser for its work in identifying, evaluating, negotiating, closing and monitoring our investments. We bear all other costs and expenses of our operations and transactions. Operating expenses were \$428,337, \$355,068 and \$251,412 for the years ended June 30, 2015, 2014 and 2013, respectively.

The base management fee was \$134,590, \$108,990 and \$69,800 for the years ended June 30, 2015, 2014 and 2013, respectively (\$0.38, \$0.36 and \$0.34 per weighted average share, respectively). The increases are directly related to our growth in total assets and the per weighted average share increase is also attributable to our increase in leverage year-over-year.

For the years ended June 30, 2015, 2014 and 2013, we incurred \$90,687, \$89,306 and \$81,231 of income incentive fees, respectively (\$0.26, \$0.30 and \$0.39 per weighted average share, respectively). Income incentive fees remained stable year-over-year on a dollars basis, but the per share decreases were driven by corresponding decreases in pre-incentive fee net investment income from \$1.96 per weighted average share for the year ended June 30, 2013 to \$1.49 per weighted average share for the year ended June 30, 2014 to \$1.28 per weighted average share for the year ended June 30, 2015, primarily due to decreases in dividend and other income per share. No capital gains incentive fee has yet been incurred pursuant to the Investment Advisory Agreement.

During the years ended June 30, 2015, 2014 and 2013, we incurred \$170,660, \$130,103 and \$76,341, respectively, of interest expenses related to our Revolving Credit Facility, Convertible Notes, Public Notes and Prospect Capital InterNotes® (collectively, our "Notes"). These expenses are related directly to the leveraging capacity put into place for each of those periods and the levels of indebtedness actually undertaken in those periods.

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

	Year Ended June 30,		
	2015	2014	2013
Interest on borrowings	\$ 149,312	\$ 111,900	\$ 62,657
Amortization of deferred financing costs	14,266	11,491	8,232
Accretion of discount on Public Notes	213	156	50
Facility commitment fees	6,869	6,556	5,402
Total interest and credit facility expenses	<u>\$ 170,660</u>	<u>\$ 130,103</u>	<u>\$ 76,341</u>
Average principal debt outstanding	\$ 2,830,727	\$ 1,984,164	\$ 1,066,368
Weighted average stated interest rate on borrowings(1)	5.27%	5.64%	5.88%
Weighted average interest rate on borrowings(2)	6.03%	6.56%	7.16%
Revolving Credit Facility amount at beginning of period	\$ 857,500	\$ 552,500	\$ 492,500

(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 during the year ended June 30, 2015 is primarily due to utilizing more debt in 2015 and late 2014 including the issuance of additional Prospect Capital InterNotes®, the 5.00% 2019 Notes and the 2020 Notes, for which we incurred an incremental \$38,898 of collective interest expense. The weighted average stated interest rate on borrowings (excluding amortization, accretion and undrawn facility fees) decreased from 5.64% for the year ended June 30, 2014 to 5.27% for the year ended June 30, 2015. This decrease is primarily due to issuances of debt at lower rates.

The increase in interest expense during the year ended June 30, 2014 compared to the year ended June 30, 2013 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. 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 5.64% for the year ended June 30, 2014. This decrease is primarily due to issuances of debt at lower coupon rates.

The allocation of overhead expense from Prospect Administration was \$21,906, \$14,373 and \$8,737 for the years ended June 30, 2015, 2014 and 2013, respectively. During the year ended June 30, 2015, Prospect Administration received payments of \$6,929 directly from our portfolio companies for legal, tax and portfolio level accounting services. We were given a credit for these payments as a reduction of the administrative services cost payable by us to Prospect Administration, resulting in net overhead expense of \$14,977 during the year ended June 30, 2015. Had Prospect Administration not received these payments, Prospect Administration's charges for its administrative services would have increased by these amounts. As our portfolio continues to grow, we expect Prospect Administration to continue to increase the size of its administrative and financial staff.

We accrued an expense of \$6,500 for excise taxes for the year ended June 30, 2013. 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. During the year ended June 30, 2015, we amended our historical excise tax returns which resulted in the increased excise tax expense of \$2,505 and we recorded an excise tax payable of \$305.

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 \$14,918, \$16,496 and \$8,803 for the years ended June 30, 2015, 2014 and 2013, respectively. The decrease of \$1,578 during the year ended June 30, 2015 is primarily due to a decrease in the expenses related to potential investments that did not materialize. 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.

Net Investment Income

Net investment income represents the difference between investment income and operating expenses. Net investment income was \$362,747, \$357,223 and \$324,924 for the years ended June 30, 2015, 2014 and 2013, respectively. During the year ended June 30, 2015, the significant increase in the asset base resulted in an additional \$135,233 of interest income which was offset by increased interest costs from the leverage utilized of \$40,557 and increased base management fees of \$25,600. Also reducing net investment income for the year ended June 30, 2015 versus June 30, 2014 were significant declines in the dividends received from Airmall, Borgia, and Credit Central, and a decrease in other income of \$37,266. The decrease in other income is primarily from a reduction in structuring fees from lower origination levels and purchases of online consumer and commercial loans, which do not generate structuring fees.

During the year ended June 30, 2014, the significant increase in the asset base resulted in an additional \$178,286 of interest income which was partially offset by increased interest costs from the leverage utilized of \$53,762 and increased base management fees of \$39,190. Also reducing net investment income for the year ended June 30, 2014 versus June 30, 2013 were significant declines in the dividends received from Energy Solutions.

Net investment income for the years ended June 30, 2015, 2014 and 2013 was \$1.03, \$1.19 and \$1.57 per weighted average share, respectively. During the year ended June 30, 2015, the decrease is primarily due to a \$0.14 per weighted average share decrease in other income driven by reduced structuring fees and a \$0.07 per weighted average share decrease in dividend income received from our investments in Airmall, Borgia, and Credit Central. These decreases were partially offset by a \$0.04 per weighted average share decrease in income incentive fees.

During the year ended June 30, 2014, the decrease is primarily due to a \$0.41 per weighted average share decrease in investment income driven by a \$0.31 per weighted average share decrease in dividend income received from our investment in Energy Solutions. The decrease is also attributable to a \$0.06 per weighted average share increase in interest costs from the leverage utilized. These decreases were partially offset by a \$0.09 per weighted average share decrease in income incentive fees.

Net Realized Losses

During the years ended June 30, 2015, 2014 and 2013, we recognized net realized losses on investments of \$180,423, \$3,346 and \$26,234, respectively. The net realized loss during the year ended June 30, 2015 was primarily due to the sale of our investments in Airmall, Ajax, Borgia, BXC and VSA for which we recognized total realized losses of \$47,546, and the sale of four of our CLO investments for which we realized total losses of \$15,561, as discussed above. During the year ended June 30, 2015, we determined that the impairments of several of our investments (e.g., Appalachian Energy, Change Clean Energy Company, Coalbed, Edmentum, Manx, New Century Transportation, Stryker Energy, THS, Wind River Resources Corporation, and Yatesville Coal Company) were other-than-temporary and recorded total realized losses of \$123,555 (which were previously recognized as unrealized losses) for the amount that the amortized cost exceeded the fair value. These losses were partially offset by net realized gains from the proceeds collected on warrants redeemed from Snacks Parent Corporation, litigation settlements, partial sales, and the release of escrowed amounts due to us from several portfolio companies, for which we recognized total realized gains of \$6,239.

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 National Bankruptcy Services, LLC and ICON Health & Fitness, Inc. ("ICON"), respectively. These losses were partially offset by net realized gains from the redemption of the Apidos CLO VIII subordinated notes, partial sales, and the release of escrowed amounts due to us from several portfolio companies, for which we recognized total realized gains of \$6,176. The net realized loss during the year ended June 30, 2013 was primarily due to the H&M debt restructuring which resulted in a capital loss of \$19,647 in connection with the foreclosure on the assets, and the sale of our investment in New Meatco Provisions, LLC for which we recognized a realized loss of \$10,814. During the year ended June 30, 2013, we determined that the impairment of THS/VSA was other-than-temporary and recorded a realized loss of \$12,117 (which was previously recognized as unrealized losses) for the amount that the amortized cost exceeded the fair value. These losses were partially offset by net realized gains from the sale of the assets formerly held by H&M, partial sales, and the release of escrowed amounts due to us from several portfolio companies, for which we recognized total realized gains of \$16,344.

During the year ended June 30, 2015, we repurchased \$8,000 aggregate principal amount of the 2020 Notes, redeemed \$100,000 aggregate principal amount of the 2022 Notes, and redeemed \$83,924 aggregate principal amount of Prospect Capital InterNotes® (including amounts repaid in accordance with the Survivor's Option). As a result of these transactions, we recognized net realized losses on debt extinguishment of \$3,950 in the year ended June 30, 2015. We did not recognize any gains or losses on debt extinguishment during the years ended June 30, 2014 and June 30, 2013.

Net Change in Unrealized Appreciation (Depreciation)

Net change in unrealized appreciation (depreciation) was \$167,965, \$(34,857) and \$(77,834) for the years ended June 30, 2015, 2014 and 2013, 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, 2015, the \$202,822 increase in net change in unrealized appreciation was primarily the result of realizing losses that were previously unrealized related to the sale of our investments in Airmall, Ajax, Borga, BXC and VSA, and the impairment of certain investments for which we eliminated the unrealized depreciation balances related to these investments. We also experienced significant write-ups in our investments in APRC, First Tower, Harbortouch, NPRC, and UPRC. These instances of unrealized appreciation were partially offset by unrealized depreciation related to CP Energy, Gulf Coast, Pacific World, R-V, and Valley Electric.

For the year ended June 30, 2014, the \$42,977 increase in net change in unrealized depreciation was primarily the result of significant write-ups in our investments in CP Well, First Tower, Harbortouch, and our CLO equity investments. These instances of unrealized appreciation were partially offset by the significant write-down of our investment in NCT, which filed for bankruptcy in June 2014. As we held a second lien position and did 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.

Financial Condition, Liquidity and Capital Resources

For the years ended June 30, 2015, 2014 and 2013, our operating activities provided (used) \$45,464, \$(1,725,231) and \$(1,786,158) of cash, respectively. There were no investing activities for the years ended June 30, 2015, 2014 and 2013. Financing activities (used) provided \$(69,663), \$1,656,220 and \$1,868,200 of cash during the years ended June 30, 2015, 2014 and 2013, respectively, which included dividend payments of \$414,833, \$377,070 and \$242,301, respectively.

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

Our primary sources of funds have historically been issuances of debt and equity. More recently, we have and may continue to fund a portion of our cash needs through repayments and opportunistic sales of our existing investment portfolio. We may also securitize a portion of our investments in unsecured or senior secured loans or other assets. Our objective is to put in place such borrowings in order to enable us to expand our portfolio. During the year ended June 30, 2015, we borrowed \$1,567,000 and made repayments totaling \$1,290,300 under our Revolving Credit Facility. As of June 30, 2015, we had \$368,700 outstanding on our Revolving Credit Facility, \$1,239,500 outstanding on the Convertible Notes, Public Notes with a carrying value of \$548,094, and \$827,442 outstanding on the Prospect Capital InterNotes®. (See “Capitalization” above.)

Undrawn committed revolvers and delayed draw term loans to our portfolio companies incur commitment and unused fees ranging from 0.00% to 2.00%. As of June 30, 2015 and June 30, 2014, we had \$88,288 and \$72,118, respectively, of undrawn revolver and delayed draw term loan commitments to our portfolio companies.

Our shareholders’ equity accounts as of June 30, 2015 and June 30, 2014 reflect cumulative shares issued as of those respective dates. Our common stock has been issued through public offerings, a registered direct offering, the exercise of over-allotment options on the part of the underwriters, our dividend reinvestment plan and in connection with the acquisition of certain controlled portfolio companies. When our common stock is issued, the related offering expenses have been charged against paid-in capital in excess of par. All underwriting fees and offering expenses were borne by us.

On August 24, 2011, our Board of Directors approved a share repurchase plan (the “Repurchase Program”) under which we may repurchase up to \$100,000 of our common stock at prices below our net asset value per share. Prior to any repurchase, we are required to notify shareholders of our intention to purchase our common stock. Our last notice was delivered on June 16, 2015. This notice lasts for six months after notice is given. We did not make any purchases of our common stock during the period from August 24, 2011 to June 30, 2015 pursuant to the Repurchase Program. See “Recent Developments” for shares purchased under the Repurchase Program subsequent to June 30, 2015.

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

On November 4, 2014, our Registration Statement on Form N-2 was declared effective by the SEC. Under this Shelf Registration Statement, we can issue up to \$4,822,626 of additional debt and equity securities in the public market as of June 30, 2015.

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 \$94,500 after commissions to the broker-dealer on shares sold and offering costs.

On November 7, 2014, we entered into an ATM Program with BB&T Capital Markets, Goldman Sachs, KeyBanc Capital Markets, RBC Capital Markets and Santander Investment Securities 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, 2014 through November 28, 2014 (with settlement dates of November 17, 2014 to December 3, 2014), we sold 5,354,581 shares of our common stock at an average price of \$9.65 per share and raised \$51,678 of gross proceeds under the ATM Program. Net proceeds were \$50,941 after commissions to the broker-dealer on shares sold and offering costs. There have been no issuances under the ATM Program subsequent to December 3, 2014.

Off-Balance Sheet Arrangements

As of June 30, 2015, 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 1, 2015, we provided \$31,000 of first lien senior secured financing, of which \$30,200 was funded at closing, to Intelius, Inc. ("Intelius"), an online information commerce company.

On July 8, 2015, we sold 27.45% of the outstanding principal balance of the senior secured Term Loan A investment in InterDent for \$34,415. There was no gain or loss realized on the sale.

On July 23, 2015, we made an investment of \$37,969 to purchase 80.73% of the subordinated notes in Halcyon Loan Advisors Funding 2015-3 Ltd. in a co-investment transaction with Priority Income Fund, Inc., a closed-end fund managed by an affiliate of Prospect Capital Management.

On July 23, 2015, we issued 193,892 shares of our common stock in connection with the dividend reinvestment plan.

On July 24, 2015, TB Corp. repaid the \$23,628 loan receivable to us.

On August 6, 2015, we provided \$92,500 of first lien senior secured debt to support the refinancing of Crosman Corporation. Concurrent with the refinancing, we received repayment of the \$40,000 second lien term loan previously outstanding.

On August 7, 2015, Ryan, LLC repaid the \$72,701 loan receivable to us.

On August 11, 2015, we made a \$13,500 follow-on first lien senior secured debt investment in Intelius, of which \$13,000 was funded at closing, to support an acquisition.

On August 12, 2015, we made an investment of \$22,898 to purchase 50.04% of the subordinated notes in Octagon Investment Partners XVIII, Ltd.

On August 12, 2015, we sold 780 of our small business whole loans purchased from OnDeck to Jefferies Asset Funding LLC for proceeds of \$26,562, net of related transaction expenses, and a trust certificate representing a 41.54% interest in the MarketPlace Loan Trust, Series 2015-OD2.

On August 14, 2015, we announced the then current conversion rate on the 2018 Notes as 84.1497 shares of common stock per \$1 principal amount of the 2018 Notes converted, which is equivalent to a conversion price of approximately \$11.88.

On August 20, 2015, we issued 152,896 shares of our common stock in connection with the dividend reinvestment plan.

On August 21, 2015, we committed to funding a \$16,000 second lien secured investment in a provider of customer care outsourcing services.

During the period from July 1, 2015 through August 26, 2015, we made seven follow-on investments in NPRC totaling \$52,852 to support the online consumer lending initiative. We invested \$12,508 of equity through NPH and \$40,344 of debt directly to ACL Loan Holdings, Inc., a wholly-owned subsidiary of NPRC.

During the period from July 1, 2015 through August 26, 2015, our wholly-owned subsidiary PSBL purchased \$14,101 of small business whole loans from OnDeck.

During the period from July 1, 2015 through August 26, 2015, we issued \$32,362 aggregate principal amount of Prospect Capital InterNotes® for net proceeds of \$31,870. In addition, we sold \$1,425 aggregate principal amount of Prospect Capital InterNotes® for net proceeds of \$1,405 with expected closing on August 27, 2015.

During the period from July 28, 2015 through August 14, 2015 (with settlement dates of July 31, 2015 to August 19, 2015), we repurchased 4,158,750 shares of our common stock at an average price of \$7.22 per share, including commissions.

On August 24, 2015, we announced the declaration of monthly dividends in the following amounts and with the following dates:

- \$0.08333 per share for September 2015 to holders of record on September 30, 2015 with a payment date of October 22, 2015; and
- \$0.08333 per share for October 2015 to holders of record on October 30, 2015 with a payment date of November 19, 2015.

Critical Accounting Policies and Estimates

Basis of Presentation and Consolidation

The accompanying consolidated financial statements have been prepared in accordance with United States generally accepted accounting principles ("GAAP") pursuant to the requirements for reporting on Form 10-K, ASC 946, *Financial Services-Investment Companies* ("ASC 946"), and Articles 6, 10 and 12 of Regulation S-X. Under the 1940 Act, ASC 946, and the regulations pursuant to Article 6 of Regulation S-X, we are precluded from consolidating any entity other than another investment company or an operating company which provides substantially all of its services to benefit us. Our consolidated financial statements include the accounts of Prospect, PCF, PSBL, PYC, and the Consolidated Holding Companies. All intercompany balances and transactions have been eliminated in consolidation. The financial results of our non-substantially wholly-owned holding companies and operating portfolio company investments are not consolidated in the financial statements. Any operating companies owned by the Consolidated Holding Companies are not consolidated.

Use of Estimates

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

Cash and Cash Equivalents

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

Investment Classification

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

Investments are recognized when we assume an obligation to acquire a financial instrument and assume the risks for gains or losses related to that instrument. Investments are derecognized when we assume an obligation to sell a financial instrument and forego the risks for gains or losses related to that instrument. Specifically, we record all security transactions on a trade date basis. Amounts for investments recognized or derecognized but not yet settled are reported in due to broker for investments purchased or as a receivable for investments sold in the consolidated statements of assets and liabilities.

Investment Risks

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

Market Risk

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

Credit Risk

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

Liquidity Risk

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

Interest Rate Risk

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

Prepayment Risk

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

Investment Valuation

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

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

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

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

Level 3: Unobservable inputs for the asset or liability.

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

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

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

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

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

Our non-CLO investments are valued utilizing a yield 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, dividend yields for certain investments 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 valuing our investments may include, as we deem relevant: security covenants, call protection provisions, and information rights; the nature and realizable value of any collateral; the portfolio company’s ability to make payments; the principal markets in which the portfolio company does business; publicly available financial ratios of peer companies; the principal market; and enterprise values, among other factors.

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

Valuation of Other Financial Assets and Financial Liabilities

ASC 825, *Financial Instruments*, specifically ASC 825-10-25, permits an entity to choose, at specified election dates, to measure eligible items at fair value (the “Fair Value Option”). We have not elected the Fair Value Option to report selected financial assets and financial liabilities. See Note 8 for further discussion of our financial liabilities that are measured using another measurement attribute.

Convertible Notes

We have recorded the Convertible Notes at their contractual amounts. The Convertible Notes were analyzed for any features that would require bifurcation and such features were determined to be immaterial. See Note 5 for further discussion.

Revenue Recognition

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

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

Loans are placed on non-accrual status when there is reasonable doubt that principal or interest will be collected. Unpaid accrued interest is generally reversed when a loan is placed on non-accrual status. Interest payments received on non-accrual loans may be recognized as income or applied to principal depending upon management's judgment. Non-accrual loans are restored to accrual status when past due principal and interest is paid and in management's judgment, is likely to remain current. As of June 30, 2015, 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. See Note 10 for further discussion.

Federal and State Income Taxes

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

If we do not distribute (or are not deemed to have distributed) at least 98% of our annual ordinary income and 98.2% of our capital gains in the calendar year earned, we will generally be required to pay an excise tax equal to 4% of the amount by which 98% of our annual ordinary income and 98.2% of our capital gains exceed the distributions from such taxable income for the year. To the extent that we determine that our estimated current year annual taxable income will be in excess of estimated current year dividend distributions from such taxable income, we accrue excise taxes, if any, on estimated excess taxable income. For the calendar year ended December 31, 2014, we incurred an excise tax expense of \$461 because our annual taxable income exceeded our distributions. As of June 30, 2015, we had a payable of \$305 for excise taxes as our expected excise tax liability exceeded our excise tax payments through June 30, 2015. This amount is included within accrued expenses on the Consolidated Statement of Assets and Liabilities as of June 30, 2015.

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

We follow ASC 740, *Income Taxes* (“ASC 740”). ASC 740 provides guidance for how uncertain tax positions should be recognized, measured, presented, and disclosed in the consolidated financial statements. ASC 740 requires the evaluation of tax positions taken or expected to be taken in the course of preparing our tax returns to determine whether the tax positions are “more-likely-than-not” of being sustained by the applicable tax authority. Tax positions not deemed to meet the more-likely-than-not threshold are recorded as a tax benefit or expense in the current year. As of June 30, 2014 and June 30, 2015 and for the years then ended, we did not have a liability for any 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 our federal tax years ending August 31, 2012 and thereafter remain subject to examination by the Internal Revenue Service.

Dividends and Distributions

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

Financing Costs

We record origination expenses related to our Revolving Credit Facility and Convertible Notes, Public Notes and Prospect Capital InterNotes® (collectively, our “Unsecured Notes”) as deferred financing costs. These expenses are deferred and amortized as part of interest expense using the straight-line method for our Revolving Credit Facility and the effective interest method for our Unsecured Notes over the respective expected life or maturity. In the event that we modify or extinguish our debt before maturity, we follow the guidance in ASC 470-50, *Modification and Extinguishments* (“ASC 470-50”). For modifications to or exchanges of our Revolving Credit Facility, any unamortized deferred costs relating to lenders who are not part of the new lending group are expensed. For extinguishments of our Unsecured Notes, any unamortized deferred costs are deducted from the carrying amount of the debt in determining the gain or loss from the extinguishment.

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

Guarantees and Indemnification Agreements

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

Per Share Information

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

Recent Accounting Pronouncements

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

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

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

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

Item 7A. Quantitative and Qualitative Disclosures about Market Risk

We are subject to financial market risks, including changes in interest rates and equity price risk. 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, 2015, we did not engage in hedging activities.

Item 8. Financial Statements and Supplementary Data

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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, 2015 and June 30, 2014, 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, 2015, and the financial highlights for each of the five years in the period ended June 30, 2015. 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, 2015 and June 30, 2014 by correspondence with the custodian, trustees, online lending servicers 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, 2015 and June 30, 2014, 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, 2015, and the financial highlights for each of the five years in the period ended June 30, 2015, 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, 2015, based on criteria established in Internal Control-Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) and our report dated August 26, 2015 expressed an unqualified opinion thereon.

/s/ BDO USA, LLP

BDO USA, LLP

New York, New York

August 26, 2015

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

	June 30, 2015	June 30, 2014
Assets		
Investments at fair value:		
Control investments (amortized cost of \$1,894,644 and \$1,719,242, respectively)	\$ 1,974,202	\$ 1,640,454
Affiliate investments (amortized cost of \$45,150 and \$31,829, respectively)	45,945	32,121
Non-control/non-affiliate investments (amortized cost of \$4,619,582 and \$4,620,451, respectively)	4,589,411	4,581,164
Total investments at fair value (amortized cost of \$6,559,376 and \$6,371,522, respectively)	6,609,558	6,253,739
Cash and cash equivalents	110,026	134,225
Receivables for:		
Interest, net	20,408	21,997
Other	2,885	2,587
Prepaid expenses	757	2,828
Deferred financing costs	54,420	61,893
Total Assets	6,798,054	6,477,269
Liabilities		
Revolving Credit Facility (Notes 4 and 8)	368,700	92,000
Convertible Notes (Notes 5 and 8)	1,239,500	1,247,500
Public Notes (Notes 6 and 8)	548,094	647,881
Prospect Capital InterNotes® (Notes 7 and 8)	827,442	785,670
Due to broker	26,778	-
Dividends payable	29,923	37,843
Due to Prospect Administration (Note 13)	4,238	2,208
Due to Prospect Capital Management (Note 13)	2,550	3
Accrued expenses	3,408	4,790
Interest payable	39,659	37,459
Other liabilities	4,713	3,733
Total Liabilities	3,095,005	2,859,087
Net Assets	\$ 3,703,049	\$ 3,618,182
Components of Net Assets		
Common stock, par value \$0.001 per share (1,000,000,000 common shares authorized; 359,090,759 and 342,626,637 issued and outstanding, respectively) (Note 9)	\$ 359	\$ 343
Paid-in capital in excess of par (Note 9)	3,975,672	3,814,634
Accumulated (overdistributed) underdistributed net investment income	(21,077)	42,086
Accumulated net realized loss on investments and extinguishment of debt	(302,087)	(121,098)
Net unrealized appreciation (depreciation) on investments	50,182	(117,783)
Net Assets	\$ 3,703,049	\$ 3,618,182
Net Asset Value Per Share (Note 16)	\$ 10.31	\$ 10.56

See notes to consolidated financial statements.

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

	Year Ended June 30,		
	2015	2014	2013
Investment Income			
Interest income:			
Control investments	\$ 200,409	\$ 153,307	\$ 106,425
Affiliate investments	3,799	4,358	6,515
Non-control/non-affiliate investments	385,710	334,039	234,013
Structured credit securities	159,056	122,037	88,502
Total interest income	748,974	613,741	435,455
Dividend income:			
Control investments	6,811	26,687	78,282
Affiliate investments	778	-	728
Non-control/non-affiliate investments	46	98	3,656
Money market funds	28	52	39
Total dividend income	7,663	26,837	82,705
Other income:			
Control investments	12,975	43,671	16,821
Affiliate investments	226	17	623
Non-control/non-affiliate investments	21,246	28,025	40,732
Total other income (Note 10)	34,447	71,713	58,176
Total Investment Income	791,084	712,291	576,336
Operating Expenses			
Investment advisory fees:			
Base management fee (Note 13)	134,590	108,990	69,800
Income incentive fee (Note 13)	90,687	89,306	81,231
Total investment advisory fees	225,277	198,296	151,031
Interest and credit facility expenses	170,660	130,103	76,341
Legal fees	2,375	2,771	1,918
Valuation services	1,686	1,836	1,579
Audit, compliance and tax related fees	3,772	2,959	1,566
Allocation of overhead from Prospect Administration (Note 13)	14,977	14,373	8,737
Insurance expense	583	373	356
Directors' fees	379	325	300
Excise tax	2,505	(4,200)	6,500
Other general and administrative expenses	6,123	8,232	3,084
Total Operating Expenses	428,337	355,068	251,412
Net Investment Income	362,747	357,223	324,924
Net realized losses on investments	(180,423)	(3,346)	(26,234)
Net change in unrealized appreciation (depreciation) on investments	167,965	(34,857)	(77,834)
Net realized and unrealized losses on investments	(12,458)	(38,203)	(104,068)
Net realized losses on extinguishment of debt	(3,950)	-	-
Net Increase in Net Assets Resulting from Operations	\$ 346,339	\$ 319,020	\$ 220,856
Net increase in net assets resulting from operations per share	\$ 0.98	\$ 1.06	\$ 1.07
Dividends declared per share	\$ (1.19)	\$ (1.32)	\$ (1.28)

See notes to consolidated financial statements.

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

	Year Ended June 30,		
	2015	2014	2013
Operations			
Net investment income	\$ 362,747	\$ 357,223	\$ 324,924
Net realized losses on investments	(180,423)	(3,346)	(26,234)
Net change in unrealized appreciation (depreciation) on investments	167,965	(34,857)	(77,834)
Net realized losses on extinguishment of debt	(3,950)	-	-
Net Increase in Net Assets Resulting from Operations	346,339	319,020	220,856
Distributions to Shareholders			
Distribution from net investment income	(421,594)	(403,188)	(271,507)
Distribution of return of capital	-	-	-
Net Decrease in Net Assets Resulting from Distributions to Shareholders	(421,594)	(403,188)	(271,507)
Common Stock Transactions			
Issuance of common stock, net of underwriting costs	146,085	973,832	1,121,648
Less: Offering costs from issuance of common stock	(644)	(1,380)	(1,815)
Value of shares issued to acquire controlled investments	-	57,830	59,251
Value of shares issued through reinvestment of dividends	14,681	15,574	16,087
Net Increase in Net Assets Resulting from Common Stock Transactions	160,122	1,045,856	1,195,171
Total Increase in Net Assets	84,867	961,688	1,144,520
Net assets at beginning of year	3,618,182	2,656,494	1,511,974
Net Assets at End of Year	\$ 3,703,049	\$ 3,618,182	\$ 2,656,494
Common Stock Activity			
Shares sold	14,845,556	88,054,653	101,245,136
Shares issued to acquire controlled investments	-	5,326,949	5,507,381
Shares issued through reinvestment of dividends	1,618,566	1,408,070	1,450,578
Total shares issued due to common stock activity	16,464,122	94,789,672	108,203,095
Shares issued and outstanding at beginning of year	342,626,637	247,836,965	139,633,870
Shares Issued and Outstanding at End of Year	359,090,759	342,626,637	247,836,965

See notes to consolidated financial statements.

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

	Year Ended June 30,		
	2015	2014	2013
Operating Activities			
Net increase in net assets resulting from operations	\$ 346,339	\$ 319,020	\$ 220,856
Net realized losses on extinguishment of debt	3,950	-	-
Net realized losses on investments	180,423	3,346	26,234
Net change in unrealized (appreciation) depreciation on investments	(167,965)	34,857	77,834
Amortization (accretion) of discounts and premiums, net	87,638	46,297	(11,016)
Accretion of discount on Public Notes (Note 6)	213	156	50
Amortization of deferred financing costs	14,266	11,491	8,232
Payment-in-kind interest	(29,277)	(15,145)	(10,947)
Structuring fees	(20,916)	(45,087)	(52,699)
Change in operating assets and liabilities:			
Payments for purchases of investments	(2,038,795)	(2,834,294)	(2,980,320)
Proceeds from sale of investments and collection of investment principal	1,633,073	786,969	931,534
Decrease (increase) in interest receivable, net	1,589	866	(8,644)
(Increase) decrease in other receivables	(298)	1,810	(3,613)
Decrease (increase) in prepaid expenses	2,071	(2,288)	(119)
Increase (decrease) in due to broker	26,778	(43,588)	(945)
Increase in due to Prospect Administration	2,030	842	708
Increase (decrease) in due to Prospect Capital Management	2,547	(5,321)	(2,589)
(Decrease) increase in accrued expenses	(1,382)	2,445	(580)
Increase in interest payable	2,200	13,075	17,661
Increase (decrease) in other liabilities	980	(682)	2,205
Net Cash Provided by (Used in) Operating Activities	45,464	(1,725,231)	(1,786,158)
Financing Activities			
Borrowings under Revolving Credit Facility (Note 4)	1,567,000	1,078,500	223,000
Principal payments under Revolving Credit Facility (Note 4)	(1,290,300)	(1,110,500)	(195,000)
Issuances of Convertible Notes (Note 5)	-	400,000	400,000
Repurchases of Convertible Notes, net (Note 5)	(7,668)	-	-
Issuances of Public Notes, net of original issue discount (Note 6)	-	255,000	247,675
Redemptions of Public Notes, net (Note 6)	(102,600)	-	-
Issuances of Prospect Capital InterNotes® (Note 7)	125,696	473,762	343,139
Redemptions of Prospect Capital InterNotes®, net (Note 7)	(85,606)	(6,869)	-
Financing costs paid and deferred	(6,793)	(29,055)	(28,146)
Proceeds from issuance of common stock, net of underwriting costs	146,085	973,832	1,121,648
Offering costs from issuance of common stock	(644)	(1,380)	(1,815)
Dividends paid	(414,833)	(377,070)	(242,301)
Net Cash (Used in) Provided by Financing Activities	(69,663)	1,656,220	1,868,200
Total (Decrease) Increase in Cash and Cash Equivalents	(24,199)	(69,011)	82,042
Cash and cash equivalents at beginning of year	134,225	203,236	121,194
Cash and Cash Equivalents at End of Year	\$ 110,026	\$ 134,225	\$ 203,236
Supplemental Disclosures			
Cash paid for interest	\$ 153,982	\$ 105,410	\$ 45,363
Non-Cash Financing Activities			
Value of shares issued through reinvestment of dividends	\$ 14,681	\$ 15,574	\$ 16,087
Value of shares issued to acquire controlled investments	\$ -	\$ 57,830	\$ 59,251
Exchange of Prospect Capital InterNotes® for Public Notes	\$ -	\$ 45,000	\$ -

See notes to consolidated financial statements.

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

			June 30, 2015			
Portfolio Company	Locale / Industry	Investments(1)	Principal Value	Cost	Fair Value(2)	% of Net Assets
LEVEL 3 PORTFOLIO INVESTMENTS						
Control Investments (greater than 25.00% voting control)(49)						
American Property REIT Corp.(32)	Various / Real Estate	Senior Secured Term Loan (6.00% (LIBOR + 4.00% with 2.00% LIBOR floor) plus 5.50% PIK, due 4/1/2019)(4)	\$ 78,077	\$ 78,077	\$ 78,077	2.1%
		Common Stock (301,845 shares)		22,115	32,098	0.9%
		Net Operating Income Interest (5% of Net Operating Income)		-	8,081	0.2%
				100,192	118,256	3.2%
Arctic Energy Services, LLC(30)	Wyoming / Oil & Gas Services	Senior Secured Term Loan (12.00% (LIBOR + 9.00% with 3.00% LIBOR floor), due 5/5/2019)(3)(4)	31,640	31,640	31,640	0.9%
		Senior Subordinated Term Loan (14.00% (LIBOR + 11.00% with 3.00% LIBOR floor), due 5/5/2019)(3)(4)	20,230	20,230	20,230	0.5%
		Class A Units (700 units)		8,879	8,374	0.2%
		Class C Units (10 units)		127	120	-%
				60,876	60,364	1.6%
CCPI Inc.(33)	Ohio / Manufacturing	Senior Secured Term Loan A (10.00%, due 12/31/2017)(3)	16,763	16,763	16,763	0.5%
		Senior Secured Term Loan B (12.00% plus 7.00% PIK, due 12/31/2017)	8,844	8,844	8,844	0.2%
		Common Stock (14,857 shares)		8,553	15,745	0.4%
				34,160	41,352	1.1%
CP Energy Services Inc.(38)	Oklahoma / Oil & Gas Services	Senior Secured Term Loan A to CP Well Testing, LLC (7.00% (LIBOR + 5.00% with 2.00% LIBOR floor), due 4/1/2019)(4)	11,035	11,035	11,035	0.3%
		Senior Secured Term Loan B to CP Well Testing, LLC (10.00% (LIBOR + 8.00% with 2.00% LIBOR floor) plus 7.50% PIK, due 4/1/2019)(3)(4)	74,493	74,493	74,493	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)	15,563	15,563	5,481	0.2%
		Common Stock (2,924 shares)		15,227	-	-%
				116,318	91,009	2.5%
Credit Central Loan Company, LLC(34)	Ohio / Consumer Finance	Subordinated Term Loan (10.00% plus 10.00% PIK, due 6/26/2019)(22)	36,333	36,333	36,333	1.0%
		Class A Shares (7,500,000 shares)(22)		11,633	14,529	0.4%
		Net Revenues Interest (25% of Net Revenues)(22)		-	4,310	0.1%
				47,966	55,172	1.5%
Echelon Aviation LLC	New York / Aerospace & Defense	Senior Secured Term Loan (11.75% (LIBOR + 9.75% with 2.00% LIBOR floor) plus 2.25% PIK, due 3/31/2022)(4)	40,808	40,808	40,808	1.1%
		Class A Shares (11,335,318 shares)		19,907	28,133	0.8%
				60,715	68,941	1.9%
Edmentum Ultimate Holdings, LLC(47)	Minnesota / Consumer Services	Second Lien Revolving Credit Facility to Edmentum, Inc. - \$7,834 Commitment (5.00%, due 6/9/2020)(25)(26)	4,896	4,896	4,896	0.1%
		Unsecured Senior PIK Note (8.50% PIK, due 6/9/2020)	5,875	5,875	5,875	0.2%
		Unsecured Junior PIK Note (10.00% PIK, due 6/9/2020)	19,868	19,868	19,868	0.5%
		Class A Common Units (370,964.14 units)		6,577	6,577	0.2%
				37,216	37,216	1.0%

See notes to consolidated financial statements.

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

Portfolio Company	Locale / Industry	Investments(1)	June 30, 2015			
			Principal Value	Cost	Fair Value(2)	% of Net Assets
LEVEL 3 PORTFOLIO INVESTMENTS						
Control Investments (greater than 25.00% voting control)(49)						
First Tower Finance Company LLC(29)	Mississippi / Consumer Finance	Subordinated Term Loan to First Tower, LLC (10.00% plus 12.00% PIK, due 6/24/2019)(22)	\$ 251,578	\$ 251,578	\$ 251,578	6.8%
		Class A Shares (83,729,323 shares)(22)		66,473	114,372	3.1%
				318,051	365,950	9.9%
Freedom Marine Solutions, LLC(8)	Louisiana / Oil & Gas Services	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	8,680	0.2%
		Senior Secured Note to Vessel Company III, LLC (13.00%, due 12/3/2018)	16,000	16,000	13,790	0.4%
		Membership Interest (100%)		7,808	1,120	-%
				39,812	27,090	0.7%
Gulf Coast Machine & Supply Company	Texas / Manufacturing	Senior Secured Term Loan (10.50% (LIBOR + 8.50% with 2.00% LIBOR floor), in non-accrual status effective 1/1/2015, due 10/12/2017)(4)	26,844	26,000	6,918	0.2%
		Series A Convertible Preferred Stock (99,900 shares)		25,950	-	-%
				51,950	6,918	0.2%
Harbortouch Payments, LLC(43)	Pennsylvania / Business Services	Senior Secured Term Loan A (9.00% (LIBOR + 7.00% with 2.00% LIBOR floor), due 9/30/2017)(3)(4)	128,980	128,980	128,980	3.5%
		Senior Secured Term Loan B (5.50% (LIBOR + 4.00% with 1.50% LIBOR floor) plus 5.50% PIK, due 3/31/2018)(4)	144,878	144,878	144,878	3.9%
		Senior Secured Term Loan C (13.00% (LIBOR + 9.00% with 4.00% LIBOR floor), due 9/29/2018)(4)	22,876	22,876	22,876	0.6%
		Class C Shares (535 shares)		8,725	80,202	2.2%
				305,459	376,936	10.2%
MITY, Inc.(17)	Utah / Durable Consumer Products	Senior Secured Note A (10.00% (LIBOR + 7.00% with 3.00% LIBOR floor), due 3/19/2019)(3)(4)	18,250	18,250	18,250	0.5%
		Senior Secured Note B (10.00% (LIBOR + 7.00% with 3.00% LIBOR floor) plus 10.00% PIK, due 3/19/2019)(4)	16,301	16,301	16,301	0.4%
		Subordinated Unsecured Note to Broda Enterprises ULC (10.00%, due on demand)(22)	7,200	7,200	5,827	0.2%
		Common Stock (42,053 shares)		6,849	10,417	0.3%
				48,600	50,795	1.4%
National Property REIT Corp.(40)	Various	Senior Secured Term Loan A (6.00% (LIBOR + 4.00% with 2.00% LIBOR floor) plus 5.50% PIK, due 4/1/2019)(4)	202,629	202,629	202,629	5.5%
		Senior Secured Term Loan C (6.00% (LIBOR + 4.00% with 2.00% LIBOR floor) plus 7.50% PIK, due 4/1/2019)(4)	44,147	44,147	44,147	1.2%
		Senior Secured Term Loan D (14.00% (LIBOR + 12.00% with 2.00% LIBOR floor) plus 4.50% PIK, due 4/1/2019)(4)	67,443	67,443	67,443	1.8%
		Senior Secured Term Loan A to ACL Loan Holdings, Inc. (6.00% (LIBOR + 4.00% with 2.00% LIBOR floor) plus 7.50% PIK, due 4/1/2019)(4)	20,413	20,413	20,413	0.6%
		Senior Secured Term Loan B to ACL Loan Holdings, Inc. (14.00% (LIBOR + 12.00% with 2.00% LIBOR floor) plus 4.50% PIK, due 4/1/2019)(4)	30,582	30,582	30,582	0.8%
		Common Stock (643,175 shares)		84,446	87,002	2.3%
		Net Operating Income Interest (5% of Net Operating Income)		-	19,673	0.5%
				449,660	471,889	12.7%

See notes to consolidated financial statements.

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

Portfolio Company	Locale / Industry	Investments(1)	June 30, 2015			
			Principal Value	Cost	Fair Value(2)	% of Net Assets
LEVEL 3 PORTFOLIO INVESTMENTS						
Control Investments (greater than 25.00% voting control)(49)						
Nationwide Loan Company LLC (f/k/a Nationwide Acceptance LLC)(36)	Illinois / Consumer Finance	Senior Subordinated Term Loan to Nationwide Acceptance LLC (10.00% plus 10.00% PIK, due 6/18/2019)(22)	\$ 14,820	\$ 14,820	\$ 14,820	0.4%
		Class A Shares (26,974,454.27 shares)(22)				
				14,795	19,730	0.5%
				29,615	34,550	0.9%
NMMB, Inc. (24)	New York / Media	Senior Secured Note (14.00%, due 5/6/2016)	3,714	3,714	3,714	0.1%
		Senior Secured Note to Armed Forces Communications, Inc. (14.00%, due 5/6/2016)	7,000	7,000	7,000	0.2%
		Series A Preferred Stock (7,200 shares)		7,200	1,338	-%
		Series B Preferred Stock (5,669 shares)		5,669	-	-%
				23,583	12,052	0.3%
R-V Industries, Inc.	Pennsylvania / Manufacturing	Senior Subordinated Note (10.00% (LIBOR + 9.00% with 1.00% LIBOR floor), due 6/12/2018)(3)(4)	29,237	29,237	29,237	0.8%
		Common Stock (545,107 shares)		5,087	8,246	0.2%
		Warrant (to purchase 200,000 shares of Common Stock, expires 6/30/2017)		1,682	3,025	0.1%
				36,006	40,508	1.1%
United Property REIT Corp.(41)	Various / Real Estate	Senior Term Loan (6.00% (LIBOR + 4.00% with 2.00% LIBOR floor) plus 5.50% PIK, due 4/1/2019)(4)	62,768	62,768	62,768	1.7%
		Common Stock (74,449 shares)		12,860	11,216	0.3%
		Net Operating Income Interest (5% of Net Operating Income)		-	10,701	0.3%
				75,628	84,685	2.3%
Valley Electric Company, Inc. (35)	Washington / Construction & Engineering	Senior Secured Note to Valley Electric Co. of Mt. Vernon, Inc. (8.00% (LIBOR + 5.00% with 3.00% LIBOR floor) plus 2.50% PIK, due 12/31/2017)(3)(4)	10,340	10,340	10,340	0.3%
		Senior Secured Note (10.00% plus 8.50% PIK, due 12/31/2018)	22,293	22,293	20,157	0.5%
		Common Stock (50,000 shares)		26,204	-	-%
				58,837	30,497	0.8%
Wolf Energy, LLC(12)	Kansas / Oil & Gas Production	Senior Secured Promissory Note secured by assets formerly owned by H&M (18.00%, in non-accrual status effective 4/15/2013, due 4/15/2018)(37)	32,112	-	-	-%
		Membership Interest (100%)		-	-	-%
		Net Profits Interest (8% of Equity Distributions)(7)		-	22	-%
				-	22	-%
Total Control Investments			\$ 1,894,644	\$ 1,974,202	\$ 1,974,202	53.3%
Affiliate Investments (5.00% to 24.99% voting control)(50)						
BNN Holdings Corp.	Michigan / Healthcare	Senior Term Loan A (6.50% (LIBOR + 5.50% with 1.00% LIBOR floor), due 8/29/2019)(3)(4)	\$ 21,182	\$ 21,182	\$ 21,182	0.6%
		Senior Term Loan B (11.50% (LIBOR + 10.50% with 1.00% LIBOR floor), due 8/29/2019)(3)(4)	21,740	21,740	21,740	0.6%
		Series A Preferred Stock (9,925.455 shares)(13)		1,780	2,569	-%
		Series B Preferred Stock (1,753.636 shares)(13)		448	454	-%
				45,150	45,945	1.2%
Total Affiliate Investments			\$ 45,150	\$ 45,945	\$ 45,945	1.2%

See notes to consolidated financial statements.

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

Portfolio Company	Locale / Industry	Investments(1)	June 30, 2015			
			Principal Value	Cost	Fair Value(2)	% of Net Assets
LEVEL 3 PORTFOLIO INVESTMENTS						
Non-Control/Non-Affiliate Investments (less than 5.00% voting control)						
Aderant North America, Inc.	Georgia / Software & Computer Services	Second Lien Term Loan (10.00% (LIBOR + 8.75% with 1.25% LIBOR floor), due 6/20/2019)(4)(16)	\$ 7,000	\$ 6,928	\$ 7,000	0.2%
				6,928	7,000	0.2%
AFI Shareholder, LLC (f/k/a Aircraft Fasteners International, LLC)	California / Machinery	Class A Units (32,500 units)		376	563	-%
				376	563	-%
Airmall Inc.(27)	Pennsylvania / Property Management	Escrow Receivable		5,880	3,814	0.1%
				5,880	3,814	0.1%
Ajax Rolled Ring & Machine, LLC(42)	South Carolina / Manufacturing	Escrow Receivable		1,264	2,170	0.1%
				1,264	2,170	0.1%
ALG USA Holdings, LLC	Pennsylvania / Hotels, Restaurants & Leisure	Second Lien Term Loan (10.25% (LIBOR + 9.00% with 1.25% LIBOR floor), due 2/28/2020)(4)(16)	11,771	11,593	11,771	0.3%
				11,593	11,771	0.3%
American Gilsonite Company	Utah / Metal Services & Minerals	Second Lien Term Loan (11.50%, due 9/1/2017)(16) Membership Interest (99.9999%)(15)	15,755	15,755	14,287	0.4%
				-	-	-%
				15,755	14,287	0.4%
Apidos CLO IX	Cayman Islands / Structured Finance	Subordinated Notes (Residual Interest, current yield 22.56%)(11)(22)	23,525	20,644	22,325	0.6%
				20,644	22,325	0.6%
Apidos CLO XI	Cayman Islands / Structured Finance	Subordinated Notes (Residual Interest, current yield 15.64%)(11)(22)	38,340	31,485	32,108	0.9%
				31,485	32,108	0.9%
Apidos CLO XII	Cayman Islands / Structured Finance	Subordinated Notes (Residual Interest, current yield 17.68%)(11)(22)	44,063	37,751	38,817	1.0%
				37,751	38,817	1.0%
Apidos CLO XV	Cayman Islands / Structured Finance	Subordinated Notes (Residual Interest, current yield 15.07%)(11)(22)	36,515	33,958	30,911	0.8%
				33,958	30,911	0.8%
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	149,180	4.0%
				150,000	149,180	4.0%
Ark-La-Tex Wireline Services, LLC	Louisiana / Oil & Gas Services	Senior Secured Term Loan A (6.50% (LIBOR + 5.50% with 1.00% LIBOR floor), due 4/8/2019)(4) Senior Secured Term Loan B (10.50% (LIBOR + 9.50% with 1.00% LIBOR floor), due 4/8/2019)(4)	21,743 23,697	21,743 23,697	20,042 21,675	0.5% 0.6%
				45,440	41,717	1.1%
Armor Holding II LLC	New York / Diversified Financial Services	Second Lien Term Loan (10.25% (LIBOR + 9.00% with 1.25% LIBOR floor), due 12/26/2020)(3)(4)(16)	7,000	6,888	6,480	0.2%
				6,888	6,480	0.2%
Atlantis Health Care Group (Puerto Rico), Inc.	Puerto Rico / Healthcare	Revolving Line of Credit - \$4,000 Commitment (13.00% (LIBOR + 11.00% with 2.00% LIBOR floor), due 8/21/2016)(4)(25)(26) Senior Term Loan (10.00% (LIBOR + 8.00% with 2.00% LIBOR floor), due 2/21/2018)(3)(4)	2,350 38,561	2,350 38,561	2,350 35,189	0.1% 0.9%
				40,911	37,539	1.0%

See notes to consolidated financial statements.

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

Portfolio Company	Locale / Industry	Investments(1)	June 30, 2015			
			Principal Value	Cost	Fair Value(2)	% of Net Assets
LEVEL 3 PORTFOLIO INVESTMENTS						
Non-Control/Non-Affiliate Investments (less than 5.00% voting control)						
BAART Programs, Inc.	California / Healthcare	Revolving Line of Credit - \$5,000 Commitment (8.75% (LIBOR + 8.25% with 0.50% LIBOR floor), due 6/30/2018)(25)(26)	\$ 1,000	\$ 1,000	\$ 1,000	-%
		Senior Secured Term Loan A (6.25% (LIBOR + 5.75% with 0.50% LIBOR floor), due 6/30/2020)(4)	21,500	21,500	21,500	0.6%
		Senior Secured Term Loan B (11.25% (LIBOR + 10.75% with 0.50% LIBOR floor), due 6/30/2020)(4)	21,500	21,500	21,500	0.6%
		Delayed Draw Term Loan - \$10,500 Commitment (expires 12/31/2015)(25)	-	-	-	-%
				44,000	44,000	1.2%
Babson CLO Ltd. 2014-III	Cayman Islands / Structured Finance	Subordinated Notes (Residual Interest, current yield 14.25%)(11)(22)(48)	52,250	47,799	47,148	1.3%
			47,799	47,148	1.3%	
Broder Bros., Co.	Pennsylvania / Textiles, Apparel & Luxury Goods	Senior Secured Notes (10.25% (LIBOR + 9.00% with 1.25% LIBOR floor), due 4/8/2019)(3)(4)(46)	252,200	252,200	252,200	6.8%
			252,200	252,200	6.8%	
Brookside Mill CLO Ltd.	Cayman Islands / Structured Finance	Subordinated Notes (Residual Interest, current yield 19.25%)(11)(22)	26,000	21,432	24,566	0.7%
			21,432	24,566	0.7%	
Caleel + Hayden, LLC	Colorado / Personal & Nondurable Consumer Products	Membership Interest(31)		-	227	-%
				-	227	-%
Capstone Logistics Acquisition, Inc.	Georgia / Business Services	Second Lien Term Loan (9.25% (LIBOR + 8.25% with 1.00% LIBOR floor), due 10/7/2022)(3)(4)	102,500	101,891	101,891	2.8%
			101,891	101,891	2.8%	
Cent CLO 17 Limited	Cayman Islands / Structured Finance	Subordinated Notes (Residual Interest, current yield 14.90%)(11)(22)	24,870	20,309	20,922	0.6%
			20,309	20,922	0.6%	
Cent CLO 20 Limited	Cayman Islands / Structured Finance	Subordinated Notes (Residual Interest, current yield 12.49%)(11)(22)	40,275	35,724	33,505	0.9%
			35,724	33,505	0.9%	
Cent CLO 21 Limited	Cayman Islands / Structured Finance	Subordinated Notes (Residual Interest, current yield 13.42%)(11)(22)(48)	48,528	43,038	41,910	1.1%
			43,038	41,910	1.1%	
CIFC Funding 2011-I, Ltd.	Cayman Islands / Structured Finance	Class D Senior Secured Notes (5.28% (LIBOR + 5.00%, due 1/19/2023)(4)(22)	19,000	15,604	18,175	0.5%
		Class E Subordinated Notes (7.28% (LIBOR + 7.00%, due 1/19/2023)(4)(22)	15,400	13,009	14,223	0.4%
			28,613	32,398	0.9%	
CIFC Funding 2013-III, Ltd.	Cayman Islands / Structured Finance	Subordinated Notes (Residual Interest, current yield 14.56%)(11)(22)	44,100	35,412	35,599	1.0%
			35,412	35,599	1.0%	
CIFC Funding 2013-IV, Ltd.	Cayman Islands / Structured Finance	Subordinated Notes (Residual Interest, current yield 14.87%)(11)(22)	45,500	36,124	38,265	1.0%
			36,124	38,265	1.0%	
CIFC Funding 2014-IV Investor, Ltd.	Cayman Islands / Structured Finance	Income Notes (Residual Interest, current yield 13.83%)(11)(22)(48)	41,500	34,921	36,195	1.0%
			34,921	36,195	1.0%	
Cinedigm DC Holdings, LLC	New York / Software & Computer Services	Senior Secured Term Loan (11.00% (LIBOR + 9.00% with 2.00% LIBOR floor) plus 2.50% PIK, due 3/31/2021)(4)	67,449	67,399	67,449	1.8%

67,399	67,449	1.8%

See notes to consolidated financial statements.
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PROSPECT CAPITAL CORPORATION AND SUBSIDIARIES
CONSOLIDATED SCHEDULES OF INVESTMENTS (CONTINUED)
(in thousands, except share data)

			June 30, 2015			
Portfolio Company	Locale / Industry	Investments(1)	Principal Value	Cost	Fair Value(2)	% of Net Assets
LEVEL 3 PORTFOLIO INVESTMENTS						
Non-Control/Non-Affiliate Investments (less than 5.00% voting control)						
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)	\$ 49,922	\$ 49,922	\$ 49,922	1.3%
				49,922	49,922	1.3%
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	35,973	1.0%
				40,000	35,973	1.0%
Diamondback Operating, LP	Oklahoma / Oil & Gas Production	Net Profits Interest (15% of Equity Distributions)(7)		-	-	-%
				-	-	-%
Empire Today, LLC	Illinois / Durable Consumer Products	Senior Secured Note (11.375%, due 2/1/2017)(16)	15,700	15,518	13,070	0.4%
				15,518	13,070	0.4%
Fleetwash, Inc.	New Jersey / Business Services	Senior Secured Term Loan B (10.50% (LIBOR + 9.50% with 1.00% LIBOR floor), due 4/30/2019)(3)(4)	24,446	24,446	24,446	0.7%
			-	-	-	-%
				24,446	24,446	0.7%
Focus Brands, Inc.	Georgia / Consumer Services	Second Lien Term Loan (10.25% (LIBOR + 9.00% with 1.25% LIBOR floor), due 8/21/2018)(4)(16)	18,000	17,821	18,000	0.5%
				17,821	18,000	0.5%
Galaxy XV CLO, Ltd.	Cayman Islands / Structured Finance	Subordinated Notes (Residual Interest, current yield 15.65%)(11)(22)	35,025	27,762	29,739	0.8%
				27,762	29,739	0.8%
Galaxy XVI CLO, Ltd.	Cayman Islands / Structured Finance	Subordinated Notes (Residual Interest, current yield 13.97%)(11)(22)	24,575	20,434	20,849	0.6%
				20,434	20,849	0.6%
Galaxy XVII CLO, Ltd.	Cayman Islands / Structured Finance	Subordinated Notes (Residual Interest, current yield 13.43%)(11)(22)(48)	39,905	33,493	33,742	0.9%
				33,493	33,742	0.9%
Global Employment Solutions, Inc.	Colorado / Business Services	Senior Secured Term Loan (10.25% (LIBOR + 9.25% with 1.00% LIBOR floor), due 6/26/2020)(3)(4)	49,567	49,567	49,567	1.3%
				49,567	49,567	1.3%
GTP Operations, LLC(10)	Texas / Software & Computer Services	Senior Secured Term Loan (10.00% (LIBOR + 5.00% with 5.00% LIBOR floor), due 12/11/2018)(3)(4)	116,411	116,411	116,411	3.1%
				116,411	116,411	3.1%
Halcyon Loan Advisors Funding 2012-1 Ltd.	Cayman Islands / Structured Finance	Subordinated Notes (Residual Interest, current yield 30.89%)(11)(22)	23,188	19,941	23,172	0.6%
				19,941	23,172	0.6%
Halcyon Loan Advisors Funding 2013-1 Ltd.	Cayman Islands / Structured Finance	Subordinated Notes (Residual Interest, current yield 21.41%)(11)(22)	40,400	34,936	39,208	1.1%
				34,936	39,208	1.1%
Halcyon Loan Advisors Funding 2014-1 Ltd.	Cayman Islands / Structured Finance	Subordinated Notes (Residual Interest, current yield 17.17%)(11)(22)	24,500	21,020	22,096	0.6%
				21,020	22,096	0.6%
Halcyon Loan Advisors Funding 2014-2 Ltd.	Cayman Islands / Structured Finance	Subordinated Notes (Residual Interest, current yield 18.73%)(11)(22)(48)	41,164	34,723	37,555	1.0%
				34,723	37,555	1.0%
HarbourView CLO VII, Ltd.	Cayman Islands / Structured Finance	Subordinated Notes (Residual Interest, current yield 17.84%)(11)(22)(48)	19,025	15,252	15,197	0.4%

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PROSPECT CAPITAL CORPORATION AND SUBSIDIARIES
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(in thousands, except share data)

Portfolio Company	Locale / Industry	Investments(1)	June 30, 2015			
			Principal Value	Cost	Fair Value(2)	% of Net Assets
LEVEL 3 PORTFOLIO INVESTMENTS						
Non-Control/Non-Affiliate Investments (less than 5.00% voting control)						
Harley Marine Services, Inc.	Washington / Transportation	Second Lien Term Loan (10.50% (LIBOR + 9.25% with 1.25% LIBOR floor), due 12/20/2019)(3)(4)(16)	\$ 9,000	\$ 8,855	\$ 8,748	0.2%
				8,855	8,748	0.2%
Hollander Sleep Products, LLC	Florida / Durable Consumer Products	Senior Secured Term Loan (9.00% (LIBOR + 8.00% with 1.00% LIBOR floor), due 10/21/2020)(3)(4)	22,444	22,444	22,444	0.6%
				22,444	22,444	0.6%
ICON Health & Fitness, Inc.	Utah / Durable Consumer Products	Senior Secured Note (11.875%, due 10/15/2016)(16)	16,100	16,103	16,100	0.4%
				16,103	16,100	0.4%
ICV-CSI Holdings, LLC	New York / Transportation	Membership Units (1.6 units)		1,639	2,400	0.1%
				1,639	2,400	0.1%
Instant Web, LLC	Minnesota / Media	Senior Secured Term Loan A (5.50% (LIBOR + 4.50% with 1.00% LIBOR floor), due 3/28/2019)(4)	146,363	146,363	146,363	4.0%
		Senior Secured Term Loan B (12.00% (LIBOR + 11.00% with 1.00% LIBOR floor), due 3/28/2019)(3)(4)	150,100	150,100	150,100	4.0%
		Senior Secured Term Loan C (12.75% (LIBOR + 11.75% with 1.00% LIBOR floor), due 3/28/2019)(4)	27,000	27,000	27,000	0.7%
		Delayed Draw Term Loan - \$16,000 Commitment (expires 5/29/2016)(25)	-	-	-	-%
				323,463	323,463	8.7%
InterDent, Inc.	California / Healthcare	Senior Secured Term Loan A (6.25% (LIBOR + 5.25% with 1.00% LIBOR floor), due 8/3/2017)(4)	125,350	125,350	125,350	3.4%
		Senior Secured Term Loan B (11.25% (LIBOR + 10.25% with 1.00% LIBOR floor), due 8/3/2017)(3)(4)	131,125	131,125	131,125	3.5%
				256,475	256,475	6.9%
JAC Holding Corporation	Michigan / Transportation	Senior Secured Note (11.50%, due 10/1/2019)(16)	3,000	3,000	3,000	0.1%
				3,000	3,000	0.1%
Jefferson Mill CLO Ltd.	Cayman Islands / Structured Finance	Subordinated Notes (Residual Interest, current yield 15.65%)(11)(22)(48)	19,500	16,928	16,928	0.5%
				16,928	16,928	0.5%
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)	35,297	35,297	35,297	1.0%
				35,297	35,297	1.0%
LaserShip, Inc.	Virginia / Transportation	Senior Secured Term Loan A (10.25% (LIBOR + 8.25% with 2.00% LIBOR floor) plus 2.00% default interest, due 3/18/2019)(3)(4)	35,156	35,156	30,778	0.8%
		Senior Secured Term Loan B (10.25% (LIBOR + 8.25% with 2.00% LIBOR floor) plus 2.00% default interest, due 3/18/2019)(3)(4)	21,555	21,555	18,866	0.5%
		Delayed Draw Term Loan - \$6,000 Commitment (expires 12/31/2016)(25)	-	-	-	-%
				56,711	49,644	1.3%
LCM XIV Ltd.	Cayman Islands / Structured Finance	Income Notes (Residual Interest, current yield 16.70%)(11)(22)	26,500	22,636	23,163	0.6%
				22,636	23,163	0.6%
Madison Park Funding IX, Ltd.	Cayman Islands / Structured Finance	Subordinated Notes (Residual Interest, current yield 21.64%)(11)(22)	31,110	23,663	25,804	0.7%
				23,663	25,804	0.7%

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

Portfolio Company	Locale / Industry	Investments(1)	June 30, 2015			
			Principal Value	Cost	Fair Value(2)	% of Net Assets
LEVEL 3 PORTFOLIO INVESTMENTS						
Non-Control/Non-Affiliate Investments (less than 5.00% voting control)						
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)	\$ 34,389	\$ 34,389	\$ 34,026	0.9%
		Senior Secured Term Loan B (12.50% (LIBOR + 11.00% with 1.50% LIBOR floor), due 8/9/2018)(3)(4)	40,562	40,562	40,562	1.1%
			74,951	74,588	2.0%	
Maverick Healthcare Equity, LLC	Arizona / Healthcare	Preferred Units (1,250,000 units)		1,252	2,190	0.1%
		Class A Common Units (1,250,000 units)		-	-	-%
			1,252	2,190	0.1%	
Mountain View CLO 2013-I Ltd.	Cayman Islands / Structured Finance	Subordinated Notes (Residual Interest, current yield 18.47%)(11)(22)	43,650	37,168	40,480	1.1%
			37,168	40,480	1.1%	
Mountain View CLO IX Ltd.	Cayman Islands / Structured Finance	Subordinated Notes (Residual Interest, current yield 15.43%)(11)(22)(48)	47,830	44,739	44,666	1.2%
			44,739	44,666	1.2%	
Nathan's Famous, Inc.	New York / Food Products	Senior Secured Notes (10.00%, due 3/15/2020)(16)	3,000	3,000	3,000	0.1%
			3,000	3,000	0.1%	
NCP Finance Limited Partnership(23)	Ohio / Consumer Finance	Subordinated Secured Term Loan (11.00% (LIBOR + 9.75% with 1.25% LIBOR floor), due 9/30/2018)(3)(4) (16)(22)	16,305	16,065	16,305	0.4%
			16,065	16,305	0.4%	
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)	187	187	-	-%
			187	-	-%	
Nixon, Inc.	California / Durable Consumer Products	Senior Secured Term Loan (8.75% plus 2.75% PIK, due 4/16/2018)(3)(16)	13,925	13,749	13,616	0.4%
			13,749	13,616	0.4%	
Octagon Investment Partners XV, Ltd.	Cayman Islands / Structured Finance	Income Notes (Residual Interest, current yield 20.72%) (11)(22)	28,571	24,515	26,461	0.7%
			24,515	26,461	0.7%	
Onyx Payments(44)	Texas / Diversified Financial Services	Revolving Line of Credit - \$5,000 Commitment (9.00% (LIBOR + 8.00% with 1.00% LIBOR floor), due 9/10/2015)(4)(25)(26)	2,000	2,000	2,000	0.1%
		Senior Secured Term Loan A (6.50% (LIBOR + 5.50% with 1.00% LIBOR floor), due 9/10/2019)(3)(4)	52,050	52,050	52,050	1.4%
		Senior Secured Term Loan B (13.50% (LIBOR + 12.50% with 1.00% LIBOR floor), due 9/10/2019)(4)	59,389	59,389	59,389	1.6%
			113,439	113,439	3.1%	
Pacific World Corporation	California / Personal & Nondurable Consumer Products	Revolving Line of Credit - \$15,000 Commitment (8.00% (LIBOR + 7.00% with 1.00% LIBOR floor), due 9/26/2020)(4)(25)(26)	6,500	6,500	6,500	0.2%
		Senior Secured Term Loan A (6.00% (LIBOR + 5.00% with 1.00% LIBOR floor), due 9/26/2020)(4)	99,250	99,250	95,400	2.6%
		Senior Secured Term Loan B (10.00% (LIBOR + 9.00% with 1.00% LIBOR floor), due 9/26/2020)(3)(4)	99,250	99,250	81,772	2.2%
			205,000	183,672	5.0%	
Pelican Products, Inc.	California / Durable Consumer Products	Second Lien Term Loan (9.25% (LIBOR + 8.25% with 1.00% LIBOR floor), due 4/9/2021)(4)(16)	17,500	17,484	17,500	0.5%
			17,484	17,500	0.5%	

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(in thousands, except share data)

Portfolio Company	Locale / Industry	Investments(1)	June 30, 2015			
			Principal Value	Cost	Fair Value(2)	% of Net Assets
LEVEL 3 PORTFOLIO INVESTMENTS						
Non-Control/Non-Affiliate Investments (less than 5.00% voting control)						
PGX Holdings, Inc. (28)	Utah / Consumer Services	Second Lien Term Loan (10.00% (LIBOR + 9.00% with 1.00% LIBOR floor), due 9/29/2021)(3)(4)	\$ 135,000	\$ 135,000	\$ 135,000	3.6%
				135,000	135,000	3.6%
Photonis Technologies SAS	France / Aerospace & Defense	First Lien Term Loan (8.50% (LIBOR + 7.50% with 1.00% LIBOR floor), due 9/18/2019)(4)(16)(22)	10,369	10,145	9,734	0.3%
				10,145	9,734	0.3%
Pinnacle (US) Acquisition Co. Limited	Texas / Software & Computer Services	Second Lien Term Loan (10.50% (LIBOR + 9.25% with 1.25% LIBOR floor), due 8/3/2020)(4)(16)	7,037	6,890	6,612	0.2%
				6,890	6,612	0.2%
PlayPower, Inc.	North Carolina / Durable Consumer Products	Second Lien Term Loan (9.75% (LIBOR + 8.75% with 1.00% LIBOR floor), due 6/23/2022)(4)(16)	10,000	9,850	9,850	0.3%
				9,850	9,850	0.3%
Prime Security Services Borrower, LLC	Illinois / Consumer Services	Second Lien Term Loan (9.75% (LIBOR + 8.75% with 1.00% LIBOR floor), due 7/1/2022)(4)(16)	10,000	9,850	9,850	0.3%
				9,850	9,850	0.3%
PrimeSport, Inc.	Georgia / Hotels, Restaurants & Leisure	Revolving Line of Credit - \$15,000 Commitment (9.50% (LIBOR + 8.50% with 1.00% LIBOR floor), due 7/31/2015)(4)(25)(26)	13,800	13,800	13,800	0.4%
		Senior Secured Term Loan A (7.00% (LIBOR + 6.00% with 1.00% LIBOR floor), due 2/11/2021)(3)(4)	54,227	54,227	54,227	1.4%
		Senior Secured Term Loan B (12.00% (LIBOR + 11.00% with 1.00% LIBOR floor), due 2/11/2021)(3)(4)	74,500	74,500	74,500	2.0%
				142,527	142,527	3.8%
Prince Mineral Holding Corp.	New York / Metal Services & Minerals	Senior Secured Term Loan (11.50%, due 12/15/2019)(16)	10,000	9,915	9,458	0.3%
				9,915	9,458	0.3%
Rocket Software, Inc.	Massachusetts / Software & Computer Services	Second Lien Term Loan (10.25% (LIBOR + 8.75% with 1.50% LIBOR floor), due 2/8/2019)(3)(4)(16)	20,000	19,801	20,000	0.5%
				19,801	20,000	0.5%
Royal Holdings, Inc.	Indiana / Chemicals	Second Lien Term Loan (8.50% (LIBOR + 7.50% with 1.00% LIBOR floor), due 6/19/2023)(4)(16)	5,000	4,963	5,000	0.1%
				4,963	5,000	0.1%
Ryan, LLC	Texas / Business Services	Subordinated Unsecured Notes (12.00% (LIBOR + 9.00% with 3.00% LIBOR floor) plus 3.00% PIK, due 6/30/2018)(4)	72,701	72,701	72,701	2.0%
				72,701	72,701	2.0%
Security Alarm Financing Enterprises, L.P. (45)	California / Consumer Services	Subordinated Unsecured Notes (11.50% (LIBOR + 9.50% with 2.00% LIBOR floor), due 12/19/2020)(4)	25,000	25,000	25,000	0.7%
				25,000	25,000	0.7%
SESAC Holdco II LLC	Tennessee / Media	Second Lien Term Loan (9.00% (LIBOR + 8.00% with 1.00% LIBOR floor), due 4/22/2021)(3)(4)(16)	10,000	9,854	9,925	0.3%
				9,854	9,925	0.3%
Small Business Whole Loan Portfolio(19)	New York / Online Lending	40 small business loans purchased from Direct Capital Corporation	492	492	362	-%
		2,306 small business loans purchased from On Deck Capital, Inc.	50,066	50,066	50,530	1.4%
				50,558	50,892	1.4%

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(in thousands, except share data)

Portfolio Company	Locale / Industry	Investments(1)	June 30, 2015			
			Principal Value	Cost	Fair Value(2)	% of Net Assets
LEVEL 3 PORTFOLIO INVESTMENTS						
Non-Control/Non-Affiliate Investments (less than 5.00% voting control)						
Spartan Energy Services, Inc.	Louisiana / Oil & Gas Services	Senior Secured Term Loan A (7.00% (LIBOR + 6.00% with 1.00% LIBOR floor), due 12/28/2017)(3)(4)	\$ 13,422	\$ 13,422	\$ 12,973	0.3%
		Senior Secured Term Loan B (11.00% (LIBOR + 10.00% with 1.00% LIBOR floor), due 12/28/2017)(3)(4)	13,935	13,935	13,664	0.4%
			27,357	26,637	0.7%	
Speedy Group Holdings Corp.	Canada / Consumer Finance	Senior Unsecured Notes (12.00%, due 11/15/2017)(16)(22)	15,000	15,000	15,000	0.4%
			15,000	15,000	0.4%	
Stauber Performance Ingredients, Inc.	California / Food Products	Senior Secured Term Loan A (7.50% (LIBOR + 6.50% with 1.00% LIBOR floor), due 11/25/2019)(3)(4)	9,561	9,561	9,561	0.2%
		Senior Secured Term Loan B (10.50% (LIBOR + 9.50% with 1.00% LIBOR floor), due 11/25/2019)(3)(4)	9,799	9,799	9,799	0.3%
			19,360	19,360	0.5%	
Stryker Energy, LLC	Ohio / Oil & Gas Production	Overriding Royalty Interests(18)	-	-	-	-%
				-	-	-%
Sudbury Mill CLO Ltd.	Cayman Islands / Structured Finance	Subordinated Notes (Residual Interest, current yield 15.92%)(11)(22)	28,200	22,562	24,425	0.7%
			22,562	24,425	0.7%	
Symphony CLO IX Ltd.	Cayman Islands / Structured Finance	Preference Shares (Residual Interest, current yield 20.76%)(11)(22)	45,500	34,797	40,034	1.1%
			34,797	40,034	1.1%	
Symphony CLO XIV Ltd.	Cayman Islands / Structured Finance	Subordinated Notes (Residual Interest, current yield 12.24%)(11)(22)(48)	49,250	44,018	45,641	1.2%
			44,018	45,641	1.2%	
Symphony CLO XV, Ltd.	Cayman Islands / Structured Finance	Subordinated Notes (Residual Interest, current yield 11.72%)(11)(22)	50,250	46,994	46,452	1.3%
			46,994	46,452	1.3%	
System One Holdings, LLC	Pennsylvania / Business Services	Senior Secured Term Loan (10.50% (LIBOR + 9.50% with 1.00% LIBOR floor), due 11/17/2020)(3)(4)	68,146	68,146	68,146	1.8%
		Delayed Draw Term Loan - \$11,500 Commitment (expires 12/31/2015)(25)	-	-	-	-%
			68,146	68,146	1.8%	
Targus Group International, Inc.	California / Durable Consumer Products	First Lien Term Loan (11.75% (PRIME + 8.50%) plus 1.00% PIK and 2.00% default interest, due 5/24/2016)(4)(16)	21,487	21,378	17,233	0.5%
			21,378	17,233	0.5%	
TB Corp.	Texas / Hotels, Restaurants & Leisure	Senior Subordinated Note (12.00% plus 1.50% PIK, due 12/19/2018)(3)	23,628	23,628	23,628	0.6%
			23,628	23,628	0.6%	
Therakos, Inc.	New Jersey / Healthcare	Second Lien Term Loan (10.75% (LIBOR + 9.50% with 1.25% LIBOR floor), due 6/27/2018)(4)(16)	13,000	12,808	13,000	0.4%
			12,808	13,000	0.4%	
Tolt Solutions, Inc.	South Carolina / Business Services	Senior Secured Term Loan A (7.00% (LIBOR + 6.00% with 1.00% LIBOR floor), due 3/7/2019)(3)(4)	47,802	47,802	45,548	1.2%
		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	46,155	1.2%
			96,702	91,703	2.4%	
TouchTunes Interactive Networks, Inc.	New York / Media	Second Lien Term Loan (9.25% (LIBOR + 8.25% with 1.00% LIBOR floor), due 5/29/2022)(4)(16)	5,000	4,925	4,925	0.1%
			4,925	4,925	0.1%	

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LEVEL 3 PORTFOLIO INVESTMENTS						
Non-Control/Non-Affiliate Investments (less than 5.00% voting control)						
Traeger Pellet Grills LLC	Oregon / Durable Consumer Products	Senior Secured Term Loan A (6.50% (LIBOR + 4.50% with 2.00% LIBOR floor), due 6/18/2018)(3)(4)	\$ 35,644	\$ 35,644	\$ 35,644	1.0%
		Senior Secured Term Loan B (11.50% (LIBOR + 9.50% with 2.00% LIBOR floor), due 6/18/2018)(3)(4)	36,881	36,881	36,881	1.0%
			72,525	72,525	2.0%	
Transaction Network Services, Inc.	Virginia / Telecommunication Services	Second Lien Term Loan (9.00% (LIBOR + 8.00% with 1.00% LIBOR floor), due 8/14/2020)(4)(16)	4,595	4,573	4,595	0.1%
				4,573	4,595	0.1%
Trinity Services Group, Inc.(14)	Florida / Food Products	Senior Secured Term Loan A (6.50% (LIBOR + 5.50% with 1.00% LIBOR floor), due 8/13/2019)(4)	9,825	9,825	9,825	0.3%
		Senior Secured Term Loan B (11.50% (LIBOR + 10.50% with 1.00% LIBOR floor), due 8/13/2019)(3)(4)	100,000	100,000	100,000	2.7%
			109,825	109,825	3.0%	
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)	158,238	158,238	145,618	3.9%
				158,238	145,618	3.9%
United States Environmental Services, LLC	Texas / Commercial Services	Senior Secured Term Loan A (6.50% (LIBOR + 5.50% with 1.00% LIBOR floor) plus 2.00% default interest, due 3/31/2019)(3)(4)	23,250	23,250	21,551	0.6%
		Senior Secured Term Loan B (11.50% (LIBOR + 10.50% with 1.00% LIBOR floor) plus 2.00% default interest, due 3/31/2019)(3)(4)	36,000	36,000	33,406	0.9%
			59,250	54,957	1.5%	
USG Intermediate, LLC	Texas / Durable Consumer Products	Revolving Line of Credit - \$5,000 Commitment (10.00% (LIBOR + 9.00% with 1.00% LIBOR floor), due 4/15/2016)(4)(25)(26)	-	-	-	-%
		Senior Secured Term Loan A (7.50% (LIBOR + 6.50% with 1.00% LIBOR floor), due 4/15/2020)(3)(4)	21,587	21,587	21,587	0.6%
		Senior Secured Term Loan B (12.50% (LIBOR + 11.50% with 1.00% LIBOR floor), due 4/15/2020)(3)(4)	21,695	21,695	21,695	0.6%
		Equity		1	-	-%
				43,283	43,282	1.2%
Venio LLC	Pennsylvania / Business Services	Second Lien Term Loan (12.00% (LIBOR + 9.50% with 2.50% LIBOR floor), due 2/19/2020)(3)(4)	17,000	17,000	16,042	0.4%
				17,000	16,042	0.4%
Voya CLO 2012-2, Ltd.	Cayman Islands / Structured Finance	Income Notes (Residual Interest, current yield 19.32%) (11)(22)	38,070	30,002	32,391	0.9%
				30,002	32,391	0.9%
Voya CLO 2012-3, Ltd.	Cayman Islands / Structured Finance	Income Notes (Residual Interest, current yield 16.87%) (11)(22)	46,632	37,208	38,465	1.0%
				37,208	38,465	1.0%
Voya CLO 2012-4, Ltd.	Cayman Islands / Structured Finance	Income Notes (Residual Interest, current yield 19.40%) (11)(22)	40,613	32,918	34,977	0.9%
				32,918	34,977	0.9%
Voya CLO 2014-1, Ltd.	Cayman Islands / Structured Finance	Subordinated Notes (Residual Interest, current yield 15.25%)(11)(22)(48)	32,383	28,886	29,170	0.8%
				28,886	29,170	0.8%
Washington Mill CLO Ltd.	Cayman Islands / Structured Finance	Subordinated Notes (Residual Interest, current yield 14.28%)(11)(22)(48)	22,600	19,542	20,137	0.5%
				19,542	20,137	0.5%

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

Portfolio Company	Locale / Industry	Investments(1)	June 30, 2015			
			Principal Value	Cost	Fair Value(2)	% of Net Assets
LEVEL 3 PORTFOLIO INVESTMENTS						
Non-Control/Non-Affiliate Investments (less than 5.00% voting control)						
Water Pik, Inc.	Colorado / Personal & Nondurable Consumer Products	Second Lien Term Loan (9.75% (LIBOR + 8.75% with 1.00% LIBOR floor), due 1/8/2021)(4)(16)	\$ 9,147	\$ 8,796	\$ 9,147	0.2%
				8,796	9,147	0.2%
Wheel Pros, LLC	Colorado / Business Services	Senior Subordinated Secured Note (11.00% (LIBOR + 7.00% with 4.00% LIBOR floor), due 6/29/2020)(3)(4)	12,000	12,000	12,000	0.3%
			-	-	-	-%
				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)	3,000	3,000	-	-%
				-	-	-%
				3,000	-	-%
Total Non-Control/Non-Affiliate Investments (Level 3)				\$ 4,619,519	\$ 4,589,151	124.0%
Total Level 3 Portfolio Investments				\$ 6,559,313	\$ 6,609,298	178.5%
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	\$ 260		-%
				63	260	-%
Total Non-Control/Non-Affiliate Investments (Level 1)				\$ 63	\$ 260	-%
Total Non-Control/Non-Affiliate Investments				\$ 4,619,582	\$ 4,589,411	124.0%
Total Portfolio Investments				\$ 6,559,376	\$ 6,609,558	178.5%

See notes to consolidated financial statements.

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

			June 30, 2014			
Portfolio Company	Locale / Industry	Investments(1)	Principal Value	Cost	Fair Value(2)	% of Net Assets
LEVEL 3 PORTFOLIO INVESTMENTS						
Control Investments (greater than 25.00% voting control)(51)						
AMU Holdings Inc.(27)	Pennsylvania / Property Management	Senior Secured Term Loan A to Airmall Inc. (12.00% (LIBOR + 9.00% with 3.00% LIBOR floor), due 6/30/2015) (3)(4)	\$ 27,587	\$ 27,587	\$ 27,587	0.8%
		Senior Secured Term Loan B to Airmall Inc. (12.00% plus 6.00% PIK, due 12/31/2015)	19,993	19,993	17,697	0.5%
		Series A Preferred Stock of AMU Holdings Inc. (9,919.684 shares)		9,920	-	-%
		Common Stock of AMU Holdings Inc. (100 shares)		-	-	-%
				57,500	45,284	1.3%
APH Property Holdings, LLC(32)	Various / Real Estate	Senior Term Loan to American Property REIT Corp. (6.00% (LIBOR + 4.00% with 2.00% LIBOR floor) plus 5.50% PIK, due 4/1/2019)(4)	167,743	167,743	167,743	4.6%
		Membership Interest in APH Property Holdings, LLC		35,024	38,416	1.1%
				202,767	206,159	5.7%
Arctic Oilfield Equipment USA, Inc.(30)	Wyoming / Oil & Gas Services	Senior Secured Term Loan to Arctic Energy Services, LLC (12.00% (LIBOR + 9.00% with 3.00% LIBOR floor), due 5/5/2019)(4)	31,640	31,640	31,640	0.9%
		Senior Subordinated Term Loan to Arctic Energy Services, LLC (14.00% (LIBOR + 11.00% with 3.00% LIBOR floor), due 5/5/2019)(4)	20,230	20,230	20,230	0.6%
		Common Stock of Arctic Oilfield Equipment USA, Inc. (100 shares)		9,006	9,244	0.2%
				60,876	61,114	1.7%
ARRM Services, Inc.(42)	South Carolina / Manufacturing	Senior Secured Note to Ajax Rolled Ring & Machine, LLC (10.50% (LIBOR + 7.50% with 3.00% LIBOR floor), due 3/30/2018)(4)	19,337	19,337	19,337	0.5%
		Series B Preferred Stock of ARRM Services, Inc. (25,000 shares)		21,156	6,199	0.2%
		Series A Convertible Preferred Stock of ARRM Services, Inc. (6,142.60 shares)		6,057	-	-%
		Common Stock of ARRM Services, Inc. (6.00 shares)		-	-	-%
				46,550	25,536	0.7%
BXC Company, Inc. (f/k/a BXC Holding Company)(20)	Georgia / Textiles, Apparel & Luxury Goods	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	-	-%
		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

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 3 PORTFOLIO INVESTMENTS						
Control Investments (greater than 25.00% voting control)(51)						
CCPI Holdings Inc.(33)	Ohio / Manufacturing	Senior Secured Term Loan A to CCPI Inc. (10.00%, due 12/31/2017)(3)	\$ 17,213	\$ 17,213	\$ 17,213	0.5%
		Senior Secured Term Loan B to CCPI Inc. (12.00% plus 7.00% PIK, due 12/31/2017)	8,245	8,245	8,245	0.2%
		Common Stock of CCPI Holdings Inc. (100 shares)		8,579	7,136	0.2%
				34,037	32,594	0.9%
CP Holdings of Delaware LLC(38)	Oklahoma / Oil & Gas Services	Senior Secured Term Loan A to CP Well Testing, LLC (7.00% (LIBOR + 5.00% with 2.00% LIBOR floor), due 4/1/2019)(4)	11,035	11,035	11,035	0.3%
		Senior Secured Term Loan B to CP Well Testing, LLC (10.00% (LIBOR + 8.00% with 2.00% LIBOR floor) plus 7.50% PIK, due 4/1/2019)(4)	72,238	72,238	72,238	2.0%
		Second Lien Term Loan to CP Well Testing, LLC (9.00% (LIBOR + 7.00% with 2.00% LIBOR floor) plus 9.00% PIK, due 4/1/2019)(4)	15,000	15,000	15,000	0.4%
		Membership Interest in CP Holdings of Delaware LLC		15,228	31,846	0.9%
				113,501	130,119	3.6%
Credit Central Holdings of Delaware, LLC(34)	Ohio / Consumer Finance	Subordinated Term Loan to Credit Central Loan Company, LLC (10.00% plus 10.00% PIK, due 6/26/2019)(22)	36,333	36,333	36,333	1.0%
		Membership Interest in Credit Central Holdings of Delaware, LLC(22)		13,670	14,099	0.4%
				50,003	50,432	1.4%
Echelon Aviation LLC	New York / Aerospace & Defense	Senior Secured Term Loan to Echelon Aviation LLC (11.75% (LIBOR + 9.75% with 2.00% LIBOR floor) plus 2.25% PIK, due 3/31/2022)(4)	78,521	78,521	78,521	2.2%
		Membership Interest in Echelon Aviation LLC		14,107	14,107	0.4%
				92,628	92,628	2.6%
Energy Solutions Holdings Inc.(8)	Texas / Oil & Gas Services	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%
		Senior Secured Note to Vessel Company III, LLC (13.00%, due 12/3/2018)	16,000	16,000	16,000	0.4%
		Senior Secured Note to Yatesville Coal Company, LLC (in non-accrual status effective 1/1/2009, past due)	1,449	1,449	-	-%
		Common Stock of Energy Solutions Holdings Inc. (100 shares)		8,293	-	-%
				41,746	32,004	0.9%
First Tower Holdings of Delaware LLC(29)	Mississippi / Consumer Finance	Subordinated Term Loan to First Tower, LLC (10.00% plus 7.00% PIK, due 6/24/2019)(22)	251,246	251,246	251,246	6.9%
		Membership Interest in First Tower Holdings of Delaware LLC(22)		68,405	75,539	2.1%
				319,651	326,785	9.0%
Gulf Coast Machine & Supply Company	Texas / Manufacturing	Senior Secured Term Loan to Gulf Coast Machine & Supply Company (10.50% (LIBOR + 8.50% with 2.00% LIBOR floor) plus 2.00% default interest on principal, due 10/12/2017)(4)	17,500	17,500	14,459	0.4%
		Series A Convertible Preferred Stock of Gulf Coast Machine & Supply Company (99,900 shares)		25,950	-	-%
				43,450	14,459	0.4%

See notes to consolidated financial statements.

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

			June 30, 2014			
Portfolio Company	Locale / Industry	Investments(1)	Principal Value	Cost	Fair Value(2)	% of Net Assets
LEVEL 3 PORTFOLIO INVESTMENTS						
Control Investments (greater than 25.00% voting control)(51)						
Harbortouch Holdings of Delaware Inc.(43)	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%
		Common Stock of Harbortouch Holdings of Delaware Inc. (100 shares)		10,672	23,292	0.6%
				278,694	291,314	8.0%
The Healing Staff, Inc.(9)	North Carolina / Contracting	Secured Promissory Notes to The Healing Staff, Inc. and Vets Securing America, Inc. (15.00%, in non-accrual status effective 12/22/2010, past due)	1,688	1,686	-	-%
		Senior Demand Note to The Healing Staff, Inc. (15.00%, in non-accrual status effective 11/1/2010, past due)	1,170	1,170	-	-%
		Common Stock of The Healing Staff, Inc. (1,000 shares)		-	-	-%
		Common Stock of Vets Securing America, Inc. (1,500 shares)		975	-	-%
				3,831	-	-%
Manx Energy, Inc.(6)	Kansas / Oil & Gas Production	Senior Secured Note to Manx Energy, Inc. (13.00%, in non-accrual status effective 1/19/2010, past due)	50	50	-	-%
		Series A-1 Preferred Stock of Manx Energy, Inc. (6,635 shares)		-	-	-%
		Common Stock of Manx Energy, Inc. (17,082 shares)		-	-	-%
			50	-	-%	
MITY Holdings of Delaware Inc.(17)	Utah / Durable Consumer Products	Revolving Line of Credit to MITY, Inc. - \$7,500 Commitment (9.50% (LIBOR + 7.00% with 2.50% LIBOR floor), due 12/23/2014)(4)(25)(26)	-	-	-	-%
		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(36)	Illinois / Consumer Finance	Senior Subordinated Term Loan to Nationwide Acceptance LLC (10.00% plus 10.00% PIK, due 6/18/2019)(22)	14,820	14,820	14,820	0.4%
		Membership Interest in Nationwide Acceptance Holdings LLC(22)		14,331	15,103	0.4%
				29,151	29,923	0.8%
NMMB Holdings, Inc.(24)	New York / Media	Senior Secured Note to NMMB, Inc. (14.00%, due 5/6/2016)	3,714	3,714	2,183	0.1%
		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%

See notes to consolidated financial statements.

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

			June 30, 2014			
Portfolio Company	Locale / Industry	Investments(1)	Principal Value	Cost	Fair Value(2)	% of Net Assets
LEVEL 3 PORTFOLIO INVESTMENTS						
Control Investments (greater than 25.00% voting control)(51)						
NPH Property Holdings, LLC(40)	Various	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.	Pennsylvania / Manufacturing	Senior Subordinated Note to R-V Industries, Inc. (10.00% (LIBOR + 9.00% with 1.00% LIBOR floor), due 6/12/2018)(3)(4)	30,411	30,411	30,411	0.8%
		Common Stock of R-V Industries, Inc. (545,107 shares)		5,087	19,989	0.6%
		Warrant (to purchase 200,000 shares of Common Stock of R-V Industries, expires 6/30/2017)		1,682	7,334	0.2%
				37,180	57,734	1.6%
STI Holding, Inc.(21)	California / Manufacturing	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	-	-%
		Senior Secured Term Loan C to Borga, Inc. (12.00% plus 4.00% PIK, in non-accrual status effective 3/2/2010, past due)	10,016	581	-	-%
		Common Stock of STI Holding, Inc. (100 shares)		-	-	-%
		Warrant (to purchase 33,750 shares of Common Stock of Borga, Inc., expires 5/6/2015)		-	-	-%
				3,177	436	-%
UPH Property Holdings, LLC(41)	Various / 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%
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 non-accrual status effective 4/15/2013, due 4/15/2018) (37)	22,000	-	3,386	0.1%
		Senior Secured Note to Appalachian Energy LLC (8.00%, in non-accrual status effective 1/19/2010, past due)(6)	2,865	2,000	-	-%
		Senior Secured Note to Appalachian Energy LLC (8.00%, in non-accrual status, past due)(6)	56	50	-	-%
		Senior Secured Note to Coalbed, LLC (8.00%, in non-accrual status effective 1/19/2010, past due)(6)	8,595	5,991	-	-%
		Common Stock of Wolf Energy Holdings Inc. (100 shares)		-	-	-%
		Net Profits Interest in Wolf Energy, LLC (8% of Equity Distributions)(7)		-	213	-%
				8,041	3,599	0.1%
Total Control Investments				\$ 1,719,242	\$ 1,640,454	45.3%

See notes to consolidated financial statements.



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

Portfolio Company	Locale / Industry	Investments(1)	June 30, 2014			
			Principal Value	Cost	Fair Value(2)	% of Net Assets
LEVEL 3 PORTFOLIO INVESTMENTS						
Affiliate Investments (5.00% to 24.99% voting control)(52)						
BNN Holdings Corp.	Michigan / Healthcare	Senior Secured Note (10.00% (LIBOR + 8.00% with 2.00% LIBOR floor), due 12/17/2017)(3)(4)	\$ 28,950	\$ 28,950	\$ 28,950	0.8%
		Series A Preferred Stock (9,925.455 shares)(13)		2,300	2,614	0.1%
		Series B Preferred Stock (1,753.636 shares)(13)		579	557	-%
				31,829	32,121	0.9%
Total Affiliate Investments			\$	31,829	\$ 32,121	0.9%
Non-Control/Non-Affiliate Investments (less than 5.00% voting control)						
Aderant North America, Inc.	Georgia / Software & Computer Services	Second Lien Term Loan (10.00% (LIBOR + 8.75% with 1.25% LIBOR floor), due 6/20/2019)(4)(16)	\$ 7,000	\$ 6,914	\$ 7,000	0.2%
				6,914	7,000	0.2%
Aircraft Fasteners International, LLC	California / Machinery	Class A Units (32,500 units)		396	505	-%
				396	505	-%
ALG USA Holdings, LLC	Pennsylvania / Hotels, Restaurants & Leisure	Second Lien Term Loan (10.25% (LIBOR + 9.00% with 1.25% LIBOR floor), due 2/28/2020)(4)(16)	12,000	11,792	12,000	0.3%
				11,792	12,000	0.3%
Allied Defense Group, Inc.	Virginia / Aerospace & Defense	Common Stock (10,000 shares)		5	-	-%
				5	-	-%
American Broadband Holding Company and Cameron Holdings of NC, Inc.	North Carolina / Telecommunication Services	Senior Secured Term Loan B (11.00% (LIBOR + 9.75% with 1.25% LIBOR floor), due 9/30/2018)(3)(4)	74,654	74,654	74,654	2.1%
				74,654	74,654	2.1%
American Gilsonite Company	Utah / Metal Services & Minerals	Second Lien Term Loan (11.50%, due 9/1/2017)(16)	38,500	38,500	38,500	1.1%
		Membership Interest (99.9999%)(15)		-	3,477	0.1%
				38,500	41,977	1.2%
Apidos CLO IX	Cayman Islands / Structured Finance	Subordinated Notes (Residual Interest, current yield 18.84%)(11)(22)	20,525	18,444	19,903	0.5%
				18,444	19,903	0.5%
Apidos CLO XI	Cayman Islands / Structured Finance	Subordinated Notes (Residual Interest, current yield 15.02%)(11)(22)	38,340	33,937	37,087	1.0%
				33,937	37,087	1.0%
Apidos CLO XII	Cayman Islands / Structured Finance	Subordinated Notes (Residual Interest, current yield 15.82%)(11)(22)	44,063	42,042	42,499	1.2%
				42,042	42,499	1.2%
Apidos CLO XV	Cayman Islands / Structured Finance	Subordinated Notes (Residual Interest, current yield 14.21%)(11)(22)	36,515	37,038	36,715	1.0%
				37,038	36,715	1.0%
Arctic Glacier U.S.A., Inc.	Minnesota / Food Products	Second Lien Term Loan (10.50% (LIBOR + 9.25% with 1.25% LIBOR floor), due 11/10/2019)(3)(4)	150,000	150,000	150,000	4.1%
				150,000	150,000	4.1%

See notes to consolidated financial statements.

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 3 PORTFOLIO INVESTMENTS						
Non-Control/Non-Affiliate Investments (less than 5.00% voting control)						
Ark-La-Tex Wireline Services, LLC	Louisiana / Oil & Gas Services	Senior Secured Term Loan A (6.50% (LIBOR + 5.50% with 1.00% LIBOR floor), due 4/8/2019)(4)	\$ 26,831	\$ 26,831	\$ 26,831	0.7%
		Senior Secured Term Loan B (10.50% (LIBOR + 9.50% with 1.00% LIBOR floor), due 4/8/2019)(4)	26,831	26,831	26,831	0.7%
		Delayed Draw Term Loan - \$5,000 Commitment (expires 10/8/2015)(4)(25)	-	-	-	-%
				53,662	53,662	1.4%
Armor Holding II LLC	New York / Diversified Financial Services	Second Lien Term Loan (10.25% (LIBOR + 9.00% with 1.25% LIBOR floor), due 12/26/2020)(3)(4)(16)	7,000	6,874	6,874	0.2%
				6,874	6,874	0.2%
Atlantis Health Care Group (Puerto Rico), Inc.	Puerto Rico / Healthcare	Revolving Line of Credit - \$3,000 Commitment (13.00% (LIBOR + 11.00% with 2.00% LIBOR floor), due 8/21/2014)(4)(25)(26)	2,350	2,350	2,350	0.1%
		Senior Term Loan (10.00% (LIBOR + 8.00% with 2.00% LIBOR floor), due 2/21/2018)(3)(4)	38,957	38,957	34,102	0.9%
				41,307	36,452	1.0%
Babson CLO Ltd. 2011-I	Cayman Islands / Structured Finance	Subordinated Notes (Residual Interest, current yield 12.44%)(11)(22)	35,000	33,591	33,801	0.9%
				33,591	33,801	0.9%
Babson CLO Ltd. 2012-I	Cayman Islands / Structured Finance	Subordinated Notes (Residual Interest, current yield 13.35%)(11)(22)	29,075	23,471	26,401	0.7%
				23,471	26,401	0.7%
Babson CLO Ltd. 2012-II	Cayman Islands / Structured Finance	Subordinated Notes (Residual Interest, current yield 11.33%)(11)(22)	27,850	26,764	27,230	0.8%
				26,764	27,230	0.8%
Blue Coat Systems, Inc.	Massachusetts / Software & Computer Services	Second Lien Term Loan (9.50% (LIBOR + 8.50% with 1.00% LIBOR floor), due 6/28/2020)(3)(4)(16)	11,000	10,902	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)(46)	257,575	257,575	257,575	7.1%
				257,575	257,575	7.1%
Brookside Mill CLO Ltd.	Cayman Islands / Structured Finance	Subordinated Notes (Residual Interest, current yield 19.62%)(11)(22)	26,000	22,613	25,081	0.7%
				22,613	25,081	0.7%
Byrider Systems Acquisition Corp.	Indiana / Auto Finance	Senior Subordinated Notes (12.00% plus 2.00% PIK, due 11/3/2016)(3)(22)	11,139	11,139	11,139	0.3%
				11,139	11,139	0.3%
Caleel + Hayden, LLC	Colorado / Personal & Nondurable Consumer Products	Membership Interest(31)		-	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	Cayman Islands / Structured Finance	Subordinated Notes (Residual Interest, current yield 10.10%)(11)(22)	24,870	21,999	23,896	0.7%
				21,999	23,896	0.7%

See notes to consolidated financial statements.

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

			June 30, 2014			
Portfolio Company	Locale / Industry	Investments(1)	Principal Value	Cost	Fair Value(2)	% of Net Assets
LEVEL 3 PORTFOLIO INVESTMENTS						
Non-Control/Non-Affiliate Investments (less than 5.00% voting control)						
Cent CLO 20 Limited	Cayman Islands / Structured Finance	Subordinated Notes (Residual Interest, current yield 10.83%)(11)(22)	\$ 40,275	\$ 40,483	\$ 40,259	1.1%
				40,483	40,259	1.1%
Cent CLO 21 Limited	Cayman Islands / Structured Finance	Subordinated Notes (Residual Interest, current yield 15.47%)(11)(22)(48)	48,528	46,597	46,154	1.3%
				46,597	46,154	1.3%
CIFC Funding 2011-I, Ltd.	Cayman Islands / Structured Finance	Class D Senior Secured Notes (5.23% (LIBOR + 5.00%, due 1/19/2023)(4)(22)	19,000	15,304	18,037	0.5%
		Class E Subordinated Notes (7.23% (LIBOR + 7.00%, due 1/19/2023)(4)(22)	15,400	12,814	15,162	0.4%
				28,118	33,199	0.9%
CIFC Funding 2013-III, Ltd.	Cayman Islands / Structured Finance	Subordinated Notes (Residual Interest, current yield 14.01%)(11)(22)	44,100	39,534	43,217	1.2%
				39,534	43,217	1.2%
CIFC Funding 2013-IV, Ltd.	Cayman Islands / Structured Finance	Subordinated Notes (Residual Interest, current yield 12.52%)(11)(22)	45,500	40,255	40,934	1.1%
				40,255	40,934	1.1%
Cinedigm DC Holdings, LLC	New York / Software & Computer Services	Senior Secured Term Loan (11.00% (LIBOR + 9.00% with 2.00% LIBOR floor) plus 2.50% PIK, due 3/31/2021)(4)	68,714	68,664	68,714	1.9%
				68,664	68,714	1.9%
The Copernicus Group, Inc.	North Carolina / Healthcare	Escrow Receivable		-	115	-%
				-	115	-%
Correctional Healthcare Holding Company, Inc.	Colorado / Healthcare	Second Lien Term Loan (11.25%, due 1/11/2020)(3)	27,100	27,100	27,642	0.8%
				27,100	27,642	0.8%
Coverall North America, Inc.	Florida / Commercial Services	Senior Secured Term Loan (11.50% (LIBOR + 8.50% with 3.00% LIBOR floor), due 12/17/2017)(3)(4)	51,210	51,210	51,210	1.4%
				51,210	51,210	1.4%
Crosman Corporation	New York / Manufacturing	Second Lien Term Loan (12.00% (LIBOR + 10.50% with 1.50% LIBOR floor), due 12/30/2019)(3)(4)	40,000	40,000	39,708	1.1%
				40,000	39,708	1.1%
CRT MIDCO, LLC	Wisconsin / Media	Senior Secured Term Loan (10.50% (LIBOR + 7.50% with 3.00% LIBOR floor), due 6/30/2017)(3)(4)	47,504	47,504	47,504	1.3%
				47,504	47,504	1.3%
Deltek, Inc.	Virginia / Software & Computer Services	Second Lien Term Loan (10.00% (LIBOR + 8.75% with 1.25% LIBOR floor), due 10/10/2019)(3)(4)(16)	12,000	11,852	12,000	0.3%
				11,852	12,000	0.3%
Diamondback Operating, LP	Oklahoma / Oil & Gas Production	Net Profits Interest (15% of Equity Distributions)(7)		-	-	-%
				-	-	-%
Edmentum, Inc.(47)	Minnesota / Consumer Services	Second Lien Term Loan (11.25% (LIBOR + 9.75% with 1.50% LIBOR floor), due 5/17/2019)(3)(4)(16)	50,000	48,439	50,000	1.4%
				48,439	50,000	1.4%
Empire Today, LLC	Illinois / Durable Consumer Products	Senior Secured Note (11.375%, due 2/1/2017)(16)	15,700	15,419	15,700	0.4%
				15,419	15,700	0.4%
Fischbein, LLC	North Carolina / Machinery	Escrow Receivable		-	116	-%

See notes to consolidated financial statements.

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

			June 30, 2014			
Portfolio Company	Locale / Industry	Investments(1)	Principal Value	Cost	Fair Value(2)	% of Net Assets
LEVEL 3 PORTFOLIO INVESTMENTS						
Non-Control/Non-Affiliate Investments (less than 5.00% voting control)						
Fleetwash, Inc.	New Jersey / Business Services	Senior Secured Term Loan A (6.50% (LIBOR + 5.50% with 1.00% LIBOR floor), due 4/30/2019)(4)	\$ 25,000	\$ 25,000	\$ 25,000	0.7%
		Senior Secured Term Loan B (10.50% (LIBOR + 9.50% with 1.00% LIBOR floor), due 4/30/2019)(4)	25,000	25,000	25,000	0.7%
		Delayed Draw Term Loan - \$15,000 Commitment (expires 4/30/2019)(25)	-	-	-	-%
			50,000	50,000	1.4%	
Focus Brands, Inc.	Georgia / Consumer Services	Second Lien Term Loan (10.25% (LIBOR + 9.00% with 1.25% LIBOR floor), due 8/21/2018)(4)(16)	18,000	17,776	18,000	0.5%
			17,776	18,000	0.5%	
Focus Products Group International, LLC	Illinois / Durable Consumer Products	Senior Secured Term Loan (12.00% (LIBOR + 11.00% with 1.00% LIBOR floor), due 1/20/2017)(3)(4)	20,297	20,297	19,886	0.5%
		Common Stock (5,638 shares)		27	-	-%
			20,324	19,886	0.5%	
Galaxy XII CLO, Ltd.	Cayman Islands / Structured Finance	Subordinated Notes (Residual Interest, current yield 13.31%)(11)(22)	22,000	19,498	20,449	0.6%
			19,498	20,449	0.6%	
Galaxy XV CLO, Ltd.	Cayman Islands / Structured Finance	Subordinated Notes (Residual Interest, current yield 14.27%)(11)(22)	35,025	29,777	31,824	0.9%
			29,777	31,824	0.9%	
Galaxy XVI CLO, Ltd.	Cayman Islands / Structured Finance	Subordinated Notes (Residual Interest, current yield 12.19%)(11)(22)	22,575	20,790	20,573	0.6%
			20,790	20,573	0.6%	
Galaxy XVII CLO, Ltd.	Cayman Islands / Structured Finance	Subordinated Notes (Residual Interest, current yield 14.79%)(11)(22)(48)	39,905	36,811	36,589	1.0%
			36,811	36,589	1.0%	
Global Employment Solutions, Inc.	Colorado / Business Services	Senior Secured Term Loan (10.00% (LIBOR + 9.00% with 1.00% LIBOR floor), due 3/25/2019)(3)(4)	28,464	28,464	28,464	0.8%
			28,464	28,464	0.8%	
Grocery Outlet, Inc.	California / Retail	Second Lien Term Loan (10.50% (LIBOR + 9.25% with 1.25% LIBOR floor), due 6/17/2019)(4)(16)	14,457	14,168	14,457	0.4%
			14,168	14,457	0.4%	
GTP Operations, LLC(10)	Texas / Software & Computer Services	Senior Secured Term Loan (10.00% (LIBOR + 5.00% with 5.00% LIBOR floor), due 12/11/2018)(3)(4)	112,546	112,546	112,546	3.1%
			112,546	112,546	3.1%	
Halcyon Loan Advisors Funding 2012-1 Ltd.	Cayman Islands / Structured Finance	Subordinated Notes (Residual Interest, current yield 21.35%)(11)(22)	23,188	20,600	22,570	0.6%
			20,600	22,570	0.6%	
Halcyon Loan Advisors Funding 2013-1 Ltd.	Cayman Islands / Structured Finance	Subordinated Notes (Residual Interest, current yield 18.49%)(11)(22)	40,400	38,460	41,509	1.1%
			38,460	41,509	1.1%	
Halcyon Loan Advisors Funding 2014-1 Ltd.	Cayman Islands / Structured Finance	Subordinated Notes (Residual Interest, current yield 15.28%)(11)(22)	24,500	23,471	23,110	0.6%
			23,471	23,110	0.6%	
Halcyon Loan Advisors Funding 2014-2 Ltd.	Cayman Islands / Structured Finance	Subordinated Notes (Residual Interest, current yield 16.06%)(11)(22)(48)	41,164	38,630	38,066	1.1%
			38,630	38,066	1.1%	
Harley Marine Services, Inc.	Washington / Transportation	Second Lien Term Loan (10.50% (LIBOR + 9.25% with 1.25% LIBOR floor), due 12/20/2019)(3)(4)(16)	9,000	8,832	8,832	0.2%
			8,832	8,832	0.2%	

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

Portfolio Company	Locale / Industry	Investments(1)	June 30, 2014			
			Principal Value	Cost	Fair Value(2)	% of Net Assets
LEVEL 3 PORTFOLIO INVESTMENTS						
Non-Control/Non-Affiliate Investments (less than 5.00% voting control)						
ICON Health & Fitness, Inc.	Utah / Durable Consumer Products	Senior Secured Note (11.875%, due 10/15/2016)(16)	\$ 21,850	\$ 22,005	\$ 20,889	0.6%
				22,005	20,889	0.6%
ICV-CSI Holdings, LLC	New York / Transportation	Common Equity (1.6 units)		1,639	2,079	0.1%
				1,639	2,079	0.1%
IDQ Holdings, Inc.	Texas / Automobile	Senior Secured Note (11.50%, due 4/1/2017)(16)	12,500	12,344	12,500	0.3%
				12,344	12,500	0.3%
Ikaria, Inc.	New Jersey / Healthcare	Second Lien Term Loan (8.75% (LIBOR + 7.75% with 1.00% LIBOR floor), due 2/12/2022)(4)(16)	25,000	24,430	25,000	0.7%
				24,430	25,000	0.7%
Injured Workers Pharmacy, LLC	Massachusetts / Healthcare	Second Lien Term Loan (11.50% (LIBOR + 7.00% with 4.50% LIBOR floor) plus 1.00% PIK, due 5/31/2019)(3)(4)	22,678	22,678	22,904	0.6%
				22,678	22,904	0.6%
Instant Web, LLC	Minnesota / Media	Senior Secured Term Loan A (5.50% (LIBOR + 4.50% with 1.00% LIBOR floor), due 3/28/2019)(4)	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)(4)	128,000	128,000	128,000	3.6%
		Senior Secured Term Loan C (12.75% (LIBOR + 11.75% with 1.00% LIBOR floor), due 3/28/2019)(4)	12,500	12,500	12,500	0.3%
				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	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	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	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	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	0.6%
		Delayed Draw Term Loan - \$6,000 Commitment (expires 12/31/2016)(25)	-	-	-	-%
				58,205	58,205	1.6%
LCM XIV Ltd.	Cayman Islands / Structured Finance	Income Notes (Residual Interest, current yield 16.02%)(11)(22)	26,500	24,914	25,124	0.7%
				24,914	25,124	0.7%
LHC Holdings Corp.	Florida / Healthcare	Revolving Line of Credit - \$750 Commitment (8.50% (LIBOR + 6.00% with 2.50% LIBOR floor), due 5/31/2015)(4)(25)(26)	-	-	-	-%
		Senior Subordinated Debt (10.50%, due 5/31/2015)(3)	1,865	1,865	1,865	0.1%
		Membership Interest (125 units)		216	253	-%
				2,081	2,118	0.1%
Madison Park Funding IX, Ltd.	Cayman Islands / Structured Finance	Subordinated Notes (Residual Interest, current yield 12.97%)(11)(22)	31,110	24,546	27,266	0.8%
				24,546	27,266	0.8%

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(in thousands, except share data)

Portfolio Company	Locale / Industry	Investments(1)	June 30, 2014			
			Principal Value	Cost	Fair Value(2)	% of Net Assets
LEVEL 3 PORTFOLIO INVESTMENTS						
Non-Control/Non-Affiliate Investments (less than 5.00% voting control)						
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%
			78,069	73,690	2.0%	
Maverick Healthcare Equity, LLC	Arizona / Healthcare	Preferred Units (1,250,000 units)		1,252	821	-%
		Class A Common Units (1,250,000 units)		-	-	-%
				1,252	821	-%
Mountain View CLO 2013-I Ltd.	Cayman Islands / Structured Finance	Subordinated Notes (Residual Interest, current yield 15.64%) (11)(22)	43,650	40,754	43,555	1.2%
			40,754	43,555	1.2%	
NCP Finance Limited Partnership(23)	Ohio / Consumer Finance	Subordinated Secured Term Loan (11.00% (LIBOR + 9.75% with 1.25% LIBOR floor), due 9/30/2018)(3)(4)(16)(22)	11,910	11,692	12,208	0.3%
			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	-	-%
			44,000	-	-%	
Nixon, Inc.	California / Durable Consumer Products	Senior Secured Term Loan (8.75% plus 2.75% PIK, due 4/16/2018)(16)	13,532	13,316	13,316	0.4%
			13,316	13,316	0.4%	
NRG Manufacturing, Inc.	Texas / Manufacturing	Escrow Receivable		-	1,110	-%
				-	1,110	-%
Octagon Investment Partners XV, Ltd.	Cayman Islands / Structured Finance	Income Notes (Residual Interest, current yield 20.60%)(11) (22)	26,901	24,338	26,732	0.7%
			24,338	26,732	0.7%	
Onyx Payments(44)	Texas / Diversified Financial Services	Senior Secured Term Loan A (6.75% (LIBOR + 5.50% with 1.25% LIBOR floor), due 4/18/2018)(4)	15,125	15,125	15,125	0.4%
		Senior Secured Term Loan B (13.75% (LIBOR + 12.50% with 1.25% LIBOR floor), due 4/18/2018)(4)	15,938	15,938	15,938	0.4%
			31,063	31,063	0.8%	
Pelican Products, Inc.	California / Durable Consumer Products	Second Lien Term Loan (9.25% (LIBOR + 8.25% with 1.00% LIBOR floor), due 4/9/2021)(4)(16)	17,500	17,482	17,500	0.5%
			17,482	17,500	0.5%	
PGX Holdings, Inc.(28)	Utah / Consumer Services	Senior Secured Term Loan (10.50% (LIBOR + 8.50% with 2.00% LIBOR floor), due 9/14/2017)(3)(4)	436,647	436,647	436,647	12.1%
			436,647	436,647	12.1%	
Photonis Technologies SAS	France / Aerospace & Defense	First Lien Term Loan (8.50% (LIBOR + 7.50% with 1.00% LIBOR floor), due 9/18/2019)(4)(16)(22)	10,448	10,170	10,339	0.3%
			10,170	10,339	0.3%	
Pinnacle (US) Acquisition Co. Limited	Texas / Software & Computer Services	Second Lien Term Loan (10.50% (LIBOR + 9.25% with 1.25% LIBOR floor), due 8/3/2020)(4)(16)	10,000	9,833	10,000	0.3%
			9,833	10,000	0.3%	

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(in thousands, except share data)

Portfolio Company	Locale / Industry	Investments(1)	June 30, 2014			
			Principal Value	Cost	Fair Value(2)	% of Net Assets
LEVEL 3 PORTFOLIO INVESTMENTS						
Non-Control/Non-Affiliate Investments (less than 5.00% voting control)						
PrimeSport, Inc.	Georgia / Hotels, Restaurants & Leisure	Revolving Line of Credit - \$15,000 Commitment (10.00% (LIBOR + 9.50% with 0.50% LIBOR floor), due 6/30/2015)(4)(25)(26)	\$ -	\$ -	\$ -	-%
		Senior Secured Term Loan A (7.50% (LIBOR + 6.50% with 1.00% LIBOR floor), due 12/23/2019)(3)(4)	43,263	43,263	43,263	1.2%
		Senior Secured Term Loan B (11.50% (LIBOR + 10.50% with 1.00% LIBOR floor) plus 1.00% PIK, due 12/23/2019)(3)(4)	43,700	43,700	43,700	1.2%
				86,963	86,963	2.4%
Prince Mineral Holding Corp.	New York / Metal Services & Minerals	Senior Secured Term Loan (11.50%, due 12/15/2019)(16)	10,000	9,902	10,000	0.3%
				9,902	10,000	0.3%
Rocket Software, Inc.	Massachusetts / Software & Computer Services	Second Lien Term Loan (10.25% (LIBOR + 8.75% with 1.50% LIBOR floor), due 2/8/2019)(3)(4)(16)	20,000	19,758	20,000	0.6%
				19,758	20,000	0.6%
Royal Adhesives and Sealants, LLC	Indiana / Chemicals	Second Lien Term Loan (9.75% (LIBOR + 8.50% with 1.25% LIBOR floor), due 1/31/2019)(4)(16)	20,000	19,648	19,713	0.5%
				19,648	19,713	0.5%
Ryan, LLC	Texas / Business Services	Subordinated Unsecured Notes (12.00% (LIBOR + 9.00% with 3.00% LIBOR floor) plus 3.00% PIK, due 6/30/2018)(4)	70,531	70,531	70,531	1.9%
				70,531	70,531	1.9%
Sandow Media, LLC	Florida / Media	Senior Secured Term Loan (12.00%, due 5/8/2018)(3)	25,081	25,081	23,524	0.7%
				25,081	23,524	0.7%
Small Business Whole Loan Portfolio(19)	New York / Online Lending	144 small business loans purchased from On Deck Capital, Inc.	4,637	4,637	4,252	0.1%
				4,637	4,252	0.1%
Snacks Parent Corporation	Minnesota / Food Products	Series A Preferred Stock (4,021.45 shares)		-	-	-%
		Series B Preferred Stock (1,866.10 shares)		-	-	-%
		Warrant (to purchase 31,196.52 shares of Common Stock, expires 11/12/2020)		591	1,819	0.1%
				591	1,819	0.1%
Spartan Energy Services, Inc.	Louisiana / Oil & Gas Services	Senior Secured Term Loan (10.50% (LIBOR + 9.00% with 1.50% LIBOR floor), due 12/28/2017)(3)(4)	35,633	35,633	35,633	1.0%
				35,633	35,633	1.0%
Speedy Group Holdings Corp.	Canada / Consumer Finance	Senior Unsecured Notes (12.00%, due 11/15/2017)(16)(22)	15,000	15,000	15,000	0.4%
				15,000	15,000	0.4%
Sport Helmets Holdings, LLC	New York / Personal & Nondurable Consumer Products	Escrow Receivable		-	130	-%
				-	130	-%
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.

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 3 PORTFOLIO INVESTMENTS						
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.	Cayman Islands / Structured Finance	Subordinated Notes (Residual Interest, current yield 16.25%) (11)(22)	28,200	26,914	26,140	0.7%
				26,914	26,140	0.7%
Symphony CLO IX Ltd.	Cayman Islands / Structured Finance	Preference Shares (Residual Interest, current yield 19.76%)(11) (22)	45,500	37,734	44,294	1.2%
				37,734	44,294	1.2%
Symphony CLO XIV Ltd.	Cayman Islands / Structured Finance	Subordinated Notes (Residual Interest, current yield 14.03%) (11)(22)(48)	49,250	49,858	49,025	1.4%
				49,858	49,025	1.4%
System One Holdings, LLC	Pennsylvania / Business Services	Senior Secured Term Loan (11.00% (LIBOR + 9.50% with 1.50% LIBOR floor), due 12/31/2018)(3)(4)	44,646	44,646	44,646	1.2%
				44,646	44,646	1.2%
Targus Group International, Inc.	California / Durable Consumer Products	First Lien Term Loan (11.00% (LIBOR + 9.50% with 1.50% LIBOR floor) plus 1.0% PIK, due 5/24/2016)(3)(4)(16)	21,911	21,697	19,949	0.6%
				21,697	19,949	0.6%
TB Corp.	Texas / Hotels, Restaurants & 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.	Michigan / Automobile	Second Lien Term Loan (9.00% (LIBOR + 8.00% with 1.00% LIBOR floor), due 3/12/2019)(4)(16)	10,000	9,952	9,952	0.3%
				9,952	9,952	0.3%
Therakos, Inc.	New Jersey / Healthcare	Second Lien Term Loan (11.25% (LIBOR + 10.00% with 1.25% LIBOR floor), due 6/27/2018)(4)(16)	13,000	12,762	13,000	0.4%
				12,762	13,000	0.4%
Tolt Solutions, Inc.	South Carolina / Business Services	Senior Secured Term Loan A (7.00% (LIBOR + 6.00% with 1.00% LIBOR floor), due 3/7/2019)(3)(4)	48,705	48,705	48,705	1.3%
		Senior Secured Term Loan B (12.00% (LIBOR + 11.00% with 1.00% LIBOR floor), due 3/7/2019)(3)(4)	48,900	48,900	48,900	1.4%
				97,605	97,605	2.7%
Traeger Pellet Grills LLC	Oregon / Durable Consumer Products	Senior Secured Term Loan A (6.50% (LIBOR + 4.50% with 2.00% LIBOR floor), due 6/18/2018)(3)(4)	29,100	29,100	29,100	0.8%
		Senior Secured Term Loan B (11.50% (LIBOR + 9.50% with 2.00% LIBOR floor), due 6/18/2018)(3)(4)	29,700	29,700	29,700	0.8%
				58,800	58,800	1.6%
Transaction Network Services, Inc.	Virginia / Telecommunication Services	Second Lien Term Loan (9.00% (LIBOR + 8.00% with 1.00% LIBOR floor), due 8/14/2020)(4)(16)	5,000	4,976	5,000	0.1%
				4,976	5,000	0.1%
TriMark USA, LLC	Massachusetts / Hotels, Restaurants & Leisure	Second Lien Term Loan (10.00% (LIBOR + 9.00% with 1.00% LIBOR floor), due 8/11/2019)(4)(16)	10,000	9,810	9,810	0.3%
				9,810	9,810	0.3%
United Sporting Companies, Inc.(5)	South Carolina / Durable Consumer Products	Second Lien Term Loan (12.75% (LIBOR + 11.00% with 1.75% LIBOR floor), due 5/16/2018)(3)(4)	160,000	160,000	160,000	4.4%

See notes to consolidated financial statements.

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

Portfolio Company	Locale / Industry	Investments(1)	June 30, 2014			
			Principal Value	Cost	Fair Value(2)	% of Net Assets
LEVEL 3 PORTFOLIO INVESTMENTS						
Non-Control/Non-Affiliate Investments (less than 5.00% voting control)						
United States Environmental Services, LLC	Texas / Commercial Services	Senior Secured Term Loan A (6.50% (LIBOR + 5.50% with 1.00% LIBOR floor), due 3/31/2019)(3)(4)	\$ 23,850	\$ 23,850	\$ 23,850	0.7%
		Senior Secured Term Loan B (11.50% (LIBOR + 10.50% with 1.00% LIBOR floor), due 3/31/2019)(3)(4)	36,000	36,000	36,000	1.0%
			59,850	59,850	1.7%	
Venio LLC	Pennsylvania / Business Services	Second Lien Term Loan (12.00% (LIBOR + 9.50% with 2.50% LIBOR floor), due 2/19/2020)(3)(4)	17,000	17,000	16,726	0.5%
			17,000	16,726	0.5%	
Voya CLO 2012-2, Ltd.	Cayman Islands / Structured Finance	Income Notes (Residual Interest, current yield 14.69%)(11)(22)	38,070	31,058	35,843	1.0%
			31,058	35,843	1.0%	
Voya CLO 2012-3, Ltd.	Cayman Islands / Structured Finance	Income Notes (Residual Interest, current yield 12.97%)(11)(22)	46,632	39,368	43,960	1.2%
			39,368	43,960	1.2%	
Voya CLO 2012-4, Ltd.	Cayman Islands / Structured Finance	Income Notes (Residual Interest, current yield 15.28%)(11)(22)	40,613	34,941	39,647	1.1%
			34,941	39,647	1.1%	
Voya CLO 2014-1, Ltd.	Cayman Islands / Structured Finance	Subordinated Notes (Residual Interest, current yield 14.49%)(11)(22)(48)	32,383	33,825	32,949	0.9%
			33,825	32,949	0.9%	
Washington Mill CLO Ltd.	Cayman Islands / Structured Finance	Subordinated Notes (Residual Interest, current yield 17.43%)(11)(22)(48)	22,600	21,601	21,583	0.6%
			21,601	21,583	0.6%	
Water Pik, Inc.	Colorado / Personal & Nondurable Consumer Products	Second Lien Term Loan (9.75% (LIBOR + 8.75% with 1.00% LIBOR floor), due 1/8/2021)(4)(16)	11,000	10,604	10,604	0.3%
			10,604	10,604	0.3%	
Wheel Pros, LLC	Colorado / Business Services	Senior Subordinated Secured Note (11.00% (LIBOR + 7.00% with 4.00% LIBOR floor), due 6/29/2020)(4)	12,000	12,000	12,000	0.3%
		Delayed Draw Term Loan - \$3,000 Commitment (expires 12/30/2015)(25)	-	-	-	-%
			12,000	12,000	0.3%	
Wind River Resources Corporation(39)	Utah / Oil & Gas Production	Senior Secured Note (13.00% (LIBOR + 7.50% with 5.50% LIBOR floor) plus 3.00% default interest on principal and 16.00% default interest on past due interest, in non-accrual status effective 12/1/2008, past due)(4)	15,000	14,650	-	-%
		Net Profits Interest (5% of Equity Distributions)(7)		-	-	-%
			14,650	-	-%	
Total Non-Control/Non-Affiliate Investments (Level 3)			\$ 4,620,388	\$ 4,580,996	126.6%	
Total Level 3 Portfolio Investments			\$ 6,371,459	\$ 6,253,571	172.8%	

See notes to consolidated financial statements.

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

			June 30, 2014			
Portfolio Company	Locale / Industry	Investments(1)	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.

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

Endnote Explanations as of June 30, 2015 and June 30, 2014

- (1) The terms “Prospect,” “we,” “us” and “our” mean Prospect Capital Corporation and its subsidiaries unless the context specifically requires otherwise. The securities in which Prospect has invested were acquired in transactions that were exempt from registration under the Securities Act of 1933, as amended (the “Securities Act”). These securities may be resold only in transactions that are exempt from registration under the Securities Act.
- (2) Fair value is determined by or under the direction of our Board of Directors. As of June 30, 2015 and June 30, 2014, one of our portfolio investments, Dover Saddlery, Inc., was publicly traded and classified as Level 1 within the valuation hierarchy established by ASC 820, *Fair Value Measurement* (“ASC 820”). As of June 30, 2015 and June 30, 2014, the fair value of our remaining portfolio investments was determined using significant unobservable inputs. ASC 820 classifies such inputs used to measure fair value as Level 3 within the valuation hierarchy. See Notes 2 and 3 within the accompanying notes to consolidated financial statements for further discussion.
- (3) Security, or a portion thereof, is held by Prospect Capital Funding LLC (“PCF”), our wholly-owned subsidiary and a bankruptcy remote special purpose entity, and is pledged as collateral for the Revolving Credit Facility and such security is not available as collateral to our general creditors (see Note 4). The fair values of these investments held by PCF at June 30, 2015 and June 30, 2014 were \$1,511,585 and \$1,500,897, respectively; they represent 22.9% and 24.0% of our total investments, respectively.
- (4) Security, or a portion thereof, has a floating interest rate which may be subject to a LIBOR or PRIME floor. Stated interest rate was in effect at June 30, 2015 and June 30, 2014.
- (5) Ellett Brothers, LLC, Evans Sports, Inc., Jerry’s Sports, Inc., Simmons Gun Specialties, Inc., Bonitz Brothers, Inc., and Outdoor Sports Headquarters, Inc. are joint borrowers on the second lien term loan. United Sporting Companies, Inc. is a parent guarantor of this debt investment.
- (6) On January 19, 2010, we modified the terms of our senior secured debt in Appalachian Energy Holdings, LLC (“AEH”) and Coalbed, LLC (“Coalbed”) in conjunction with the formation of Manx Energy, Inc. (“Manx”), a new entity consisting of the assets of AEH, Coalbed and Kinley Exploration. The assets of the three companies were brought under new common management. We funded \$2,800 at closing to Manx to provide for working capital. As part of the Manx roll-up, our loans to AEH and Coalbed were assigned to Manx and a portion of the debt was exchanged for Manx preferred equity, while our AEH equity interest was converted into Manx common stock. There was no change to fair value at the time of restructuring. On June 30, 2012, Manx returned the investments in Coalbed and AEH to us and we contributed these investments to Wolf Energy Holdings Inc. (“Wolf Energy Holdings”), a newly-formed, separately owned holding company. During the three months ended June 30, 2013, we determined that the impairment of Manx was other-than-temporary and recorded a realized loss of \$9,397 for the amount that the amortized cost exceeded the fair value, reducing the amortized cost to \$500. As of June 30, 2014, Prospect owned 41% of the equity of Manx. During the three months ended December 31, 2014, Manx was dissolved and we recorded a realized loss of \$50, reducing the amortized cost to zero.
- (7) In addition to the stated returns, the net profits interest held will be realized upon sale of the borrower or a sale of the interests.
- (8) During the quarter ended December 31, 2011, our ownership of Change Clean Energy Holdings, LLC, Change Clean Energy, LLC, Freedom Marine Services Holdings, LLC (“Freedom Marine”), and Yatesville Coal Holdings, LLC was transferred to Energy Solutions Holdings Inc. (f/k/a Gas Solutions Holdings, Inc.) (“Energy Solutions”) to consolidate all of our energy holdings under one management team. We own 100% of Energy Solutions. On December 28, 2011, we made a \$3,500 debt investment in Vessel Holdings, LLC, a subsidiary of Freedom Marine. On November 25, 2013, we provided \$13,000 in senior secured debt financing for the recapitalization of our investment in Jettco Marine Services, LLC (“Jettco”), a subsidiary of Freedom Marine. The subordinated secured loan to Jettco was replaced with a senior secured note to Vessel Holdings II, LLC, a new subsidiary of Freedom Marine. On December 3, 2013, we made a \$16,000 senior secured investment in Vessel Holdings III, LLC, another new subsidiary of Freedom Marine. On June 4, 2014, Gas Solutions GP LLC and Gas Solutions LP LLC, two subsidiaries of Energy Solutions, merged with and into Freedom Marine, with Freedom Marine as the surviving entity. In June 2014, Freedom Marine Services Holdings, LLC was renamed Freedom Marine Solutions, LLC; Vessel Holdings, LLC was renamed Vessel Company, LLC; Vessel Holdings II, LLC was renamed Vessel Company II, LLC; Vessel Holdings III, LLC was renamed Vessel Company III, LLC; Yatesville Coal Holdings, LLC was renamed Yatesville Coal Company, LLC; and Change Clean Energy Holdings, LLC was renamed Change Clean Energy Company, LLC. On July 1, 2014, we began consolidating Energy Solutions and as a result, we began reporting our investments in Change Clean Energy Company, LLC, Freedom Marine Solutions, LLC and Yatesville Coal Company, LLC as separate controlled companies. During the three months ended December 31, 2014, we determined that the impairments of Change Clean Energy Company, LLC and Yatesville Coal Company, LLC were other-than-temporary and recorded a realized loss of \$1,449, reducing the amortized cost to zero.

See notes to consolidated financial statements.

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

Endnote Explanations as of June 30, 2015 and June 30, 2014 (Continued)

- (9) As of June 30, 2014, we owned 100% of the equity of Vets Securing America, Inc. ("VSA") and 100% of the equity of The Healing Staff, Inc. ("THS"), a former wholly-owned subsidiary of ESA Environmental Specialists, Inc. As of June 30, 2014, THS and VSA were joint borrowers on the secured promissory notes. On June 5, 2015, we sold our equity investment in VSA and realized a net loss of \$975 on the sale. In connection with the sale, VSA was released as a borrower on the secured promissory notes, leaving THS as the sole borrower. During the year ended June 30, 2015, THS ceased operations and we recorded a realized loss of \$2,956, reducing the amortized cost to zero.
- (10) GTP Operations, LLC, Transplace, LLC, CI (Transplace) International, LLC, Transplace Freight Services, LLC, Transplace Texas, LP, Transplace Stuttgart, LP, Transplace International, Inc., Celtic International, LLC, and Treetop Merger Sub, LLC are joint borrowers on the senior secured term loan.
- (11) The CLO equity investments are entitled to recurring distributions which are generally equal to the excess cash flow generated from the underlying investments after payment of the contractual payments to debt holders and fund expenses. The current estimated yield is based on the current projections of this excess cash flow taking into account assumptions which have been made regarding expected prepayments, losses and future reinvestment rates. These assumptions are periodically reviewed and adjusted. Ultimately, the actual yield may be higher or lower than the estimated yield if actual results differ from those used for the assumptions.
- (12) Wolf Energy Holdings, an entity in which we own 100% of the common stock, owns 100% of the equity of Wolf Energy, LLC ("Wolf Energy"). Effective June 30, 2012, the membership interests and associated operating company debt of AEH and Coalbed, which were previously owned by Manx, were assigned to Wolf Energy Holdings. Effective June 6, 2014, Appalachian Energy Holdings, LLC was renamed Appalachian Energy LLC. On July 1, 2014, we began consolidating Wolf Energy Holdings and as a result, we began reporting our investments in Appalachian Energy LLC, Coalbed, LLC and Wolf Energy, LLC as separate controlled companies. During the three months ended September 30, 2014, we determined that the impairment of Appalachian Energy LLC was other-than-temporary and recorded a realized loss of \$2,050, reducing the amortized cost to zero. On November 21, 2014, Coalbed merged with and into Wolf Energy, with Wolf Energy as the surviving entity. During the three months ended December 31, 2014, we determined that the impairment of the Coalbed debt assumed by Wolf Energy was other-than-temporary and recorded a realized loss of \$5,991, reducing the amortized cost to zero.
- (13) On a fully diluted basis represents 10.00% of voting common shares.
- (14) Trinity Services Group, Inc. and Trinity Services I, LLC are joint borrowers on the senior secured loan facility.
- (15) We own 99.9999% of AGC/PEP, LLC. AGC/PEP, LLC owns 2,037.65 out of a total of 83,818.69 shares (including 5,111 vested and unvested management options) of American Gilsonite Holding Company which owns 100% of American Gilsonite Company.
- (16) Syndicated investment which was originated by a financial institution and broadly distributed.
- (17) MITY Holdings of Delaware Inc. ("MITY Delaware"), an entity in which we own 100% of the common stock, owns 94.99% of the equity of MITY, Inc. (f/k/a MITY Enterprises, Inc.) ("MITY"). MITY owns 100% of each of MITY-Lite, Inc.; Broda Enterprises USA, Inc.; and Broda Enterprises ULC ("Broda Canada"). On June 23, 2014, Prospect made a new \$15,769 debt investment in MITY and MITY distributed proceeds to MITY Delaware as a return of capital. MITY Delaware used this distribution to pay down the senior secured debt of MITY Delaware to Prospect by the same amount. The remaining amount of the senior secured debt due from MITY Delaware to Prospect, \$7,200, was then contributed to the capital of MITY Delaware. As a result of this transaction, Prospect held the \$15,769 MITY note. Effective June 23, 2014, Mity Enterprises, Inc. was renamed MITY, Inc. and Broda Enterprises USA, Inc. was renamed Broda USA, Inc. On June 23, 2014, Prospect also extended a new \$7,500 senior secured revolving facility to MITY, of which none was funded at closing. On July 1, 2014, we began consolidating MITY Delaware and as a result, we now report MITY, Inc. as a separate controlled company. MITY Delaware has a subordinated unsecured note issued and outstanding to Broda Canada that is denominated in Canadian Dollars (CAD). As of June 30, 2015, the principal balance of this note was CAD 7,371. In accordance with ASC 830, *Foreign Currency Matters* ("ASC 830"), this note was remeasured into our functional currency, US Dollars (USD), and is presented on our Consolidated Schedule of Investments in USD.
- (18) The overriding royalty interests held receive payments at the stated rates based upon operations of the borrower.
- (19) Our wholly-owned subsidiary Prospect Small Business Lending, LLC purchases small business whole loans on a recurring basis from online small business loan originators, including On Deck Capital, Inc. and Direct Capital Corporation.

See notes to consolidated financial statements.

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

Endnote Explanations as of June 30, 2015 and June 30, 2014 (Continued)

- (20) Boxercraft Incorporated (“Boxercraft”) and BXC Company, Inc. (f/k/a BXC Holding Company) (“BXC”) are joint borrowers on our senior secured investments. Effective March 28, 2014, we acquired voting control of BXC pursuant to a voting agreement and irrevocable proxy. Effective May 8, 2014, we acquired control of BXC by transferring shares held by the other equity holders of BXC to us pursuant to an assignment agreement entered into with such other equity holders. As of June 30, 2014, we owned 86.7% of Series A preferred stock, 96.8% of Series B preferred stock, and 83.1% of the fully-diluted common stock of BXC. BXC owned 100% of the common stock of Boxercraft. We owned a warrant to purchase 15% of all classes of equity of BXC, which consisted of 3,755,000 shares of Series A preferred stock, 625,000 shares of Series B preferred stock, and 43,800 shares of voting common stock as of June 30, 2014. On August 25, 2014, we sold Boxercraft, a wholly-owned subsidiary of BXC, for net proceeds of \$750 and realized a net loss of \$16,949 on the sale.
- (21) We owned warrants to purchase 33,750 shares of common stock in Metal Buildings Holding Corporation (“Metal Buildings”), the former holding company of Borga, Inc. (“Borga”). Metal Buildings owned 100% of Borga. On March 8, 2010, we foreclosed on the stock in Borga that was held by Metal Buildings, obtaining 100% ownership of Borga. On January 24, 2014, we contributed our holdings in Borga to STI Holding, Inc. (“STI”), a wholly-owned holding company. On July 1, 2014, we began consolidating STI and as a result, we reported Borga, Inc. as a separate controlled company from July 1, 2014 until its sale on August 20, 2014. On August 20, 2014, we sold the assets of Borga, a wholly-owned subsidiary of STI, for net proceeds of \$382 and realized a loss of \$2,589 on the sale. On December 29, 2014, Borga was dissolved.
- (22) Investment has been designated as an investment not “qualifying” under Section 55(a) of the Investment Company Act of 1940 (the “1940 Act”). Under the 1940 Act, we may not acquire any non-qualifying asset unless, at the time such acquisition is made, qualifying assets represent at least 70% of our total assets. We monitor the status of these assets on an ongoing basis.
- (23) NCP Finance Limited Partnership, NCP Finance Ohio, LLC, and certain affiliates thereof are joint borrowers on the subordinated secured term loan.
- (24) On May 6, 2011, we made a secured first lien \$24,250 debt investment to NMMB, Inc. (f/k/a NMMB Acquisition, Inc.) (“NMMB”), a \$2,800 secured debt and \$4,400 equity investment to NMMB Holdings, Inc. (“NMMB Holdings”). We owned 100% of the Series A Preferred Stock in NMMB Holdings. NMMB Holdings owned 100% of the Convertible Preferred Stock in NMMB. On December 13, 2013, we provided \$8,086 in preferred equity for the recapitalization of NMMB Holdings. After the restructuring, we received repayment of \$2,800 secured debt outstanding. We own 100% of the equity of NMMB Holdings as of June 30, 2015 and June 30, 2014. NMMB Holdings owns 96.33% and 92.93% of the fully diluted equity of NMMB as of June 30, 2015 and June 30, 2014, respectively. NMMB owns 100% of Refuel Agency, Inc. (“Refuel Agency”), which owns 100% of Armed Forces Communications, Inc. (“Armed Forces”). On June 12, 2014, Prospect made a new \$7,000 senior secured term loan to Armed Forces. Armed Forces distributed this amount to Refuel Agency as a return of capital. Refuel Agency distributed this amount to NMMB as a return of capital, which was used to pay down \$7,000 of NMMB’s \$10,714 senior secured term loan to Prospect. On July 1, 2014, we began consolidating NMMB Holdings and as a result, we now report NMMB, Inc. as a separate controlled company.
- (25) Undrawn committed revolvers and delayed draw term loans to our portfolio companies incur commitment and unused fees ranging from 0.00% to 2.00%. As of June 30, 2015 and June 30, 2014, we had \$88,288 and \$72,118, respectively, of undrawn revolver and delayed draw term loan commitments to our portfolio companies.
- (26) Stated interest rates are based on June 30, 2015 and June 30, 2014 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. (“Airmall”), a \$12,500 secured second lien in AMU Holdings Inc. (“AMU”), and acquired 100% of the Series A preferred stock and common stock of AMU. Our preferred stock in AMU had a 12.0% dividend rate which was paid from the dividends received from its operating subsidiary, Airmall. AMU owned 100% of the common stock in Airmall. On December 4, 2013, we sold a \$972 participation in both debt investments, equal to 2% of the outstanding principal amount of loans on that date. On June 13, 2014, Prospect made a new \$19,993 investment as a senior secured loan to Airmall. Airmall then distributed this amount to AMU as a return of capital, which AMU used to pay down the senior subordinated loan in the same amount. The minority interest held by a third party in AMU was exchanged for common stock of Airmall. As of June 30, 2014, we owned 100% of the equity of AMU, which owned 98% of Airmall. On July 1, 2014, we began consolidating AMU and as a result, we reported Airmall Inc. as a separate controlled company from July 1, 2014 until its sale on August 1, 2014. On August 1, 2014, we sold our investments in Airmall for net proceeds of \$51,379 and realized a loss of \$3,473 on the sale. In addition, there is \$6,000 being held in escrow, of which 98% is due to Prospect, which will be recognized as an additional realized loss if it is not received. On October 22, 2014, we received a tax refund of \$665 related to our investment in Airmall for which we realized a gain of the same amount.

See notes to consolidated financial statements.

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

Endnote Explanations as of June 30, 2015 and June 30, 2014 (Continued)

- (28) As of June 30, 2014, Progrexion Marketing, Inc., Progrexion Teleservices, Inc., Progrexion ASG, Inc., Progrexion IP, Inc., Creditrepair.com, Inc., and eFolks, LLC were joint borrowers on the senior secured term loan. PGX Holdings, Inc. was the parent guarantor of this debt investment. As of June 30, 2015, PGX Holdings, Inc. is the sole borrower on the second lien term loan.
- (29) First Tower Holdings of Delaware LLC ("First Tower Delaware"), an entity in which we own 100% of the membership interests, owns 80.1% of First Tower Finance Company LLC ("First Tower Finance"), which owns 100% of First Tower, LLC ("First Tower"), the operating company. On June 24, 2014, Prospect made a new \$251,246 second lien term loan to First Tower. First Tower distributed this amount to First Tower Finance, which distributed this amount to First Tower Delaware as a return of capital. First Tower Delaware used the distribution to partially pay down the Senior Secured Revolving Credit Facility. The remaining \$23,712 of the Senior Secured Revolving Credit Facility was then converted to additional membership interests held by Prospect in First Tower Delaware. On July 1, 2014, we began consolidating First Tower Delaware and as a result, we now report First Tower Finance Company LLC as a separate controlled company.
- (30) Arctic Oilfield Equipment USA, Inc. ("Arctic Equipment"), an entity in which we own 100% of the common equity, owns 70% of the equity of Arctic Energy Services, LLC ("Arctic Energy"), the operating company. On July 1, 2014, we began consolidating Arctic Equipment and as a result, we now report Arctic Energy as a separate controlled company.
- (31) We own 2.8% (13,220 shares) of Mineral Fusion Natural, LLC, a subsidiary of Caleel + Hayden, LLC, common and preferred interest.
- (32) APH Property Holdings, LLC ("APH"), an entity in which we own 100% of the membership interests, owns 100% of the common equity of American Property REIT Corp. (f/k/a American Property Holdings Corp.) ("APRC"), a qualified REIT which holds investments in several real estate properties. Effective April 1, 2014, Prospect made a new \$167,162 senior term loan to APRC. APRC then distributed this amount to APH as a return of capital which was used to pay down the Senior Term Loan from APH by the same amount. On July 1, 2014, we began consolidating APH and as a result, we now report APRC as a separate controlled company. See Note 3 for further discussion of the properties held by APRC.
- (33) CCPI Holdings Inc. ("CCPI Holdings"), an entity in which we own 100% of the common stock, owns 94.95% and 94.77% of CCPI Inc. ("CCPI"), the operating company, as of June 30, 2015 and June 30, 2014, 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. On July 1, 2014, we began consolidating CCPI Holdings and as a result, we now report CCPI Inc. as a separate controlled company.
- (34) Credit Central Holdings of Delaware, LLC ("Credit Central Delaware"), an entity in which we own 100% of the membership interests, owns 74.93% and 74.75% of Credit Central Loan Company, LLC (f/k/a Credit Central Holdings, LLC) ("Credit Central") as of June 30, 2015 and June 30, 2014, respectively. Credit Central owns 100% of each of Credit Central, LLC; Credit Central South, LLC; Credit Central of Texas, LLC; and Credit Central of Tennessee, LLC, the operating companies. On June 26, 2014, Prospect made a new \$36,333 second lien term loan to Credit Central. Credit Central then distributed this amount to Credit Central Delaware as a return of capital which was used to pay down the Senior Secured Revolving Credit Facility from Credit Central Delaware by the same amount. The remaining amount of the Senior Secured Revolving Credit Facility, \$3,874, was then converted into additional membership interests in Credit Central Delaware. On July 1, 2014, we began consolidating Credit Central Delaware and as a result, we now report Credit Central Loan Company, LLC as a separate controlled company.
- (35) Valley Electric Holdings I, Inc. ("Valley Holdings I"), an entity in which we own 100% of the common stock, owns 100% of Valley Electric Holdings II, Inc. ("Valley Holdings II"). Valley Holdings II owns 94.99% of Valley Electric Company, Inc. ("Valley Electric"). Valley Electric owns 100% of the equity of VE Company, Inc., which owns 100% of the equity of Valley Electric Co. of Mt. Vernon, Inc. ("Valley"). On June 24, 2014, Valley Holdings II and management of Valley formed Valley Electric and contributed their shares of Valley stock to Valley Electric. Prospect made a new \$20,471 senior secured loan to Valley Electric. Valley Electric then distributed this amount to Valley Holdings I, via Valley Holdings II, as a return of capital which was used to pay down the senior secured note of Valley Holdings I by the same amount. The remaining principal amount of the senior secured note, \$16,754, was then contributed to the capital of Valley Holdings I. On July 1, 2014, we began consolidating Valley Holdings I and Valley Holdings II and as a result, we now report Valley Electric Company, Inc. as a separate controlled company.

See notes to consolidated financial statements.

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

Endnote Explanations as of June 30, 2015 and June 30, 2014 (Continued)

- (36) Nationwide Acceptance Holdings LLC (“Nationwide Holdings”), an entity in which we own 100% of the membership interests, owns 93.79% of Nationwide Loan Company LLC (f/k/a Nationwide Acceptance LLC) (“Nationwide”), the operating company. On June 18, 2014, Prospect made a new \$14,820 second lien term loan to Nationwide. Nationwide distributed this amount to Nationwide Holdings as a return of capital. Nationwide Holdings used the distribution to pay down the Senior Secured Revolving Credit Facility. The remaining \$9,888 of the Senior Secured Revolving Credit Facility was then converted into additional membership interests in Nationwide Holdings. On July 1, 2014, we began consolidating Nationwide Holdings and as a result, we now report Nationwide Loan Company LLC as a separate controlled company. On June 1, 2015, Nationwide completed a corporate reorganization. As part of the reorganization, Nationwide Acceptance LLC was renamed Nationwide Loan Company LLC (continues as “Nationwide”) and formed two new wholly-owned subsidiaries: Pelican Loan Company LLC (“Pelican”) and Nationwide Consumer Loans LLC. Nationwide assigned 100% of the equity interests in its other subsidiaries to Pelican which, in turn, assigned these interests to Nationwide Acceptance LLC (“New Nationwide”), the new operating company wholly-owned by Pelican. New Nationwide also assumed the existing senior subordinated term loan due to Prospect.
- (37) On April 15, 2013, assets previously held by H&M Oil & Gas, LLC (“H&M”) were assigned to Wolf Energy in exchange for a \$66,000 term loan secured by the assets. The cost basis in this loan of \$44,632 was determined in accordance with ASC 310-40, *Troubled Debt Restructurings by Creditors*, and was equal to the fair value of assets at the time of transfer resulting in a capital loss of \$19,647 in connection with the foreclosure on the assets. 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, accrued interest 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 (“CP Holdings”), an entity in which we own 100% of the membership interests, owns 82.3% and 82.9% of CP Energy Services Inc. (“CP Energy”) as of June 30, 2015 and June 30, 2014, respectively. As of June 30, 2014, CP Energy owned directly or indirectly 100% of each of CP Well Testing Services, LLC (“CP Well Testing”); CP Well Testing, LLC (“CP Well”); Fluid Management Services, Inc.; Fluid Management Services, LLC; Wright Transport, Inc.; Wright Foster Disposals, LLC; Foster Testing Co., Inc.; ProHaul Transports, LLC; Artexoma Logistics, LLC; and Wright Trucking, Inc. On April 1, 2014, Prospect made new loans to CP Well (with ProHaul Transports, LLC; Wright Trucking, Inc.; and Foster Testing Co., Inc. as co-borrowers), comprised of two first lien loans in the amount of \$11,035 and \$72,238 and a second lien loan in the amount of \$15,000. The proceeds of these loans were used to repay CP Well Testing’s senior secured term loan and CP Energy’s senior secured term loan from Prospect. On July 1, 2014, we began consolidating CP Holdings and as a result, we now report CP Energy Services Inc. as a separate controlled company. Effective December 31, 2014, CP Energy underwent a corporate reorganization in order to consolidate certain of its wholly-owned subsidiaries. As of June 30, 2015, CP Energy owned directly or indirectly 100% of each of CP Well; Wright Foster Disposals, LLC; Foster Testing Co., Inc.; ProHaul Transports, LLC; and Wright Trucking, Inc.
- (39) Wind River Resources Corporation and Wind River II Corporation are joint borrowers on the senior secured note.
- (40) NPH Property Holdings, LLC (“NPH”), an entity in which we own 100% of the membership interests, owns 100% of the common equity of National Property REIT Corp. (f/k/a National Property Holdings Corp.) (“NPRC”), a property REIT which holds investments in several real estate properties. Additionally, through its wholly-owned subsidiaries, NPRC invests in online consumer loans. Effective April 1, 2014, Prospect made a new \$104,460 senior term loan to NPRC. NPRC then distributed this amount to NPH as a return of capital which was used to pay down the Senior Term Loan from NPH by the same amount. On July 1, 2014, we began consolidating NPH and as a result, we now report NPRC as a separate controlled company. See Note 3 for further discussion of the properties held by NPRC. On March 17, 2015, we entered into a new credit agreement with ACL Loan Holdings, Inc. (“ACLLH”), a wholly-owned subsidiary of NPRC, to form two new tranches of senior secured term loans, Term Loan A and Term Loan B, with the same terms as the existing NPRC Term Loan A and Term Loan B due to us. The agreement was effective as of June 30, 2014. On June 30, 2014, ACLLH made a non-cash return of capital distribution of \$22,390 to NPRC and NPRC transferred and assigned to ACLLH a senior secured Term Loan A due to us. On June 2, 2015, we amended the credit agreement with NPRC to form two new tranches of senior secured term loans, Term Loan C and Term Loan D, with the same terms as the existing ACLLH Term Loan A and Term Loan B due to us. The amendment was effective as of April 1, 2015.
- (41) UPH Property Holdings, LLC (“UPH”), an entity in which we own 100% of the membership interests, owns 100% of the common equity of United Property REIT Corp. (f/k/a United Property Holdings Corp.) (“UPRC”), a property REIT which holds investments in several real estate properties. Effective April 1, 2014, Prospect made a new \$19,027 senior term loan to UPRC. UPRC then distributed this amount to UPH as a return of capital which was used to pay down the Senior Term Loan from UPH by the same amount. On July 1, 2014, we began consolidating UPH and as a result, we now report UPRC as a separate controlled company. See Note 3 for further discussion of the properties held by UPRC.

See notes to consolidated financial statements.

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

Endnote Explanations as of June 30, 2015 and June 30, 2014 (Continued)

- (42) On April 4, 2008, we acquired a controlling equity interest in ARRM Holdings, Inc. ("ARRM"), which owned 100% of Ajax Rolled Ring & Machine, LLC ("Ajax"), the operating company. On April 1, 2013, we refinanced the existing \$19,837 and \$18,635 senior loans to Ajax and ARRM, respectively, increasing the total size of the debt investment to \$38,537. Concurrent with the refinancing, we received repayment of the \$18,635 loans previously outstanding. On October 11, 2013, we provided \$25,000 in preferred equity for the recapitalization of ARRM. After the financing, we received repayment of the \$20,009 subordinated unsecured loan previously outstanding. On June 12, 2014, ARRM Holdings, Inc. was renamed ARRM Services, Inc. As of June 30, 2014, we controlled 79.53% of the fully-diluted common, 85.76% of the Series A Preferred and 100% of the Series B Preferred equity of ARRM. On October 10, 2014, ARRM sold Ajax to a third party and repaid the \$19,337 loan receivable to us and we recorded a realized loss of \$23,560 related to the sale. Concurrent with the sale, our ownership increased to 100% of the outstanding equity of ARRM Services, Inc. which was renamed SB Forging Company, Inc. ("SB Forging"). As such, we began consolidating SB Forging on October 11, 2014. In addition, there is \$3,000 being held in escrow of which \$802 was received on May 6, 2015 for which we realized a gain of the same amount. The remainder will be recognized as additional gain if and when received.
- (43) Harbortouch Holdings of Delaware Inc. ("Harbortouch Delaware"), an entity in which we own 100% of the common stock, owns 100% of the Class C voting units of Harbortouch Payments, LLC ("Harbortouch"), which provide for a 53.5% residual profits allocation. Harbortouch management owns 100% of the Class B and Class D voting units of Harbortouch, which provide for a 46.5% residual profits allocation. Harbortouch owns 100% of Credit Card Processing USA, LLC. On April 1, 2014, Prospect made a new \$137,226 senior secured term loan to Harbortouch. Harbortouch then distributed this amount to Harbortouch Delaware as a return of capital which was used to pay down the \$123,000 senior secured note from Harbortouch Delaware to Prospect. The remaining \$14,226 was distributed to Prospect as a return of capital of Prospect's equity investment in Harbortouch Delaware. On July 1, 2014, we began consolidating Harbortouch Delaware and as a result, we now report Harbortouch Payments, LLC as a separate controlled company.
- (44) Pegasus Business Intelligence, LP, Paycom Acquisition, LLC, and Paycom Acquisition Corp. are joint borrowers on the senior secured loan facility. Paycom Intermediate Holdings, Inc. is the parent guarantor of this debt investment. These entities transact business internationally under the trade name Onyx Payments.
- (45) Security Alarm Financing Enterprises, L.P. and California Security Alarms, Inc. are joint borrowers on the senior subordinated note.
- (46) A portion of the senior secured note is denominated in Canadian Dollars (CAD). As of June 30, 2014 and June 30, 2015, the principal balance of this note was CAD 37,422 and CAD 36,666, respectively. In accordance with ASC 830, this note was remeasured into our functional currency, US Dollars (USD), and is presented on our Consolidated Schedules of Investments in USD.
- (47) On June 9, 2015, we provided additional debt and equity financing to support the recapitalization of Edmentum, Inc. ("Edmentum"). As part of the recapitalization, we exchanged 100% of the \$50,000 second lien term loan previously outstanding for \$26,365 of junior PIK notes and 370,964.14 Class A common units representing 37.1% equity ownership in Edmentum Ultimate Holdings, LLC. In addition, we invested \$5,875 in senior PIK notes and committed \$7,834 as part of a second lien revolving credit facility, of which \$4,896 was funded at closing. On June 9, 2015, we determined that the impairment of Edmentum was other-than-temporary and recorded a realized loss of \$22,116 for the amount that the amortized cost exceeded the fair value, reducing the amortized cost to \$37,216.
- (48) Co-investment with another fund managed by an affiliate of our investment adviser, Prospect Capital Management L.P. See Note 13 for further discussion.

See notes to consolidated financial statements.

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

Endnote Explanations as of June 30, 2015 and June 30, 2014 (Continued)

- (49) As defined in the 1940 Act, we are deemed to “Control” these portfolio companies because we own more than 25% of the portfolio company’s outstanding voting securities. Transactions during the year ended June 30, 2015 with these controlled investments were as follows:

Portfolio Company	Purchases*	Redemptions*	Sales	Interest income	Dividend income	Other income	Net realized gains (losses)	Net unrealized gains (losses)
Airmall Inc.	\$ -	\$ (47,580)	\$ (9,920)	\$ 576	\$ -	\$ 3,000	\$ (2,808)	\$ 12,216
American Property REIT Corp.	(107,073) **	(8)	-	14,747	-	1,342	-	14,672
Appalachian Energy LLC	-	(2,050)	-	-	-	-	(2,050)	2,050
Arctic Energy Services, LLC	-	-	-	6,721	-	-	-	(750)
ARRM Services, Inc.	-	(19,337)	(27,213)	956	-	2,000	(23,560)	21,014
Borga, Inc.	-	-	(2,589)	-	-	-	(2,589)	2,741
BXC Company, Inc.	250	(750)	(16,949)	-	-	5	(16,949)	15,333
CCPI Inc.	-	(450)	-	3,332	-	525	-	8,635
Change Clean Energy Company, LLC	-	-	-	-	-	-	-	-
Coalbed, LLC	-	-	-	-	-	-	-	-
CP Energy Services Inc.	-	-	-	16,420	-	-	-	(41,927)
Credit Central Loan Company, LLC	-	(141)	-	7,375	159	1,220	-	6,777
Echelon Aviation LLC	5,800	(37,313)	(400)	6,895	-	-	-	8,226
Edmentum Ultimate Holdings, LLC	59,333	(22,116)	-	-	-	-	(22,116)	-
First Tower Finance Company LLC	-	1,929	-	52,900	1,929	-	-	40,765
Freedom Marine Solutions, LLC	-	-	-	4,461	-	-	-	(4,429)
Gulf Coast Machine & Supply Company	8,500	-	-	1,370	-	-	-	(16,041)
Harbortouch Payments, LLC	27,722	(5,426)	-	29,834	-	579	-	58,857
Manx Energy, Inc.	-	(50)	-	-	-	-	(50)	50
MITY, Inc.	2,500	(2,500)	-	5,783	-	-	(5)	1,068
National Property REIT Corp.	357,609 **	(38,460)	-	30,611	-	1,959	-	24,317
Nationwide Loan Company LLC (f/k/a Nationwide Acceptance LLC)	2,814	-	-	3,005	4,425	-	-	4,163
NMMB, Inc.	383	-	-	1,521	-	-	-	5,372
R-V Industries, Inc.	-	(1,175)	-	3,018	298	-	-	(16,052)
United Property REIT Corp.	51,774 **	(376)	-	5,893	-	2,345	-	8,631
Valley Electric Company, Inc.	-	-	-	4,991	-	-	-	(5,036)
Vets Securing America, Inc.***	100	(2,956)	(975)	-	-	-	(3,246)	3,831
Wolf Energy, LLC	-	(5,991)	-	-	-	-	(5,818)	2,414
Yatesville Coal Company, LLC	-	(1,449)	-	-	-	-	(1,449)	1,449
Total	\$ 409,712	\$ (186,199)	\$ (58,046)	\$200,409	\$ 6,811	\$12,975	\$ (80,640)	\$ 158,346

- (50) As defined in the 1940 Act, we are deemed to be an “Affiliated company” of these portfolio companies because we own more than 5% of the portfolio company’s outstanding voting securities. Transactions during the year ended June 30, 2015 with these affiliated investments were as follows:

Portfolio Company	Purchases*	Redemptions*	Sales	Interest income	Dividend income	Other income	Net realized gains (losses)	Net unrealized gains (losses)
BNN Holdings Corp.	\$ 44,000	\$ (30,679)	\$ -	\$ 3,799	\$ 778	\$ 226	\$ -	\$ 503
Total	\$ 44,000	\$ (30,679)	\$ -	\$ 3,799	\$ 778	\$ 226	\$ -	\$ 503

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

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

*** During the year ended June 30, 2015, THS ceased operations and the VSA management team supervised both the continued operations of VSA and the wind-down of activities at THS.

See notes to consolidated financial statements.

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

Endnote Explanations as of June 30, 2015 and June 30, 2014 (Continued)

- (51) As defined in the 1940 Act, we are deemed to “Control” these portfolio companies because we own more than 25% of the portfolio company’s outstanding voting securities. Transactions during the year ended June 30, 2014 with these controlled investments were as follows:

Portfolio Company	Purchases*	Redemptions*	Sales	Interest income	Dividend income	Other income	Net realized gains (losses)	Net unrealized gains (losses)
AMU Holdings Inc.	\$ 7,600	\$ (593)	\$ (972)	\$ 6,579	\$ 12,000	\$ -	\$ -	\$ (15,694)
APH Property Holdings, LLC	163,747	(118,186) **	-	18,788	-	5,946	-	3,393
Arctic Oilfield Equipment USA, Inc.	60,876	-	-	1,050	-	1,713	-	238
ARRM Services, Inc.	25,000	(24,251)	-	(733)	-	148	-	(14,957)
BXC Company, Inc. (f/k/a BXC Holding Company)***	300	-	-	-	-	-	-	(3,796)
CCPI Holdings Inc.	-	(450)	-	3,312	500	71	-	(1,443)
CP Holdings of Delaware LLC	113,501	-	-	13,858	-	1,864	-	16,618
Credit Central Holdings of Delaware, LLC	2,500	(159)	-	7,845	4,841	521	-	(2,371)
Echelon Aviation LLC	92,628	-	-	2,809	-	2,771	-	-
Energy Solutions Holdings Inc.	16,000	(8,525)	-	8,245	-	2,480	-	(2,168)
First Tower Holdings of Delaware LLC	10,000	-	-	54,320	-	10,560	-	17,003
Gulf Coast Machine & Supply Company	28,450	(26,213)	-	1,449	-	-	-	(777)
Harbortouch Holdings of Delaware Inc.	278,694	-	-	6,879	-	7,536	-	12,620
The Healing Staff, Inc.	-	-	-	-	-	5,825	-	-
Manx Energy, Inc.	-	(450)	-	-	-	-	-	104
MITY Holdings of Delaware Inc.	47,985	-	-	4,693	-	1,049	-	1,127
Nationwide Acceptance Holdings LLC	4,000	-	-	4,429	5,000	1,854	-	772
NMMB Holdings, Inc.	8,086	(8,086)	-	2,051	-	-	-	(6,852)
NPH Property Holdings, LLC	40,425	85,724 **	-	5,973	-	1,029	-	(2,088)
R-V Industries, Inc.	-	(2,339)	-	3,188	1,100	-	-	2,005
STI Holding, Inc.	-	(125)	-	-	3,246	-	-	(25)
UPH Property Holdings, LLC	1,405	22,562 **	-	1,101	-	156	-	426
Valley Electric Holdings I, Inc.	-	(200)	-	7,471	-	148	-	(23,304)
Wolf Energy Holdings Inc.	-	-	-	-	-	-	-	(1,350)
Total	\$ 901,197	\$ (81,291)	\$ (972)	\$153,307	\$ 26,687	\$ 43,671	\$ -	\$ (20,519)

- (52) As defined in the 1940 Act, we are deemed to be an “Affiliated company” of these portfolio companies because we own more than 5% of the portfolio company’s outstanding voting securities. Transactions during the year ended June 30, 2014 with these affiliated investments were as follows:

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

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

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

*** During the year ended June 30, 2014, we acquired control of BXC Company, Inc. (f/k/a BXC Holding Company). As such, this investment was a controlled investment for part of the year and an affiliated investment for part of the year. See Note 14 for further discussion of this transaction.

See notes to consolidated financial statements.

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

Note 1. Organization

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

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

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

Effective July 1, 2014, we began consolidating certain of our wholly-owned and substantially wholly-owned holding companies formed by us in order to facilitate our investment strategy. The following companies have been included in our consolidated financial statements since July 1, 2014: AMU Holdings Inc.; APH Property Holdings, LLC; Arctic Oilfield Equipment USA, Inc.; CCPI Holdings Inc.; CP Holdings of Delaware LLC; Credit Central Holdings of Delaware, LLC; Energy Solutions Holdings Inc.; First Tower Holdings of Delaware LLC; Harbortouch Holdings of Delaware Inc.; MITY Holdings of Delaware Inc.; Nationwide Acceptance Holdings LLC; NMMB Holdings, Inc.; NPH Property Holdings, LLC; STI Holding, Inc.; UPH Property Holdings, LLC; Valley Electric Holdings I, Inc.; Valley Electric Holdings II, Inc.; and Wolf Energy Holdings Inc. On October 10, 2014, concurrent with the sale of the operating company, our ownership increased to 100% of the outstanding equity of ARRM Services, Inc. which was renamed SB Forging Company, Inc. (“SB Forging”). As such, we began consolidating SB Forging on October 11, 2014. We collectively refer to these entities as the “Consolidated Holding Companies.”

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

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

Note 2. Significant Accounting Policies

Basis of Presentation and Consolidation

The accompanying consolidated financial statements have been prepared in accordance with United States generally accepted accounting principles (“GAAP”) pursuant to the requirements for reporting on Form 10-K, ASC 946, *Financial Services-Investment Companies* (“ASC 946”), and Articles 6, 10 and 12 of Regulation S-X. Under the 1940 Act, ASC 946, and the regulations pursuant to Article 6 of Regulation S-X, we are precluded from consolidating any entity other than another investment company or an operating company which provides substantially all of its services to benefit us. Our consolidated financial statements include the accounts of Prospect, PCF, PSBL, PYC, and the Consolidated Holding Companies. All intercompany balances and transactions have been eliminated in consolidation. The financial results of our non-substantially wholly-owned holding companies and operating portfolio company investments are not consolidated in the financial statements. Any operating companies owned by the Consolidated Holding Companies are not consolidated.

Use of Estimates

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

Cash and Cash Equivalents

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

Investment Classification

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

Investments are recognized when we assume an obligation to acquire a financial instrument and assume the risks for gains or losses related to that instrument. Investments are derecognized when we assume an obligation to sell a financial instrument and forego the risks for gains or losses related to that instrument. Specifically, we record all security transactions on a trade date basis. Amounts for investments recognized or derecognized but not yet settled are reported in due to broker or as a receivable for investments sold in the consolidated statements of assets and liabilities.

Investment Risks

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

Market Risk

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

Credit Risk

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

Liquidity Risk

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

Interest Rate Risk

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

Prepayment Risk

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

Investment Valuation

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

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

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

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

Level 3: Unobservable inputs for the asset or liability.

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

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

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

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

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

Our non-CLO investments are valued utilizing a yield 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 for loans, dividend yields for certain investments 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 valuing our investments may include, as we deem relevant: security covenants, call protection provisions, and information rights; the nature and realizable value of any collateral; the portfolio company’s ability to make payments; the principal markets in which the portfolio company does business; publicly available financial ratios of peer companies; the principal market; and enterprise values, among other factors.

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

Valuation of Other Financial Assets and Financial Liabilities

ASC 825, *Financial Instruments*, specifically ASC 825-10-25, permits an entity to choose, at specified election dates, to measure eligible items at fair value (the "Fair Value Option"). We have not elected the Fair Value Option to report selected financial assets and financial liabilities. See Note 8 for further discussion of our financial liabilities that are measured using another measurement attribute.

Convertible Notes

We have recorded the Convertible Notes at their contractual amounts. The Convertible Notes were analyzed for any features that would require bifurcation and such features were determined to be immaterial. See Note 5 for further discussion.

Revenue Recognition

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

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

Loans are placed on non-accrual status when there is reasonable doubt that principal or interest will be collected. Unpaid accrued interest is generally reversed when a loan is placed on non-accrual status. Interest payments received on non-accrual loans may be recognized as income or applied to principal depending upon management's judgment. Non-accrual loans are restored to accrual status when past due principal and interest is paid and in management's judgment, is likely to remain current. As of June 30, 2015, 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. See Note 10 for further discussion.

Federal and State Income Taxes

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

If we do not distribute (or are not deemed to have distributed) at least 98% of our annual ordinary income and 98.2% of our capital gains in the calendar year earned, we will generally be required to pay an excise tax equal to 4% of the amount by which 98% of our annual ordinary income and 98.2% of our capital gains exceed the distributions from such taxable income for the year. To the extent that we determine that our estimated current year annual taxable income will be in excess of estimated current year dividend distributions from such taxable income, we accrue excise taxes, if any, on estimated excess taxable income. For the calendar year ended December 31, 2014, we incurred an excise tax expense of \$461 because our annual taxable income exceeded our distributions. As of June 30, 2015, we had a payable of \$305 for excise taxes as our expected excise tax liability exceeded our excise tax payments through June 30, 2015. This amount is included within accrued expenses on the Consolidated Statement of Assets and Liabilities as of June 30, 2015.

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

We follow ASC 740, *Income Taxes* (“ASC 740”). ASC 740 provides guidance for how uncertain tax positions should be recognized, measured, presented, and disclosed in the consolidated financial statements. ASC 740 requires the evaluation of tax positions taken or expected to be taken in the course of preparing our tax returns to determine whether the tax positions are “more-likely-than-not” of being sustained by the applicable tax authority. Tax positions not deemed to meet the more-likely-than-not threshold are recorded as a tax benefit or expense in the current year. As of June 30, 2014 and June 30, 2015 and for the years 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 our federal tax years ending August 31, 2012 and thereafter remain subject to examination by the Internal Revenue Service.

Dividends and Distributions

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

Financing Costs

We record origination expenses related to our Revolving Credit Facility and Convertible Notes, Public Notes and Prospect Capital InterNotes® (collectively, our “Unsecured Notes”) as deferred financing costs. These expenses are deferred and amortized as part of interest expense using the straight-line method for our Revolving Credit Facility and the effective interest method for our Unsecured Notes over the respective expected life or maturity. In the event that we modify or extinguish our debt before maturity, we follow the guidance in ASC 470-50, *Modification and Extinguishments* (“ASC 470-50”). For modifications to or exchanges of our Revolving Credit Facility, any unamortized deferred costs relating to lenders who are not part of the new lending group are expensed. For extinguishments of our Unsecured Notes, any unamortized deferred costs are deducted from the carrying amount of the debt in determining the gain or loss from the extinguishment.

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

Guarantees and Indemnification Agreements

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

Per Share Information

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

Recent Accounting Pronouncements

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

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

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

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

Note 3. Portfolio Investments

At June 30, 2015, we had investments in 131 long-term portfolio investments, which had an amortized cost of \$6,559,376 and a fair value of \$6,609,558. At June 30, 2014, we had investments in 142 long-term portfolio investments, which had an amortized cost of \$6,371,522 and a fair value of \$6,253,739.

The original cost basis of debt placements and equity securities acquired, including follow-on investments for existing portfolio companies, totaled \$2,088,988 and \$2,952,356 during the years ended June 30, 2015 and June 30, 2014, respectively. Debt repayments and proceeds from sales of equity securities of approximately \$1,633,073 and \$786,969 were received during the years ended June 30, 2015 and June 30, 2014, respectively.

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

	June 30, 2015		June 30, 2014	
	Cost	Fair Value	Cost	Fair Value
Revolving Line of Credit	\$ 30,546	\$ 30,546	\$ 3,445	\$ 2,786
Senior Secured Debt	3,617,111	3,533,447	3,578,339	3,514,198
Subordinated Secured Debt	1,234,701	1,205,303	1,272,275	1,200,221
Subordinated Unsecured Debt	145,644	144,271	85,531	85,531
Small Business Loans	50,558	50,892	4,637	4,252
CLO Debt	28,613	32,398	28,118	33,199
CLO Residual Interest	1,072,734	1,113,023	1,044,656	1,093,985
Equity	379,469	499,678	354,521	319,567
Total Investments	<u>\$ 6,559,376</u>	<u>\$ 6,609,558</u>	<u>\$ 6,371,522</u>	<u>\$ 6,253,739</u>

In the previous table and throughout the remainder of this footnote, we aggregate our portfolio investments by type of investment, which may differ slightly from the nomenclature used by the constituent instruments defining the rights of holders of the investment, as disclosed on our Consolidated Schedules of Investments ("SOI"). The following investments are included in each category:

- Senior Secured Debt includes investments listed on the SOI such as senior secured term loans, senior term loans, secured promissory notes, senior demand notes, and first lien term loans.
- Subordinated Secured Debt includes investments listed on the SOI such as subordinated secured term loans, subordinated term loans, senior subordinated notes, and second lien term loans.
- Subordinated Unsecured Debt includes investments listed on the SOI such as subordinated unsecured notes and senior unsecured notes.
- Small Business Loans includes our investments in small business whole loans purchased from OnDeck and Direct Capital.
- CLO Debt includes our investments in the "debt" class of security of CLO funds.
- CLO Residual Interest includes our investments in the "equity" class of security of CLO funds such as income notes, preference shares, and subordinated notes.
- Equity includes our investments in preferred stock, common stock, membership interests, net profits interests, net operating income interests, net revenue interests, overriding royalty interests, escrows receivable, and warrants, unless specifically stated otherwise.

The following table shows the fair value of our investments disaggregated into the three levels of the ASC 820 valuation hierarchy as of June 30, 2015.

	Level 1	Level 2	Level 3	Total
Revolving Line of Credit	\$ -	\$ -	\$ 30,546	\$ 30,546
Senior Secured Debt	-	-	3,533,447	3,533,447
Subordinated Secured Debt	-	-	1,205,303	1,205,303
Subordinated Unsecured Debt	-	-	144,271	144,271
Small Business Loans	-	-	50,892	50,892
CLO Debt	-	-	32,398	32,398
CLO Residual Interest	-	-	1,113,023	1,113,023
Equity	260	-	499,418	499,678
Total Investments	\$ 260	\$ -	\$ 6,609,298	\$ 6,609,558

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

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

The following tables show the aggregate changes in the fair value of our Level 3 investments during the year ended June 30, 2015.

	Fair Value Measurements Using Unobservable Inputs (Level 3)			
	Control Investments	Affiliate Investments	Non-Control/Non-Affiliate Investments	Total
Fair value as of June 30, 2014	\$ 1,640,454	\$ 32,121	\$ 4,580,996	\$ 6,253,571
Net realized losses on investments	(80,640)	-	(99,836)	(180,476)
Net change in unrealized appreciation	158,346	503	9,024	167,873
Net realized and unrealized gains (losses)	77,706	503	(90,812)	(12,603)
Purchases of portfolio investments	409,712	44,000	1,605,999	2,059,711
Payment-in-kind interest	22,850	-	6,427	29,277
Amortization of discounts and premiums	-	-	(87,638)	(87,638)
Repayments and sales of portfolio investments	(176,520)	(30,679)	(1,425,821)	(1,633,020)
Transfers within Level 3(1)	-	-	-	-
Transfers in (out) of Level 3(1)	-	-	-	-
Fair value as of June 30, 2015	\$ 1,974,202	\$ 45,945	\$ 4,589,151	\$ 6,609,298

	Revolving Line of Credit	Senior Secured Debt	Subordinated Secured Debt	Subordinated Unsecured Debt	Small Business Loans	CLO Debt	CLO Residual Interest	Equity	Total
Fair value as of June 30, 2014	\$ 2,786	\$ 3,514,198	\$ 1,200,221	\$ 85,531	\$ 4,252	\$33,199	\$ 1,093,985	\$ 319,399	\$ 6,253,571
Net realized losses on investments	(1,095)	(36,955)	(77,745)	(6,502)	(2,490)	-	(15,561)	(40,128)	(180,476)
Net change in unrealized appreciation (depreciation)	659	(19,521)	42,658	(1,374)	719	(1,296)	(9,043)	155,071	167,873
Net realized and unrealized (losses) gains	(436)	(56,476)	(35,087)	(7,876)	(1,771)	(1,296)	(24,604)	114,943	(12,603)
Purchases of portfolio investments	58,196	1,234,738	314,767	38,834	96,614	-	220,779	95,783	2,059,711
Payment-in-kind interest	-	25,695	1,412	2,170	-	-	-	-	29,277
Accretion (amortization) of discounts and premiums	-	314	3,617	-	-	495	(92,064)	-	(87,638)
Repayments and sales of portfolio investments	(30,000)	(1,185,022)	(254,627)	612	(48,203)	-	(85,073)	(30,707)	(1,633,020)
Transfers within Level 3(1)	-	-	(25,000)	25,000	-	-	-	-	-
Transfers in (out) of Level 3(1)	-	-	-	-	-	-	-	-	-
Fair value as of June 30, 2015	\$ 30,546	\$ 3,533,447	\$ 1,205,303	\$ 144,271	\$ 50,892	\$32,398	\$ 1,113,023	\$ 499,418	\$ 6,609,298

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

The following tables show the aggregate changes in the fair value of our Level 3 investments during the year ended June 30, 2014.

Fair Value Measurements Using Unobservable Inputs (Level 3)				
	Control Investments	Affiliate Investments	Non-Control/Non-Affiliate Investments	Total
Fair value as of June 30, 2013	\$ 811,634	\$ 42,443	\$ 3,318,663	\$ 4,172,740
Net realized losses on investments	-	-	(3,346)	(3,346)
Net change in unrealized depreciation	(20,519)	(4,500)	(9,894)	(34,913)
Net realized and unrealized losses	(20,519)	(4,500)	(13,240)	(38,259)
Purchases of portfolio investments	901,197	-	2,036,014	2,937,211
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	(82,263)	(700)	(704,006)	(786,969)
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
Net realized (losses) gains on investments	-	(1,593)	(7,558)	-	-	-	1,183	4,622	(3,346)
Net change in unrealized (depreciation) appreciation	(150)	(8,907)	(34,566)	(357)	(386)	4,159	51,864	(46,570)	(34,913)
Net realized and unrealized (losses) gains	(150)	(10,500)	(42,124)	(357)	(386)	4,159	53,047	(41,948)	(38,259)
Purchases of portfolio investments	14,850	1,692,284	554,973	-	6,540	-	453,492	215,072	2,937,211
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)	(389,210)	(270,022)	(73,879)	(1,902)	-	(21,071)	(10,242)	(786,969)
Transfers within Level 3(1)	-	-	(70,000)	70,000	-	-	-	-	-
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.

For the years ended June 30, 2015 and June 30, 2014, the net change in unrealized appreciation (depreciation) on the investments that use Level 3 inputs was \$82,432 and \$(27,973) for investments still held as of June 30, 2015 and June 30, 2014, respectively.

The ranges of unobservable inputs used in the fair value measurement of our Level 3 investments as of June 30, 2015 were as follows:

Asset Category	Fair Value	Primary Valuation Technique	Unobservable Input		Weighted Average
			Input	Range	
Senior Secured Debt	\$ 2,421,188	Yield Analysis	Market Yield	6.1%-21.4%	11.3%
Senior Secured Debt	563,050	EV Analysis	EBITDA Multiple	3.5x-11.0x	8.1x
Senior Secured Debt(1)	64,560	EV Analysis	Loss-Adjusted Discount Rate	3.8%-10.7%	6.9%
Senior Secured Debt(2)	98,025	EV Analysis	Loss-Adjusted Discount Rate	5.4%-16.3%	10.0%
Senior Secured Debt	40,808	EV Analysis	Discount Rate	7.0%-9.0%	8.0%
Senior Secured Debt	25,970	EV Analysis	Appraisal	N/A	N/A
Senior Secured Debt	6,918	Liquidation Analysis	N/A	N/A	N/A
Senior Secured Debt	343,474	Net Asset Value Analysis	Capitalization Rate	5.6%-7.0%	6.0%
Subordinated Secured Debt	847,624	Yield Analysis	Market Yield	8.1%-18.3%	12.5%
Subordinated Secured Debt	54,948	EV Analysis	EBITDA Multiple	3.5x-6.0x	4.7x
Subordinated Secured Debt	302,731	EV Analysis	Book Value Multiple	1.2x-3.8x	2.7x
Subordinated Unsecured Debt	112,701	Yield Analysis	Market Yield	9.1%-15.3%	11.8%
Subordinated Unsecured Debt	31,570	EV Analysis	EBITDA Multiple	5.8x-8.0x	7.2x
Small Business Loans(3)	362	Discounted Cash Flow	Loss-Adjusted Discount Rate	11.7%-27.3%	23.5%
Small Business Loans(4)	50,530	Discounted Cash Flow	Loss-Adjusted Discount Rate	20.4%-33.2%	24.9%
CLO Debt	32,398	Discounted Cash Flow	Discount Rate	6.1%-6.9%	6.5%
CLO Residual Interest	1,113,023	Discounted Cash Flow	Discount Rate	11.2%-18.0%	14.0%
Equity	139,424	EV Analysis	EBITDA Multiple	2.0x-11.0x	8.5x
Equity	148,631	EV Analysis	Book Value Multiple	1.2x-3.8x	2.5x
Equity	1,120	EV Analysis	Appraisal	N/A	N/A
Equity	3,023	Yield Analysis	Market Yield	19.8%-24.7%	22.2%
Equity	130,316	Net Asset Value Analysis	Capitalization Rate	5.6%-7.0%	5.9%
Equity	28,133	Discounted Cash Flow	Discount Rate	7.0%-9.0%	8.0%
Participating Interest(5)	42,765	Yield Analysis	Market Yield	11.5%-18.0%	12.5%
Participating Interest(5)	22	Liquidation Analysis	N/A	N/A	N/A
Escrow Receivable	5,984	Discounted Cash Flow	Discount Rate	7.0%-8.2%	7.6%
Total Level 3 Investments	\$ 6,609,298				

- (1) EV analysis is based on the fair value of our investments in consumer loans purchased from Prosper, which are valued using a discounted cash flow valuation technique. The key unobservable input to the discounted cash flow analysis is noted above. In addition, the valuation also used projected loss rates as an unobservable input ranging from 0.6%-26.5%, with a weighted average of 8.4%.
- (2) EV analysis is based on the fair value of our investments in consumer loans purchased from Lending Club, which are valued using a discounted cash flow valuation technique. The key unobservable input to the discounted cash flow analysis is noted above. In addition, the valuation also used projected loss rates as an unobservable input ranging from 2.3%-23.8%, with a weighted average of 16.9%.
- (3) Includes our investments in small business whole loans purchased from Direct Capital. Valuation also used projected loss rates as an unobservable input ranging from 0.03%-60.0%, with a weighted average of 42.3%.
- (4) Includes our investments in small business whole loans purchased from OnDeck. Valuation also used projected loss rates as an unobservable input ranging from 4.2%-11.7%, with a weighted average of 9.7%.
- (5) Participating Interest includes our participating equity investments, such as net profits interests, net operating income interests, net revenue interests, and overriding royalty interests.

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

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

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

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

In determining the range of value for our investments in CLOs, management and the independent valuation firm used a discounted cash flow model. The valuations were accomplished through the analysis of the CLO deal structures to identify the risk exposures from the modeling point of view as well as to determine an appropriate call date. For each CLO security, the most appropriate valuation approach was chosen from alternative approaches to ensure the most accurate valuation for such security. A waterfall engine was used to store the collateral data, generate collateral cash flows from the assets based on various assumptions for the risk factors, distribute the cash flows to the liability structure based on the payment priorities, and discount them back using proper discount rates to expected maturity or call date.

CLO investments may be riskier and less transparent to us than direct investments in underlying companies. CLOs typically will have no significant assets other than their underlying senior secured loans. Therefore, payments on CLO investments are and will be payable solely from the cash flows from such senior secured loans. Our CLO investments are exposed to leveraged credit risk. If certain minimum collateral value ratios and/or interest coverage ratios are not met by a CLO, primarily due to senior secured loan defaults, then cash flow that otherwise would have been available to pay distributions to us on our CLO investments may instead be used to redeem any senior notes or to purchase additional senior secured loans, until the ratios again exceed the minimum required levels or any senior notes are repaid in full. Our CLO investments and/or the underlying senior secured loans may prepay more quickly than expected, which could have an adverse impact on our value. We are not responsible for and have no influence over the asset management of the portfolios underlying the CLO investments we hold as those portfolios are managed by non-affiliated third party CLO collateral managers.

The significant unobservable input used to value our investments based on the yield analysis and discounted cash flow analysis is the market yield (or applicable discount rate) used to discount the estimated future cash flows expected to be received from the underlying investment, which includes both future principal and interest/dividend payments. Increases or decreases in the market yield (or applicable discount rate) would result in a decrease or increase, respectively, in the fair value measurement. Management and the independent valuation firm consider the following factors when selecting market yields or discount rates: risk of default, rating of the investment and comparable company investments, and call provisions.

The significant unobservable inputs used to value our investments based on the EV analysis may include market multiples of specified financial measures such as EBITDA, net income, or book value of identified guideline public companies, implied valuation multiples from precedent M&A transactions, and/or discount rates applied in a discounted cash flow analysis. The independent valuation firm identifies a population of publicly traded companies with similar operations and key attributes to that of the portfolio company. Using valuation and operating metrics of these guideline public companies and/or as implied by relevant precedent transactions, a range of multiples of the latest twelve months EBITDA, or other measure such as net income or book value, is typically calculated. The independent valuation firm utilizes the determined multiples to estimate the portfolio company's EV generally based on the latest twelve months EBITDA of the portfolio company (or other meaningful measure). Increases or decreases in the multiple may result in an increase or decrease, respectively, in EV which may increase or decrease the fair value measurement of the debt and/or equity investment, as applicable. In certain instances, a discounted cash flow analysis may be considered in estimating EV, in which case, discount rates based on a weighted average cost of capital and application of the Capital Asset Pricing Model may be utilized.

The significant unobservable input used to value our investments based on the net asset value analysis is the capitalization rate applied to the earnings measure of the underlying property. Increases or decreases in the capitalization rate would result in a decrease or increase, respectively, in the fair value measurement.

Changes in market yields, discount rates, capitalization rates or EBITDA multiples, each in isolation, may change the fair value measurement of certain of our investments. Generally, an increase in market yields, discount rates or capitalization rates, or a decrease in EBITDA (or other) multiples may result in a decrease in the fair value measurement of certain of our investments.

Due to the inherent uncertainty of determining the fair value of investments that do not have a readily available market value, the fair value of our investments may fluctuate from period to period. Additionally, the fair value of our investments may differ significantly from the values that would have been used had a ready market existed for such investments and may differ materially from the values that we may ultimately realize. Further, such investments are generally subject to legal and other restrictions on resale or otherwise are less liquid than publicly traded securities. If we were required to liquidate a portfolio investment in a forced or liquidation sale, we could realize significantly less than the value at which we have recorded it.

In addition, changes in the market environment and other events that may occur over the life of the investments may cause the gains or losses ultimately realized on these investments to be different than the unrealized gains or losses reflected in the currently assigned valuations.

During the year ended June 30, 2015, the valuation methodology for American Gilsonite Company ("AGC") changed to incorporate secondary trade data in addition to the yield analysis used in previous periods. As a result of this change, and in recognition of recent company performance and current market conditions, we decreased the fair value of our investment in AGC to \$14,287 as of June 30, 2015, a discount of \$1,468 from its amortized cost, compared to the \$3,477 unrealized appreciation recorded at June 30, 2014.

During the year ended June 30, 2015, the valuation methodology for CCPI Inc. (“CCPI”) changed to solely an EV analysis by removing the discounted cash flow used in previous periods. Management adopted this change due to a lack of long-term forecasts for CCPI. As a result of this change, and in recognition of recent company performance and current market conditions, we increased the fair value of our investment in CCPI to \$41,352 as of June 30, 2015, a premium of \$7,192 to its amortized cost, compared to the \$1,443 unrealized depreciation recorded at June 30, 2014.

During the year ended June 30, 2015, the valuation methodology for Edmentum, Inc. (“Edmentum”) changed to an EV analysis in place of the yield analysis used in previous periods. Management adopted this change due to the company’s debt restructuring in June 2015, through which Prospect became the largest shareholder of the company. As a result of this change, and in recognition of recent company performance and subsequent other-than-temporary impairment, we decreased the fair value of our investment in Edmentum to \$37,216 as of June 30, 2015, equal to its amortized cost, compared to the \$1,561 unrealized appreciation recorded at June 30, 2014.

During the year ended June 30, 2015, the valuation methodology for Empire Today, LLC (“Empire Today”) changed to incorporate an EV analysis and secondary trade data 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 Empire Today to \$13,070 as of June 30, 2015, a discount of \$2,448 from its amortized cost, compared to the \$281 unrealized appreciation recorded at June 30, 2014.

During the year ended June 30, 2015, the valuation methodology for Gulf Coast Machine & Supply Company (“Gulf Coast”) changed to a liquidation analysis in place of the EV analysis used in previous periods. Management adopted the liquidation analysis due to a deterioration in operating results, resulting credit impairment, and the unavailability of revised budget figures. As a result of this change, and in recognition of recent company performance and current market conditions, we decreased the fair value of our investment in Gulf Coast to \$6,918 as of June 30, 2015, a discount of \$45,032 from its amortized cost, compared to the \$28,991 unrealized depreciation recorded at June 30, 2014.

During the year ended June 30, 2015, the valuation methodology for ICON Health & Fitness, Inc. (“ICON”) changed to incorporate secondary trade data in addition to the yield analysis used in previous periods. As a result of this change, and in recognition of recent company performance and current market conditions, we increased the fair value of our investment in ICON to \$16,100 as of June 30, 2015, a discount of \$3 from its amortized cost, compared to the \$1,116 unrealized depreciation recorded at June 30, 2014.

During the year ended June 30, 2015, the valuation methodology for Prince Mineral Holding Corp. (“Prince”) changed to incorporate secondary trade data in addition to the yield analysis used in previous periods. As a result of this change, and in recognition of recent company performance and current market conditions, we decreased the fair value of our investment in Prince to \$9,458 as of June 30, 2015, a discount of \$457 from its amortized cost, compared to the \$98 unrealized appreciation recorded at June 30, 2014.

During the year ended June 30, 2015, the valuation methodology for Targus Group International, Inc. (“Targus”) 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 credit impairment. As a result of this change, and in recognition of recent company performance and current market conditions, we decreased the fair value of our investment in Targus to \$17,233 as of June 30, 2015, a discount of \$4,145 from its amortized cost, compared to the \$1,748 unrealized depreciation recorded at June 30, 2014.

During the year ended June 30, 2015, the valuation methodology for United Sporting Companies, Inc. (“USC”) 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 USC to \$145,618 as of June 30, 2015, a discount of \$12,620 from its amortized cost, compared to being valued at cost at June 30, 2014.

During the year ended June 30, 2015, we provided \$1,381 and \$107 of debt and equity financing, respectively, to American Property REIT Corp. (“APRC”) for the acquisition of real estate properties and to fund capital expenditures for existing properties. During the year ended June 30, 2015, APRC transferred its investments in certain properties to National Property REIT Corp. (“NPRC”). As a result, our investments in APRC related to these properties also transferred to NPRC. The investments transferred consisted of \$12,985 of equity and \$95,576 of debt. There was no gain or loss realized on these transactions. In addition, during the year ended June 30, 2015, we received \$8 as a return of capital on the equity investment in APRC. As of June 30, 2015, our investment in APRC had an amortized cost of \$100,192 and a fair value of \$118,256.

As of June 30, 2015, APRC’s real estate portfolio was comprised of twelve multi-family properties and one commercial property. The following table shows the location, acquisition date, purchase price, and mortgage outstanding due to other parties for each of the properties held by APRC as of June 30, 2015.

No.	Property Name	City	Acquisition Date	Purchase Price	Mortgage Outstanding
1	1557 Terrell Mill Road, LLC	Marietta, GA	12/28/2012	\$ 23,500	\$ 15,164
2	Lofton Place, LLC	Tampa, FL	4/30/2013	26,000	16,965
3	Vista Palma Sola, LLC	Bradenton, FL	4/30/2013	27,000	17,550
4	Arlington Park Marietta, LLC	Marietta, GA	5/8/2013	14,850	9,650
5	Cordova Regency, LLC	Pensacola, FL	11/15/2013	13,750	9,026
6	Crestview at Oakleigh, LLC	Pensacola, FL	11/15/2013	17,500	11,488
7	Inverness Lakes, LLC	Mobile, AL	11/15/2013	29,600	19,400
8	Kings Mill Pensacola, LLC	Pensacola, FL	11/15/2013	20,750	13,622
9	Plantations at Pine Lake, LLC	Tallahassee, FL	11/15/2013	18,000	11,817
10	Verandas at Rock Ridge, LLC	Birmingham, AL	11/15/2013	15,600	10,205
11	Plantations at Hillcrest, LLC	Mobile, AL	1/17/2014	6,930	4,972
12	Crestview at Cordova, LLC	Pensacola, FL	1/17/2014	8,500	4,950
13	Taco Bell, OK	Yukon, OK	6/4/2014	1,719	-
				<u>\$ 223,699</u>	<u>\$ 144,809</u>

During the year ended June 30, 2015, we provided \$171,850 and \$52,350 of debt and equity financing, respectively, to NPRC to enable certain of its wholly-owned subsidiaries to invest in online consumer loans. In addition, during the year ended June 30, 2015, we received partial repayments of \$32,883 of the loans previously outstanding and \$5,577 as a return of capital on the equity investment in NPRC.

The online consumer loan investments held by certain of NPRC's wholly-owned subsidiaries are unsecured obligations of individual borrowers that are issued in amounts ranging from \$1 to \$35, with fixed interest rates and fixed terms of either 36 or 60 months. As of June 30, 2015, the investment in online consumer loans by certain of NPRC's wholly-owned subsidiaries had a fair value of \$366,014. The average outstanding individual loan balance is approximately \$9 and the loans mature on dates ranging from October 31, 2016 to June 29, 2020. Fixed interest rates range from 5.3% to 29.0% with a weighted-average current interest rate of 19.6%.

During the year ended June 30, 2015, we provided \$12,046 and \$2,077 of debt and equity financing, respectively, to NPRC for the acquisition of real estate properties and to fund capital expenditures for existing properties. During the year ended June 30, 2015, APRC and United Property REIT Corp. ("UPRC") transferred their investments in certain properties to NPRC. As a result, our investments in APRC and UPRC related to these properties also transferred to NPRC. The investments transferred consisted of \$14,266 of equity and \$105,020 of debt. There was no gain or loss realized on these transactions. As of June 30, 2015, our investment in NPRC had an amortized cost of \$449,660 and a fair value of \$471,889.

As of June 30, 2015, NPRC's real estate portfolio was comprised of eleven multi-family properties and thirteen commercial properties. The following table shows the location, acquisition date, purchase price, and mortgage outstanding due to other parties for each of the properties held by NPRC as of June 30, 2015.

No.	Property Name	City	Acquisition Date	Purchase Price	Mortgage Outstanding
1	146 Forest Parkway, LLC	Forest Park, GA	10/24/2012	\$ 7,400	\$ -
2	5100 Live Oaks Blvd, LLC	Tampa, FL	1/17/2013	63,400	39,600
3	NPRC Carroll Resort, LLC	Pembroke Pines, FL	6/24/2013	225,000	157,500
4	APH Carroll 41, LLC	Marietta, GA	11/1/2013	30,600	22,097
5	Matthews Reserve II, LLC	Matthews, NC	11/19/2013	22,063	17,571
6	City West Apartments II, LLC	Orlando, FL	11/19/2013	23,562	18,533
7	Vinings Corner II, LLC	Smyrna, GA	11/19/2013	35,691	26,640
8	Uptown Park Apartments II, LLC	Altamonte Springs, FL	11/19/2013	36,590	27,471
9	Mission Gate II, LLC	Plano, TX	11/19/2013	47,621	36,148
10	St. Marin Apartments II, LLC	Coppell, TX	11/19/2013	73,078	53,863
11	APH Carroll Bartram Park, LLC	Jacksonville, FL	12/31/2013	38,000	28,500
12	APH Carroll Atlantic Beach, LLC	Atlantic Beach, FL	1/31/2014	13,025	8,916
13	23 Mile Road Self Storage, LLC	Chesterfield, MI	8/19/2014	5,804	4,350
14	36th Street Self Storage, LLC	Wyoming, MI	8/19/2014	4,800	3,600
15	Ball Avenue Self Storage, LLC	Grand Rapids, MI	8/19/2014	7,281	5,460
16	Ford Road Self Storage, LLC	Westland, MI	8/29/2014	4,642	3,480
17	Ann Arbor Kalamazoo Self Storage, LLC	Ann Arbor, MI	8/29/2014	4,458	3,345
18	Ann Arbor Kalamazoo Self Storage, LLC	Scio, MI	8/29/2014	8,927	6,695
19	Ann Arbor Kalamazoo Self Storage, LLC	Kalamazoo, MI	8/29/2014	2,363	1,775
20	Jolly Road Self Storage, LLC	Okemos, MI	1/16/2015	7,492	5,620
21	Eaton Rapids Road Self Storage, LLC	Lansing West, MI	1/16/2015	1,741	1,305
22	Haggerty Road Self Storage, LLC	Novi, MI	1/16/2015	6,700	5,025
23	Waldon Road Self Storage, LLC	Lake Orion, MI	1/16/2015	6,965	5,225
24	Tyler Road Self Storage, LLC	Ypsilanti, MI	1/16/2015	3,507	2,630
				<u>\$ 680,710</u>	<u>\$ 485,349</u>

During the year ended June 30, 2015, we provided \$53,022 and \$9,100 of debt and equity financing, respectively, to UPRC for the acquisition of certain properties and to fund capital expenditures for existing properties. During the year ended June 30, 2015, UPRC transferred its investments in certain properties to NPRC. As a result, our investments in UPRC related to these properties also transferred to NPRC. The investments transferred consisted of \$1,281 of equity and \$9,444 of debt. There was no gain or loss realized on the transaction. As of June 30, 2015, our investment in UPRC had an amortized cost of \$75,628 and a fair value of \$84,685.

As of June 30, 2015, UPRC's real estate portfolio was comprised of fifteen multi-families properties and one commercial property. The following table shows the location, acquisition date, purchase price, and mortgage outstanding due to other parties for each of the properties held by UPRC as of June 30, 2015.

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

On January 4, 2012, Energy Solutions Holdings Inc. ("Energy Solutions") sold its gas gathering and processing assets held in Gas Solutions II Ltd. ("Gas Solutions") for a potential sale price of \$199,805, adjusted for the final working capital settlement, including a potential earn-out of \$28,000 that may be paid based on the future performance of Gas Solutions. After expenses, including structuring fees of \$9,966 paid to us, and \$3,152 of third-party expenses, Gas Solutions LP LLC and Gas Solutions GP LLC, subsidiaries of Gas Solutions, received \$157,100 and \$1,587 in cash, respectively, and subsequently distributed these amounts, \$158,687 in total, to Energy Solutions. On June 4, 2014, Gas Solutions GP LLC and Gas Solutions LP LLC merged with and into Freedom Marine Solutions, LLC (f/k/a Freedom Marine Services Holdings, LLC) ("Freedom Marine"), another subsidiary of Energy Solutions, with Freedom Marine as the surviving entity. On December 29, 2014, Freedom Marine reached a settlement for and received \$5,174, net of third-party obligations, related to the contingent earn-out from the sale of Gas Solutions in January 2012 which was retained by Freedom Marine. This is a final settlement and no further payments are expected from the sale.

On August 6, 2013, we received a distribution of \$4,065 related to our investment in NRG Manufacturing, Inc. ("NRG") for which we realized a gain of \$3,252. This was a partial release of the amount held in escrow. On February 17, 2015, we received a distribution of \$7,140 related to our investment in NRG for which we realized a gain of \$4,647. This was a full release of the amount held in escrow. The \$7,140 distribution received from NRG included \$1,739 as reimbursement for legal, tax and portfolio level accounting services provided directly to NRG for which Prospect received payment on behalf of Prospect Administration (no direct income was recognized by Prospect, but Prospect was given credit for these payments as a reduction of the administrative services costs payable by Prospect to Prospect Administration).

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

During the year ended June 30, 2014, Energy Solutions repaid \$8,500 of our subordinated secured debt to us. In addition to the repayment of principal, we received \$4,812 of make-whole fees for early repayment of the outstanding loan receivables, which was recorded as additional interest income during the year ended June 30, 2014.

On November 25, 2013, we provided \$13,000 in senior secured debt financing for the recapitalization of our investment in Freedom Marine. The subordinated secured loan to Jettco Marine Services, LLC, a subsidiary of Freedom Marine, was replaced with a senior secured note to Vessel Company II, LLC (f/k/a Vessel Holdings II, LLC) ("Vessel II"), a new subsidiary of Freedom Marine. On December 3, 2013, we made a \$16,000 senior secured investment in Vessel Company III, LLC (f/k/a Vessel Holdings III, LLC), another new subsidiary of Freedom Marine. Overall the restructuring of our investment in Freedom Marine provided approximately \$16,000 net senior secured debt financing to support the acquisition of two new vessels. We received \$2,480 of structuring fees from Energy Solutions related to the Freedom Marine restructuring which was recognized as other income during the year ended June 30, 2014.

During the year ended June 30, 2014, we received an \$8,000 fee from First Tower Holdings of Delaware LLC ("First Tower Delaware") related to the renegotiation and expansion of First Tower's revolver in December 2013 which was recorded as other income and we provided an additional \$8,500 and \$1,500 of senior secured first-lien and common equity financing, respectively, to First Tower Delaware.

During the year ended June 30, 2014, we provided an additional \$7,600 of subordinated secured financing to AMU Holdings Inc. ("AMU"). During the year ended June 30, 2014, we received distributions of \$12,000 from AMU which were recorded as dividend income.

On March 31, 2014, we invested \$246,250 in cash and 2,306,294 unregistered shares of our common stock to support the recapitalization of Harbortouch Payments, LLC (f/k/a United Bank Card, Inc. (d/b/a Harbortouch)), a provider of transaction processing services and point-of-sale equipment used by merchants across the United States. We invested \$24,898 of equity and \$123,000 of debt in Harbortouch Holdings of Delaware Inc., the newly-formed holding company, and \$130,796 of debt in Harbortouch Payments, LLC, the operating company (collectively, "Harbortouch"). Through the recapitalization, we acquired a controlling interest in Harbortouch Holdings of Delaware Inc. After the recapitalization, we received repayment of the \$23,894 loan previously outstanding. We received structuring fees of \$7,536 related to our investment in Harbortouch which were recognized as other income during the year ended June 30, 2014.

On March 31, 2014, we provided \$78,521 of debt and \$14,107 of equity financing to Echelon Aviation LLC ("Echelon"), a newly established portfolio company which provides liquidity alternatives on aviation assets. In connection with our investment, we received a structuring fee of \$2,771 from Echelon which was recognized as other income during the year ended June 30, 2014.

On August 1, 2014, we sold our investments in Airmall Inc. ("Airmall") for net proceeds of \$51,379 and realized a loss of \$3,473 on the sale. In addition, there is \$6,000 being held in escrow, of which 98% is due to Prospect, which will be recognized as an additional realized loss if it is not received. Included in the net proceeds were \$3,000 of structuring fees from Airmall related to the sale of the operating company which was recognized as other income during the year ended June 30, 2015. On October 22, 2014, we received a tax refund of \$665 related to our investment in Airmall for which we realized a gain of the same amount.

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

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

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

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

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

On October 10, 2014, ARRM Services, Inc. ("ARRM") sold Ajax Rolled Ring & Machine, LLC ("Ajax") to a third party and repaid the \$19,337 loan receivable to us and we recorded a realized loss of \$23,560 related to the sale. Concurrent with the sale, our ownership increased to 100% of the outstanding equity in SB Forging (see Note 1). As such, we began consolidating SB Forging on October 11, 2014. In addition, there is \$3,000 being held in escrow of which \$802 was received on May 6, 2015 for which we realized a gain of the same amount. The remainder will be recognized as additional gain if and when received. We received \$2,000 of structuring fees from Ajax related to the sale of the operating company which was recognized as other income during the year ended June 30, 2015.

On October 20, 2014, we sold our \$22,000 investment in Galaxy XII CLO, Ltd. and realized a loss of \$2,435 on the sale.

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

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

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

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

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

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

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

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

On June 5, 2015, we sold our equity investment in Vets Securing America, Inc. (“VSA”) and realized a net loss of \$975 on the sale. In connection with the sale, VSA was released as a borrower on the secured promissory notes, leaving The Healing Staff, Inc. (“THS”) as the sole borrower. During the year ended June 30, 2015, THS ceased operations and we recorded a realized loss of \$2,956, reducing the amortized cost to zero.

On June 9, 2015, we provided additional debt and equity financing to support the recapitalization of Edmentum. As part of the recapitalization, we exchanged 100% of the \$50,000 second lien term loan previously outstanding for \$26,365 of junior PIK notes and 370,964.14 Class A common units representing 37.1% equity ownership in Edmentum Ultimate Holdings, LLC. In addition, we invested \$5,875 in senior PIK notes and committed \$7,834 as part of a second lien revolving credit facility, of which \$4,896 was funded at closing. On June 9, 2015, we determined that the impairment of Edmentum was other-than-temporary and recorded a realized loss of \$22,116 for the amount that the amortized cost exceeded the fair value, reducing the amortized cost to \$37,216.

During the year ended June 30, 2014, we recognized \$400 of interest income due to purchase discount accretion for the assets acquired from Patriot. As of December 31, 2013, the purchase discount for the assets acquired from Patriot had been fully accreted. As such, no such income was recognized during the year ended June 30, 2015.

As of June 30, 2015, \$4,413,161 of our loans, at fair value, bear interest at floating rates and \$4,380,763 of those loans have LIBOR floors ranging from 0.5% to 5.5%. As of June 30, 2014, \$4,212,376 of our loans, at fair value, bore interest at floating rates and \$4,179,177 of those loans had LIBOR floors ranging from 1.25% to 6.00%.

At June 30, 2015, four loan investments were on non-accrual status: Gulf Coast, NCT, Wind River, and Wolf Energy. At June 30, 2014, nine loan investments were on non-accrual status: BXC, THS, Manx, NCT, STI, Stryker, Wind River, Wolf Energy Holdings Inc., and Yatesville. Principal balances of these loans amounted to \$62,143 and \$163,408 as of June 30, 2015 and June 30, 2014, respectively. The fair value of these loans amounted to \$6,918 and \$5,937 as of June 30, 2015 and June 30, 2014, respectively. The fair values of these investments represent approximately 0.1% and 0.1% of our total assets as of June 30, 2015 and June 30, 2014, respectively. For the years ended June 30, 2015, 2014 and 2013, the income foregone as a result of not accruing interest on non-accrual debt investments amounted to \$22,927, \$24,040 and \$25,965, respectively.

Undrawn committed revolvers and delayed draw term loans to our portfolio companies incur commitment and unused fees ranging from 0.00% to 2.00%. As of June 30, 2015 and June 30, 2014, we had \$88,288 and \$72,118, respectively, of undrawn revolver and delayed draw term loan commitments to our portfolio companies.

During the year ended June 30, 2015, we sold \$132,909 of the outstanding principal balance of the senior secured Term Loan A investments in certain portfolio companies. There was no gain or loss realized on the sale. We serve as an agent for these loans and collect a servicing fee from the counterparties on behalf of the Investment Adviser. We receive a credit for these payments as a reduction of base management fee payable by us to the Investment Adviser. See Note 13 for further discussion.

Unconsolidated Significant Subsidiaries

Our investments are generally in small and mid-sized companies in a variety of industries. In accordance with Rules 3-09 and 4-08(g) of Regulation S-X, we must determine which of our unconsolidated controlled portfolio companies are considered “significant subsidiaries”, if any. In evaluating these investments, there are three tests utilized to determine if any of our controlled investments are considered significant subsidiaries: the investment test, the asset test and the income test. Rule 3-09 of Regulation S-X, as interpreted by the SEC, requires separate audited financial statements of an unconsolidated majority-owned subsidiary in an annual report if any of the three tests exceed 20%. Rule 4-08(g) of Regulation S-X requires summarized financial information in an annual report if any of the three tests exceeds 10% and summarized financial information in a quarterly report if any of the three tests exceeds 20%.

As of June 30, 2015, we had no single investment that represented greater than 10% of our total investment portfolio at fair value. As of June 30, 2015, we had one investment whose assets represented greater than 10% but less than 20% of our total assets. Income, consisting of interest, dividends, fees, other investment income and realization of gains or losses, can fluctuate upon repayment or sale of an investment or the marking to fair value of an investment in any given year can be highly concentrated among several investments. After performing the income analysis for the year ended June 30, 2015, we determined that one of our controlled investments individually generated more than 10% but less than 20% of our income, primarily due to the unrealized appreciation that was recognized on the investment during the year ended June 30, 2015. As such, the following unconsolidated majority-owned portfolio company was considered a significant subsidiary at a 10% level as of June 30, 2015: National Property REIT Corp.

The following tables show summarized financial information for National Property REIT Corp. and its subsidiaries, which met the 10% asset test and the 10% income test:

	June 30, 2015	June 30, 2014
Balance Sheet Data		
Cash and cash equivalents	\$ 43,722	\$ 17,204
Real estate, net	639,012	312,896
Unsecured consumer loans, net	366,014	45,597
Other assets	51,383	8,185
Mortgages payable	484,771	240,176
Revolving credit facilities	208,296	27,600
Notes payable, due to Prospect or Affiliate	365,214	105,309
Other liabilities	21,736	5,173
Total equity	20,114	5,624

	Year Ended June 30, 2015	From Inception (December 30, 2013) to June 30, 2014
Summary of Operations		
Total revenue	\$ 120,576	\$ 20,669
Operating expenses	115,206	20,507
Operating income	5,370	162
Depreciation and amortization	23,960	11,978
Fair value adjustment	7,005	578
Net loss	\$ (25,595)	\$ (12,394)

As of June 30, 2015, we had no single investment that represented greater than 20% of our total investment portfolio at fair value. As of June 30, 2015, we had no single investment whose assets represented greater than 20% of our total assets. Income, consisting of interest, dividends, fees, other investment income and realization of gains or losses, can fluctuate upon repayment or sale of an investment or the marking to fair value of an investment in any given year can be highly concentrated among several investments. After performing the income analysis for the year ended June 30, 2015, we determined that two of our controlled investments individually generated more than 20% of our income, primarily due to the unrealized appreciation that was recognized on the investments during the year ended June 30, 2015. As such, the following unconsolidated majority-owned portfolio companies were considered significant subsidiaries at a 20% level as of June 30, 2015: First Tower Finance Company LLC and Harbortouch Payments, LLC. We will include the audited financial statements of First Tower Finance Company LLC and its subsidiaries as Exhibit 99.1 via an amendment to this report and the audited financial statements of Harbortouch Payments, LLC as Exhibit 99.2 via an amendment to this report.

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

	June 30, 2015		June 30, 2014	
Balance Sheet Data				
Cash and cash equivalents	\$	65,614	\$	60,368
Finance receivables, net		400,451		385,875
Intangibles, including goodwill		121,822		137,696
Other assets		17,373		14,056
Notes payable		334,637		313,563
Notes payable, due to Prospect or Affiliate		251,578		251,246
Other liabilities		47,493		46,276
Total equity		(28,448)		(13,090)

	Year Ended June 30,		
	2015	2014	2013
Summary of Operations			
Total revenue	\$ 207,128	\$ 201,724	\$ 186,037
Total expenses	219,143	162,941	144,368
Net (loss) income	<u>\$ (12,015)</u>	<u>\$ 38,783</u>	<u>\$ 41,669</u>

The following tables show summarized financial information for Harbortouch Payments, LLC:

	June 30, 2015	June 30, 2014
Balance Sheet Data		
Cash and cash equivalents	\$ 168	\$ 2,083
Receivables	28,721	24,530
Intangibles, including goodwill	351,396	400,453
Other assets	28,686	15,106
Notes payable	25,132	24,329
Notes payable, due to Prospect or Affiliate	296,734	268,022
Other liabilities	37,235	42,734
Total equity	49,870	107,087

	Year Ended June 30, 2015	From Inception (March 31, 2014) to June 30, 2014
Summary of Operations		
Total revenue	\$ 280,606	\$ 68,759
Total expenses	329,469	82,673
Net loss	\$ (48,863)	\$ (13,914)

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

Note 4. Revolving Credit Facility

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

On August 29, 2014, we renegotiated the 2012 Facility and closed an expanded five and a half year revolving credit facility (the “2014 Facility” and collectively with the 2012 Facility, the “Revolving Credit Facility”). The lenders have extended commitments of \$885,000 under the 2014 Facility as of June 30, 2015. The 2014 Facility includes an accordion feature which allows commitments to be increased up to \$1,500,000 in the aggregate. The revolving period of the 2014 Facility extends through March 2019, with an additional one year amortization period (with distributions allowed) after the completion of the revolving period. During such one year amortization period, all principal payments on the pledged assets will be applied to reduce the balance. At the end of the one year amortization period, the remaining balance will become due, if required by the lenders.

The 2014 Facility contains restrictions pertaining to the geographic and industry concentrations of funded loans, maximum size of funded loans, interest rate payment frequency of funded loans, maturity dates of funded loans and minimum equity requirements. The 2014 Facility also contains certain requirements relating to portfolio performance, including required minimum portfolio yield and limitations on delinquencies and charge-offs, violation of which could result in the early termination of the 2014 Facility. The 2014 Facility also requires the maintenance of a minimum liquidity requirement. As of June 30, 2015, we were in compliance with the applicable covenants.

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

As of June 30, 2015 and June 30, 2014, we had \$721,800 and \$780,620, respectively, available to us for borrowing under the Revolving Credit Facility, of which the amount outstanding was \$368,700 and \$92,000, respectively. As additional eligible investments are transferred to PCF and pledged under the Revolving Credit Facility, PCF will generate additional availability up to the current commitment amount of \$885,000. As of June 30, 2015, the investments, including money market funds, used as collateral for the Revolving Credit Facility had an aggregate fair value of \$1,539,763, which represents 22.9% of our total investments and money market funds. These assets are held and owned by PCF, a bankruptcy remote special purpose entity, and as such, these investments are not available to our general creditors. The release of any assets from PCF requires the approval of the facility agent.

In connection with the origination and amendments of the Revolving Credit Facility, we incurred \$8,866 of new fees and \$3,539 of fees carried over for continuing participants from the previous facility, which are being amortized over the term of the facility in accordance with ASC 470-50, of which \$10,280 remains to be amortized and is included within deferred financing costs on the Consolidated Statement of Assets and Liabilities as of June 30, 2015. In accordance with ASC 470-50, we expensed \$332 of fees relating to credit providers in the 2012 Facility who did not commit to the 2014 Facility.

During the years ended June 30, 2015, 2014 and 2013, we recorded \$14,424, \$12,216 and \$9,082, respectively, of interest costs, unused fees and amortization of financing costs on the Revolving Credit Facility as interest expense.

Note 5. Convertible Notes

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

On February 18, 2011, we issued \$172,500 aggregate principal amount of convertible notes that mature on August 15, 2016 (the “2016 Notes”), unless previously converted or repurchased in accordance with their terms. The 2016 Notes bear interest at a rate of 5.50% per year, payable semi-annually on February 15 and August 15 of each year, beginning August 15, 2011. Total proceeds from the issuance of the 2016 Notes, net of underwriting discounts and offering costs, were \$167,325. Between January 30, 2012 and February 2, 2012, we repurchased \$5,000 aggregate principal amount of the 2016 Notes at a price of 97.5, including commissions. The transactions resulted in our recognizing \$10 of loss in the year ended June 30, 2012.

On April 16, 2012, we issued \$130,000 aggregate principal amount of convertible notes that mature on October 15, 2017 (the “2017 Notes”), unless previously converted or repurchased in accordance with their terms. The 2017 Notes bear interest at a rate of 5.375% per year, payable semi-annually on April 15 and October 15 of each year, beginning October 15, 2012. Total proceeds from the issuance of the 2017 Notes, net of underwriting discounts and offering costs, were \$126,035.

On August 14, 2012, we issued \$200,000 aggregate principal amount of convertible notes that mature on March 15, 2018 (the “2018 Notes”), unless previously converted or repurchased in accordance with their terms. The 2018 Notes bear interest at a rate of 5.75% per year, payable semi-annually on March 15 and September 15 of each year, beginning March 15, 2013. Total proceeds from the issuance of the 2018 Notes, net of underwriting discounts and offering costs, were \$193,600.

On December 21, 2012, we issued \$200,000 aggregate principal amount of convertible notes that mature on January 15, 2019 (the “2019 Notes”), unless previously converted or repurchased in accordance with their terms. The 2019 Notes bear interest at a rate of 5.875% per year, payable semi-annually on January 15 and July 15 of each year, beginning July 15, 2013. Total proceeds from the issuance of the 2019 Notes, net of underwriting discounts and offering costs, were \$193,600.

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

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, 2015(1)(2)	89.9752	80.2196	87.7516	83.6661	79.8248	80.6670
Conversion price at June 30, 2015(2)(3)	\$ 11.11	\$ 12.47	\$ 11.40	\$ 11.95	\$ 12.53	\$ 12.40
Last conversion price calculation date	12/21/2014	2/18/2015	4/16/2015	8/14/2014	12/21/2014	4/11/2015
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.
- (3) The conversion price in effect at June 30, 2015 was calculated on the last anniversary of the issuance and will be adjusted again on the next anniversary, unless the exercise price shall have changed by more than 1% before the anniversary.
- (4) The conversion rate is increased if monthly cash dividends paid to common shares exceed the monthly dividend threshold amount, subject to adjustment.

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

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

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

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

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

In connection with the issuance of the Convertible Notes, we incurred \$39,678 of fees which are being amortized over the terms of the notes, of which \$21,274 remains to be amortized and is included within deferred financing costs on the Consolidated Statement of Assets and Liabilities as of June 30, 2015.

During the years ended June 30, 2015, 2014 and 2013, we recorded \$74,365, \$58,042 and \$45,880, respectively, of interest costs and amortization of financing costs on the Convertible Notes as interest expense.

Note 6. Public Notes

On May 1, 2012, we issued \$100,000 aggregate principal amount of unsecured notes that were scheduled to mature on November 15, 2022 (the “2022 Notes”). The 2022 Notes bore 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 May 15, 2015, we redeemed \$100,000 aggregate principal amount of the 2022 Notes at par. As a result of this transaction, we recorded a loss in the amount of the difference between the reacquisition price and the net carrying amount of the notes, net of the proportionate amount of unamortized debt issuance costs. The net loss on the extinguishment of the 2022 Notes in the year ended June 30, 2015 was \$2,600.

On March 15, 2013, we issued \$250,000 aggregate principal amount of unsecured notes that mature on March 15, 2023 (the “2023 Notes”). The 2023 Notes bear interest at a rate of 5.875% per year, payable semi-annually on March 15 and September 15 of each year, beginning September 15, 2013. Total proceeds from the issuance of the 2023 Notes, net of underwriting discounts and offering costs, were \$245,885.

On April 7, 2014, we issued \$300,000 aggregate principal amount of unsecured notes that mature on July 15, 2019 (the “5.00% 2019 Notes”). Included in the issuance is \$45,000 of Prospect Capital InterNotes® that were exchanged for the 5.00% 2019 Notes. The 5.00% 2019 Notes bear interest at a rate of 5.00% per year, payable semi-annually on January 15 and July 15 of each year, beginning July 15, 2014. Total proceeds from the issuance of the 5.00% 2019 Notes, net of underwriting discounts and offering costs, were \$250,775.

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

In connection with the issuance of the 2023 Notes and the 5.00% 2019 Notes, we incurred \$8,036 of fees which are being amortized over the term of the notes, of which \$6,604 remains to be amortized and is included within deferred financing costs on the Consolidated Statement of Assets and Liabilities as of June 30, 2015.

During the years ended June 30, 2015, 2014 and 2013, we recorded \$37,063, \$25,988 and \$11,672, respectively, of interest costs and amortization of financing costs on the Public Notes as interest expense.

Note 7. Prospect Capital InterNotes®

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

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

During the year ended June 30, 2015, we issued \$125,696 aggregate principal amount of Prospect Capital InterNotes® for net proceeds of \$123,641. These notes were issued with stated interest rates ranging from 3.375% to 5.10% with a weighted average interest rate of 4.65%. These notes mature between May 15, 2020 and June 15, 2022. The following table summarizes the Prospect Capital InterNotes® issued during the year ended June 30, 2015.

Tenor at Origination (in years)	Principal Amount	Interest Rate Range	Weighted Average Interest Rate	Maturity Date Range
5.25	\$ 7,126	4.625%	4.625%	August 15, 2020 - September 15, 2020
5.5	106,364	4.25%-4.75%	4.63%	May 15, 2020 - November 15, 2020
6	2,197	3.375%	3.375%	April 15, 2021 - May 15, 2021
6.5	3,912	5.10%	5.10%	December 15, 2021
7	6,097	5.10%	5.10%	May 15, 2022 - June 15, 2022
	<u>\$ 125,696</u>			

During the year ended June 30, 2014, we issued \$473,762 aggregate principal amount of 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. The following table summarizes the Prospect Capital InterNotes® issued during the year ended June 30, 2014.

Tenor at Origination (in years)	Principal Amount	Interest Rate Range	Weighted Average Interest Rate	Maturity Date Range
3	\$ 5,710	4.00%	4.00%	October 15, 2016
3.5	3,149	4.00%	4.00%	April 15, 2017
4	45,751	3.75%-4.00%	3.92%	November 15, 2017 - May 15, 2018
5	207,915	4.25%-5.00%	4.92%	July 15, 2018 - May 15, 2019
5.5	53,820	4.75%-5.00%	4.86%	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
	<u>\$ 473,762</u>			

During the year ended June 30, 2015, we redeemed \$76,931 aggregate principal amount of Prospect Capital InterNotes® at par with a weighted average interest rate of 6.06% in order to replace debt with higher interest rates with debt with lower rates. During the year ended June 30, 2015, we repaid \$6,993 aggregate principal amount of Prospect Capital InterNotes® at par in accordance with the Survivor's Option, as defined in the InterNotes® Offering prospectus. As a result of these transactions, we recorded a loss in the amount of the difference between the reacquisition price and the net carrying amount of the notes, net of the proportionate amount of unamortized debt issuance costs. The net loss on the extinguishment of Prospect Capital InterNotes® in the year ended June 30, 2015 was \$1,682. The following table summarizes the Prospect Capital InterNotes® outstanding as of June 30, 2015.

Tenor at Origination (in years)	Principal Amount	Interest Rate Range	Weighted Average Interest Rate	Maturity Date Range
3	\$ 5,710	4.00%	4.00%	October 15, 2016
3.5	3,109	4.00%	4.00%	April 15, 2017
4	45,690	3.75%-4.00%	3.92%	November 15, 2017 - May 15, 2018
5	207,719	4.25%-5.00%	4.92%	July 15, 2018 - May 15, 2019
5.25	7,126	4.625%	4.63%	August 15, 2020 - September 15, 2020
5.5	115,184	4.25%-5.00%	4.65%	February 15, 2019 - November 15, 2020
6.0	2,197	3.375%	3.38%	April 15, 2021 - May 15, 2021
6.5	5,712	5.10%-5.50%	5.23%	February 15, 2020 - December 15, 2021
7	191,549	4.00%-5.85%	5.13%	September 15, 2019 - June 15, 2022
7.5	1,996	5.75%	5.75%	February 15, 2021
10	36,925	3.29%-7.00%	6.11%	March 15, 2022 - May 15, 2024
12	2,978	6.00%	6.00%	November 15, 2025 - December 15, 2025
15	17,385	5.00%-6.00%	5.14%	May 15, 2028 - November 15, 2028
18	22,729	4.125%-6.25%	5.52%	December 15, 2030 - August 15, 2031
20	4,530	5.75%-6.00%	5.89%	November 15, 2032 - October 15, 2033
25	36,320	6.25%-6.50%	6.39%	August 15, 2038 - May 15, 2039
30	120,583	5.50%-6.75%	6.23%	November 15, 2042 - October 15, 2043
	<u>\$ 827,442</u>			

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

Tenor at Origination (in years)	Principal Amount	Interest Rate Range	Weighted Average Interest Rate	Maturity Date Range
3	\$ 5,710	4.00%	4.00%	October 15, 2016
3.5	3,149	4.00%	4.00%	April 15, 2017
4	45,751	3.75%-4.00%	3.92%	November 15, 2017 - May 15, 2018
5	207,915	4.25%-5.00%	4.92%	July 15, 2018 - August 15, 2019
5.5	8,820	5.00%	4.86%	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
	<u>\$ 785,670</u>			

In connection with the issuance of Prospect Capital InterNotes®, we incurred \$20,168 of fees which are being amortized over the term of the notes, of which \$16,262 remains to be amortized and is included within deferred financing costs on the Consolidated Statement of Assets and Liabilities as of June 30, 2015.

During the years ended June 30, 2015, 2014 and 2013, we recorded \$44,808, \$33,857 and \$9,707, respectively, of interest costs and amortization of financing costs on the Prospect Capital InterNotes® as interest expense.

Note 8. Fair Value and Maturity of Debt Outstanding

The following table shows the maximum draw amounts and outstanding borrowings of our Revolving Credit Facility, Convertible Notes, Public Notes and Prospect Capital InterNotes® as of June 30, 2015 and June 30, 2014.

	June 30, 2015		June 30, 2014	
	Maximum Draw Amount	Amount Outstanding	Maximum Draw Amount	Amount Outstanding
Revolving Credit Facility	\$ 885,000	\$ 368,700	\$ 857,500	\$ 92,000
Convertible Notes	1,239,500	1,239,500	1,247,500	1,247,500
Public Notes	548,094	548,094	647,881	647,881
Prospect Capital InterNotes®	827,442	827,442	785,670	785,670
Total	<u>\$ 3,500,036</u>	<u>\$ 2,983,736</u>	<u>\$ 3,538,551</u>	<u>\$ 2,773,051</u>

The following table shows the contractual maturities of our Revolving Credit Facility, Convertible Notes, Public Notes and Prospect Capital InterNotes® as of June 30, 2015.

	Payments Due by Period				
	Total	Less than 1 Year	1 - 3 Years	3 - 5 Years	After 5 Years
Revolving Credit Facility	\$ 368,700	\$ -	\$ -	\$ 368,700	\$ -
Convertible Notes	1,239,500	150,000	497,500	592,000	-
Public Notes	548,094	-	-	300,000	248,094
Prospect Capital InterNotes®	827,442	-	54,509	369,938	402,995
Total Contractual Obligations	<u>\$ 2,983,736</u>	<u>\$ 150,000</u>	<u>\$ 552,009</u>	<u>\$ 1,630,638</u>	<u>\$ 651,089</u>

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

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

As permitted by ASC 825-10-25, we have not elected to value our Revolving Credit Facility, Convertible Notes, Public Notes and Prospect Capital InterNotes® at fair value. The following table shows the fair value of these financial liabilities disaggregated into the three levels of the ASC 820 valuation hierarchy as of June 30, 2015.

	Fair Value Hierarchy			
	Level 1	Level 2	Level 3	Total
Revolving Credit Facility(1)	\$ -	\$ 368,700	\$ -	\$ 368,700
Convertible Notes(2)	-	1,244,402	-	1,244,402
Public Notes(2)	-	564,052	-	564,052
Prospect Capital InterNotes®(3)	-	848,387	-	848,387
Total	<u>\$ -</u>	<u>\$ 3,025,541</u>	<u>\$ -</u>	<u>\$ 3,025,541</u>

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

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

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

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

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

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

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

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

Note 9. Equity Offerings, Offering Expenses, and Distributions

Excluding dividend reinvestments, we issued 14,845,556 and 93,381,602 shares of our common stock during the years ended June 30, 2015 and June 30, 2014, respectively. The following table summarizes our issuances of common stock during the years ended June 30, 2014 and June 30, 2015.

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, 2015:					
September 11, 2014 - November 3, 2014(1)	9,490,975	95,149	474	175	\$ 10.03
November 17, 2014 - December 3, 2014(1)	5,354,581	51,678	268	469	\$ 9.65

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

(2) Shares were issued in conjunction with our investments in the following controlled portfolio companies: CP Holdings of Delaware LLC, Harbortouch Holdings of Delaware Inc., and Arctic Oilfield Equipment USA, Inc.

Our shareholders' equity accounts as of June 30, 2015 and June 30, 2014 reflect cumulative shares issued as of those respective dates. Our common stock has been issued through public offerings, a registered direct offering, the exercise of over-allotment options on the part of the underwriters, our dividend reinvestment plan and in connection with the acquisition of certain controlled portfolio companies. When our common stock is issued, the related offering expenses have been charged against paid-in capital in excess of par. All underwriting fees and offering expenses were borne by us.

On August 24, 2011, our Board of Directors approved a share repurchase plan (the "Repurchase Program") under which we may repurchase up to \$100,000 of our common stock at prices below our net asset value per share. Prior to any repurchase, we are required to notify shareholders of our intention to purchase our common stock. Our last notice was delivered on June 16, 2015. This notice lasts for six months after notice is given. We did not make any purchases of our common stock during the period from August 24, 2011 to June 30, 2015 pursuant to the Repurchase Program. See Note 18 for shares purchased under the Repurchase Program subsequent to June 30, 2015.

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

On November 4, 2014, our Registration Statement on Form N-2 was declared effective by the SEC. Under this Shelf Registration Statement, we can issue up to \$4,822,626 of additional debt and equity securities in the public market as of June 30, 2015.

During the years ended June 30, 2015 and June 30, 2014, we distributed approximately \$421,594 and \$403,188, respectively, to our stockholders. The following table summarizes our distributions declared and payable for the years ended June 30, 2014 and June 30, 2015.

Declaration Date	Record Date	Payment Date	Amount Per Share	Amount Distributed (in thousands)
5/6/2013	7/31/2013	8/22/2013	\$ 0.110175	\$ 28,001
5/6/2013	8/30/2013	9/19/2013	0.110200	28,759
6/17/2013	9/30/2013	10/24/2013	0.110225	29,915
6/17/2013	10/31/2013	11/21/2013	0.110250	31,224
6/17/2013	11/29/2013	12/19/2013	0.110275	32,189
6/17/2013	12/31/2013	1/23/2014	0.110300	33,229
8/21/2013	1/31/2014	2/20/2014	0.110325	34,239
8/21/2013	2/28/2014	3/20/2014	0.110350	35,508
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 the year ended June 30, 2014				<u>\$ 403,188</u>
2/3/2014	7/31/2014	8/21/2014	\$ 0.110475	\$ 37,863
2/3/2014	8/29/2014	9/18/2014	0.110500	37,885
2/3/2014	9/30/2014	10/22/2014	0.110525	38,519
5/6/2014	10/31/2014	11/20/2014	0.110550	38,977
5/6/2014	11/28/2014	12/18/2014	0.110575	39,583
5/6/2014	12/31/2014	1/22/2015	0.110600	39,623
9/24/2014	1/30/2015	2/19/2015	0.110625	39,648
12/8/2014	2/27/2015	3/19/2015	0.083330	29,878
12/8/2014	3/31/2015	4/23/2015	0.083330	29,887
12/8/2014	4/30/2015	5/21/2015	0.083330	29,898
5/6/2015	5/29/2015	6/18/2015	0.083330	29,910
5/6/2015	6/30/2015	7/23/2015	0.083330	29,923
Total declared and payable for the year ended June 30, 2015				<u>\$ 421,594</u>

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, 2015 and June 30, 2014. It does not include distributions previously declared to stockholders of record on any future dates, as those amounts are not yet determinable. The following dividends were previously declared and will be payable subsequent to June 30, 2015:

- \$0.08333 per share for July 2015 to holders of record on July 31, 2015 with a payment date of August 20, 2015;
- \$0.08333 per share for August 2015 to holders of record on August 31, 2015 with a payment date of September 17, 2015;
- \$0.08333 per share for September 2015 to holders of record on September 30, 2015 with a payment date of October 22, 2015; and
- \$0.08333 per share for October 2015 to holders of record on October 30, 2015 with a payment date of November 19, 2015.

During the years ended June 30, 2015 and June 30, 2014, we issued 1,618,566 and 1,408,070 shares of our common stock, respectively, in connection with the dividend reinvestment plan.

As of June 30, 2015, we have reserved 102,790,062 shares of our common stock for issuance upon conversion of the Convertible Notes (see Note 5).

Note 10. Other Income

Other income consists of structuring fees, overriding royalty interests, revenue receipts related to net profit interests, deal deposits, administrative agent fees, and other miscellaneous and sundry cash receipts. The following table shows income from such sources during the years ended June 30, 2015, 2014 and 2013.

	Year Ended June 30,		
	2015	2014	2013
Structuring and amendment fees (refer to Note 3)	\$ 28,562	\$ 59,527	\$ 53,708
Recovery of legal costs from prior periods from legal settlement	-	5,825	-
Royalty interests	5,219	5,893	4,122
Administrative agent fees	666	468	346
Total Other Income	<u>\$ 34,447</u>	<u>\$ 71,713</u>	<u>\$ 58,176</u>

Note 11. Net Increase in Net Assets per Share

The following information sets forth the computation of net increase in net assets resulting from operations per share during the years ended June 30, 2015, 2014 and 2013.

	Year Ended June 30,		
	2015	2014	2013
Net increase in net assets resulting from operations	\$ 346,339	\$ 319,020	\$ 220,856
Weighted average common shares outstanding	353,648,522	300,283,941	207,069,971
Net increase in net assets resulting from operations per share	<u>\$ 0.98</u>	<u>\$ 1.06</u>	<u>\$ 1.07</u>

Note 12. Income Taxes

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

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

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

For the tax year ending August 31, 2015, the tax character of dividends paid to shareholders through June 30, 2015 is expected to be ordinary income. Because of the difference between our fiscal and tax year ends, the final determination of the tax character of dividends will not be made until we file our tax return for the tax year ending August 31, 2015.

Taxable income generally differs from net increase in net assets resulting from operations for financial reporting purposes due to temporary and permanent differences in the recognition of income and expenses, and generally excludes net unrealized gains or losses, as unrealized gains or losses are generally not included in taxable income until they are realized.

The following reconciles the net increase in net assets resulting from operations to taxable income for the tax years ended August 31, 2014, 2013 and 2012:

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

Capital losses in excess of capital gains earned in a tax year may generally be carried forward and used to offset capital gains, subject to certain limitations. The Regulated Investment Company Modernization Act (the “RIC Modernization Act”) was enacted on December 22, 2010. Under the RIC Modernization Act, capital losses incurred by taxpayers in taxable years beginning after the date of enactment will be allowed to be carried forward indefinitely and are allowed to retain their character as either short-term or long-term losses. As such, the capital loss carryforwards generated by us after the August 31, 2011 tax year will not be subject to expiration. Any losses incurred in post-enactment tax years will be required to be utilized prior to the losses incurred in pre-enactment tax years. As of August 31, 2014, we had capital loss carryforwards of approximately \$117,393 available for use in later tax years. Of the amount available as of August 31, 2014, \$623, \$33,096 and \$46,910 will expire on August 31, 2016, 2017 and 2018, respectively, and \$36,764 is not subject to expiration. The unused balance each year will be carried forward and utilized as gains are realized, subject to limitations. While our ability to utilize losses in the future depends upon a variety of factors that cannot be known in advance, substantially all of our capital loss carryforwards may become permanently unavailable due to limitations by the Code.

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

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

As of June 30, 2015, the cost basis of investments for tax purposes was \$6,599,876 resulting in estimated gross unrealized appreciation and depreciation of \$263,892 and \$254,210, respectively. As of June 30, 2014, the cost basis of investments for tax purposes was \$6,424,182 resulting in estimated gross unrealized appreciation and depreciation of \$139,620 and \$310,063, respectively. Due to the difference between our fiscal and tax year ends, the cost basis of our investments for tax purposes as of June 30, 2015 and June 30, 2014 was calculated based on the book cost of investments as of June 30, 2015 and June 30, 2014, respectively, with cumulative book-to-tax adjustments for investments through each investment’s most current tax year end.

In general, we may make certain adjustments to the classification of net assets as a result of permanent book-to-tax differences, which may include merger-related items, differences in the book and tax basis of certain assets and liabilities, and nondeductible federal taxes, among other items. During the tax year ended August 31, 2014, we increased accumulated overdistributed net investment income by \$4,316, decreased accumulated net realized loss on investments by \$3,384 and increased capital in excess of par value by \$932. During the tax year ended August 31, 2013, we increased accumulated undistributed net investment income by \$5,939, increased accumulated net realized loss on investments by \$2,621 and decreased capital in excess of par value by \$3,318. Due to the difference between our fiscal and tax year ends, the reclassifications for the taxable year ended August 31, 2014 are recorded in the fiscal year ending June 30, 2015 and the reclassifications for the taxable year ended August 31, 2013 were recorded in the fiscal year ended June 30, 2014.

Note 13. Related Party Agreements and Transactions

Investment Advisory Agreement

On December 23, 2014, the Investment Adviser, Prospect Capital Management LLC, converted into a Delaware limited partnership and is now known as Prospect Capital Management L.P. (continues as the "Investment Adviser"). We have entered into an investment advisory and management agreement with the Investment Adviser (the "Investment Advisory Agreement") under which the Investment Adviser, subject to the overall supervision of our Board of Directors, manages the day-to-day operations of, and provides investment advisory services to, us. Under the terms of the Investment Advisory Agreement, the Investment Adviser: (i) determines the composition of our portfolio, the nature and timing of the changes to our portfolio and the manner of implementing such changes, (ii) identifies, evaluates and negotiates the structure of the investments we make (including performing due diligence on our prospective portfolio companies); and (iii) closes and monitors investments we make.

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

The total base management fee incurred to the favor of the Investment Adviser was \$134,590, \$108,990 and \$69,800 during the years ended June 30, 2015, 2014 and 2013, respectively.

The Investment Adviser has entered into a servicing agreement with certain institutions, where we serve as the agent and collect a servicing fee on behalf of the Investment Adviser. During the year ended June 30, 2015, we received payments of \$170 from these institutions, on behalf of the Investment Adviser, for providing such services under the servicing agreement. We were given a credit for these payments as a reduction of base management fee payable by us to Prospect Capital Management.

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

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

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

These calculations are appropriately prorated for any period of less than three months and adjusted for any share issuances or repurchases during the current quarter.

The second part of the incentive fee, the capital gains incentive fee, is determined and payable in arrears as of the end of each calendar year (or upon termination of the Investment Advisory Agreement, as of the termination date), and equals 20.00% of our realized capital gains for the calendar year, if any, computed net of all realized capital losses and unrealized capital depreciation at the end of such year. In determining the capital gains incentive fee payable to the Investment Adviser, we calculate the aggregate realized capital gains, aggregate realized capital losses and aggregate unrealized capital depreciation, as applicable, with respect 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 \$90,687, \$89,306 and \$81,231 during the years ended June 30, 2015, 2014 and 2013, respectively. No capital gains incentive fee was incurred during the years ended June 30, 2015, 2014 and 2013.

Administration Agreement

We have also entered into an administration agreement (the “Administration Agreement”) with Prospect Administration under which Prospect Administration, among other things, provides (or arranges for the provision of) administrative services and facilities for us. For providing these services, we reimburse Prospect Administration for our allocable portion of overhead incurred by Prospect Administration in performing its obligations under the Administration Agreement, including rent and our allocable portion of the costs of our Chief Financial Officer and Chief Compliance Officer and his staff. 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.

The Administration Agreement provides that, absent willful misfeasance, bad faith or negligence in the performance of its duties or by reason of the reckless disregard of its duties and obligations, Prospect Administration and its officers, managers, partners, agents, employees, controlling persons, members and any other person or entity affiliated with it are entitled to indemnification from us for any damages, liabilities, costs and expenses (including reasonable attorneys’ fees and amounts reasonably paid in settlement) arising from the rendering of Prospect Administration’s services under the Administration Agreement or otherwise as administrator for us. Our payments to Prospect Administration are periodically reviewed by our Board of Directors.

The allocation of overhead expense from Prospect Administration was \$21,906, \$14,373 and \$8,737 for the years ended June 30, 2015, 2014 and 2013, respectively. During the year ended June 30, 2015, Prospect Administration received payments of \$6,929 directly from our portfolio companies for legal, tax and portfolio level accounting services. We were given a credit for these payments as a reduction of the administrative services cost payable by us to Prospect Administration, resulting in net overhead expense of \$14,977 during the year ended June 30, 2015. Had Prospect Administration not received these payments, Prospect Administration’s charges for its administrative services would have increased by these amounts.

Managerial Assistance

As a BDC, we are obligated under the 1940 Act to make available to certain of our portfolio companies significant managerial assistance. “Making available significant managerial assistance” refers to any arrangement whereby we provide significant guidance and counsel concerning the management, operations, or business objectives and policies of a portfolio company. We are also deemed to be providing managerial assistance to all portfolio companies that we control, either by ourselves or in conjunction with others. The nature and extent of significant managerial assistance provided by us to controlled and non-controlled portfolio companies will vary according to the particular needs of each portfolio company. Examples of such activities include (i) advice on recruiting, hiring, management and termination of employees, officers and directors, succession planning and other human resource matters; (ii) advice on capital raising, capital budgeting, and capital expenditures; (iii) advice on advertising, marketing, and sales; (iv) advice on fulfillment, operations, and execution; (v) advice on managing relationships with unions and other personnel organizations, financing sources, vendors, customers, lessors, lessees, lawyers, accountants, regulators and other important counterparties; (vi) evaluating acquisition and divestiture opportunities, plant expansions and closings, and market expansions; (vii) participating in audit committee, nominating committee, board and management meetings; (viii) consulting with and advising board members and officers of portfolio companies (on overall strategy and other matters); and (ix) providing other organizational, operational, managerial and financial guidance.

Prospect Administration, when performing a managerial assistance agreement executed with each portfolio company to which we provide managerial assistance, arranges for the provision of such managerial assistance on our behalf. When doing so, Prospect Administration utilizes personnel of our Investment Adviser. We, on behalf of Prospect Administration, invoice portfolio companies receiving and paying for managerial assistance, and we remit to Prospect Administration its cost of providing such services, including the charges deemed appropriate by our Investment Adviser for providing such managerial assistance. No income was recognized by Prospect.

During the years ended June 30, 2015, 2014 and 2013, we received payments of \$5,126, \$6,612 and \$4,776, respectively, from our portfolio companies for managerial assistance and subsequently remitted these amounts to Prospect Administration. During the year ended June 30, 2015, we incurred \$2,400 of managerial assistance expense related to our consolidated entity First Tower Delaware which was included within allocation from Prospect Administration on our Consolidated Statement of Operations for the year ended June 30, 2015. Of this amount, \$600 had not yet been paid by First Tower Delaware to Prospect Administration and was included within due to Prospect Administration on our Consolidated Statement of Assets and Liabilities as of June 30, 2015. See Note 14 for further discussion.

Co-Investments

On February 10, 2014, we received an exemptive order from the SEC (the “Order”) that gave us the ability to negotiate terms other than price and quantity of co-investment transactions with other funds managed by the Investment Adviser or certain affiliates, including Priority Income Fund, Inc. and Pathway Energy Infrastructure Fund, Inc., subject to the conditions included therein. Under the terms of the relief permitting us to co-invest with other funds managed by our Investment Adviser or its affiliates, a “required majority” (as defined in Section 57(o) of the 1940 Act) of our independent directors must make certain conclusions in connection with a co-investment transaction, including that (1) the terms of the proposed transaction, including the consideration to be paid, are reasonable and fair to us and our stockholders and do not involve overreaching of us or our stockholders on the part of any person concerned and (2) the transaction is consistent with the interests of our stockholders and is consistent with our investment objective and strategies. In certain situations where co-investment with one or more funds managed by the Investment Adviser or its affiliates is not covered by the Order, such as when there is an opportunity to invest in different securities of the same issuer, the personnel of the Investment Adviser or its affiliates will need to decide which fund will proceed with the investment. Such personnel will make these determinations based on policies and procedures, which are designed to reasonably ensure that investment opportunities are allocated fairly and equitably among affiliated funds over time and in a manner that is consistent with applicable laws, rules and regulations. Moreover, except in certain circumstances, when relying on the Order, we will be unable to invest in any issuer in which one or more funds managed by the Investment Adviser or its affiliates has previously invested.

As of June 30, 2015, we had co-investments with Priority Income Fund, Inc. in the following CLO funds: Babson CLO Ltd. 2014-III; Cent CLO 21 Limited; CIFC Funding 2014-IV Investor, Ltd.; Galaxy XVII CLO, Ltd.; Halcyon Loan Advisors Funding 2014-2 Ltd.; HarbourView CLO VII, Ltd.; Jefferson Mill CLO Ltd.; Mountain View CLO IX Ltd.; Symphony CLO XIV Ltd.; Voya 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. Certain of the controlled entities discussed below were consolidated effective July 1, 2014 (see Note 1). As such, transactions with these Consolidated Holding Companies for the year ended June 30, 2015 are presented on a consolidated basis.

Airmall Inc.

As of June 30, 2014, Prospect owned 100% of the equity of AMU Holdings Inc. ("AMU"), a Consolidated Holding Company. AMU owned 98% of Airmall Inc. (f/k/a Airmall USA Holdings, Inc.) ("Airmall"). Airmall is a developer and manager of airport retail operations.

On July 30, 2010, Prospect made a \$22,420 investment in AMU, of which \$12,500 was a senior subordinated note and \$9,920 was used to purchase 100% of the preferred and common equity of AMU. AMU used its combined debt and equity proceeds of \$22,420 to purchase 100% of Airmall's common stock for \$18,000, to pay \$1,573 of structuring fees from AMU to Prospect (which was recognized by Prospect as structuring fee income), \$836 of third party expenses, \$11 of legal services provided by attorneys at Prospect Administration, and \$2,000 of withholding tax. Prospect then purchased for \$30,000 two loans of Airmall payable to unrealized third parties, one for \$10,000 and the other \$20,000. Prospect and Airmall subsequently refinanced the two loans into a single \$30,000 loan from Airmall to Prospect.

On October 1, 2013, Prospect made an additional \$2,600 investment in the senior subordinated note, of which \$575 was utilized by AMU to pay interest due to Prospect and \$2,025 was retained by AMU for working capital. On November 25, 2013, Prospect funded an additional \$5,000 to the senior subordinated note, which was utilized by AMU to pay a \$5,000 dividend to Prospect. On December 4, 2013, Prospect sold 2% of the outstanding principal balance of the senior secured term loan to Airmall and 2% of the outstanding principal balance of the senior subordinated note to AMU for \$972.

On June 13, 2014, Prospect made a new \$19,993 investment as a senior secured loan to Airmall. Airmall then distributed this amount to AMU as a return of capital, which AMU used to pay down the senior subordinated loan in the same amount. The minority interest held by a third party in AMU was exchanged for common stock of Airmall.

On July 1, 2014, Prospect began consolidating AMU. As a result, any transactions between AMU and Prospect are eliminated in consolidation and as such, transactions after July 1, 2014 are not presented below.

On August 1, 2014, Prospect sold its investments in Airmall for net proceeds of \$51,379 and realized a loss of \$3,473 on the sale. In addition, there is \$6,000 being held in escrow, of which 98% is due to Prospect, which will be recognized as an additional realized loss if it is not received. Included in the net proceeds were \$3,000 of structuring fees from Airmall related to the sale of the operating company which was recognized as other income during the year ended June 30, 2015. On October 22, 2014, Prospect received a tax refund of \$665 related to its investment in Airmall and realized a gain of the same amount.

In addition to the repayments noted above, the following amounts were paid from Airmall to Prospect and recorded by Prospect as repayment of loan receivable:

Year Ended June 30, 2013	\$	600
Year Ended June 30, 2014		593
Year Ended June 30, 2015		49

The following dividends were declared and paid from Airmall to AMU and recognized as dividend income by AMU:

Year Ended June 30, 2013	\$	-
Year Ended June 30, 2014		7,000
Year Ended June 30, 2015		N/A

The following dividends were declared and paid from AMU to Prospect and recognized as dividend income by Prospect:

Year Ended June 30, 2013	\$	-
Year Ended June 30, 2014		12,000
Year Ended June 30, 2015		N/A

All dividends were paid from earnings and profits of Airmall and AMU.

The following interest payments were accrued and paid from AMU to Prospect and recognized by Prospect as interest income:

Year Ended June 30, 2013	\$	2,286
Year Ended June 30, 2014		3,159
Year Ended June 30, 2015		N/A

Included above, the following payment-in-kind interest from AMU was capitalized and recognized by Prospect as interest income:

Year Ended June 30, 2013	\$	-
Year Ended June 30, 2014		295
Year Ended June 30, 2015		N/A

The following interest payments were accrued and paid from Airmall to Prospect and recognized by Prospect as interest income:

Year Ended June 30, 2013	\$	3,536
Year Ended June 30, 2014		3,420
Year Ended June 30, 2015		576

The following interest income recognized had not yet been paid by Airmall to Prospect and was included by Prospect within interest receivable:

June 30, 2014	\$	920
June 30, 2015		-

The following managerial assistance payments were paid from AMU to Prospect and subsequently remitted to Prospect Administration (no income was recognized by Prospect):

Year Ended June 30, 2013	\$	225
Year Ended June 30, 2014		300
Year Ended June 30, 2015		N/A

The following managerial assistance payments were paid from Airmall to Prospect and subsequently remitted to Prospect Administration (no income was recognized by Prospect):

Year Ended June 30, 2013	\$	-
Year Ended June 30, 2014		-
Year Ended June 30, 2015		75

The following managerial assistance recognized had not yet been paid by Airmall to Prospect and was included by Prospect within other receivables and due to Prospect Administration:

June 30, 2014	\$	75
June 30, 2015		-

The following payments were paid from Airmall to Prospect Administration as reimbursement for legal, tax and portfolio level accounting services provided directly to Airmall (no direct income was recognized by Prospect, but Prospect was given credit for these payments as a reduction of the administrative services costs payable by Prospect to Prospect Administration):

Year Ended June 30, 2013	\$	8
Year Ended June 30, 2014		-
Year Ended June 30, 2015		730

The following amounts were due from Airmall to Prospect for reimbursement of expenses paid by Prospect on behalf of Airmall and were included by Prospect within other receivables:

June 30, 2014	\$	11
June 30, 2015		-

American Property REIT Corp.

Prospect owns 100% of the equity of APH Property Holdings, LLC (“APH”), a Consolidated Holding Company. APH owns 100% of the common equity of American Property REIT Corp. (f/k/a American Property Holdings Corp.) (“APRC”). APRC is a Maryland corporation and a qualified REIT for federal income tax purposes. In order to qualify as a REIT, APRC issued 125 shares of Series A Cumulative Non-Voting Preferred Stock to 125 accredited investors. The preferred stockholders are entitled to receive cumulative dividends semi-annually at an annual rate of 12.5% and do not have the ability to participate in the management or operation of APRC.

APRC was formed to hold for investment, operate, finance, lease, manage, and sell a portfolio of real estate assets and engage in any and all other activities as may be necessary, incidental or convenient to carry out the foregoing. APRC acquires real estate assets, including, but not limited to, industrial, commercial, and multi-family properties. APRC may acquire real estate assets directly or through joint ventures by making a majority equity investment in a property-owning entity (the “JV”).

On October 24, 2012, Prospect initially made a \$7,808 investment in APH, of which \$6,000 was a Senior Term Loan and \$1,808 was used to purchase the membership interests of APH. The proceeds were utilized by APH to purchase APRC common equity for \$7,806, with \$2 retained by APH for working capital. The proceeds were utilized by APRC to purchase a 100% ownership interest in 146 Forest Parkway, LLC for \$7,326, pay a \$250 non-refundable deposit and \$222 of structuring fees to Prospect (which was recognized by Prospect as structuring fee income), with \$8 retained by APRC for working capital. 146 Forest Parkway, LLC was purchased for \$7,400. The remaining proceeds were used to pay \$168 of third party expenses and \$5 of legal services provided by attorneys at Prospect Administration, with \$3 retained by the JV for working capital. The investment was subsequently contributed to NPRC.

On December 28, 2012, Prospect made a \$9,594 investment in APH, of which \$6,400 was a Senior Term Loan and \$3,194 was used to purchase additional membership interests of APH. The proceeds were utilized by APH to purchase additional APRC common equity for \$9,594. The proceeds were utilized by APRC to purchase a 92.7% ownership interest in 1557 Terrell Mill Road, LLC for \$9,548, with \$46 retained by APRC for other expenses. The JV was purchased for \$23,500 which included debt financing and minority interest of \$15,275 and \$757, respectively. The remaining proceeds were used to pay \$286 of structuring fees to Prospect (which was recognized by Prospect as structuring fee income) and \$1,652 of third party expenses, with \$142 retained by the JV for working capital.

On January 17, 2013, Prospect made a \$30,348 investment in APH, of which \$27,600 was a Senior Term Loan and \$2,748 was used to purchase additional membership interests of APH. The proceeds were utilized by APH to purchase additional APRC common equity for \$29,348, with \$1,000 retained by APH for working capital. The proceeds were utilized by APRC to purchase a 97.7% ownership interest in 5100 Live Oaks Blvd, LLC for \$29,348. The JV was purchased for \$63,400 which included debt financing and minority interest of \$39,600 and \$686, respectively. The remaining proceeds were used to pay \$880 of structuring fees to Prospect (which was recognized by Prospect as structuring fee income), \$4,265 of third party expenses, \$14 of legal services provided by attorneys at Prospect Administration, and \$1,030 of prepaid assets, with \$45 retained by the JV for working capital. The investment was subsequently contributed to NPRC.

On April 30, 2013, Prospect made a \$10,383 investment in APH, of which \$9,000 was a Senior Term Loan and \$1,383 was used to purchase additional membership interests of APH. The proceeds were utilized by APH to purchase additional APRC common equity for \$10,233, with \$150 retained by APH for working capital. The proceeds were utilized by APRC to purchase a 93.2% ownership interest in Lofton Place, LLC for \$10,233. The JV was purchased for \$26,000 which included debt financing and minority interest of \$16,965 and \$745, respectively. The remaining proceeds were used to pay \$306 of structuring fees to Prospect (which was recognized by Prospect as structuring fee income), \$1,223 of third party expenses, \$5 of legal services provided by attorneys at Prospect Administration, and \$364 of prepaid assets, with \$45 retained by the JV for working capital.

On April 30, 2013, Prospect made a \$10,863 investment in APH, of which \$9,000 was a Senior Term Loan and \$1,863 was used to purchase additional membership interests of APH. The proceeds were utilized by APH to purchase additional APRC common equity for \$10,708, with \$155 retained by APH for working capital. The proceeds were utilized by APRC to purchase a 93.2% ownership interest in Vista Palma Sola, LLC for \$10,708. The JV was purchased for \$27,000 which included debt financing and minority interest of \$17,550 and \$785, respectively. The remaining proceeds were used to pay \$321 of structuring fees to Prospect (which was recognized by Prospect as structuring fee income), \$1,272 of third party expenses, \$4 of legal services provided by attorneys at Prospect Administration, and \$401 of prepaid assets, with \$45 retained by the JV for working capital.

On May 8, 2013, Prospect made a \$6,118 investment in APH, of which \$4,000 was a Senior Term Loan and \$2,118 was used to purchase additional membership interests of APH. The proceeds were utilized by APH to purchase additional APRC common equity for \$6,028, with \$90 retained by APH for working capital. The proceeds were utilized by APRC to purchase a 93.3% ownership interest in Arlington Park Marietta, LLC for \$6,028. Arlington Park Marietta, LLC was purchased for \$14,850 which included debt financing and minority interest of \$9,650 and \$437, respectively. The remaining proceeds were used to pay \$181 of structuring fees to Prospect (which was recognized by Prospect as structuring fee income), \$911 of third party expenses, and \$128 of prepaid assets, with \$45 retained by the JV for working capital.

On June 24, 2013, Prospect made a \$76,533 investment in APH, of which \$63,000 was a Senior Term Loan and \$13,533 was used to purchase additional membership interests of APH. The proceeds were utilized by APH to purchase additional APRC common equity for \$75,233, with \$1,300 retained by APH for working capital. The proceeds were utilized by APRC to purchase a 95.0% ownership interest in APH Carroll Resort, LLC for \$74,398 and to pay \$835 of structuring fees to Prospect (which was recognized by Prospect as structuring fee income). The JV was purchased for \$225,000 which included debt financing and minority interest of \$157,500 and \$3,916, respectively. The remaining proceeds were used to pay \$1,436 of structuring fees to Prospect (which was recognized by Prospect as structuring fee income), \$7,687 of third party expenses, \$8 of legal services provided by attorneys at Prospect Administration, and \$1,683 of prepaid assets. The investment was subsequently contributed to NPRC and renamed NPRC Carroll Resort, LLC.

Between October 29, 2013 and December 4, 2013, Prospect made an \$11,000 investment in APH, of which \$9,350 was a Senior Term Loan and \$1,650 was used to purchase additional membership interests of APH. The proceeds were utilized by certain of APH's wholly-owned subsidiaries to purchase online consumer loans from a third party. The investment was subsequently contributed to NPRC.

On November 1, 2013, Prospect made a \$9,869 investment in APH, of which \$8,200 was a Senior Term Loan and \$1,669 was used to purchase additional membership interests of APH. The proceeds were utilized by APH to purchase additional APRC common equity for \$9,869. The proceeds were utilized by APRC to purchase a 94.0% ownership interest in APH Carroll 41, LLC for \$9,548 and to pay \$102 of structuring fees to Prospect (which was recognized by Prospect as structuring fee income), with \$219 retained by APRC for working capital. The JV was purchased for \$30,600 which included debt financing and minority interest of \$22,497 and \$609, respectively. The remaining proceeds were used to pay \$190 of structuring fees to Prospect (which was recognized by Prospect as structuring fee income), \$1,589 of third party expenses, \$5 of legal services provided by attorneys at Prospect Administration, and \$270 of prepaid assets. The investment was subsequently contributed to NPRC.

On November 15, 2013, Prospect made a \$45,900 investment in APH, of which \$38,500 was a Senior Term Loan and \$7,400 was used to purchase additional membership interests of APH. The proceeds were utilized by APH to purchase additional APRC common equity for \$45,900. The proceeds were utilized by APRC to purchase a 99.3% ownership interest in APH Gulf Coast Holdings, LLC for \$45,024 and to pay \$364 of structuring fees to Prospect (which was recognized by Prospect as structuring fee income), with \$512 retained by APRC for working capital. The JV was purchased for \$115,200 which included debt financing and minority interest of \$75,558 and \$337, respectively. The remaining proceeds were used to pay \$1,013 of structuring fees to Prospect (which was recognized by Prospect as structuring fee income), \$2,590 of third party expenses, \$23 of legal services provided by attorneys at Prospect Administration, and \$2,023 of prepaid assets, with \$70 retained by the JV for working capital.

On November 19, 2013, Prospect made a \$66,188 investment in APH, of which \$55,000 was a Senior Term Loan and \$11,188 was used to purchase additional membership interests of APH. The proceeds were utilized by APH to purchase additional APRC common equity for \$66,188. The proceeds were utilized by APRC to purchase a 90.0% ownership interest in APH McDowell, LLC for \$64,392 and to pay \$695 of structuring fees to Prospect (which was recognized by Prospect as structuring fee income), with \$1,101 retained by APRC for working capital. The JV was purchased for \$238,605 which included debt financing and minority interest of \$180,226 and \$7,155, respectively. The remaining proceeds were used to pay \$1,290 of structuring fees to Prospect (which was recognized by Prospect as structuring fee income), \$9,205 of third party expenses, \$23 of legal services provided by attorneys at Prospect Administration, and \$1,160 of prepaid assets, with \$1,490 retained by the JV for working capital. The investment was subsequently contributed to NPRC and renamed NPH McDowell, LLC.

On December 12, 2013, Prospect made a \$22,507 investment in APH, of which \$18,800 was a Senior Term Loan and \$3,707 was used to purchase additional membership interests of APH. The proceeds were utilized by APH to purchase additional APRC common equity for \$22,507. The proceeds were utilized by APRC to purchase a 92.6% ownership interest in South Atlanta Portfolio Holding Company, LLC for \$21,874 and to pay \$238 of structuring fees to Prospect (which was recognized by Prospect as structuring fee income), with \$395 retained by APRC for working capital. The JV was purchased for \$87,250 which included debt financing and minority interest of \$67,493 and \$1,756, respectively. The remaining proceeds were used to pay \$437 of structuring fees to Prospect (which was recognized by Prospect as structuring fee income), \$2,920 of third party expenses, and \$116 of prepaid assets, with \$400 retained by the JV for working capital. The investment was subsequently contributed to UPRC.

On December 31, 2013, APRC distributed its majority interests in five JVs holding real estate assets to APH. APH then distributed these JV interests to Prospect in a transaction characterized as a return of capital. Prospect, on the same day, contributed certain of these JV interests to NPH Property Holdings, LLC and the remainder to UPH Property Holdings, LLC (each wholly-owned subsidiaries of Prospect). Each of NPH and UPH immediately thereafter contributed these JV interests to NPRC and UPRC, respectively. The total investments in the JVs transferred consisted of \$98,164 and \$20,022 of debt and equity financing, respectively. There was no material gain or loss realized on these transactions.

On January 17, 2014, Prospect made a \$6,565 investment in APH, of which \$5,500 was a Senior Term Loan and \$1,065 was used to purchase additional membership interests of APH. The proceeds were utilized by APH to purchase additional APRC common equity for \$6,565. The proceeds were utilized by APRC to purchase a 99.3% ownership interest in APH Gulf Coast Holdings, LLC for \$6,336 and to pay \$54 of structuring fees to Prospect (which was recognized by Prospect as structuring fee income), with \$175 retained by APRC for other expenses. The JV was purchased for \$15,430 which included debt financing and minority interest of \$10,167 and \$48, respectively. The remaining proceeds were used to pay \$143 of structuring fees to Prospect (which was recognized by Prospect as structuring fee income), \$627 of third party expenses, \$4 of legal services provided by attorneys at Prospect Administration, and \$312 of prepaid assets, with \$35 retained by the JV for working capital.

Effective April 1, 2014, Prospect made a new \$167,162 senior term loan to APRC. APRC then distributed this amount to APH as a return of capital which was used to pay down the Senior Term Loan from APH by the same amount.

On June 4, 2014, Prospect made a \$1,719 investment in APH to purchase additional membership interests of APH, which was revised to \$1,732 on July 1, 2014. The proceeds were utilized by APH to purchase additional APRC common equity for \$1,732. The proceeds were utilized by APRC to acquire the real property located at 975 South Cornwell, Yukon, OK ("Taco Bell, OK") for \$1,719 and pay \$13 of third party expenses.

On July 1, 2014, Prospect began consolidating APH. As a result, any transactions between APH and Prospect are eliminated in consolidation and as such, transactions after July 1, 2014 are not presented below.

On November 26, 2014, APRC transferred its investment in APH Carroll Resort, LLC to NPRC and the investment was renamed NPRC Carroll Resort, LLC. As a result, Prospect's investments in APRC related to this property also transferred to NPRC. The investments transferred consisted of \$10,237 of equity and \$65,586 of debt. There was no gain or loss realized on the transaction.

On May 1, 2015, APRC transferred its investment in 5100 Live Oaks Blvd, LLC to NPRC. As a result, Prospect's investments in APRC related to this property also transferred to NPRC. The investments transferred consisted of \$2,748 of equity and \$29,990 of debt. There was no gain or loss realized on the transaction.

On May 6, 2015, Prospect made a \$1,475 investment in APRC, of which \$1,381 was a Senior Term Loan and \$94 was used to purchase additional common equity of APRC through APH. The proceeds were utilized by APRC to purchase additional ownership interest in its twelve multi-family properties for \$1,473 and pay \$2 of legal services provided by attorneys at Prospect Administration. The minority interest holder also invested an additional \$17 in the JVs. The proceeds were used by the JVs to fund \$1,490 of capital expenditures.

During the year ended June 30, 2015, Prospect received \$8 as a return of capital on the equity investment in APRC.

The following dividends were declared and paid from APRC to APH (partially via a wholly-owned subsidiary of APH) and recognized as dividend income by APH:

Year Ended June 30, 2013	\$	1,676
Year Ended June 30, 2014		8,810
Year Ended June 30, 2015		-

All dividends were paid from earnings and profits of APRC.

The following interest payments were accrued and paid from APH to Prospect and recognized by Prospect as interest income:

Year Ended June 30, 2013	\$	2,898
Year Ended June 30, 2014		13,928
Year Ended June 30, 2015		N/A

Included above, the following payment-in-kind interest from APH was capitalized and recognized by Prospect as interest income:

Year Ended June 30, 2013	\$	892
Year Ended June 30, 2014		4,084
Year Ended June 30, 2015		N/A

The following interest payments were accrued and paid from APRC to Prospect and recognized by Prospect as interest income:

Year Ended June 30, 2013	\$	-
Year Ended June 30, 2014		4,860
Year Ended June 30, 2015		14,747

Included above, the following payment-in-kind interest from APRC was capitalized and recognized by Prospect as interest income:

Year Ended June 30, 2013	\$	-
Year Ended June 30, 2014		581
Year Ended June 30, 2015		4,529

The following interest income recognized had not yet been paid by APRC to Prospect and was included by Prospect within interest receivable:

June 30, 2014	\$	54
June 30, 2015		25

The following royalty payments were paid from APH to Prospect and recognized by Prospect as other income:

Year Ended June 30, 2013	\$	140
Year Ended June 30, 2014		1,418
Year Ended June 30, 2015		N/A

The following royalty payments were paid from APRC to Prospect and recognized by Prospect as other income:

Year Ended June 30, 2013	\$	-
Year Ended June 30, 2014		-
Year Ended June 30, 2015		1,342

The following managerial assistance payments were paid from APRC to Prospect and subsequently remitted to Prospect Administration (no income was recognized by Prospect):

Year Ended June 30, 2013	\$	148
Year Ended June 30, 2014		637
Year Ended June 30, 2015		590

The following managerial assistance payments received by Prospect had not yet been remitted to Prospect Administration and were included by Prospect within due to Prospect Administration:

June 30, 2014	\$	148
June 30, 2015		148

The following payments were paid from APRC to Prospect Administration as reimbursement for legal, tax and portfolio level accounting services provided directly to APRC (no direct income was recognized by Prospect, but Prospect was given credit for these payments as a reduction of the administrative services costs payable by Prospect to Prospect Administration):

Year Ended June 30, 2013	\$	90
Year Ended June 30, 2014		1,791
Year Ended June 30, 2015		301

The following amounts were due from APRC to Prospect for reimbursement of expenses paid by Prospect on behalf of APRC and were included by Prospect within other receivables:

June 30, 2014	\$	202
June 30, 2015		124

Arctic Energy Services, LLC

Prospect owns 100% of the equity of Arctic Oilfield Equipment USA, Inc. ("Arctic Equipment"), a Consolidated Holding Company. Arctic Equipment owns 70% of the equity of Arctic Energy Services, LLC ("Arctic Energy"), with Ailport Holdings, LLC ("Ailport") (100% owned and controlled by Arctic Energy management) owning the remaining 30% of the equity of Arctic Energy. Arctic Energy provides oilfield service personnel, well testing flowback equipment, frac support systems and other services to exploration and development companies in the Rocky Mountains.

On May 5, 2014, Prospect initially purchased 100% of the common shares of Arctic Equipment for \$9,006. Proceeds were utilized by Arctic Equipment to purchase 70% of Arctic Energy as described in the following paragraph.

On May 5, 2014, Prospect made an additional \$51,870 investment (including in exchange for 1,102,313 common shares of Prospect at fair value of \$11,916) in Arctic Energy in exchange for a \$31,640 senior secured loan and a \$20,230 subordinated loan. Total proceeds received by Arctic Energy of \$60,876 were used to purchase 70% of the equity interests in Arctic Energy from Ailport for \$47,516, pay \$875 of third-party expenses, \$1,713 of structuring fees to Prospect (which was recognized as structuring fee income), \$445 of legal services provided by attorneys at Prospect Administration and \$10,327 was retained as working capital.

On July 1, 2014, Prospect began consolidating Arctic Equipment. As a result, any transactions between Arctic Equipment and Prospect are eliminated in consolidation and as such, transactions after July 1, 2014 are not presented below.

The following interest payments were accrued and paid from Arctic Energy to Prospect and recognized by Prospect as interest income:

Year Ended June 30, 2013	\$	-
Year Ended June 30, 2014		1,050
Year Ended June 30, 2015		6,721

The following interest income recognized had not yet been paid by Arctic Energy to Prospect and was included by Prospect within interest receivable:

June 30, 2014	\$	18
June 30, 2015		18

The following managerial assistance payments were paid from Arctic Energy to Prospect and subsequently remitted to Prospect Administration (no income was recognized by Prospect):

Year Ended June 30, 2013	\$	-
Year Ended June 30, 2014		15
Year Ended June 30, 2015		100

The following managerial assistance payments received by Prospect had not yet been remitted to Prospect Administration and were included by Prospect within due to Prospect Administration:

June 30, 2014	\$	15
June 30, 2015		25

The following payments were paid from Arctic Energy to Prospect Administration as reimbursement for legal, tax and portfolio level accounting services provided directly to Arctic Energy (no direct income was recognized by Prospect, but Prospect was given credit for these payments as a reduction of the administrative services costs payable by Prospect to Prospect Administration):

Year Ended June 30, 2013	\$	-
Year Ended June 30, 2014		445
Year Ended June 30, 2015		-

The following amounts were due from Arctic Energy to Prospect for reimbursement of expenses paid by Prospect on behalf of Arctic Energy and were included by Prospect within other receivables:

June 30, 2014	\$	6
June 30, 2015		-

The following amounts were due to Arctic Energy from Prospect for reimbursement of expenses paid by Arctic Energy on behalf of Prospect and were included by Prospect within other liabilities:

June 30, 2014	\$	-
June 30, 2015		1

ARRM Services, Inc.

As of June 30, 2014, Prospect owned 79.53% of the fully-diluted common, 85.76% of the Series A Preferred and 100% of the Series B Preferred equity of ARRM Services, Inc. (f/k/a ARRM Holdings, Inc.) ("ARRM"). ARRM owned 100% of the equity of Ajax Rolled Ring & Machine, LLC (f/k/a Ajax Rolled Ring & Machine, Inc.) ("Ajax"). Ajax forges large seamless steel rings on two forging mills in the company's York, South Carolina facility. The rings are used in a range of industrial applications, including in construction equipment and power turbines. Ajax also provides machining and other ancillary services.

As of July 1, 2011, the cost basis of Prospect's total debt and equity investment in Ajax was \$41,699, including capitalized payment-in-kind interest of \$3,535. Prospect's investment in Ajax consisted of the following: \$20,607 of senior secured term debt ("Tranche A Term Loan"); \$15,035 of subordinated secured term debt ("Tranche B Term Loan"); and \$6,057 of common equity. In October 2011, ARRM assumed Ajax's Tranche B Term Loan and the equity of Ajax was exchanged for equity in ARRM. Ajax was converted into a limited liability company shortly thereafter. On December 28, 2012, Prospect provided an additional \$3,600 of unsecured debt to ARRM ("Promissory Demand Note").

On April 1, 2013, Prospect refinanced its investment in Ajax and ARRM, increasing the total size of the debt investment to \$38,537. The \$19,837 Tranche A Term Loan was replaced with a new senior secured term loan to Ajax in the same amount. The \$15,035 Tranche B Term Loan and \$3,600 Promissory Demand Note were replaced with a new subordinated unsecured term loan to ARRM in the amount of \$18,700. Prospect received \$50 and \$46 of structuring fees from Ajax and ARRM, respectively, which were recognized as other income.

On June 28, 2013, Prospect provided an additional \$1,000 in the ARRM subordinated unsecured term loan to fund equity into Ajax. The proceeds were used by Ajax to repay senior debt to a third party. On October 11, 2013, Prospect provided \$25,000 in preferred equity for the recapitalization of ARRM. After the financing, Prospect received repayment of the \$20,008 subordinated unsecured term loan previously outstanding from ARRM. In March 2014, Prospect received \$98 of structuring fees from Ajax related to the amendment of the loan agreement in September 2013.

On October 10, 2014, ARRM sold Ajax to a third party and repaid the \$19,337 loan receivable to Prospect and Prospect recorded a realized loss of \$23,560 related to the sale. Concurrent with the sale, Prospect's ownership increased to 100% of the outstanding equity of ARRM Services, Inc. which was renamed SB Forging Company, Inc. ("SB Forging"). As such, Prospect began consolidating SB Forging on October 11, 2014. In addition, there is \$3,000 being held in escrow of which \$802 was received on May 6, 2015 for which Prospect realized a gain of the same amount. The remainder of the escrow will be recognized as additional gain if and when received. Prospect received \$2,000 of structuring fees from Ajax related to the sale of the operating company which was recognized as other income during the year ended June 30, 2015.

In addition to the repayments noted above, the following amounts were paid from Ajax to Prospect and recorded by Prospect as repayment of loan receivable:

Year Ended June 30, 2013	\$	430
Year Ended June 30, 2014		400
Year Ended June 30, 2015		-

The following interest payments, including prepayment penalty fees, were accrued and paid from ARRM to Prospect and recognized by Prospect as interest income:

Year Ended June 30, 2013	\$	993
Year Ended June 30, 2014		1,029
Year Ended June 30, 2015		-

Included above, the following payment-in-kind interest from ARRM was capitalized and recognized by Prospect as interest income:

Year Ended June 30, 2013	\$	-
Year Ended June 30, 2014		309
Year Ended June 30, 2015		-

The following interest payments, including prepayment penalty fees, were accrued and paid from Ajax to Prospect and recognized by Prospect as interest income:

Year Ended June 30, 2013	\$	4,183
Year Ended June 30, 2014		2,082
Year Ended June 30, 2015		956

As of June 30, 2014, due to the pending sale transaction, Prospect reversed \$3,844 of previously recognized payment-in-kind interest which we did not expect to receive.

The following interest income recognized had not yet been paid by Ajax to Prospect and was included by Prospect within interest receivable:

June 30, 2014	\$	6
June 30, 2015		-

The following managerial assistance payments were paid from Ajax to Prospect and subsequently remitted to Prospect Administration (no income was recognized by Prospect):

Year Ended June 30, 2013	\$	225
Year Ended June 30, 2014		180
Year Ended June 30, 2015		45

The following managerial assistance payments received by Prospect had not yet been remitted to Prospect Administration and were included by Prospect within due to Prospect Administration:

June 30, 2014	\$	45
June 30, 2015		-

The following payments were paid from ARRM to Prospect Administration as reimbursement for legal, tax and portfolio level accounting services provided directly to ARRM (no direct income was recognized by Prospect, but Prospect was given credit for these payments as a reduction of the administrative services costs payable by Prospect to Prospect Administration):

Year Ended June 30, 2013	\$	63
Year Ended June 30, 2014		17
Year Ended June 30, 2015		1,485

The following amounts were due from Ajax to Prospect for reimbursement of expenses paid by Prospect on behalf of Ajax and were included by Prospect within other receivables:

June 30, 2014	\$	2
June 30, 2015		-

Borga, Inc.

As of June 30, 2014, Prospect owned 100% of the equity of STI Holding, Inc. ("STI"), a Consolidated Holding Company. STI owned 100% of the equity of Borga, Inc. ("Borga"). Borga manufactures pre-engineered metal buildings and components for the agricultural and light industrial markets.

On May 6, 2005, Patriot Capital Funding, Inc. ("Patriot") (previously acquired by Prospect) provided \$14,000 in senior secured debt to Borga. The debt was comprised of \$1,000 Senior Secured Revolver, \$3,500 Senior Secured Term Loan A, \$2,500 Senior Secured Term Loan B and \$7,000 Senior Secured Term Loan C. On March 31, 2009, Borga made its final amortization payment on the Senior Secured Term Loan A. The other loans remained outstanding. Prospect owned warrants to purchase 33,750 shares of common stock in Metal Buildings Holding Corporation ("Metal Buildings"), the former holding company of Borga. Metal Buildings owned 100% of Borga.

On March 8, 2010, Prospect acquired the remaining common stock of Borga.

On January 24, 2014, Prospect contributed its holdings in Borga to STI. STI also held \$3,371 of proceeds from the sale of a minority equity interest in Smart Tuition Holdings, LLC ("SMART"). Prospect initially acquired membership interests in SMART indirectly as part of the Patriot acquisition on December 2, 2009 recording a zero cost basis for the equity investment. The \$3,371 was distributed to Prospect on May 29, 2014, of which \$3,246 was paid from earnings and profits of STI and was recognized as dividend income by Prospect. The remaining \$125 was recognized as return of capital by Prospect.

On July 1, 2014, Prospect began consolidating STI. As a result, any transactions between STI and Prospect are eliminated in consolidation and as such, transactions after July 1, 2014 are not presented below.

On August 20, 2014, Prospect sold the assets of Borga, a wholly-owned subsidiary of STI, for net proceeds of \$382 and realized a loss of \$2,589 on the sale. On December 29, 2014, Borga was dissolved.

BXC Company, Inc.

As of June 30, 2014, Prospect owned 86.7% of Series A Preferred Stock, 96.8% of Series B Preferred Stock, and 83.1% of fully diluted common stock of BXC Company, Inc. (f/k/a BXC Holding Company) ("BXC"). BXC owned 100% of the common stock of Boxercraft Incorporated ("Boxercraft").

As of July 1, 2012, the cost basis of Prospect's total debt and equity investment in Boxercraft was \$15,123, including capitalized payment-in-kind interest of \$1,466. On December 31, 2013, Boxercraft repaid \$100 of the senior secured term loan. On April 18, 2014, Prospect made a new \$300 senior secured term loan to Boxercraft. During the period from July 1, 2012 through June 30, 2014, Prospect capitalized a total of \$804 of paid-in-kind interest and accreted a total of \$1,321 of the original purchase discount, increasing the total debt investment to \$17,448 as of June 30, 2014.

Effective March 28, 2014, Prospect acquired voting control of BXC pursuant to a voting agreement and irrevocable proxy. Effective May 8, 2014, Prospect acquired control of BXC by transferring shares held by the other equity holders of BXC to Prospect pursuant to an assignment agreement entered into with such other equity holders.

On July 2, 2014, Prospect made a new \$250 senior secured term loan to provide liquidity to Boxercraft.

On July 17, 2014, Prospect restructured the investments in BXC and Boxercraft. The existing Senior Secured Term Loan A and a portion of the existing Senior Secured Term Loan B were replaced with a new Senior Secured Term Loan A to Boxercraft. The remainder of the existing Senior Secured Term Loan B and the existing Senior Secured Term Loan C, Senior Secured Term Loan D, and Senior Secured Term Loan E were replaced with a new Senior Secured Term Loan B to Boxercraft. The existing Senior Secured Term Loan to Boxercraft was converted into Series D Preferred Stock in BXC.

During the year ended June 30, 2015, Prospect accrued \$5 of administrative agent fees from Boxercraft (which were recognized by Prospect as other income). On August 25, 2014, Prospect sold Boxercraft, a wholly-owned subsidiary of BXC, for net proceeds of \$750 and realized a net loss of \$16,949 on the sale.

CCPI Inc.

Prospect owns 100% of the equity of CCPI Holdings Inc. ("CCPI Holdings"), a Consolidated Holding Company. CCPI Holdings owns 94.95% of the equity of CCPI Inc. ("CCPI"), with CCPI management owning the remaining 5.05% of the equity. CCPI owns 100% of each of CCPI Europe Ltd. and MEFEC B.V., and 45% of Gulf Temperature Sensors W.L.L.

On December 13, 2012, Prospect initially made a \$15,921 investment (including 467,928 common shares of Prospect at fair value of \$5,021) in CCPI Holdings, \$7,500 senior secured note and \$8,443 equity interest. The proceeds received by CCPI Holdings were partially utilized to purchase 95.13% of CCPI common stock for \$14,878. The remaining proceeds were used to pay \$395 of structuring fees from CCPI Holdings to Prospect (which were recognized by Prospect as structuring fee income), \$215 for legal services provided by attorneys at Prospect Administration, \$137 for third party expenses and \$318 was retained by CCPI Holdings for working capital.

On December 13, 2012, Prospect made an additional investment of \$18,000 in CCPI senior secured debt. The proceeds of the Prospect loan along with \$14,878 of equity financing from CCPI Holdings (mentioned above) were used to purchase 95.13% of CCPI equity from the sellers for \$31,829, provide \$120 of debt financing to CCPI management (to partially fund a purchase by management of CCPI stock), fund \$180 of structuring fees from CCPI to Prospect (which were recognized by Prospect as structuring fee income), pay \$548 of third-party expenses, reimburse \$12 for reimbursement of expenses paid by Prospect on behalf of CCPI (no income was recognized by Prospect) and \$189 was retained by CCPI as working capital.

During the year ended June 30, 2014, certain members of CCPI management exercised options to purchase common stock, decreasing our ownership to 94.77%. On June 13, 2014, Prospect made a new \$8,218 senior secured note to CCPI. CCPI then distributed this amount to CCPI Holdings as a return of capital which was used to pay down the \$8,216 senior secured note from CCPI Holdings to Prospect. The remaining \$2 was distributed to Prospect as a return of capital of Prospect's equity investment in CCPI Holdings.

On July 1, 2014, Prospect began consolidating CCPI Holdings. As a result, any transactions between CCPI Holdings and Prospect are eliminated in consolidation and as such, transactions after July 1, 2014 are not presented below.

During the year ended June 30, 2015, CCPI repurchased 30 shares of its common stock from a former CCPI executive, decreasing the number of shares outstanding and increasing Prospect's ownership to 94.95%.

In June 2015, CCPI engaged Prospect to provide certain investment banking and financial advisory services in connection with a possible transaction. As compensation for the services provided, Prospect received \$525 of advisory fees from CCPI which was recognized as other income during the year ended June 30, 2015.

In addition to the repayments noted above, the following amounts were paid from CCPI to Prospect and recorded by Prospect as repayment of loan receivable:

Year Ended June 30, 2013	\$	338
Year Ended June 30, 2014		450
Year Ended June 30, 2015		450

The following dividends were declared and paid from CCPI to CCPI Holdings and recognized as dividend income by CCPI Holdings:

Year Ended June 30, 2013	\$	794
Year Ended June 30, 2014		1,266
Year Ended June 30, 2015		-

The following dividends were declared and paid from CCPI Holdings to Prospect and recognized as dividend income by Prospect:

Year Ended June 30, 2013	\$	-
Year Ended June 30, 2014		500
Year Ended June 30, 2015		N/A

All dividends were paid from earnings and profits of CCPI and CCPI Holdings.

The following interest payments were accrued and paid from CCPI Holdings to Prospect and recognized by Prospect as interest income:

Year Ended June 30, 2013	\$	801
Year Ended June 30, 2014		1,464
Year Ended June 30, 2015		N/A

Included above, the following payment-in-kind interest from CCPI Holdings was capitalized and recognized by Prospect as interest income:

Year Ended June 30, 2013	\$	159
Year Ended June 30, 2014		557
Year Ended June 30, 2015		N/A

The following interest payments were accrued and paid from CCPI to Prospect and recognized by Prospect as interest income:

Year Ended June 30, 2013	\$	991
Year Ended June 30, 2014		1,848
Year Ended June 30, 2015		3,332

Included above, the following payment-in-kind interest from CCPI was capitalized and recognized by Prospect as interest income:

Year Ended June 30, 2013	\$	-
Year Ended June 30, 2014		27
Year Ended June 30, 2015		599

The following interest income recognized had not yet been paid by CCPI to Prospect and was included by Prospect within interest receivable:

June 30, 2014	\$	9
June 30, 2015		-

The following royalty payments were paid from CCPI Holdings to Prospect and recognized by Prospect as other income:

Year Ended June 30, 2013	\$	32
Year Ended June 30, 2014		71
Year Ended June 30, 2015		N/A

The following managerial assistance payments were paid from CCPI to Prospect and subsequently remitted to Prospect Administration (no income was recognized by Prospect):

Year Ended June 30, 2013	\$	132
Year Ended June 30, 2014		240
Year Ended June 30, 2015		240

The following managerial assistance payments received by Prospect had not yet been remitted to Prospect Administration and were included by Prospect within due to Prospect Administration:

June 30, 2014	\$	60
June 30, 2015		60

The following payments were paid from CCPI to Prospect Administration as reimbursement for legal, tax and portfolio level accounting services provided directly to CCPI (no direct income was recognized by Prospect, but Prospect was given credit for these payments as a reduction of the administrative services costs payable by Prospect to Prospect Administration):

Year Ended June 30, 2013	\$	214
Year Ended June 30, 2014		249
Year Ended June 30, 2015		-

The following amounts were due from CCPI to Prospect for reimbursement of expenses paid by Prospect on behalf of CCPI and were included by Prospect within other receivables:

June 30, 2014	\$	10
June 30, 2015		-

CP Energy Services Inc.

Prospect owns 100% of the equity of CP Holdings of Delaware LLC ("CP Holdings"), a Consolidated Holding Company. CP Holdings owns 82.3% of the equity of CP Energy Services Inc. ("CP Energy"), and the remaining 17.7% of the equity is owned by CP Energy management. As of June 30, 2014, CP Energy owned directly or indirectly 100% of each of CP Well Testing Services, LLC (f/k/a CP Well Testing Holding Company LLC) ("CP Well Testing"); CP Well Testing, LLC ("CP Well"); Fluid Management Services, Inc. (f/k/a Fluid Management Holdings, Inc.) ("Fluid Management"); Fluid Management Services LLC (f/k/a Fluid Management Holdings LLC); Wright Transport, Inc. (f/k/a Wright Holdings, Inc.); Wright Foster Disposals, LLC; Foster Testing Co., Inc.; ProHaul Transports, LLC; Artexoma Logistics, LLC; and Wright Trucking, Inc. Effective December 31, 2014, CP Energy underwent a corporate reorganization in order to consolidate certain of its wholly-owned subsidiaries. As of June 30, 2015, CP Energy owned directly or indirectly 100% of each of CP Well; Wright Foster Disposals, LLC; Foster Testing Co., Inc.; ProHaul Transports, LLC; and Wright Trucking, Inc. CP Energy provides oilfield flowback services and fluid hauling and disposal services through its subsidiaries.

On October 3, 2012, Prospect initially made a \$21,500 senior secured debt investment in CP Well. As part of the transaction, Prospect received \$430 of structuring fees from CP Well (which was recognized by Prospect as structuring fee income) and \$7 was paid by CP Well to Prospect Administration for legal services provided by attorneys at Prospect Administration.

On August 2, 2013, Prospect invested \$94,014 (including 1,918,342 unregistered shares of Prospect common stock at a fair value of \$21,006) to support the recapitalization of CP Energy where Prospect acquired a controlling interest in CP Energy.

On August 2, 2013, Prospect invested \$12,741 into CP Holdings to purchase 100% of the common stock in CP Holdings. The proceeds were used by CP Holdings to purchase 82.9% of the common stock in CP Energy for \$12,135 and pay \$606 of legal services provided by attorneys at Prospect Administration.

On August 2, 2013, Prospect made a senior secured debt investment of \$58,773 in CP Energy. CP Energy also received \$2,505 management co-investment in exchange for 17.1% of CP Energy common stock. Total proceeds received by CP Energy of \$73,413 (including the \$12,135 of equity financing from CP Holdings mentioned above) were used to purchase 100% of the equity interests in CP Well Testing and Fluid Management for \$33,600 and \$34,576, respectively. The remaining proceeds were used by CP Energy to pay \$1,414 of structuring fees to Prospect (which was recognized by Prospect as structuring fee income) and pay \$823 of third-party expenses, with \$3,000 retained by CP Energy for working capital.

On August 2, 2013, Prospect made an additional senior secured debt investment of \$22,500 in CP Well Testing. Total proceeds received by CP Well Testing of \$56,100 (including the \$33,600 of equity financing from CP Energy mentioned above) were used to purchase 100% of the equity interests in CP Well for \$55,650 and pay \$450 of structuring fees to Prospect (which was recognized by Prospect as structuring fee income). After the financing, Prospect received repayment of the \$18,991 loan previously outstanding from CP Well.

On October 11, 2013, Prospect made a \$746 follow-on investment in CP Holdings to fund equity into CP Energy and made an additional senior secured loan to CP Energy of \$5,100. Management invested an additional \$154 of equity in CP Energy, and the percentage ownership of CP Energy did not change. Total proceeds of \$6,000 were used to purchase flowback equipment and expand the CP Well operations in West Texas.

On December 26, 2013, Prospect made an additional \$1,741 follow-on investment in CP Holdings to fund equity into CP Energy and made an additional senior secured loan to CP Energy of \$11,900. Management invested an additional \$359 of equity in CP Energy, and the percentage ownership of CP Energy did not change. Total proceeds of \$14,000 were used to purchase additional equipment.

On April 1, 2014, Prospect made new loans to CP Well (with Foster Testing Co., Inc.; ProHaul Transports, LLC; and Wright Trucking, Inc. as co-borrowers), two first lien loans in the amount of \$11,035 and \$72,238, and a second lien loan in the amount of \$15,000. The proceeds of these loans were used to repay CP Energy's senior secured term loan and CP Well Testing's senior secured term loan previously outstanding from Prospect.

On July 1, 2014, Prospect began consolidating CP Holdings. As a result, any transactions between CP Holdings and Prospect are eliminated in consolidation and as such, transactions after July 1, 2014 are not presented below.

During the year ended June 30, 2015, certain members of CP Energy management exercised options to purchase common stock, decreasing our ownership to 82.3%.

The following interest payments were accrued and paid from CP Energy to Prospect and recognized by Prospect as interest income:

Year Ended June 30, 2013	\$	-
Year Ended June 30, 2014		8,083
Year Ended June 30, 2015		-

The following interest payments were accrued and paid from CP Well Testing to Prospect and recognized by Prospect as interest income:

Year Ended June 30, 2013	\$	-
Year Ended June 30, 2014		1,657
Year Ended June 30, 2015		-

The following interest payments were accrued and paid from CP Well to Prospect and recognized by Prospect as interest income:

Year Ended June 30, 2013	\$	-
Year Ended June 30, 2014		4,118
Year Ended June 30, 2015		16,420

Included above, the following payment-in-kind interest from CP Well was capitalized and recognized by Prospect as interest income:

Year Ended June 30, 2013	\$	-
Year Ended June 30, 2014		-
Year Ended June 30, 2015		2,818

The following interest income recognized had not yet been paid by CP Well to Prospect and was included by Prospect within interest receivable:

June 30, 2014	\$	45
June 30, 2015		46

The following managerial assistance payments were paid from CP Energy to Prospect and subsequently remitted to Prospect Administration (no income was recognized by Prospect):

Year Ended June 30, 2013	\$	-
Year Ended June 30, 2014		275
Year Ended June 30, 2015		300

The following managerial assistance payments received by Prospect had not yet been remitted to Prospect Administration and were included by Prospect within due to Prospect Administration:

June 30, 2014	\$	75
June 30, 2015		75

The following payments were paid from CP Energy to Prospect Administration as reimbursement for legal, tax and portfolio level accounting services provided directly to CP Energy (no direct income was recognized by Prospect, but Prospect was given credit for these payments as a reduction of the administrative services costs payable to Prospect Administration):

Year Ended June 30, 2013	\$	-
Year Ended June 30, 2014		609
Year Ended June 30, 2015		60

The following amounts were due from CP Energy to Prospect for reimbursement of expenses paid by Prospect on behalf of CP Energy and were included by Prospect within other receivables:

June 30, 2014	\$	4
June 30, 2015		1

Credit Central Loan Company, LLC

Prospect owns 100% of the equity of Credit Central Holdings of Delaware, LLC ("Credit Central Delaware"), a Consolidated Holding Company. Credit Central Delaware owns 74.93% of the equity of Credit Central Loan Company, LLC (f/k/a Credit Central Holdings, LLC) ("Credit Central"), with entities owned by Credit Central management owning the remaining 25.07% of the equity. Credit Central owns 100% of each of Credit Central, LLC; Credit Central South, LLC; Credit Central of Texas, LLC; and Credit Central of Tennessee, LLC. Credit Central is a branch-based provider of installment loans.

On December 28, 2012, Prospect initially made a \$47,663 investment (including the fair value of 897,906 common shares of Prospect for \$9,581 on that date, which were included in the purchase cost paid to acquire Credit Central) in Credit Central Delaware, of which \$38,082 was a Senior Secured Revolving Credit Facility and \$9,581 to purchase the membership interests of Credit Central Delaware. The proceeds were partially utilized to purchase 74.75% of Credit Central's membership interests for \$43,293. The remaining proceeds were used to pay \$1,440 of structuring fees from Credit Central Delaware to Prospect (which was recognized by Prospect as structuring fee income), \$638 for third party expenses, \$292 for legal services provided by attorneys at Prospect Administration and \$2,000 was retained by Credit Central Delaware for working capital. On March 28, 2014, Prospect funded an additional \$2,500 (\$2,125 to the Senior Secured Revolving Credit Facility and \$375 to purchase additional membership interests of Credit Central Delaware) which was utilized by Credit Central Delaware to pay a \$2,000 dividend to Prospect and \$500 was retained by Credit Central Delaware for working capital.

On June 26, 2014, Prospect made a new \$36,333 second lien term loan to Credit Central. Credit Central then distributed this amount to Credit Central Delaware as a return of capital which was used to pay down the Senior Secured Revolving Credit Facility from Credit Central Delaware by the same amount. The remaining amount of the Senior Secured Revolving Credit Facility, \$3,874, was then converted to additional membership interests in Credit Central Delaware.

On July 1, 2014, Prospect began consolidating Credit Central Delaware. As a result, any transactions between Credit Central Delaware and Prospect are eliminated in consolidation and as such, transactions after July 1, 2014 are not presented below.

During the year ended June 30, 2015, Credit Central redeemed 24,629 shares of its membership interest from former Credit Central employees, decreasing the number of shares outstanding and increasing Prospect's ownership to 74.93%.

In addition to the repayments noted above, the following amounts were paid from Credit Central to Prospect and recorded by Prospect as repayment of loan receivable:

Year Ended June 30, 2013	\$	-
Year Ended June 30, 2014		-
Year Ended June 30, 2015		300

The following dividends were declared and paid from Credit Central to Credit Central Delaware and recognized as dividend income by Credit Central Delaware:

Year Ended June 30, 2013	\$	4,796
Year Ended June 30, 2014		10,431
Year Ended June 30, 2015		-

The following dividends were declared and paid from Credit Central Delaware to Prospect and recognized as dividend income by Prospect:

Year Ended June 30, 2013	\$	-
Year Ended June 30, 2014		4,841
Year Ended June 30, 2015		N/A

During the year ended June 30, 2015, Prospect reclassified \$159 of return of capital received from Credit Central Delaware in the year ended June 30, 2014 as dividend income.

All dividends were paid from earnings and profits of Credit Central and Credit Central Delaware.

The following interest payments were accrued and paid from Credit Central Delaware to Prospect and recognized by Prospect as interest income:

Year Ended June 30, 2013	\$	3,893
Year Ended June 30, 2014		7,744
Year Ended June 30, 2015		N/A

The following interest payments were accrued and paid from Credit Central to Prospect and recognized by Prospect as interest income:

Year Ended June 30, 2013	\$	-
Year Ended June 30, 2014		101
Year Ended June 30, 2015		7,375

Included above, the following payment-in-kind interest from Credit Central was capitalized and recognized by Prospect as interest income:

Year Ended June 30, 2013	\$	-
Year Ended June 30, 2014		-
Year Ended June 30, 2015		300

The following interest income recognized had not yet been paid by Credit Central to Prospect and was included by Prospect within interest receivable:

June 30, 2014	\$	20
June 30, 2015		20

The following royalty payments were paid from Credit Central Delaware to Prospect and recognized by Prospect as other income:

Year Ended June 30, 2013	\$	240
Year Ended June 30, 2014		521
Year Ended June 30, 2015		N/A

The following royalty payments were paid from Credit Central to Prospect and recognized by Prospect as other income:

Year Ended June 30, 2013	\$	-
Year Ended June 30, 2014		-
Year Ended June 30, 2015		1,220

The following managerial assistance payments were paid from Credit Central to Prospect and subsequently remitted to Prospect Administration (no income was recognized by Prospect):

Year Ended June 30, 2013	\$	350
Year Ended June 30, 2014		700
Year Ended June 30, 2015		700

The following managerial assistance payments received by Prospect had not yet been remitted to Prospect Administration and were included by Prospect within due to Prospect Administration:

June 30, 2014	\$	175
June 30, 2015		175

The following payments were paid from Credit Central to Prospect Administration as reimbursement for legal, tax and portfolio level accounting services provided directly to Credit Central (no direct income was recognized by Prospect, but Prospect was given credit for these payments as a reduction of the administrative services costs payable to Prospect Administration):

Year Ended June 30, 2013	\$	292
Year Ended June 30, 2014		131
Year Ended June 30, 2015		-

The following amounts were due to Credit Central from Prospect for reimbursement of expenses paid by Credit Central on behalf of Prospect and were included by Prospect within other liabilities:

June 30, 2014	\$	38
June 30, 2015		27

Echelon Aviation LLC

Prospect owns 99.02% 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 100% of 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.

During the year ended June 30, 2014, Echelon issued 57,779.44 Class B shares to the company's President, decreasing Prospect's ownership to 99.49%.

On July 1, 2014, Prospect sold a \$400 participation in the Senior Secured Revolving Credit Facility, equal to 0.51% of the outstanding principal amount on that date.

On September 15, 2014, Echelon made an optional partial prepayment of \$37,313 of the Senior Secured Revolving Credit Facility outstanding.

On September 30, 2014, Prospect made an additional \$5,800 investment in the membership interests of Echelon.

During the year ended June 30, 2015, Echelon issued 54,482.06 Class B shares to the company's President, decreasing Prospect's ownership to 99.02%.

The following interest payments were accrued and paid from Echelon to Prospect and recognized by Prospect as interest income:

Year Ended June 30, 2013	\$	-
Year Ended June 30, 2014		2,809
Year Ended June 30, 2015		6,895

The following interest income recognized had not yet been paid by Echelon to Prospect and was included by Prospect within interest receivable:

June 30, 2014	\$	2,809
June 30, 2015		2,412

The following managerial assistance payments were paid from Echelon to Prospect and subsequently remitted to Prospect Administration (no income was recognized by Prospect):

Year Ended June 30, 2013	\$	-
Year Ended June 30, 2014		-
Year Ended June 30, 2015		313

The following managerial assistance payments received by Prospect had not yet been remitted to Prospect Administration and were included by Prospect within due to Prospect Administration:

June 30, 2014	\$	-
June 30, 2015		63

The following managerial assistance recognized had not yet been paid by Echelon to Prospect and was included by Prospect within other receivables and due to Prospect Administration:

June 30, 2014	\$	63
June 30, 2015		-

The following payments were paid from Echelon to Prospect Administration as reimbursement for legal, tax and portfolio level accounting services provided directly to Echelon (no direct income was recognized by Prospect, but Prospect was given credit for these payments as a reduction of the administrative services costs payable by Prospect to Prospect Administration):

Year Ended June 30, 2013	\$	-
Year Ended June 30, 2014		664
Year Ended June 30, 2015		211

The following amounts were due from Echelon to Prospect for reimbursement of expenses paid by Prospect on behalf of Echelon and were included by Prospect within other receivables:

June 30, 2014	\$	78
June 30, 2015		30

Edmentum Ultimate Holdings, LLC

Prospect owns 37.1% of the equity of Edmentum Ultimate Holdings, LLC ("Edmentum Holdings"). Edmentum Holdings owns 100% of the equity of Edmentum, Inc. ("Edmentum"). Edmentum is the largest all subscription based, software as a service provider of online curriculum and assessments to the U.S. education market. Edmentum provides high-value, comprehensive online solutions that support educators to successfully transition learners from one stage to the next.

On May 17, 2012, Prospect initially made a \$50,000 second lien term loan to Edmentum.

On June 9, 2015, Prospect provided additional debt and equity financing to support the recapitalization of Edmentum. As part of the recapitalization, Prospect exchanged 100% of the \$50,000 second lien term loan previously outstanding for \$26,365 of junior PIK notes and 370,964.14 Class A common units representing 37.1% equity ownership in Edmentum Holdings. In addition, Prospect invested \$5,875 in senior PIK notes and committed \$7,834 as part of a second lien revolving credit facility, of which \$4,896 was funded at closing. On June 9, 2015, we determined that the impairment of Edmentum was other-than-temporary and recorded a realized loss of \$22,116 for the amount that the amortized cost exceeded the fair value, reducing the amortized cost to \$37,216.

Energy Solutions Holdings Inc.

Prospect owns 100% of the equity of Energy Solutions Holdings Inc. (f/k/a Gas Solutions Holdings Inc.) (“Energy Solutions”), a Consolidated Holding Company. Energy Solutions owns 100% of each of Change Clean Energy Company, LLC (f/k/a Change Clean Energy Holdings, LLC) (“Change Clean”); Freedom Marine Solutions, LLC (f/k/a Freedom Marine Services Holdings, LLC) (“Freedom Marine”); and Yatesville Coal Company, LLC (f/k/a Yatesville Coal Holdings, LLC) (“Yatesville”). Change Clean owns 100% of each of Change Clean Energy, LLC and Down East Power Company, LLC, and 50.1% of BioChips LLC. Freedom Marine owns 100% of each of Vessel Company, LLC (f/k/a Vessel Holdings, LLC) (“Vessel”); Vessel Company II, LLC (f/k/a Vessel Holdings II, LLC) (“Vessel II”); and Vessel Company III, LLC (f/k/a Vessel Holdings III, LLC) (“Vessel III”). Yatesville owns 100% of North Fork Collieries, LLC.

Energy Solutions owns interests in companies operating in the energy sector. These include companies operating offshore supply vessels, ownership of a non-operating biomass electrical generation plant and several coal mines. Energy Solutions subsidiaries formerly owned interests in gathering and processing business in east Texas. As of July 1, 2011, the cost basis of Prospect’s investment in Energy Solutions, including debt and equity, was \$42,003.

In December 2011, Prospect completed a reorganization of Gas Solutions Holdings Inc. renaming the company Energy Solutions and transferring ownership of other operating companies owned by Prospect and operating within the energy industry. As part of the reorganization, Prospect transferred its debt and equity interests with cost basis of \$2,540 in Change Clean Energy Holdings, Inc. and Change Clean Energy, Inc. to Change Clean; \$12,504 in Freedom Marine Holdings, Inc. to Freedom Marine; and \$1,449 of Yatesville Coal Holdings, Inc. to Yatesville. Each of these entities is wholly owned (directly or indirectly) by Energy Solutions. On December 28, 2011, Prospect made a follow-on \$1,250 equity investment in Energy Solutions and a \$3,500 debt investment in Vessel.

On January 4, 2012, Energy Solutions sold its gas gathering and processing assets held in Gas Solutions II Ltd. (“Gas Solutions”) for a potential sale price of \$199,805, adjusted for the final working capital settlement, including a potential earn-out of \$28,000 that may be paid based on the future performance of Gas Solutions. After expenses, including structuring fees of \$9,966 paid to Prospect, and \$3,152 of third-party expenses, Gas Solutions LP LLC and Gas Solutions GP LLC, subsidiaries of Gas Solutions, received \$157,100 and \$1,587 in cash, respectively, and subsequently distributed these amounts, \$158,687 in total, to Energy Solutions. The sale of Gas Solutions by Energy Solutions resulted in significant earnings and profits, as defined by the Code, at Energy Solutions for calendar year 2012. In accordance with ASC 946, the distributions Prospect received from Energy Solutions during calendar year 2012 were required to be recognized as dividend income, as there were current year earnings and profits sufficient to support such recognition. As a result, we recognized dividends of \$53,820 from Energy Solutions during the year ended June 30, 2013. No such dividends were received from Energy Solutions during the year ended June 30, 2014.

During the year ended June 30, 2013, Energy Solutions repaid \$28,500 of senior and subordinated secured debt due to Prospect. In addition to the repayment of principal, Prospect received \$19,543 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, 2013.

On November 25, 2013, Prospect restructured its investment in Freedom Marine. The \$12,504 subordinated secured loan to Jettco Marine Services, LLC, a subsidiary of Freedom Marine, was replaced with a senior secured note to Vessel II. On December 3, 2013, Prospect made a \$16,000 senior secured investment in Vessel III. Overall, the restructuring of Prospect’s investment in Freedom Marine provided approximately \$16,000 net new senior secured debt financing to support the acquisition of two new vessels. Prospect received \$2,480 of structuring fees from Energy Solutions related to the Freedom Marine restructuring which was recognized as other income.

During the year ended June 30, 2014, Energy Solutions repaid the remaining \$8,500 of the subordinated secured debt due to Prospect. In addition to the repayment of principal, Prospect 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 28, 2012 and January 1, 2014, Prospect received \$475 and \$25 of litigation settlement proceeds related to Change Clean and recorded a reduction in its equity investment cost basis for Energy Solutions, respectively.

On June 4, 2014, Gas Solutions GP LLC and Gas Solutions LP LLC merged with and into Freedom Marine, with Freedom Marine as the surviving entity.

On July 1, 2014, Prospect began consolidating Energy Solutions. As a result, any transactions between Energy Solutions and Prospect are eliminated in consolidation and as such, transactions after July 1, 2014 are not presented below. Transactions between Prospect and Freedom Marine are separately discussed below under “Freedom Marine Solutions, LLC.”

During the three months ended December 31, 2014, Prospect determined that the impairments of Change Clean and Yatesville were other-than-temporary and recorded a realized loss of \$1,449, reducing the amortized cost to zero.

The following interest payments, including prepayment penalty fees, were accrued and paid from Energy Solutions to Prospect and recognized by Prospect as interest income:

Year Ended June 30, 2013	\$	24,172
Year Ended June 30, 2014		5,368
Year Ended June 30, 2015		N/A

The following managerial assistance payments were paid from Energy Solutions to Prospect and subsequently remitted to Prospect Administration (no income was recognized by Prospect):

Year Ended June 30, 2013	\$	180
Year Ended June 30, 2014		180
Year Ended June 30, 2015		N/A

The following managerial assistance payments received by Prospect had not yet been remitted to Prospect Administration and were included by Prospect within due to Prospect Administration:

June 30, 2014	\$	45
June 30, 2015		N/A

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):

Year Ended June 30, 2013	\$	118
Year Ended June 30, 2014		-
Year Ended June 30, 2015		N/A

First Tower Finance Company LLC

Prospect owns 100% of the equity of First Tower Holdings of Delaware LLC (“First Tower Delaware”), a Consolidated Holding Company. First Tower Delaware owns 80.1% of First Tower Finance Company LLC (f/k/a First Tower Holdings LLC) (“First Tower Finance”). First Tower Finance owns 100% of First Tower, LLC (“First Tower”), a multiline specialty finance company.

On June 15, 2012, Prospect made a \$287,953 investment (including 14,518,207 common shares of Prospect at a fair value of \$160,571) in First Tower Delaware, of which \$244,760 was a Senior Secured Revolving Credit Facility and \$43,193 of membership interest in First Tower Delaware. The proceeds were utilized by First Tower Delaware to purchase 80.1% of the membership interests in First Tower Finance for \$282,968. The remaining proceeds at First Tower Delaware were used to pay \$4,038 of structuring fees from First Tower Delaware to Prospect (which was recognized by Prospect as structuring fee income), \$940 of legal services provided by attorneys at Prospect Administration, and \$7 of third party expenses. Prospect received an additional \$4,038 of structuring fees from First Tower (which was recognized by Prospect as structuring fee income). Management purchased the additional 19.9% of First Tower Finance common stock for \$70,300. The combined proceeds received by First Tower Finance of \$353,268 (\$282,968 equity financing from First Tower Delaware mentioned above and \$70,300 equity financing from management) were used to purchase 100% of the common stock of First Tower for \$338,042, pay \$11,188 of third-party expenses and \$4,038 of structuring fees from First Tower mentioned above (which was recognized by Prospect as structuring fee income).

On October 18, 2012, Prospect made an additional \$20,000 investment through the Senior Secured Revolving Credit Facility, \$12,008 of which was invested by First Tower Delaware in First Tower Finance as equity and \$7,992 of which was retained by First Tower Delaware as working capital. On December 30, 2013, Prospect funded an additional \$10,000 into First Tower Delaware, \$8,500 through the Senior Secured Revolving Credit Facility and \$1,500 through the purchase of additional membership interests in First Tower Delaware. \$8,000 of the proceeds were utilized by First Tower Delaware to pay structuring fees to Prospect for the renegotiation and expansion of First Tower's third-party revolver, and \$2,000 of the proceeds were retained by First Tower Delaware for working capital.

On June 24, 2014, Prospect made a new \$251,246 second lien term loan to First Tower. First Tower distributed this amount to First Tower Finance, which distributed this amount to First Tower Delaware as a return of capital. First Tower Delaware used the distribution to partially pay down the Senior Secured Revolving Credit Facility. The remaining \$23,712 of the Senior Secured Revolving Credit Facility was then converted to additional membership interests held by Prospect in First Tower Delaware.

On July 1, 2014, Prospect began consolidating First Tower Delaware. As a result, any transactions between First Tower Delaware and Prospect are eliminated in consolidation and as such, transactions after July 1, 2014 are not presented below.

The following 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:

Year Ended June 30, 2013	\$	31,918
Year Ended June 30, 2014		14,912
Year Ended June 30, 2015		-

The following dividends were declared and paid from First Tower Finance to First Tower Delaware and recognized as dividend income by First Tower Delaware:

Year Ended June 30, 2013	\$	54,035
Year Ended June 30, 2014		36,064
Year Ended June 30, 2015		-

During the year ended June 30, 2015, Prospect reclassified \$1,929 of return of capital received from First Tower Finance in prior periods as dividend income.

All dividends were paid from earnings and profits of First Tower Finance.

The following interest payments were accrued and paid from First Tower Delaware to Prospect and recognized by Prospect as interest income:

Year Ended June 30, 2013	\$	52,476
Year Ended June 30, 2014		53,489
Year Ended June 30, 2015		N/A

Included above, the following payment-in-kind interest from First Tower Delaware was capitalized and recognized by Prospect as interest income:

Year Ended June 30, 2013	\$	-
Year Ended June 30, 2014		1,698
Year Ended June 30, 2015		N/A

The following interest payments were accrued and paid from First Tower to Prospect and recognized by Prospect as interest income:

Year Ended June 30, 2013	\$	-
Year Ended June 30, 2014		831
Year Ended June 30, 2015		52,900

Included above, the following payment-in-kind interest from First Tower was capitalized and recognized by Prospect as interest income:

Year Ended June 30, 2013	\$	-
Year Ended June 30, 2014		-
Year Ended June 30, 2015		332

The following interest income recognized had not yet been paid by First Tower to Prospect and was included by Prospect within interest receivable:

June 30, 2014	\$	119
June 30, 2015		4,612

The following royalty payments were paid from First Tower Delaware to Prospect and recognized by Prospect as other income:

Year Ended June 30, 2013	\$	2,426
Year Ended June 30, 2014		2,560
Year Ended June 30, 2015		N/A

The following managerial assistance payments were paid from First Tower Delaware to Prospect and subsequently remitted to Prospect Administration (no income was recognized by Prospect):

Year Ended June 30, 2013	\$	2,520
Year Ended June 30, 2014		2,400
Year Ended June 30, 2015		N/A

At June 30, 2014, \$600 of managerial assistance received by Prospect had not yet been remitted to Prospect Administration and was included by Prospect within due to Prospect Administration.

The following managerial assistance payments were accrued and paid from First Tower Delaware to Prospect Administration and recognized by Prospect as an expense:

Year Ended June 30, 2013	\$	-
Year Ended June 30, 2014		-
Year Ended June 30, 2015		2,400

At June 30, 2015, \$600 of managerial assistance recognized had not yet been paid by First Tower Delaware to Prospect Administration and was included by Prospect within due to Prospect Administration.

The following payments were paid from First Tower Delaware to Prospect Administration as reimbursement for legal, tax and portfolio level accounting services provided directly to First Tower Delaware (no direct income was recognized by Prospect, but Prospect was given credit for these payments as a reduction of the administrative services costs payable by Prospect to Prospect Administration):

Year Ended June 30, 2013	\$	4
Year Ended June 30, 2014		243
Year Ended June 30, 2015		N/A

The following amounts were due from First Tower to Prospect for reimbursement of expenses paid by Prospect on behalf of First Tower and were included by Prospect within other receivables:

June 30, 2014	\$	37
June 30, 2015		20

Freedom Marine Solutions, LLC

As discussed above, Prospect owns 100% of the equity of Energy Solutions, a Consolidated Holding Company. Energy Solutions owns 100% of Freedom Marine. Freedom Marine owns 100% of each of Vessel, Vessel II, and Vessel III.

As of July 1, 2014, the cost basis of Prospect's total debt and equity investment in Freedom Marine was \$39,811, which consisted of the following: \$3,500 senior secured note to Vessel; \$12,504 senior secured note to Vessel II; \$16,000 senior secured note to Vessel III; and \$7,807 of equity.

On December 29, 2014, Freedom Marine reached a settlement for and received \$5,174, net of third party obligations, related to the contingent earn-out from the sale of Gas Solutions in January 2012 which was retained by Freedom Marine. This is a final settlement and no further payments are expected from the sale. (See "Energy Solutions Holdings Inc." above for more information related to the sale of Gas Solutions.)

The following interest payments were accrued and paid from Vessel to Prospect and recognized by Prospect as interest income:

Year Ended June 30, 2013	\$	637
Year Ended June 30, 2014		641
Year Ended June 30, 2015		639

The following interest income recognized had not yet been paid by Vessel to Prospect and was included by Prospect within interest receivable:

June 30, 2014	\$	2
June 30, 2015		2

The following interest payments were accrued and paid from Vessel II to Prospect and recognized by Prospect as interest income:

Year Ended June 30, 2013	\$	-
Year Ended June 30, 2014		1,023
Year Ended June 30, 2015		1,713

The following interest income recognized had not yet been paid by Vessel II to Prospect and was included by Prospect within interest receivable:

June 30, 2014	\$	5
June 30, 2015		5

The following interest payments were accrued and paid from Vessel III to Prospect and recognized by Prospect as interest income:

Year Ended June 30, 2013	\$	-
Year Ended June 30, 2014		1,213
Year Ended June 30, 2015		2,109

The following interest income recognized had not yet been paid by Vessel III to Prospect and was included by Prospect within interest receivable:

June 30, 2014	\$	6
June 30, 2015		6

The following managerial assistance payments were paid from Freedom Marine to Prospect and subsequently remitted to Prospect Administration (no income was recognized by Prospect):

Year Ended June 30, 2013	\$	-
Year Ended June 30, 2014		-
Year Ended June 30, 2015		300

The following managerial assistance payments received by Prospect had not yet been remitted to Prospect Administration and were included by Prospect within due to Prospect Administration:

June 30, 2014	\$	-
June 30, 2015		75

The following payments were paid from Freedom Marine to Prospect Administration as reimbursement for legal, tax and portfolio level accounting services provided directly to Freedom Marine (no direct income was recognized by Prospect, but Prospect was given credit for these payments as a reduction of the administrative services costs payable by Prospect to Prospect Administration):

Year Ended June 30, 2013	\$	1
Year Ended June 30, 2014		38
Year Ended June 30, 2015		115

The following amounts were due from Freedom Marine to Prospect for reimbursement of expenses paid by Prospect on behalf of Freedom Marine and were included by Prospect within other receivables:

June 30, 2014	\$	1
June 30, 2015		3

Gulf Coast Machine & Supply Company

Prospect owns 100% of the preferred equity of Gulf Coast Machine & Supply Company ("Gulf Coast"). Gulf Coast is a provider of value-added forging solutions to energy and industrial end markets.

On October 12, 2012, Prospect initially made a \$42,000 first lien term loan to Gulf Coast, of which \$840 was used to pay structuring fees from Gulf Coast to Prospect (which was recognized by Prospect as structuring fee income). During the year ended June 30, 2013, Gulf Coast repaid \$787 of the first lien term loan.

Between July 1, 2013 and November 8, 2013, Gulf Coast repaid \$263 of the first lien term loan, leaving a balance of \$40,950. On November 8, 2013, Gulf Coast issued \$25,950 of convertible preferred stock to Prospect (representing 99.9% of the voting securities of Gulf Coast) in exchange for crediting the same amount to the first lien term loan previously outstanding, leaving a first lien loan balance of \$15,000. Prior to this conversion, Prospect was just a lender to Gulf Coast and the investment was not a controlled investment. On November 29, 2013 and December 16, 2013, Prospect provided an additional \$1,000 and \$1,500, respectively, to fund working capital needs, increasing the first lien loan balance to \$17,500.

During the year ended June 30, 2015, Prospect made an additional \$8,500 investment in the first lien term loan to Gulf Coast to fund capital improvements to key forging equipment and other liquidity needs.

The following interest payments were accrued and paid from Gulf Coast to Prospect and recognized by Prospect as interest income:

Year Ended June 30, 2013	\$	-
Year Ended June 30, 2014		1,449
Year Ended June 30, 2015		1,370

The following interest income recognized had not yet been paid by Gulf Coast to Prospect and was included by Prospect within interest receivable:

June 30, 2014	\$	6
June 30, 2015		-

The following amounts were due from Gulf Coast to Prospect for reimbursement of expenses paid by Prospect on behalf of Gulf Coast and were included by Prospect within other receivables:

June 30, 2014	\$	342
June 30, 2015		1

Harbortouch Payments, LLC

Prospect owns 100% of the equity of Harbortouch Holdings of Delaware Inc. (“Harbortouch Delaware”), a Consolidated Holding Company. Harbortouch Delaware owns 100% of the Class C voting units of Harbortouch Payments, LLC (“Harbortouch”), which provide for a 53.5% residual profits allocation. Harbortouch management owns 100% of the Class B and D voting units of Harbortouch, which provide for a 46.5% residual profits allocation. Harbortouch owns 100% of Credit Card Processing USA, LLC. Harbortouch is a provider of transaction processing services and point-of sale equipment used by merchants across the United States.

On March 31, 2014, Prospect made a \$147,898 investment (including 2,306,294 common shares of Prospect at a fair value of \$24,908) in Harbortouch Delaware. Of this amount, \$123,000 was loaned in exchanged for a subordinated note and \$24,898 was an equity contribution. Harbortouch Delaware utilized \$137,972 to purchase 100% of the Harbortouch Class A voting preferred units which provided an 11% preferred return and a 53.5% interest in the residual profits. Harbortouch Delaware used the remaining proceeds to pay \$4,920 of structuring fees to Prospect (which was recognized by Prospect as structuring fee income), \$1,761 for legal services provided by attorneys at Prospect Administration and \$3,245 was retained by Harbortouch Delaware for working capital. Additionally, on March 31, 2014, Prospect provided Harbortouch a senior secured loan of \$130,796. Prospect received a structuring fee of \$2,616 from Harbortouch (which was recognized by Prospect as structuring fee income).

On April 1, 2014, Prospect made a new \$137,226 senior secured term loan to Harbortouch. Harbortouch then distributed this amount to Harbortouch Delaware as a return of capital which was used to pay down the \$123,000 senior secured note from Harbortouch Delaware to Prospect. The remaining \$14,226 was distributed to Prospect as a return of capital of Prospect’s equity investment in Harbortouch Delaware.

On July 1, 2014, Prospect began consolidating Harbortouch Delaware. As a result, any transactions between Harbortouch Delaware and Prospect are eliminated in consolidation and as such, transactions after July 1, 2014 are not presented below.

On September 30, 2014, Prospect made a new \$26,431 senior secured term loan to Harbortouch to support an acquisition. As part of the transaction, Prospect received \$529 of structuring fees (which was recognized by Prospect as structuring fee income) and \$50 of amendment fees (which was recognized by Prospect as amendment fee income).

On December 19, 2014, Prospect made an additional \$1,291 equity investment in Harbortouch Class C voting units. This amount was deferred consideration stipulated in the original agreement.

In addition to the repayments noted above, the following amounts were paid from Harbortouch to Prospect and recorded by Prospect as repayment of loan receivable:

Year Ended June 30, 2013	\$	-
Year Ended June 30, 2014		-
Year Ended June 30, 2015		5,371

The following cash distributions were declared and paid from Harbortouch to Harbortouch Holdings and recognized as a return of capital by Harbortouch Holdings:

Year Ended June 30, 2013	\$	-
Year Ended June 30, 2014		-
Year Ended June 30, 2015		55

The following interest payments were accrued and paid from Harbortouch Delaware to Prospect and recognized by Prospect as interest income:

Year Ended June 30, 2013	\$	-
Year Ended June 30, 2014		55
Year Ended June 30, 2015		N/A

The following interest payments were accrued and paid from Harbortouch to Prospect and recognized by Prospect as interest income:

Year Ended June 30, 2013	\$	-
Year Ended June 30, 2014		6,824
Year Ended June 30, 2015		29,834

Included above, the following payment-in-kind interest from Harbortouch was capitalized and recognized by Prospect as interest income:

Year Ended June 30, 2013	\$	-
Year Ended June 30, 2014		-
Year Ended June 30, 2015		7,652

The following interest income recognized had not yet been paid by Harbortouch to Prospect and was included by Prospect within interest receivable:

June 30, 2014	\$	1,962
June 30, 2015		2,077

The following managerial assistance payments were paid from Harbortouch to Prospect and subsequently remitted to Prospect Administration (no income was recognized by Prospect):

Year Ended June 30, 2013	\$	-
Year Ended June 30, 2014		125
Year Ended June 30, 2015		500

The following managerial assistance payments received by Prospect had not yet been remitted to Prospect Administration and were included by Prospect within due to Prospect Administration:

June 30, 2014	\$	125
June 30, 2015		125

The following payments were paid from Harbortouch to Prospect Administration as reimbursement for legal, tax and portfolio level accounting services provided directly to Harbortouch (no direct income was recognized by Prospect, but Prospect was given credit for these payments as a reduction of the administrative services costs payable by Prospect to Prospect Administration):

Year Ended June 30, 2013	\$	-
Year Ended June 30, 2014		1,761
Year Ended June 30, 2015		46

Manx Energy, Inc.

As of June 30, 2014, Prospect owned 41% of the equity of Manx Energy, Inc. ("Manx"). Manx was formed on January 19, 2010 for the purpose of rolling up the assets of existing Prospect portfolio companies, Coalbed, LLC ("Coalbed"), Appalachian Energy LLC (f/k/a Appalachian Energy Holdings, LLC) ("AEH") and Kinley Exploration LLC. The three companies were combined under new common management.

On January 19, 2010, Prospect made a \$2,800 investment at closing to Manx to provide for working capital. On the same date, Prospect exchanged \$2,100 and \$4,500 of the loans to AEH and Coalbed, respectively, for Manx preferred equity, and Prospect's AEH equity interest was converted into Manx common stock. There was no change to fair value at the time of restructuring, and Prospect continued to fully reserve any income accrued for Manx. On October 15, 2010 and May 26, 2011, Prospect increased its loan to Manx in the amount of \$500 and \$250, respectively, to provide additional working capital. As of June 30, 2011, the cost basis of Prospect's investment in Manx, including debt and equity, was \$19,019.

On June 30, 2012, AEH and Coalbed loans held by Manx with a cost basis of \$7,991 were removed from Manx and contributed by Prospect to Wolf Energy Holdings Inc., a separate holding company wholly owned by Prospect. During the three months ended June 30, 2013, Prospect determined that the impairment of Manx was other-than-temporary and recorded a realized loss of \$9,397 for the amount that the amortized cost exceeded the fair value, reducing the amortized cost to \$500. During the year ended June 30, 2014, Manx repaid \$450 of the senior secured note. During the three months ended December 31, 2014, Manx was dissolved and Prospect recorded a realized loss of \$50, reducing the amortized cost to zero.

MITY, Inc.

Prospect owns 100% of the equity of MITY Holdings of Delaware Inc. ("MITY Delaware"), a Consolidated Holding Company. MITY Delaware holds 94.99% of the equity of MITY, Inc. (f/k/a MITY Enterprises, Inc.) ("MITY"), with management of MITY owning the remaining 5.01% of the equity of MITY. MITY owns 100% of each of MITY-Lite, Inc. ("MITY-Lite"); Broda USA, Inc. (f/k/a Broda Enterprises USA, Inc.) ("Broda USA"); and Broda Enterprises ULC ("Broda Canada"). MITY is a designer, manufacturer and seller of multipurpose room furniture and specialty healthcare seating products.

On September 19, 2013, Prospect made a \$29,735 investment in MITY Delaware, of which \$22,792 was a senior secured debt to MITY Delaware and \$6,943 was a capital contribution to the equity of MITY Delaware. The proceeds were partially utilized to purchase 97.7% of MITY common stock for \$21,027. The remaining proceeds were used to issue a \$7,200 note from Broda Canada to MITY Delaware, pay \$684 of structuring fees from MITY Delaware to Prospect (which was recognized by Prospect as structuring fee income), \$311 for legal services provided by attorneys employed by Prospect Administration and \$513 was retained by MITY Delaware for working capital.

On September 19, 2013, Prospect made an additional \$18,250 senior secured debt investment in MITY. The proceeds were used to repay existing third-party indebtedness, pay \$365 of structuring fees from MITY to Prospect (which was recognized by Prospect as structuring fee income), pay \$1,143 of third party expenses and \$2,580 was retained by MITY for working capital. Members of management of MITY purchased additional shares of common stock of MITY, reducing MITY Delaware's ownership to 94.99%. MITY, MITY-Lite and Broda USA are joint borrowers on the senior secured debt of MITY.

On June 23, 2014, Prospect made a new \$15,769 debt investment in MITY and MITY distributed proceeds to MITY Delaware as a return of capital. MITY Delaware used this distribution to pay down the senior secured debt of MITY Delaware to Prospect by the same amount. The remaining amount of the senior secured debt due from MITY Delaware to Prospect, \$7,200, was then contributed to the capital of MITY Delaware. On June 23, 2014, Prospect also extended a new \$7,500 senior secured revolving facility to MITY, which was unfunded at closing.

On July 1, 2014, Prospect began consolidating MITY Delaware. As a result, any transactions between MITY Delaware and Prospect are eliminated in consolidation and as such, transactions after July 1, 2014 are not presented below.

During the year ended June 30, 2015, Prospect funded \$2,500 of MITY's senior secured revolving facility, which MITY fully repaid during that time.

The following cash distributions were declared and paid from MITY to MITY Delaware and recognized as a return of capital by MITY Delaware:

Year Ended June 30, 2013	\$	-
Year Ended June 30, 2014		884
Year Ended June 30, 2015		-

The following dividends were declared and paid from MITY to MITY Delaware and recognized as dividend income by MITY Delaware:

Year Ended June 30, 2013	\$	-
Year Ended June 30, 2014		861
Year Ended June 30, 2015		-

All dividends were paid from earnings and profits of MITY.

The following interest payments were accrued and paid from MITY Delaware to Prospect and recognized by Prospect as interest income:

Year Ended June 30, 2013	\$	-
Year Ended June 30, 2014		3,177
Year Ended June 30, 2015		N/A

Included above, the following payment-in-kind interest from MITY Delaware was capitalized and recognized by Prospect as interest income:

Year Ended June 30, 2013	\$	-
Year Ended June 30, 2014		177
Year Ended June 30, 2015		N/A

The following interest payments were accrued and paid from MITY to Prospect and recognized by Prospect as interest income:

Year Ended June 30, 2013	\$	-
Year Ended June 30, 2014		1,516
Year Ended June 30, 2015		5,146

Included above, the following payment-in-kind interest from MITY was capitalized and recognized by Prospect as interest income:

Year Ended June 30, 2013	\$	-
Year Ended June 30, 2014		-
Year Ended June 30, 2015		532

The following interest income recognized had not yet been paid by MITY to Prospect and was included by Prospect within interest receivable:

June 30, 2014	\$	14
June 30, 2015		14

The following interest payments were accrued and paid from Broda Canada to MITY Delaware and recognized by Prospect as interest income:

Year Ended June 30, 2013	\$	-
Year Ended June 30, 2014		-
Year Ended June 30, 2015		637

During the year ended June 30, 2015, there was an unfavorable fluctuation in the foreign currency exchange rate and MITY Delaware recognized \$5 of realized loss related to its investment in Broda Canada.

The following managerial assistance payments were paid from MITY to Prospect and subsequently remitted to Prospect Administration (no income was recognized by Prospect):

Year Ended June 30, 2013	\$	-
Year Ended June 30, 2014		225
Year Ended June 30, 2015		310

The following managerial assistance payments received by Prospect had not yet been remitted to Prospect Administration and were included by Prospect within due to Prospect Administration:

June 30, 2014	\$	75
June 30, 2015		75

The following managerial assistance recognized had not yet been paid by MITY to Prospect and was included by Prospect within other receivables and due to Prospect Administration:

June 30, 2014	\$	10
June 30, 2015		-

The following payments were paid from MITY to Prospect Administration as reimbursement for legal, tax and portfolio level accounting services provided directly to MITY (no direct income was recognized by Prospect, but Prospect was given credit for these payments as a reduction of the administrative services costs payable by Prospect to Prospect Administration):

Year Ended June 30, 2013	\$	-
Year Ended June 30, 2014		495
Year Ended June 30, 2015		121

The following amounts were due to MITY from Prospect for reimbursement of expenses paid by MITY on behalf of Prospect and were included within other liabilities:

June 30, 2014	\$	5
June 30, 2015		1

National Property REIT Corp.

Prospect owns 100% of the equity of NPH Property Holdings, LLC (“NPH”), a Consolidated Holding Company. NPH owns 100% of the common equity of National Property REIT Corp. (f/k/a National Property Holdings Corp.) (“NPRC”). NPRC is a Maryland corporation and a qualified REIT for federal income tax purposes. In order to qualify as a REIT, NPRC issued 125 shares of Series A Cumulative Non-Voting Preferred Stock to 125 accredited investors. The preferred stockholders are entitled to receive cumulative dividends semi-annually at an annual rate of 12.5% and do not have the ability to participate in the management or operation of NPRC.

NPRC was formed to hold for investment, operate, finance, lease, manage, and sell a portfolio of real estate assets and engage in any and all other activities as may be necessary, incidental or convenient to carry out the foregoing. NPRC acquires real estate assets, including, but not limited to, industrial, commercial, and multi-family properties. NPRC may acquire real estate assets directly or through joint ventures by making a majority equity investment in a property-owning entity (the “JV”). Additionally, through its wholly-owned subsidiaries, NPRC invests in online consumer loans.

On December 31, 2013, APRC distributed its majority interests in five JVs holding real estate assets to APH. APH then distributed these JV interests to Prospect in a transaction characterized as a return of capital. Prospect, on the same day, contributed certain of these JV interests to NPH and the remainder to UPH (each wholly-owned subsidiaries of Prospect). Each of NPH and UPH immediately thereafter contributed these JV interests to NPRC and UPRC, respectively. The total investments in the JVs transferred to NPH and from NPH to NPRC consisted of \$79,309 and \$16,315 of debt and equity financing, respectively. There was no material gain or loss realized on these transactions.

On December 31, 2013, Prospect made a \$10,620 investment in NPH, of which \$8,800 was a Senior Term Loan and \$1,820 was used to purchase additional membership interests of NPH. The proceeds were utilized by NPH to purchase additional NPRC common equity for \$10,620. The proceeds were utilized by NPRC to purchase a 93.0% ownership interest in APH Carroll Bartram Park, LLC for \$10,288 and to pay \$113 of structuring fees to Prospect (which was recognized by Prospect as structuring fee income), with \$219 retained by NPRC for working capital. The JV was purchased for \$38,000 which included debt financing and minority interest of \$28,500 and \$774, respectively. The remaining proceeds were used to pay \$206 of structuring fees to Prospect (which was recognized by Prospect as structuring fee income), \$1,038 of third party expenses, \$5 of legal services provided by attorneys at Prospect Administration, and \$304 of prepaid assets, with \$9 retained by the JV for working capital.

Between January 7, 2014 and March 13, 2014, Prospect made a \$14,000 investment in NPH, of which \$11,900 was a Senior Term Loan and \$2,100 was used to purchase additional membership interests of NPH. The proceeds were utilized by certain of NPRC’s wholly-owned subsidiaries to purchase online consumer loans from a third party.

On January 31, 2014, Prospect made a \$4,805 investment in NPH, of which \$4,000 was a Senior Term Loan and \$805 used to purchase additional membership interests of NPH. The proceeds were utilized by NPH to purchase additional NPRC common equity for \$4,805. The proceeds were utilized by NPRC to purchase a 93.0% ownership interest in APH Carroll Atlantic Beach, LLC for \$4,603 and to pay \$52 of structuring fees to Prospect (which was recognized by Prospect as structuring fee income), with \$150 retained by NPRC for working capital. The JV was purchased for \$13,025 which included debt financing and minority interest of \$9,118 and \$346, respectively. The remaining proceeds were used to pay \$92 of structuring fees to Prospect (which was recognized by Prospect as structuring fee income), \$681 of third party expenses, \$7 of legal services provided by attorneys at Prospect Administration, and \$182 of prepaid assets, with \$80 retained by the JV for working capital.

Effective April 1, 2014, Prospect made a new \$104,460 senior term loan to NPRC. NPRC then distributed this amount to NPH as a return of capital which was used to pay down the Senior Term Loan from NPH by the same amount.

Between April 3, 2014 and May 21, 2014, Prospect made an \$11,000 investment in NPH and NPRC, of which \$9,350 was a Senior Term Loan to NPRC and \$1,650 was used to purchase additional membership interests of NPH. The proceeds were utilized by NPH to purchase additional NPRC common equity for \$1,650. The proceeds were utilized by certain of NPRC's wholly-owned subsidiaries to purchase online consumer loans from a third party.

On July 1, 2014, Prospect began consolidating NPH. As a result, any transactions between NPH and Prospect are eliminated in consolidation and as such, transactions after July 1, 2014 are not presented below.

On October 23, 2014, UPRC transferred its investment in Michigan Storage, LLC to NPRC. As a result, Prospect's investments in UPRC related to these properties also transferred to NPRC. The investments transferred consisted of \$1,281 of equity and \$9,444 of debt. There was no gain or loss realized on the transaction.

On November 26, 2014, APRC transferred its investment in APH Carroll Resort, LLC to NPRC and the investment was renamed NPRC Carroll Resort, LLC. As a result, Prospect's investments in APRC related to this property also transferred to NPRC. The investments transferred consisted of \$10,237 of equity and \$65,586 of debt. There was no gain or loss realized on the transaction.

On January 16, 2015, Prospect made a \$13,871 investment in NPRC, of which \$11,810 was a Senior Term Loan directly to NPRC and \$2,061 was used to purchase additional common equity of NPRC through NPH. The proceeds were utilized by NPRC to purchase additional ownership interest in Michigan Storage, LLC (which was originally purchased by UPRC and transferred to NPRC, as discussed below) for \$13,854, with \$17 retained by NPRC for working capital. The minority interest holder also invested an additional \$2,445 in the JV. With additional debt financing of \$12,602, the total proceeds were used by the JV to purchase five additional properties for \$26,405. The remaining proceeds were used to pay \$276 of structuring fees to Prospect (which was recognized by Prospect as structuring fee income), \$1,762 of third party expenses, \$65 in pre-funded capital expenditures, and \$393 of prepaid assets.

On March 17, 2015, Prospect entered into a new credit agreement with ACL Loan Holdings, Inc. ("ACLLH"), a wholly-owned subsidiary of NPRC, to form two new tranches of senior secured term loans, Term Loan A and Term Loan B, with the same terms as the existing NPRC Term Loan A and Term Loan B due to Prospect. The agreement was effective as of June 30, 2014. On June 30, 2014, ACLLH made a non-cash return of capital distribution of \$22,390 to NPRC and NPRC transferred and assigned to ACLLH a senior secured Term Loan A due to Prospect.

On May 1, 2015, APRC transferred its investment in 5100 Live Oaks Blvd, LLC to NPRC. As a result, Prospect's investments in APRC related to this property also transferred to NPRC. The investments transferred consisted of \$2,748 of equity and \$29,990 of debt. There was no gain or loss realized on the transaction.

On May 6, 2015, Prospect made a \$252 investment in NPRC, of which \$236 was a Senior Term Loan and \$16 was used to purchase additional common equity of NPRC through NPH. The proceeds were utilized by NPRC to purchase additional ownership interest in 5100 Live Oaks Blvd, LLC for \$252. The minority interest holder also invested an additional \$6 in the JV. The proceeds were used by the JV to fund \$258 of capital expenditures.

On June 2, 2015, Prospect amended the credit agreement with NPRC to form two new tranches of senior secured term loans, Term Loan C and Term Loan D, with the same terms as the existing ACLLH Term Loan A and Term Loan B due to Prospect. The amendment was effective as of April 1, 2015.

During the year ended June 30, 2015, Prospect made thirty-six follow-on investments in NPRC totaling \$224,200 to support the online consumer lending initiative. Prospect invested \$52,350 of equity through NPH and \$171,850 of debt directly to NPRC and its wholly-owned subsidiaries. In addition, during the year ended June 30, 2015, Prospect received partial repayments of \$32,883 of the loans previously outstanding and \$5,577 as a return of capital on the equity investment in NPRC.

The following dividends were declared and paid from NPRC to NPH (partially via a wholly-owned subsidiary of NPH) and recognized as dividend income by NPH:

Year Ended June 30, 2013	\$	-
Year Ended June 30, 2014		2,696
Year Ended June 30, 2015		-

All dividends were paid from earnings and profits of NPRC.

The following interest payments were accrued and paid by NPH to Prospect and recognized by Prospect as interest income:

Year Ended June 30, 2013	\$	-
Year Ended June 30, 2014		2,838
Year Ended June 30, 2015		N/A

Included above, the following payment-in-kind interest from NPH was capitalized and recognized by Prospect as interest income:

Year Ended June 30, 2013	\$	-
Year Ended June 30, 2014		432
Year Ended June 30, 2015		N/A

The following interest payments were accrued and paid by NPRC to Prospect and recognized by Prospect as interest income:

Year Ended June 30, 2013	\$	-
Year Ended June 30, 2014		3,135
Year Ended June 30, 2015		23,869

Included above, the following payment-in-kind interest from NPRC was capitalized and recognized by Prospect as interest income:

Year Ended June 30, 2013	\$	-
Year Ended June 30, 2014		18
Year Ended June 30, 2015		3,056

The following interest income recognized had not yet been paid by NPRC to Prospect and was included by Prospect within interest receivable:

June 30, 2014	\$	-
June 30, 2015		116

The following interest payments were accrued and paid by ACLLH to Prospect and recognized by Prospect as interest income:

Year Ended June 30, 2013	\$	-
Year Ended June 30, 2014		-
Year Ended June 30, 2015		6,742

Included above, the following payment-in-kind interest from ACLLH was capitalized and recognized by Prospect as interest income:

Year Ended June 30, 2013	\$	-
Year Ended June 30, 2014		-
Year Ended June 30, 2015		816

The following interest income recognized had not yet been paid by ACLLH to Prospect and was included by Prospect within interest receivable:

June 30, 2014	\$	-
June 30, 2015		23

The following royalty payments were paid from NPH to Prospect and recognized by Prospect as other income:

Year Ended June 30, 2013	\$	-
Year Ended June 30, 2014		567
Year Ended June 30, 2015		N/A

The following royalty payments were paid from NPRC to Prospect and recognized by Prospect as other income:

Year Ended June 30, 2013	\$	-
Year Ended June 30, 2014		-
Year Ended June 30, 2015		1,683

The following managerial assistance payments were paid from NPRC to Prospect and subsequently remitted to Prospect Administration (no income was recognized by Prospect):

Year Ended June 30, 2013	\$	-
Year Ended June 30, 2014		255
Year Ended June 30, 2015		510

The following managerial assistance payments received by Prospect had not yet been remitted to Prospect Administration and were included by Prospect within due to Prospect Administration:

June 30, 2014	\$	128
June 30, 2015		128

The following payments were paid from NPRC to Prospect Administration as reimbursement for legal, tax and portfolio level accounting services provided directly to NPRC (no direct income was recognized by Prospect, but Prospect was given credit for these payments as a reduction of the administrative services costs payable by Prospect to Prospect Administration):

Year Ended June 30, 2013	\$	-
Year Ended June 30, 2014		207
Year Ended June 30, 2015		1,164

The following amounts were due from NPRC to Prospect for reimbursement of expenses paid by Prospect on behalf of NPRC and included by Prospect within other receivables:

June 30, 2014	\$	13
June 30, 2015		108

Nationwide Acceptance LLC

Prospect owns 100% of the membership interests of Nationwide Acceptance Holdings LLC ("Nationwide Holdings"), a Consolidated Holding Company. Nationwide Holdings owns 93.79% of the equity of Nationwide Loan Company LLC (f/k/a Nationwide Acceptance LLC) ("Nationwide"), with members of Nationwide management owning the remaining 6.21% of the equity.

On January 31, 2013, Prospect initially made a \$25,151 investment in Nationwide Holdings, of which \$21,308 was a Senior Secured Revolving Credit Facility and \$3,843 was in the form of membership interests in Nationwide Holdings. \$21,885 of the proceeds were utilized to purchase 93.79% of the membership interests in Nationwide. Proceeds were also used to pay \$753 of structuring fees from Nationwide Holdings to Prospect (which was recognized by Prospect as structuring fee income), \$350 of third party expenses and \$163 of legal services provided by attorneys at Prospect Administration. The remaining \$2,000 was retained by Nationwide Holdings as working capital.

In December 2013, Prospect received \$1,500 of structuring fees from Nationwide Holdings related to the amendment of the loan agreement. On March 28, 2014, Prospect funded an additional \$4,000 to Nationwide Holdings (\$3,400 through the Senior Secured Revolving Credit Facility and \$600 to purchase additional membership interests in Nationwide Holdings). The additional funding along with cash on hand was utilized by Nationwide Holdings to fund a \$5,000 dividend to Prospect.

On June 18, 2014, Prospect made a new \$14,820 second lien term loan to Nationwide. Nationwide distributed this amount to Nationwide Holdings as a return of capital. Nationwide Holdings used the distribution to pay down the Senior Secured Revolving Credit Facility. The remaining \$9,888 of the Senior Secured Revolving Credit Facility was then converted to additional membership interests in Nationwide Holdings.

On July 1, 2014, Prospect began consolidating Nationwide Holdings. As a result, any transactions between Nationwide Holdings and Prospect are eliminated in consolidation and as such, transactions after July 1, 2014 are not presented below.

On June 1, 2015, Nationwide completed a corporate reorganization. As part of the reorganization, Nationwide Acceptance LLC was renamed Nationwide Loan Company LLC (continues as "Nationwide") and formed two new wholly-owned subsidiaries: Pelican Loan Company LLC ("Pelican") and Nationwide Consumer Loans LLC. Nationwide assigned 100% of the equity interests in its other subsidiaries to Pelican which, in turn, assigned these interests to Nationwide Acceptance LLC ("New Nationwide"), the new operating company wholly-owned by Pelican. New Nationwide also assumed the existing senior subordinated term loan due to Prospect.

During the year ended June 30, 2015, Prospect made additional equity investments totaling \$2,814 in Nationwide. Nationwide management invested an additional \$186 of equity in Nationwide, and Prospect's ownership in Nationwide did not change.

The following dividends were declared and paid from Nationwide to Nationwide Holdings and recognized as dividend income by Nationwide Holdings:

Year Ended June 30, 2013	\$	2,615
Year Ended June 30, 2014		7,074
Year Ended June 30, 2015		4,425

The following dividends were declared and paid from Nationwide Holdings to Prospect and recognized as dividend income by Prospect:

Year Ended June 30, 2013	\$	-
Year Ended June 30, 2014		5,000
Year Ended June 30, 2015		N/A

All dividends were paid from earnings and profits of Nationwide and Nationwide Holdings.

The following interest payments were accrued and paid from Nationwide Holdings to Prospect and recognized by Prospect as interest income:

Year Ended June 30, 2013	\$	1,788
Year Ended June 30, 2014		4,322
Year Ended June 30, 2015		N/A

The following interest payments were accrued and paid from Nationwide to Prospect and recognized by Prospect as interest income:

Year Ended June 30, 2013	\$	-
Year Ended June 30, 2014		107
Year Ended June 30, 2015		3,005

The following interest income recognized had not yet been paid by Nationwide to Prospect and was included by Prospect within interest receivable:

June 30, 2014	\$	8
June 30, 2015		8

The following royalty payments were paid from Nationwide Holdings to Prospect and recognized by Prospect as other income:

Year Ended June 30, 2013	\$	131
Year Ended June 30, 2014		354
Year Ended June 30, 2015		N/A

The following managerial assistance payments were paid from Nationwide to Prospect and subsequently remitted to Prospect Administration (no income was recognized by Prospect):

Year Ended June 30, 2013	\$	167
Year Ended June 30, 2014		400
Year Ended June 30, 2015		400

The following managerial assistance payments received by Prospect had not yet been remitted to Prospect Administration and were included by Prospect within due to Prospect Administration:

June 30, 2014	\$	100
June 30, 2015		100

The following payments were paid from Nationwide to Prospect Administration as reimbursement for legal, tax and portfolio level accounting services provided directly to Nationwide (no direct income was recognized by Prospect, but Prospect was given credit for these payments as a reduction of the administrative services costs payable by Prospect to Prospect Administration):

Year Ended June 30, 2013	\$	163
Year Ended June 30, 2014		234
Year Ended June 30, 2015		4

The following amounts were due from Nationwide to Prospect for reimbursement of expenses paid by Prospect on behalf of Nationwide and were included by Prospect within other receivables:

June 30, 2014	\$	2
June 30, 2015		-

The following amounts were due to Nationwide from Prospect for reimbursement of expenses paid by Nationwide on behalf of Prospect and were included by Prospect within other liabilities:

June 30, 2014	\$	-
June 30, 2015		12

NMMB, Inc.

Prospect owns 100% of the equity of NMMB Holdings, Inc. ("NMMB Holdings"), a Consolidated Holding Company. NMMB Holdings owns 96.33% of the fully-diluted equity of NMMB, Inc. (f/k/a NMMB Acquisition, Inc.) ("NMMB"), with NMMB management owning the remaining 3.67% of the equity. NMMB owns 100% of Refuel Agency, Inc. ("Refuel Agency"). Refuel Agency owns 100% of Armed Forces Communications, Inc. ("Armed Forces"). NMMB is an advertising media buying business.

On May 6, 2011, Prospect initially made a \$34,450 investment (of which \$31,750 was funded at closing) in NMMB Holdings and NMMB, of which \$24,250 was a senior secured term loan to NMMB, \$3,000 was a senior secured revolver to NMMB (of which \$300 was funded at closing), \$2,800 was a senior subordinated term loan to NMMB Holdings and \$4,400 to purchase 100% of the Series A Preferred Stock of NMMB Holdings. The proceeds received by NMMB were used to purchase 100% of the equity of Refuel Agency and assets related to the business for \$30,069, pay \$1,035 of structuring fees to Prospect (which was recognized by Prospect as structuring fee income), pay \$396 for third party expenses and \$250 was retained by NMMB for working capital. On May 31, 2011, NMMB repaid the \$300 senior secured revolver.

During the year ended June 30, 2012, NMMB repaid \$2,550 of the senior secured term loan. During the year ended June 30, 2013, NMMB repaid \$5,700 of the senior secured term loan due.

On December 13, 2013, Prospect invested \$8,086 for preferred equity to recapitalize NMMB Holdings. The proceeds were used by NMMB Holdings to repay in full the \$2,800 outstanding under the subordinated term loan and the remaining \$5,286 of proceeds from Prospect were used by NMMB Holdings to purchase preferred equity in NMMB. NMMB used the proceeds from the preferred equity issuance to pay down the senior term loan.

On June 12, 2014, Prospect made a new \$7,000 senior secured term loan to Armed Forces. Armed Forces distributed this amount to Refuel Agency as a return of capital. Refuel Agency distributed this amount to NMMB as a return of capital, which was used to pay down \$7,000 of NMMB's \$10,714 senior secured term loan to Prospect.

On July 1, 2014, Prospect began consolidating NMMB Holdings. As a result, any transactions between NMMB Holdings and Prospect are eliminated in consolidation and as such, transactions after July 1, 2014 are not presented below.

On October 1, 2014, Prospect made an additional \$383 equity investment in NMMB Series B Preferred Stock, increasing Prospect's ownership to 93.13%. During the year ended June 30, 2015, NMMB repurchased 460 shares of its common stock from a former NMMB executive, decreasing the number of shares outstanding and increasing Prospect's ownership to 96.33%.

The following interest payments were accrued and paid from NMMB Holdings to Prospect and recognized by Prospect as interest income:

Year Ended June 30, 2013	\$	426
Year Ended June 30, 2014		192
Year Ended June 30, 2015		N/A

The following interest payments were accrued and paid from NMMB to Prospect and recognized by Prospect as interest income:

Year Ended June 30, 2013	\$	2,601
Year Ended June 30, 2014		1,826
Year Ended June 30, 2015		525

The following interest income recognized had not yet been paid by NMMB to Prospect and was included by Prospect within interest receivable:

June 30, 2014	\$	1
June 30, 2015		133

The following interest payments were accrued and paid from Armed Forces to Prospect and recognized by Prospect as interest income:

Year Ended June 30, 2013	\$	-
Year Ended June 30, 2014		33
Year Ended June 30, 2015		996

The following interest income recognized had not yet been paid by Armed Forces to Prospect and was included by Prospect within interest receivable:

June 30, 2014	\$	3
June 30, 2015		250

The following managerial assistance payments were paid from NMMB to Prospect and subsequently remitted to Prospect Administration (no income was recognized by Prospect):

Year Ended June 30, 2013	\$	500
Year Ended June 30, 2014		100
Year Ended June 30, 2015		-

The following managerial assistance recognized had not yet been paid by NMMB to Prospect and was included by Prospect within other receivables and due to Prospect Administration:

June 30, 2014	\$	300
June 30, 2015		700

The following payments were paid from NMMB to Prospect Administration as reimbursement for legal, tax and portfolio level accounting services provided directly to NMMB (no direct income was recognized by Prospect, but Prospect was given credit for these payments as a reduction of the administrative services costs payable by Prospect to Prospect Administration):

Year Ended June 30, 2013	\$	12
Year Ended June 30, 2014		15
Year Ended June 30, 2015		-

The following amounts were due from NMMB to Prospect for reimbursement of expenses paid by Prospect on behalf of NMMB and were included by Prospect within other receivables:

June 30, 2014	\$	1
June 30, 2015		2

R-V Industries, Inc.

As of July 1, 2011 and continuing through June 30, 2015, Prospect owns 88.27% of the fully-diluted equity of R-V Industries, Inc. ("R-V"), with R-V management owning the remaining 11.73% of the equity. As of June 30, 2011, Prospect's equity investment cost basis was \$1,682 and \$5,087 for warrants and common stock, respectively.

On November 30, 2012, Prospect made a \$9,500 second lien term loan to R-V and R-V received an additional \$4,000 of senior secured financing from a third-party lender. The combined \$13,500 of proceeds was partially utilized by R-V to pay a dividend to its common stockholders in an aggregate amount equal to \$13,288 (including \$11,073 to Prospect recognized by Prospect as a dividend). The remaining proceeds were used by R-V to pay \$142 of structuring fees to Prospect (which was recognized by Prospect as structuring fee income), \$47 for third party expenses and \$23 for legal services provided by attorneys at Prospect Administration.

On June 12, 2013, Prospect provided an additional \$23,250 to the second lien term loan to R-V. The proceeds were partially utilized by R-V to pay a dividend to the common stockholders in an aggregate amount equal to \$15,000 (including \$13,240 dividend to Prospect). The remaining proceeds were used to pay off \$7,835 of outstanding debt due from R-V to a third-party, \$11 for legal services provided by attorneys at Prospect Administration and \$404 was retained by R-V for working capital.

In addition to the repayments noted above, the following amounts were paid from R-V to Prospect and recorded by Prospect as repayment of loan receivable:

Year Ended June 30, 2013	\$	-
Year Ended June 30, 2014		2,339
Year Ended June 30, 2015		1,175

The following dividends were declared and paid from R-V to Prospect and recognized as dividend income by Prospect:

Year Ended June 30, 2013	\$	24,462
Year Ended June 30, 2014		1,100
Year Ended June 30, 2015		298

All dividends were paid from earnings and profits of R-V.

The following interest payments were accrued and paid from R-V to Prospect and recognized by Prospect as interest income:

Year Ended June 30, 2013	\$	781
Year Ended June 30, 2014		3,188
Year Ended June 30, 2015		3,018

The following managerial assistance payments were paid from R-V to Prospect and subsequently remitted to Prospect Administration (no income was recognized by Prospect):

Year Ended June 30, 2013	\$	180
Year Ended June 30, 2014		180
Year Ended June 30, 2015		180

The following managerial assistance payments received by Prospect had not yet been remitted to Prospect Administration and were included by Prospect within due to Prospect Administration:

June 30, 2014	\$	45
June 30, 2015		45

The following payments were paid from R-V to Prospect Administration as reimbursement for legal, tax and portfolio level accounting services provided directly to R-V (no direct income was recognized by Prospect, but Prospect was given credit for these payments as a reduction of the administrative services costs payable by Prospect to Prospect Administration):

Year Ended June 30, 2013	\$	37
Year Ended June 30, 2014		-
Year Ended June 30, 2015		13

The following amounts were due to R-V from Prospect for reimbursement of expenses paid by R-V on behalf of Prospect and were included by Prospect within other liabilities:

June 30, 2014	\$	2
June 30, 2015		2

United Property REIT Corp.

Prospect owns 100% of the equity of UPH Property Holdings, LLC (“UPH”), a Consolidated Holding Company. UPH owns 100% of the common equity of United Property REIT Corp. (f/k/a United Property Holdings Corp.) (“UPRC”). UPRC is a Maryland corporation and a qualified REIT for federal income tax purposes. In order to qualify as a REIT, UPRC issued 125 shares of Series A Cumulative Non-Voting Preferred Stock to 125 accredited investors. The preferred stockholders are entitled to receive cumulative dividends semi-annually at an annual rate of 12.5% and do not have the ability to participate in the management or operation of UPRC.

UPRC was formed to hold for investment, operate, finance, lease, manage, and sell a portfolio of real estate assets and engage in any and all other activities as may be necessary, incidental or convenient to carry out the foregoing. UPRC acquires real estate assets, including, but not limited to, industrial, commercial, and multi-family properties. UPRC may acquire real estate assets directly or through joint ventures by making a majority equity investment in a property-owning entity (the “JV”).

On December 31, 2013, 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 NPH and UPRC, respectively. The total investments in the JVs transferred to UPH and from UPH to UPRC consisted of \$18,855 and \$3,707 of debt and equity financing, respectively. There was no material gain or loss realized on these transactions.

Effective April 1, 2014, Prospect made a new \$19,027 senior term loan to UPRC. UPRC then distributed this amount to UPH as a return of capital which was used to pay down the Senior Term Loan from UPH by the same amount.

On June 4, 2014, Prospect made a \$1,405 investment in UPH to purchase additional membership interests of UPH, which was revised to \$1,420 on July 1, 2014. The proceeds were utilized by UPH to purchase additional UPRC common equity for \$1,420. The proceeds were utilized by UPRC to acquire the real property located at 1201 West College, Marshall, MO (“Taco Bell, MO”) for \$1,405 and pay \$15 of third party expenses.

On July 1, 2014, Prospect began consolidating UPH. As a result, any transactions between UPH and Prospect are eliminated in consolidation and as such, transactions after July 1, 2014 are not presented below.

On August 19, 2014 and August 27, 2014, Prospect made a combined \$11,046 investment in UPRC, of which \$9,389 was a Senior Term Loan directly to UPRC and \$1,657 was used to purchase additional common equity of UPRC through UPH. On October 1, 2015, UPRC distributed \$376 to Prospect as a return of capital. The net proceeds were utilized by UPRC to purchase an 85.0% ownership interest in Michigan Storage, LLC for \$10,579, with \$42 retained by UPRC for working capital and \$49 restricted for future property acquisitions. The JV was purchased for \$38,275 which included debt financing and minority interest of \$28,705 and \$1,867, respectively. The remaining proceeds were used to pay \$210 of structuring fees to Prospect (which was recognized by Prospect as structuring fee income), \$2,589 of third party expenses, and \$77 for legal services provided by attorneys at Prospect Administration. The investment was subsequently contributed to NPRC.

On September 29, 2014, Prospect made a \$22,618 investment in UPRC, of which \$19,225 was a Senior Term Loan and \$3,393 was used to purchase additional common equity of UPRC through UPH. The proceeds were utilized by UPRC to purchase a 92.5% ownership interest in Canterbury Green Apartments Holdings, LLC for \$22,036, with \$582 retained by UPRC for working capital. The JV was purchased for \$85,500 which included debt financing and minority interest of \$65,825 and \$1,787, respectively. The remaining proceeds were used to pay \$432 of structuring fees to Prospect (which was recognized by Prospect as structuring fee income), \$2,135 of third party expenses, \$82 for legal services provided by attorneys at Prospect Administration, and \$1,249 of prepaid assets, with \$250 retained by the JV for working capital.

On September 30, 2014 and October 29, 2014, Prospect made a combined \$22,688 investment in UPRC, of which \$19,290 was a Senior Term Loan and \$3,398 was used to purchase additional common equity of UPRC through UPH. The proceeds were utilized by UPRC to purchase a 66.2% ownership interest in Columbus OH Apartment Holdco, LLC for \$21,992 and to pay \$241 of structuring fees to Prospect (which was recognized by Prospect as structuring fee income), with \$455 retained by UPRC for working capital. The JV was purchased for \$114,377 which included debt financing and minority interest of \$97,902 and \$11,250, respectively. The remaining proceeds were used to pay \$440 of structuring fees to Prospect (which was recognized by Prospect as structuring fee income), \$7,711 of third party expenses, \$180 for legal services provided by attorneys at Prospect Administration, \$6,778 in pre-funded capital expenditures, and \$1,658 of prepaid assets.

On October 23, 2014, UPRC transferred its investment in Michigan Storage, LLC to NPRC. As a result, Prospect's investments in UPRC related to these properties also transferred to NPRC. The investments transferred consisted of \$1,281 of equity and \$9,444 of debt. There was no gain or loss realized on the transaction.

On November 12, 2014, Prospect made a \$669 investment in UPRC, of which \$569 was a Senior Term Loan and \$100 was used to purchase additional common equity of UPRC through UPH. The proceeds were utilized by UPRC to purchase additional ownership interest in South Atlanta Portfolio Holding Company, LLC for \$667, with \$2 retained by UPRC for working capital. The minority interest holder also invested an additional \$53 in the JV. The proceeds were used by the JV to fund \$707 of capital expenditures and pay \$13 of structuring fees to Prospect (which was recognized by Prospect as structuring fee income).

On April 27, 2015, Prospect made a \$733 investment in UPRC, of which \$623 was a Senior Term Loan and \$110 was used to purchase additional common equity of UPRC through UPH. The proceeds were utilized by UPRC to purchase additional ownership interest in South Atlanta Portfolio Holding Company, LLC for \$731 and pay \$2 of legal services provided by attorneys at Prospect Administration. The minority interest holder also invested an additional \$59 in the JV. The proceeds were used by the JV to fund \$775 of capital expenditures and pay \$15 of structuring fees to Prospect (which was recognized by Prospect as structuring fee income).

On May 19, 2015, Prospect made a \$4,730 investment in UPRC, of which \$3,926 was a Senior Term Loan and \$804 was used to purchase additional common equity of UPRC through UPH. The proceeds were utilized by UPRC to purchase additional ownership interest in Columbus OH Apartment Holdco, LLC for \$4,658, with \$72 retained by UPRC for working capital. The proceeds were used by the JV to fund \$4,565 of capital expenditures and pay \$93 of structuring fees to Prospect (which was recognized by Prospect as structuring fee income).

The following dividends were declared and paid from UPRC to UPH and recognized as dividend income by UPH:

Year Ended June 30, 2013	\$	-
Year Ended June 30, 2014		510
Year Ended June 30, 2015		-

All dividends were paid from earnings and profits of UPRC.

The following interest payments were accrued and paid by UPH to Prospect and recognized by Prospect as interest income:

Year Ended June 30, 2013	\$	-
Year Ended June 30, 2014		548
Year Ended June 30, 2015		N/A

Included above, the following payment-in-kind interest from UPH was capitalized and recognized by Prospect as interest income:

Year Ended June 30, 2013	\$	-
Year Ended June 30, 2014		173
Year Ended June 30, 2015		N/A

The following interest payments were accrued and paid by UPRC to Prospect and recognized by Prospect as interest income:

Year Ended June 30, 2013	\$	-
Year Ended June 30, 2014		553
Year Ended June 30, 2015		5,893

Included above, the following payment-in-kind interest from UPRC was capitalized and recognized by Prospect as interest income:

Year Ended June 30, 2013	\$	-
Year Ended June 30, 2014		-
Year Ended June 30, 2015		162

The following interest income recognized had not yet been paid by UPRC to Prospect and was included by Prospect within interest receivable:

June 30, 2014	\$	6
June 30, 2015		20

The following royalty payments were paid from UPH to Prospect and recognized by Prospect as other income:

Year Ended June 30, 2013	\$	-
Year Ended June 30, 2014		156
Year Ended June 30, 2015		N/A

The following royalty payments were paid from UPRC to Prospect and recognized by Prospect as other income:

Year Ended June 30, 2013	\$	-
Year Ended June 30, 2014		-
Year Ended June 30, 2015		901

The following managerial assistance payments were paid from UPRC to Prospect and subsequently remitted to Prospect Administration (no income was recognized by Prospect):

Year Ended June 30, 2013	\$	-
Year Ended June 30, 2014		100
Year Ended June 30, 2015		200

The following managerial assistance payments received by Prospect had not yet been remitted to Prospect Administration and were included by Prospect within due to Prospect Administration:

June 30, 2014	\$	50
June 30, 2015		50

The following payments were paid from UPRC to Prospect Administration as reimbursement for legal, tax and portfolio level accounting services provided directly to UPRC (no direct income was recognized by Prospect, but Prospect was given credit for these payments as a reduction of the administrative services costs payable by Prospect to Prospect Administration):

Year Ended June 30, 2013	\$	-
Year Ended June 30, 2014		85
Year Ended June 30, 2015		262

The following amounts were due from UPRC to Prospect for reimbursement of expenses paid by Prospect on behalf of UPRC and were included by Prospect within other receivables:

June 30, 2014	\$	32
June 30, 2015		15

Valley Electric Company, Inc.

Prospect owns 100% of the common stock of Valley Electric Holdings I, Inc. ("Valley Holdings I"), a Consolidated Holding Company. Valley Holdings I owns 100% of Valley Electric Holdings II, Inc. ("Valley Holdings II"), a Consolidated Holding Company. Valley Holdings II owns 94.99% of Valley Electric Company, Inc. ("Valley Electric"), with Valley Electric management owning the remaining 5.01% of the equity. Valley Electric owns 100% of the equity of VE Company, Inc., which owns 100% of the equity of Valley Electric Co. of Mt. Vernon, Inc. ("Valley"), a leading provider of specialty electrical services in the state of Washington and among the top 50 electrical contractors in the United States.

On December 31, 2012, Prospect initially invested \$52,098 (including 4,141,547 common shares of Prospect at a fair value of \$44,650) in exchange for \$32,572 was in the form of a senior secured note to Valley Holdings I, a \$10,000 senior secured note to Valley (discussed below) and \$9,526 to purchase the common stock of Valley Holdings I. The proceeds were partially utilized by Valley Holdings I to purchase 100% of Valley Holdings II common stock for \$40,528. The remaining proceeds at Valley Holdings I were used to pay \$977 of structuring fees from Valley Holdings I to Prospect (which were recognized by Prospect as structuring fee income), \$345 for legal services provided by attorneys at Prospect Administration and \$248 was retained by Valley Holdings I for working capital. The \$40,528 of proceeds received by Valley Holdings II were subsequently used to purchase 96.3% of Valley's common stock. Valley management provided a \$1,500 co-investment in Valley.

On December 31, 2012, Prospect invested \$10,000 (as mentioned above) into Valley in the form of senior secured debt. Total proceeds of \$52,028 received by Valley (including \$42,028 equity investment mentioned above) were used to purchase the equity of Valley from third-party sellers for \$45,650, pay \$4,628 of third-party transaction expenses (including bonuses to Valley's management of \$2,320), pay \$250 from Valley to Prospect (which were recognized by Prospect as structuring fee income) and \$1,500 was retained by Valley for working capital.

On June 24, 2014, Valley Holdings II and management of Valley formed Valley Electric and contributed their shares of Valley stock to Valley Electric. Valley management made an additional equity investment in Valley Electric, reducing our ownership to 94.99%. Prospect made a new \$20,471 senior secured loan to Valley Electric. Valley Electric then distributed this amount to Valley Holdings I, via Valley Holdings II, as a return of capital which was used to pay down the senior secured note of Valley Holdings I by the same amount. The remaining principal amount of the senior secured note, \$16,754, was then contributed to the capital of Valley Holdings I.

On July 1, 2014, Prospect began consolidating Valley Holdings I and Valley Holdings II. As a result, any transactions between Valley Holdings I, Valley Holdings II and Prospect are eliminated in consolidation and as such, transactions after July 1, 2014 are not presented below.

In addition to the repayments noted above, the following amounts were paid from Valley to Prospect and recorded by Prospect as repayment of loan receivable:

Year Ended June 30, 2013	\$	100
Year Ended June 30, 2014		200
Year Ended June 30, 2015		-

The following dividends were declared and paid from Valley to Valley Holdings II, which were subsequently distributed to and recognized as dividend income by Valley Holdings I:

Year Ended June 30, 2013	\$	1,867
Year Ended June 30, 2014		2,953
Year Ended June 30, 2015		-

All dividends were paid from earnings and profits of Valley and Valley Holdings II.

The following interest payments were accrued and paid from Valley Holdings I to Prospect and recognized by Prospect as interest income:

Year Ended June 30, 2013	\$	2,982
Year Ended June 30, 2014		6,323
Year Ended June 30, 2015		N/A

Included above, the following payment-in-kind interest from Valley Holdings I was capitalized and recognized by Prospect as interest income:

Year Ended June 30, 2013	\$	1,491
Year Ended June 30, 2014		3,162
Year Ended June 30, 2015		N/A

The following interest payments were accrued and paid from Valley Electric to Prospect and recognized by Prospect as interest income:

Year Ended June 30, 2013	\$	-
Year Ended June 30, 2014		74
Year Ended June 30, 2015		3,905

Included above, the following payment-in-kind interest from Valley Electric was capitalized and recognized by Prospect as interest income:

Year Ended June 30, 2013	\$	-
Year Ended June 30, 2014		29
Year Ended June 30, 2015		1,794

The following interest income recognized had not yet been paid by Valley Electric to Prospect and was included by Prospect within interest receivable:

June 30, 2014	\$	45
June 30, 2015		11

The following interest payments were accrued and paid from Valley to Prospect and recognized by Prospect as interest income:

Year Ended June 30, 2013	\$	530
Year Ended June 30, 2014		1,074
Year Ended June 30, 2015		1,086

Included above, the following payment-in-kind interest from Valley was capitalized and recognized by Prospect as interest income:

Year Ended June 30, 2013	\$	126
Year Ended June 30, 2014		255
Year Ended June 30, 2015		259

The following interest income recognized had not yet been paid by Valley to Prospect and was included by Prospect within interest receivable:

June 30, 2014	\$	3
June 30, 2015		3

The following royalty payments were paid from Valley Holdings I to Prospect and recognized by Prospect as other income:

Year Ended June 30, 2013	\$	98
Year Ended June 30, 2014		148
Year Ended June 30, 2015		N/A

The following managerial assistance payments were paid from Valley to Prospect and subsequently remitted to Prospect Administration (no income was recognized by Prospect):

Year Ended June 30, 2013	\$	150
Year Ended June 30, 2014		300
Year Ended June 30, 2015		300

The following managerial assistance payments received by Prospect had not yet been remitted to Prospect Administration and were included by Prospect within due to Prospect Administration:

June 30, 2014	\$	75
June 30, 2015		75

The following payments were paid from Valley Electric to Prospect Administration as reimbursement for legal, tax and portfolio level accounting services provided directly to Valley Electric (no direct income was recognized by Prospect, but Prospect was given credit for these payments as a reduction of the administrative services costs payable by Prospect to Prospect Administration):

Year Ended June 30, 2013	\$	345
Year Ended June 30, 2014		91
Year Ended June 30, 2015		18

The following amounts were due to Valley Electric from Prospect for reimbursement of expenses paid by Valley Electric on behalf of Prospect and were included by Prospect within other liabilities:

June 30, 2014	\$	6
June 30, 2015		-

Vets Securing America, Inc.

As of June 30, 2014, Prospect owned 100% of the equity of Vets Securing America, Inc. ("VSA") and 100% of the equity of The Healing Staff, Inc. ("THS"), a former wholly-owned subsidiary of ESA Environmental Specialists, Inc. ("ESA"). During the year ended June 30, 2015, THS ceased operations and the VSA management team supervised both the continued operations of VSA and the wind-down of activities at THS. VSA provides out-sourced security guards staffing.

As of July 1, 2011, the cost basis of Prospect's investment in THS and VSA, including debt and equity, was \$18,219. During the year ended June 30, 2012, Prospect made follow-on secured debt investments of \$1,033 to support the ongoing operations of THS and VSA. In October 2011, Prospect sold a building previously acquired from ESA for \$894. In January 2012, Prospect received \$2,250 of litigation settlement proceeds related to ESA. The proceeds from both of these transactions were used to reduce the outstanding loan balances due from THS and VSA by \$3,144. In June 2012, THS and VSA repaid \$118 and \$42, respectively, of loans previously outstanding.

In May 2012, in connection with the implementation of accounts receivable based funding programs for THS and VSA with a third party provider, Prospect agreed to subordinate its first priority security interest in all of the accounts receivable and other assets of THS and VSA to the third party provider of that accounts receivable based funding.

During the year ended June 30, 2013, Prospect determined that the impairment of THS and VSA was other-than-temporary and recorded a realized loss of \$12,117, reducing the amortized cost to \$3,831. During the year ended June 30, 2014, Prospect received \$5,825 of legal cost reimbursement related to the ESA litigation settlement which had been expensed in prior years. The proceeds were recognized by Prospect as other income during the year ended June 30, 2014. During the year ended June 30, 2015, Prospect received \$685 related to the ESA litigation settlement which was recognized as realized gain.

On May 20, 2015, Prospect made a new \$100 secured promissory note to provide liquidity to VSA.

As of June 30, 2014, THS and VSA were joint borrowers on the secured promissory notes. On June 5, 2015, Prospect sold its equity investment in VSA and realized a net loss of \$975 on the sale. In connection with the sale, VSA was released as a borrower on the secured promissory notes, leaving THS as the sole borrower. During the year ended June 30, 2015, THS ceased operations and Prospect recorded a realized loss of \$2,956, reducing the amortized cost to zero.

The following amounts were due from THS and VSA to Prospect for reimbursement of expenses paid by Prospect on behalf of THS and VSA and were included by Prospect within other receivables:

June 30, 2014	\$	6
June 30, 2015		-

Wolf Energy, LLC

Prospect owns 100% of the equity of Wolf Energy Holdings Inc. (“Wolf Energy Holdings”), a Consolidated Holding Company. Wolf Energy Holdings owns 100% of each of Appalachian Energy LLC (f/k/a Appalachian Energy Holdings, LLC) (“AEH”); Coalbed, LLC (“Coalbed”); and Wolf Energy, LLC (“Wolf Energy”). AEH owns 100% of C&S Operating, LLC.

Wolf Energy Holdings is a holding company formed to hold 100% of the outstanding membership interests of each of AEH and Coalbed. The membership interests and associated operating company debt of AEH and Coalbed, which were previously owned by Manx Energy, Inc. (“Manx”), were assigned to Wolf Energy Holdings effective June 30, 2012. The purpose of assignment was to remove those activities from Manx deemed non-core by the Manx convertible debt investors who were not interested in funding those operations. On June 30, 2012, AEH and Coalbed loans with a cost basis of \$7,991 were assigned by Prospect to Wolf Energy Holdings from Manx.

In addition, effective June 29, 2012, C&J Cladding Holding Company, Inc. (“C&J Holdings”) merged with and into Wolf Energy Holdings, with Wolf Energy Holdings as the surviving entity. At the time of the merger, C&J Holdings held the remaining undistributed proceeds in cash from the sale of its membership interests in C&J Cladding, LLC (“C&J”) (discussed below). The merger was effectuated in connection with the broader simplification of Prospect’s energy investment holdings.

On June 1, 2012, Prospect sold the membership interests in C&J for \$5,500. Proceeds from the sale were used to pay a \$3,000 distribution to Prospect (\$580 reduction in cost basis and \$2,420 realized gain recognized by Prospect), an advisory fee of \$1,500 from C&J to Prospect (which was recognized by Prospect as other income) and \$978 was retained by C&J as working capital to pay \$22 of legal services provided by attorneys at Prospect Administration and third-party expenses.

On February 27, 2013, Prospect made a \$50 senior secured debt investment senior secured to East Cumberland, L.L.C., a former wholly-owned subsidiary of AEH with AEH as guarantor. Proceeds were used to pay off vendors.

On April 15, 2013, Prospect foreclosed on the assets of H&M Oil & Gas, LLC (“H&M”). At the time of foreclosure, H&M was in default on loans receivables due to Prospect with a cost basis of \$64,449. The assets previously held by H&M were assigned by Prospect to Wolf Energy in exchange for a \$66,000 term loan secured by the assets. The cost basis in this loan of \$44,632 was determined in accordance with ASC 310-40, *Troubled Debt Restructurings by Creditors*, and was equal to the fair value of assets at the time of transfer resulting in a capital loss of \$19,647 in connection with the foreclosure on the assets. On May 17, 2013, Wolf Energy sold the assets located in Martin County, which were previously held by H&M, for \$66,000. Proceeds from the sale were primarily used to repay the loan, accrued interest and net profits interest receivable due to us resulting in a realized capital gain of \$11,826 offsetting the previously recognized loss. Prospect received \$3,960 of structuring and advisory fees from Wolf Energy during the year ended June 30, 2013 related to the sale and \$991 under the net profits interest agreement which was recognized as other income during the fiscal year ended June 30, 2013.

On July 1, 2014, Prospect began consolidating Wolf Energy Holdings. As a result, any transactions between Wolf Energy Holdings and Prospect are eliminated in consolidation and as such, transactions after July 1, 2014 are not presented below.

During the three months ended September 30, 2014, Prospect determined that the impairment of AEH was other-than temporary and recorded a realized loss of \$2,050, reducing the amortized cost to zero. On November 21, 2014, Coalbed merged with and into Wolf Energy, with Wolf Energy as the surviving entity. During the three months ended December 31, 2014, Prospect determined that the impairment of the Coalbed debt assumed by Wolf Energy was other-than-temporary and recorded a realized loss of \$5,991, reducing the amortized cost to zero.

During the year ended June 30, 2015, Wolf Energy Holdings received a tax refund of \$173 related to its investment in C&J and Prospect realized a gain of the same amount.

The following payments were paid from Wolf Energy Holdings to Prospect Administration as reimbursement for legal, tax and portfolio level accounting services provided directly to Wolf Energy 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):

Year Ended June 30, 2013	\$	22
Year Ended June 30, 2014		101
Year Ended June 30, 2015		N/A

Note 15. Litigation

From time to time, we may become involved in various investigations, claims and legal proceedings that arise in the ordinary course of our business. These matters may relate to intellectual property, employment, tax, regulation, contract or other matters. The resolution of these matters as they arise will be subject to various uncertainties and, even if such claims are without merit, could result in the expenditure of significant financial and managerial resources. We are not aware of any material litigation as of June 30, 2015.

Note 16. Financial Highlights

The following is a schedule of financial highlights for each of the five years in the period ended June 30, 2015:

	Year Ended June 30,				
	2015	2014	2013	2012	2011
Per Share Data					
Net asset value at beginning of year	\$ 10.56	\$ 10.72	\$ 10.83	\$ 10.36	\$ 10.30
Net investment income(1)	1.03	1.19	1.57	1.63	1.10
Net realized losses (gains) on investments(1)	(0.51)	(0.01)	(0.13)	0.32	0.19
Net change in unrealized appreciation (depreciation) on investments(1)	0.47	(0.12)	(0.37)	(0.28)	0.09
Net realized losses on extinguishment of debt(1)	(0.01)	-	-	-	-
Dividends to shareholders	(1.19)	(1.32)	(1.28)	(1.22)	(1.21)
Common stock transactions(2)	(0.04)	0.10	0.10	0.02	(0.11)
Net asset value at end of year	<u>\$ 10.31</u>	<u>\$ 10.56</u>	<u>\$ 10.72</u>	<u>\$ 10.83</u>	<u>\$ 10.36</u>
Per share market value at end of year	\$ 7.37	\$ 10.63	\$ 10.80	\$ 11.39	\$ 10.11
Total return based on market value(3)	(20.84%)	10.88%	6.24%	27.21%	17.22%
Total return based on net asset value(3)	11.47%	10.97%	10.91%	18.03%	12.54%
Shares of common stock outstanding at end of year	359,090,759	342,626,637	247,836,965	139,633,870	107,606,690
Weighted average shares of common stock outstanding	353,648,522	300,283,941	207,069,971	114,394,554	85,978,757
Ratios/Supplemental Data					
Net assets at end of year	\$ 3,703,049	\$ 3,618,182	\$ 2,656,494	\$ 1,511,974	\$ 1,114,357
Portfolio turnover rate	25.32%	15.21%	29.24%	29.06%	27.63%
Annualized ratio of operating expenses to average net assets	11.70%	11.11%	11.50%	10.73%	8.47%
Annualized ratio of net investment income to average net assets	9.91%	11.18%	14.86%	14.92%	10.60%

- (1) Per share data amount is based on the weighted average number of common shares outstanding for the period presented (except for dividends to shareholders which is based on actual rate per share).
- (2) 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.
- (3) Total return based on market value is based on the change in market price per share between the opening and ending market prices per share in each period and assumes that dividends are reinvested in accordance with our dividend reinvestment plan. Total return based on net asset value is based upon the change in net asset value per share between the opening and ending net asset values per share in each period and assumes that dividends are reinvested in accordance with our dividend reinvestment plan.

Note 17. Selected Quarterly Financial Data (Unaudited)

The following table sets forth selected financial data for each quarter within the three years ended June 30, 2015.

Quarter Ended	Investment Income		Net Investment Income		Net Realized and Unrealized Gains (Losses)		Net Increase in Net Assets from Operations	
	Total	Per Share(1)	Total	Per Share(1)	Total	Per Share(1)	Total	Per Share(1)
September 30, 2012	\$ 123,636	\$ 0.76	\$ 74,027	\$ 0.46	\$ (26,778)	\$ (0.17)	\$ 47,249	\$ 0.29
December 31, 2012	166,035	0.85	99,216	0.51	(52,727)	(0.27)	46,489	0.24
March 31, 2013	120,195	0.53	59,585	0.26	(15,156)	(0.07)	44,429	0.20
June 30, 2013	166,470	0.68	92,096	0.38	(9,407)	(0.04)	82,689	0.34
September 30, 2013	161,034	0.62	82,337	0.32	(2,437)	(0.01)	79,900	0.31
December 31, 2013	178,090	0.62	92,215	0.32	(6,853)	(0.02)	85,362	0.30
March 31, 2014	190,327	0.60	98,523	0.31	(16,422)	(0.05)	82,101	0.26
June 30, 2014	182,840	0.54	84,148	0.25	(12,491)	(0.04)	71,657	0.21
September 30, 2014	202,021	0.59	94,463	0.28	(10,355)	(0.04)	84,108	0.24
December 31, 2014	198,883	0.56	91,325	0.26	(5,355)	(0.02)	85,970	0.24
March 31, 2015	191,350	0.53	87,441	0.24	(5,949)	(0.01)	81,492	0.23
June 30, 2015	198,830	0.55	89,518	0.25	5,251	0.01	94,769	0.26

(1) Per share amounts are calculated using the weighted average number of common shares outstanding for the period presented. As such, the sum of the quarterly per share amounts above will not necessarily equal the per share amounts for the fiscal year.

Note 18. Subsequent Events

On July 1, 2015, we provided \$31,000 of first lien senior secured financing, of which \$30,200 was funded at closing, to Intelius, Inc. ("Intelius"), an online information commerce company.

On July 8, 2015, we sold 27.45% of the outstanding principal balance of the senior secured Term Loan A investment in InterDent, Inc. for \$34,415. There was no gain or loss realized on the sale.

On July 23, 2015, we made an investment of \$37,969 to purchase 80.73% of the subordinated notes in Halcyon Loan Advisors Funding 2015-3 Ltd. in a co-investment transaction with Priority Income Fund, Inc., a closed-end fund managed by an affiliate of Prospect Capital Management.

On July 23, 2015, we issued 193,892 shares of our common stock in connection with the dividend reinvestment plan.

On July 24, 2015, TB Corp. repaid the \$23,628 loan receivable to us.

On August 6, 2015, we provided \$92,500 of first lien senior secured debt to support the refinancing of Crosman Corporation. Concurrent with the refinancing, we received repayment of the \$40,000 second lien term loan previously outstanding.

On August 7, 2015, Ryan, LLC repaid the \$72,701 loan receivable to us.

On August 11, 2015, we made a \$13,500 follow-on first lien senior secured debt investment in Intelius, of which \$13,000 was funded at closing, to support an acquisition.

On August 12, 2015, we made an investment of \$22,898 to purchase 50.04% of the subordinated notes in Octagon Investment Partners XVIII, Ltd.

On August 12, 2015, we sold 780 of our small business whole loans purchased from OnDeck to Jefferies Asset Funding LLC for proceeds of \$26,562, net of related transaction expenses, and a trust certificate representing a 41.54% interest in the MarketPlace Loan Trust, Series 2015-OD2.

On August 14, 2015, we announced the then current conversion rate on the 2018 Notes as 84.1497 shares of common stock per \$1 principal amount of the 2018 Notes converted, which is equivalent to a conversion price of approximately \$11.88.

On August 20, 2015, we issued 152,896 shares of our common stock in connection with the dividend reinvestment plan.

On August 21, 2015, we committed to funding a \$16,000 second lien secured investment in a provider of customer care outsourcing services.

During the period from July 1, 2015 through August 26, 2015, we made seven follow-on investments in NPRC totaling \$52,852 to support the online consumer lending initiative. We invested \$12,508 of equity through NPH and \$40,344 of debt directly to ACL Loan Holdings, Inc., a wholly-owned subsidiary of NPRC.

During the period from July 1, 2015 through August 26, 2015, our wholly-owned subsidiary PSBL purchased \$14,101 of small business whole loans from OnDeck.

During the period from July 1, 2015 through August 26, 2015, we issued \$32,362 aggregate principal amount of Prospect Capital InterNotes® for net proceeds of \$31,870. In addition, we sold \$1,425 aggregate principal amount of Prospect Capital InterNotes® for net proceeds of \$1,405 with expected closing on August 27, 2015.

During the period from July 28, 2015 through August 14, 2015 (with settlement dates of July 31, 2015 to August 19, 2015), we repurchased 4,158,750 shares of our common stock at an average price of \$7.22 per share, including commissions.

On August 24, 2015, we announced the declaration of monthly dividends in the following amounts and with the following dates:

- \$0.08333 per share for September 2015 to holders of record on September 30, 2015 with a payment date of October 22, 2015; and
- \$0.08333 per share for October 2015 to holders of record on October 30, 2015 with a payment date of November 19, 2015.

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

Not applicable.

Item 9A. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

As of June 30, 2015, we evaluated the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rule 13a-15(e) of the 1934 Act). Based on that evaluation, our management, including the Chief Executive Officer and Chief Financial Officer, concluded that our disclosure controls and procedures were effective and provided reasonable assurance that information required to be disclosed in our periodic SEC filings is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure. However, in evaluating the disclosure controls and procedures, management recognized that any controls and procedures, no matter how well designed and operated can provide only reasonable assurance of achieving the desired control objectives, and management necessarily was required to apply its judgment in evaluating the cost-benefit relationship of such possible controls and procedures.

Report of Management on Internal Control Over Financial Reporting

Management is responsible for establishing and maintaining adequate internal control over financial reporting, and for performing an assessment of the effectiveness of internal control over financial reporting as of June 30, 2015. 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, 2015 based upon criteria in Internal Control-Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO"). Based on our assessment, management determined that the Company's internal control over financial reporting was effective as of June 30, 2015 based on the criteria on Internal Control-Integrated Framework (2013) issued by COSO. There were no changes in our internal control over financial reporting during the quarter ended June 30, 2015 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, 2015 has been audited by BDO USA, LLP, an independent registered public accounting firm, as stated in their report which appears herein.

Report of Independent Registered Public Accounting Firm

Board of Directors and Shareholders
Prospect Capital Corporation
New York, New York

We have audited Prospect Capital Corporation's internal control over financial reporting as of June 30, 2015, based on criteria established in Internal Control-Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). Prospect Capital Corporation's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying "Item 9A, Report of Management on Internal Control Over Financial Reporting." Our responsibility is to express an opinion on the company's internal control over financial reporting based on our audit.

We conducted our audit 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 effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, Prospect Capital Corporation maintained, in all material respects, effective internal control over financial reporting as of June 30, 2015, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated statements of assets and liabilities of Prospect Capital Corporation, including the consolidated schedules of investments, as of June 30, 2015 and June 30, 2014, 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, 2015, and the financial highlights for each of the five years in the period ended June 30, 2015, and our report dated August 26, 2015 expressed an unqualified opinion thereon.

/s/ BDO USA, LLP

BDO USA, LLP

New York, New York

August 26, 2015

Item 9B. Other Information

Not applicable.

PART III**Item 10. Directors, Executive Officers and Corporate Governance***Section 16(a) Beneficial Ownership Reporting Compliance*

Section 16(a) of the Securities Exchange Act of 1934, as amended, requires the Company's directors and executive officers, and persons who own more than 10% of the Company's common stock to file reports of ownership and changes in ownership with the Securities and Exchange Commission. To the Company's knowledge, during the fiscal year ended June 30, 2015, the Company's officers, directors and greater than 10% stockholders had complied with all Section 16(a) filing requirements, except that one Form 4 was filed three days late on behalf of John F. Barry III, Chief Executive Officer, for the purchase of shares of common stock due to an administrative error.

The information required by Item 10 is hereby incorporated by reference from our 2015 Proxy Statement.

Code of Ethics

We, Prospect Capital Management and Prospect Administration have each adopted a code of ethics pursuant to Rule 17j-1 under the 1940 Act that establishes procedures for personal investments and restricts certain personal securities transactions. Personnel subject to each code may invest in securities for their personal investment accounts, including securities that may be purchased or held by us, so long as such investments are made in accordance with the code's requirements. For information on how to obtain a copy of each code of ethics, see "Available Information" in Part I of this Annual Report.

Item 11. Executive Compensation

The information required by Item 11 is hereby incorporated by reference from our 2015 Proxy Statement.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

The information required by Item 12 is hereby incorporated by reference from our 2015 Proxy Statement.

Item 13. Certain Relationships and Related Transactions, and Director Independence

The information required by Item 13 is hereby incorporated by reference from our 2015 Proxy Statement.

Item 14. Principal Accountant Fees and Services

The information required by Item 14 is hereby incorporated by reference from our 2015 Proxy Statement.

PART IV

Item 15. Exhibits, Financial Statement Schedules

The following documents are filed as part of this Annual Report:

1. Financial Statements - See the Index to Consolidated Financial Statements in Item 8 of this report.
2. Financial Statement Schedules - The financial statements of First Tower Finance Company LLC and its consolidated subsidiaries required by Rule 3-09 of Regulation S-X will be provided as Exhibit 99.1 via an amendment to this report. The financial statements of Harbortouch Payments, LLC required by Rule 3-09 of Regulation S-X will be provided as Exhibit 99.2 via an amendment to this report.
3. Exhibits - The following exhibits are filed as part of this report or hereby incorporated by reference to exhibits previously filed with the SEC (according to the number assigned to them in Item 601 of Regulation S-K):

Exhibit No.

- 3.1 Articles of Amendment and Restatement(1)
- 3.2 Amended and Restated Bylaws(3)
- 4.1 Form of Share Certificate(2)
- 4.2 Form of Indenture(9)
- 4.3 Indenture dated as of December 21, 2010 relating to the 6.25% Senior Convertible Notes, by and between the Registrant and American Stock Transfer & Trust Company, LLC, as Trustee and Form of 6.25% Senior Convertible Note due 2015(7)
- 4.4 Indenture dated as of February 18, 2011 relating to the 5.50% Senior Convertible Notes, by and between the Registrant and American Stock Transfer & Trust Company, LLC, as Trustee(8)
- 4.5 Form of 5.50% Senior Convertible Note due 2016(6)
- 4.6 Indenture dated as of February 16, 2012, by and between the Registrant and American Stock Transfer & Trust Company, LLC, as Trustee(10)
- 4.7 First Supplemental Indenture dated as of March 1, 2012, to the Indenture dated as of February 16, 2012, by and between the Registrant and American Stock Transfer & Trust Company, LLC, as Trustee and Form of 7.00% Prospect Capital InterNote® due 2022(10)
- 4.8 Second Supplemental Indenture dated as of March 8, 2012, to the Indenture dated as of February 16, 2012, by and between the Registrant and American Stock Transfer & Trust Company, LLC, as Trustee(11)

- 4.9 Joinder Supplemental Indenture dated as of March 8, 2012, to the Indenture dated as of February 16, 2012, by and among the Registrant, American Stock Transfer & Trust Company, LLC, as Original Trustee, and U.S. Bank National Association, as Series Trustee and Form of 6.900% Prospect Capital InterNote® due 2022(11)

- 4.10 Agreement of Resignation, Appointment and Acceptance dated as of March 12, 2012, by and among the Registrant, American Stock Transfer & Trust Company, LLC, as Retiring Trustee, and U.S. Bank National Association, as Successor Trustee (the “U.S. Bank Indenture”)(12)

- 4.11 Third Supplemental Indenture dated as of April 5, 2012, to the U.S. Bank Indenture and Form of 6.850% Prospect Capital InterNote® due 2022(14)

- 4.12 Fourth Supplemental Indenture dated as of April 12, 2012, to the U.S. Bank Indenture and Form of 6.700% Prospect Capital InterNote® due 2022(15)

- 4.13 Indenture dated as of April 16, 2012 relating to the 5.375% Senior Convertible Notes, by and between the Registrant and American Stock Transfer & Trust Company, as Trustee(16)

- 4.14 Form of 5.375% Senior Convertible Note due 2017(17)

- 4.15 Fifth Supplemental Indenture dated as of April 26, 2012, to the U.S. Bank Indenture and Form of 6.500% Prospect Capital InterNote® due 2022(18)

- 4.16 Indenture dated as of August 14, 2012 relating to the 5.75% Senior Convertible Notes, by and between the Registrant and American Stock Transfer & Trust Company, as Trustee(19)

- 4.17 Form of 5.75% Senior Convertible Note due 2018(20)

- 4.18 Nineteenth Supplemental Indenture dated as of September 27, 2012, to the U.S. Bank Indenture and Form of 5.850% Prospect Capital InterNote® due 2019(21)

- 4.19 Twentieth Supplemental Indenture dated as of October 4, 2012, to the U.S. Bank Indenture and Form of 5.700% Prospect Capital InterNote® due 2019(22)

Exhibit No.

- 4.20 Twenty-First Supplemental Indenture dated as of November 23, 2012, to the U.S. Bank Indenture and Form of 5.125% Prospect Capital InterNote® due 2019(23)
- 4.21 Twenty-Second Supplemental Indenture dated as of November 23, 2012, to the U.S. Bank Indenture and Form of 6.625% Prospect Capital InterNote® due 2042(23)
- 4.22 Twenty-Third Supplemental Indenture dated as of November 29, 2012, to the U.S. Bank Indenture and Form of 5.000% Prospect Capital InterNote® due 2019(24)
- 4.23 Twenty-Fourth Supplemental Indenture dated as of November 29, 2012, to the U.S. Bank Indenture and Form of 5.750% Prospect Capital InterNote® due 2032(24)
- 4.24 Twenty-Fifth Supplemental Indenture dated as of November 29, 2012, to the U.S. Bank Indenture and Form of 6.500% Prospect Capital InterNote® due 2042(24)
- 4.25 Twenty-Sixth Supplemental Indenture dated as of December 6, 2012, to the U.S. Bank Indenture and Form of 4.875% Prospect Capital InterNote® due 2019(25)
- 4.26 Twenty-Eighth Supplemental Indenture dated as of December 6, 2012, to the U.S. Bank Indenture and Form of 6.375% Prospect Capital InterNote® due 2042(25)
- 4.27 Twenty-Ninth Supplemental Indenture dated as of December 13, 2012, to the U.S. Bank Indenture and Form of 4.750% Prospect Capital InterNote® due 2019(26)
- 4.28 Thirty-First Supplemental Indenture dated as of December 13, 2012, to the U.S. Bank Indenture and Form of 6.250% Prospect Capital InterNote® due 2042(26)
- 4.29 Thirty-Second Supplemental Indenture dated as of December 20, 2012, to the U.S. Bank Indenture and Form of 4.625% Prospect Capital InterNote® due 2019(27)
- 4.30 Thirty-Fourth Supplemental Indenture dated as of December 20, 2012, to the U.S. Bank Indenture and Form of 6.125% Prospect Capital InterNote® due 2042(27)
- 4.31 Indenture dated as of December 21, 2012, by and between the Registrant and American Stock Transfer & Trust Company, as Trustee and Form of Global Note 5.875% Convertible Senior Note Due 2019(28)

- 4.32 Thirty-Fifth Supplemental Indenture dated as of December 28, 2012, to the U.S. Bank Indenture and Form of 4.500% Prospect Capital InterNote® due 2019(29)
- 4.33 Thirty-Sixth Supplemental Indenture dated as of December 28, 2012, to the U.S. Bank Indenture and Form of 5.000% Prospect Capital InterNote® due 2030(29)
- 4.34 Thirty-Seventh Supplemental Indenture dated as of December 28, 2012, to the U.S. Bank Indenture and Form of 6.000% Prospect Capital InterNote® due 2042(29)
- 4.35 Thirty-Eighth Supplemental Indenture dated as of January 4, 2013, to the U.S. Bank Indenture and Form of 4.375% Prospect Capital InterNote® due 2020(30)
- 4.36 Thirty-Ninth Supplemental Indenture dated as of January 4, 2013, to the U.S. Bank Indenture and Form of 4.875% Prospect Capital InterNote® due 2031(30)
- 4.37 Fortieth Supplemental Indenture dated as of January 4, 2013, to the U.S. Bank Indenture and Form of 5.875% Prospect Capital InterNote® due 2043(30)
- 4.38 Forty-First Supplemental Indenture dated as of January 10, 2013, to the U.S. Bank Indenture and Form of 4.250% Prospect Capital InterNote® due 2020(31)
- 4.39 Forty-Second Supplemental Indenture dated as of January 10, 2013, to the U.S. Bank Indenture and Form of 4.750% Prospect Capital InterNote® due 2031(31)
- 4.40 Forty-Third Supplemental Indenture dated as of January 10, 2013, to the U.S. Bank Indenture and Form of 5.750% Prospect Capital InterNote® due 2043(31)
- 4.41 Forty-Fourth Supplemental Indenture dated as of January 17, 2013, to the U.S. Bank Indenture and Form of 4.125% Prospect Capital InterNote® due 2020(32)
- 4.42 Forty-Fifth Supplemental Indenture dated as of January 17, 2013, to the U.S. Bank Indenture and Form of 4.625% Prospect Capital InterNote® due 2031(32)
- 4.43 Forty-Sixth Supplemental Indenture dated as of January 17, 2013, to the U.S. Bank Indenture and Form of 5.625% Prospect Capital InterNote® due 2043(32)
- 4.44 Forty-Seventh Supplemental Indenture dated as of January 25, 2013, to the U.S. Bank Indenture and Form of 4.000% Prospect Capital InterNote® due 2020(33)
- 4.45 Forty-Eighth Supplemental Indenture dated as of January 25, 2013, to the U.S. Bank Indenture and Form of 4.500% Prospect Capital InterNote® due 2031(33)

Exhibit No.

- 4.46 Forty-Ninth Supplemental Indenture dated as of January 25, 2013, to the U.S. Bank Indenture and Form of 5.500% Prospect Capital InterNote® due 2043(33)
- 4.47 Fiftieth Supplemental Indenture dated as of January 31, 2013, to the U.S. Bank Indenture and Form of 4.000% Prospect Capital InterNote® due 2020(34)
- 4.48 Fifty-First Supplemental Indenture dated as of January 31, 2013, to the U.S. Bank Indenture and Form of 4.500% Prospect Capital InterNote® due 2031(34)
- 4.49 Fifty-Second Supplemental Indenture dated as of January 31, 2013, to the U.S. Bank Indenture and Form of 5.500% Prospect Capital InterNote® due 2043(34)
- 4.50 Fifty-Third Supplemental Indenture dated as of February 7, 2013, to the U.S. Bank Indenture and Form of 4.000% Prospect Capital InterNote® due 2020(35)
- 4.51 Fifty-Fourth Supplemental Indenture dated as of February 7, 2013, to the U.S. Bank Indenture and Form of 4.500% Prospect Capital InterNote® due 2031(35)
- 4.52 Fifty-Fifth Supplemental Indenture dated as of February 7, 2013, to the U.S. Bank Indenture and Form of 5.500% Prospect Capital InterNote® due 2043(35)
- 4.53 Fifty-Sixth Supplemental Indenture dated as of February 22, 2013, to the U.S. Bank Indenture and Form of 4.000% Prospect Capital InterNote® due 2020(36)
- 4.54 Fifty-Seventh Supplemental Indenture dated as of February 22, 2013, to the U.S. Bank Indenture and Form of 4.500% Prospect Capital InterNote® due 2031(36)
- 4.55 Fifty-Eighth Supplemental Indenture dated as of February 22, 2013, to the U.S. Bank Indenture and Form of 5.500% Prospect Capital InterNote® due 2043(36)
- 4.56 Fifty-Ninth Supplemental Indenture dated as of February 28, 2013, to the U.S. Bank Indenture and Form of 4.000% Prospect Capital InterNote® due 2020(37)
- 4.57 Sixtieth Supplemental Indenture dated as of February 28, 2013, to the U.S. Bank Indenture and Form of 4.500% Prospect Capital InterNote® due 2031(37)

- 4.58 Sixty-First Supplemental Indenture dated as of February 28, 2013, to the U.S. Bank Indenture and Form of 5.500% Prospect Capital InterNote® due 2043(37)
- 4.59 Sixty-Second Supplemental Indenture dated as of March 7, 2013, to the U.S. Bank Indenture and Form of 4.000% Prospect Capital InterNote® due 2020(38)
- 4.60 Sixty-Third Supplemental Indenture dated as of March 7, 2013, to the U.S. Bank Indenture and Form of 4.500% Prospect Capital InterNote® due 2031(38)
- 4.61 Sixty-Fourth Supplemental Indenture dated as of March 7, 2013, to the U.S. Bank Indenture and Form of 5.500% Prospect Capital InterNote® due 2043(38)
- 4.62 Sixty-Fifth Supplemental Indenture dated as of March 14, 2013, to the U.S. Bank Indenture and Form of 4.000% Prospect Capital InterNote® due 2020(39)
- 4.63 Sixty-Sixth Supplemental Indenture dated as of March 14, 2013, to the U.S. Bank Indenture and Form of 4.125% to 6.000% Prospect Capital InterNote® due 2031(39)
- 4.64 Sixty-Seventh Supplemental Indenture dated as of March 14, 2013, to the U.S. Bank Indenture and Form of 5.500% Prospect Capital InterNote® due 2043(39)
- 4.65 Sixty-Eighth Supplemental Indenture dated as of March 14, 2013, to the U.S. Bank Indenture and Form of Floating Prospect Capital InterNote® due 2023(39)
- 4.66 Supplemental Indenture dated as of March 15, 2013, to the U.S. Bank Indenture(40)
- 4.67 Form of Global Note 5.875% Senior Note due 2023(41)
- 4.68 Sixty-Ninth Supplemental Indenture dated as of March 21, 2013, to the U.S. Bank Indenture and Form of 4.000% Prospect Capital InterNote® due 2020(42)
- 4.69 Seventieth Supplemental Indenture dated as of March 21, 2013, to the U.S. Bank Indenture and Form of 4.125% to 6.000% Prospect Capital InterNote® due 2031(42)
- 4.70 Seventy-First Supplemental Indenture dated as of March 21, 2013, to the U.S. Bank Indenture and Form of 5.500% Prospect Capital InterNote® due 2043(42)
- 4.71 Seventy-Second Supplemental Indenture dated as of March 21, 2013, to the U.S. Bank Indenture and Form of Floating Prospect Capital InterNote® due 2023(42)

- 4.72 Seventy-Third Supplemental Indenture dated as of March 28, 2013, to the U.S. Bank Indenture and Form of 4.000% Prospect Capital InterNote® due 2020(43)

Exhibit No.

- 4.73 Seventy-Fourth Supplemental Indenture dated as of March 28, 2013, to the U.S. Bank Indenture and Form of 4.125% to 6.000% Prospect Capital InterNote® due 2031(43)
- 4.74 Seventy-Fifth Supplemental Indenture dated as of March 28, 2013, to the U.S. Bank Indenture and Form of 5.500% Prospect Capital InterNote® due 2043(43)
- 4.75 Seventy-Sixth Supplemental Indenture dated as of March 28, 2013, to the U.S. Bank Indenture and Form of Floating Prospect Capital InterNote® due 2023(43)
- 4.76 Seventy-Seventh Supplemental Indenture dated as of April 4, 2013, to the U.S. Bank Indenture and Form of 4.500% Prospect Capital InterNote® due 2020(44)
- 4.77 Seventy-Eighth Supplemental Indenture dated as of April 4, 2013, to the U.S. Bank Indenture and Form of 4.625% to 6.500% Prospect Capital InterNote® due 2031(44)
- 4.78 Seventy-Ninth Supplemental Indenture dated as of April 4, 2013, to the U.S. Bank Indenture and Form of 6.000% Prospect Capital InterNote® due 2043(44)
- 4.79 Eightieth Supplemental Indenture dated as of April 4, 2013, to the U.S. Bank Indenture and Form of Floating Prospect Capital InterNote® due 2023(44)
- 4.80 Eighty-First Supplemental Indenture dated as of April 11, 2013, to the U.S. Bank Indenture and Form of 4.500% Prospect Capital InterNote® due 2020(45)
- 4.81 Eighty-Second Supplemental Indenture dated as of April 11, 2013, to the U.S. Bank Indenture and Form of 5.500% Prospect Capital InterNote® due 2031(45)
- 4.82 Eighty-Third Supplemental Indenture dated as of April 11, 2013, to the U.S. Bank Indenture and Form of 6.000% Prospect Capital InterNote® due 2043(45)
- 4.83 Eighty-Fourth Supplemental Indenture dated as of April 11, 2013, to the U.S. Bank Indenture and Form of Floating Prospect Capital InterNote® due 2023(45)
- 4.84 Eighty-Fifth Supplemental Indenture dated as of April 18, 2013, to the U.S. Bank Indenture and Form of 5.000% Prospect Capital InterNote® due 2020(46)

- 4.85 Eighty-Sixth Supplemental Indenture dated as of April 18, 2013, to the U.S. Bank Indenture and Form of 5.500% Prospect Capital InterNote® due 2031(46)

- 4.86 Eighty-Seventh Supplemental Indenture dated as of April 18, 2013, to the U.S. Bank Indenture and Form of 6.000% Prospect Capital InterNote® due 2043(46)

- 4.87 Eighty-Eighth Supplemental Indenture dated as of April 25, 2013, to the U.S. Bank Indenture and Form of 5.000% Prospect Capital InterNote® due 2020(47)

- 4.88 Eighty-Ninth Supplemental Indenture dated as of April 25, 2013, to the U.S. Bank Indenture and Form of 5.500% Prospect Capital InterNote® due 2031(47)

- 4.89 Ninetieth Supplemental Indenture dated as of April 25, 2013, to the U.S. Bank Indenture and Form of 6.000% Prospect Capital InterNote® due 2043(47)

- 4.90 Ninety-First Supplemental Indenture dated as of May 2, 2013, to the U.S. Bank Indenture and Form of 5.000% Prospect Capital InterNote® due 2020(48)

- 4.91 Ninety-Second Supplemental Indenture dated as of May 2, 2013, to the U.S. Bank Indenture and Form of 5.750% Prospect Capital InterNote® due 2031(48)

- 4.92 Ninety-Third Supplemental Indenture dated as of May 2, 2013, to the U.S. Bank Indenture and Form of 6.250% Prospect Capital InterNote® due 2043(48)

- 4.93 Ninety-Fourth Supplemental Indenture dated as of May 9, 2013, to the U.S. Bank Indenture and Form of 5.000% Prospect Capital InterNote® due 2020(49)

- 4.94 Ninety-Fifth Supplemental Indenture dated as of May 9, 2013, to the U.S. Bank Indenture and Form of 5.750% Prospect Capital InterNote® due 2031(49)

- 4.95 Ninety-Sixth Supplemental Indenture dated as of May 9, 2013, to the U.S. Bank Indenture and Form of 6.250% Prospect Capital InterNote® due 2043(49)

- 4.96 Ninety-Seventh Supplemental Indenture dated as of May 23, 2013, to the U.S. Bank Indenture and Form of 5.000% Prospect Capital InterNote® due 2020(50)

- 4.97 Ninety-Eighth Supplemental Indenture dated as of May 23, 2013, to the U.S. Bank Indenture and Form of 5.750% Prospect Capital InterNote® due 2031(50)

- 4.98 Ninety-Ninth Supplemental Indenture dated as of May 23, 2013, to the U.S. Bank Indenture and Form of 6.250% Prospect Capital InterNote® due 2043(50)

Exhibit No.

- 4.99 One Hundredth Supplemental Indenture dated as of May 23, 2013, to the U.S. Bank Indenture and Form of 5.000% to 7.000% Prospect Capital InterNote® due 2028(50)
- 4.100 One Hundred-First Supplemental Indenture dated as of May 31, 2013, to the U.S. Bank Indenture and Form of 5.000% Prospect Capital InterNote® due 2020(51)
- 4.101 One Hundred-Second Supplemental Indenture dated as of May 31, 2013, to the U.S. Bank Indenture and Form of 5.750% Prospect Capital InterNote® due 2031(51)
- 4.102 One Hundred-Third Supplemental Indenture dated as of May 31, 2013, to the U.S. Bank Indenture and Form of 6.250% Prospect Capital InterNote® due 2043(51)
- 4.103 One Hundred-Fourth Supplemental Indenture dated as of June 6, 2013, to the U.S. Bank Indenture and Form of 5.000% Prospect Capital InterNote® due 2020(52)
- 4.104 One Hundred-Fifth Supplemental Indenture dated as of June 6, 2013, to the U.S. Bank Indenture and Form of 5.750% Prospect Capital InterNote® due 2031(52)
- 4.105 One Hundred-Sixth Supplemental Indenture dated as of June 6, 2013, to the U.S. Bank Indenture and Form of 6.250% Prospect Capital InterNote® due 2043(52)
- 4.106 One Hundred-Seventh Supplemental Indenture dated as of June 6, 2013, to the U.S. Bank Indenture and Form of 5.000% to 7.000% Prospect Capital InterNote® due 2028(52)
- 4.107 One Hundred-Eighth Supplemental Indenture dated as of June 13, 2013, to the U.S. Bank Indenture and Form of 5.000% Prospect Capital InterNote® due 2020(53)
- 4.108 One Hundred-Ninth Supplemental Indenture dated as of June 13, 2013, to the U.S. Bank Indenture and Form of 5.750% Prospect Capital InterNote® due 2031(53)
- 4.109 One Hundred-Tenth Supplemental Indenture dated as of June 13, 2013, to the U.S. Bank Indenture and Form of 6.250% Prospect Capital InterNote® due 2043(53)
- 4.110 One Hundred-Eleventh Supplemental Indenture dated as of June 20, 2013, to the U.S. Bank Indenture and Form of 5.000% Prospect Capital InterNote® due 2020(54)

- 4.111 One Hundred-Twelfth Supplemental Indenture dated as of June 20, 2013, to the U.S. Bank Indenture and Form of 5.750% Prospect Capital InterNote® due 2031(54)
- 4.112 One Hundred-Thirteenth Supplemental Indenture dated as of June 20, 2013, to the U.S. Bank Indenture and Form of 6.250% Prospect Capital InterNote® due 2043(54)
- 4.113 One Hundred-Fifteenth Supplemental Indenture dated as of June 27, 2013, to the U.S. Bank Indenture and Form of 6.000% Prospect Capital InterNote® due 2031(55)
- 4.114 One Hundred-Sixteenth Supplemental Indenture dated as of June 27, 2013, to the U.S. Bank Indenture and Form of 6.500% Prospect Capital InterNote® due 2043(55)
- 4.115 One Hundred-Seventeenth Supplemental Indenture dated as of July 5, 2013, to the U.S. Bank Indenture and Form of 4.750% Prospect Capital InterNote® due 2020(56)
- 4.116 One Hundred-Eighteenth Supplemental Indenture dated as of July 5, 2013, to the U.S. Bank Indenture and Form of 5.500% Prospect Capital InterNote® due 2031(56)
- 4.117 One Hundred-Nineteenth Supplemental Indenture dated as of July 5, 2013, to the U.S. Bank Indenture and Form of 6.250% Prospect Capital InterNote® due 2043(56)
- 4.118 One Hundred-Twentieth Supplemental Indenture dated as of July 5, 2013, to the U.S. Bank Indenture and Form of 6.750% Prospect Capital InterNote® due 2043(56)
- 4.119 One Hundred Twenty-First Supplemental Indenture dated as of July 11, 2013, to the U.S. Bank Indenture and Form of 4.750% Prospect Capital InterNote® due 2020(57)
- 4.120 One Hundred Twenty-Second Supplemental Indenture dated as of July 11, 2013, to the U.S. Bank Indenture and Form of 5.500% Prospect Capital InterNote® due 2031(57)
- 4.121 One Hundred Twenty-Third Supplemental Indenture dated as of July 11, 2013, to the U.S. Bank Indenture and Form of 6.250% Prospect Capital InterNote® due 2043(57)
- 4.122 One Hundred Twenty-Fourth Supplemental Indenture dated as of July 11, 2013, to the U.S. Bank Indenture and Form of 6.750% Prospect Capital InterNote® due 2043(57)
- 4.123 One Hundred Twenty-Fifth Supplemental Indenture dated as of July 18, 2013, to the U.S. Bank Indenture and Form of 5.000% Prospect Capital InterNote® due 2020(58)
- 4.124 One Hundred Twenty-Sixth Supplemental Indenture dated as of July 18, 2013, to the U.S. Bank Indenture and Form of 5.750% Prospect Capital InterNote® due 2031(58)

Exhibit No.

- 4.125 One Hundred Twenty-Seventh Supplemental Indenture dated as of July 18, 2013, to the U.S. Bank Indenture and Form of 6.250% Prospect Capital InterNote® due 2043(58)
- 4.126 One Hundred Twenty-Eighth Supplemental Indenture dated as of July 18, 2013, to the U.S. Bank Indenture and Form of 6.750% Prospect Capital InterNote® due 2043(58)
- 4.127 One Hundred Twenty-Ninth Supplemental Indenture dated as of July 25, 2013, to the U.S. Bank Indenture and Form of 5.000% Prospect Capital InterNote® due 2020(59)
- 4.128 One Hundred Thirtieth Supplemental Indenture dated as of July 25, 2013, to the U.S. Bank Indenture and Form of 5.750% Prospect Capital InterNote® due 2031(59)
- 4.129 One Hundred Thirty-First Supplemental Indenture dated as of July 25, 2013, to the U.S. Bank Indenture and Form of 6.250% Prospect Capital InterNote® due 2043(59)
- 4.130 One Hundred Thirty-Second Supplemental Indenture dated as of July 25, 2013, to the U.S. Bank Indenture and Form of 6.750% Prospect Capital InterNote® due 2043(59)
- 4.131 One Hundred Thirty-Third Supplemental Indenture dated as of August 1, 2013, to the U.S. Bank Indenture and Form of 5.000% Prospect Capital InterNote® due 2019(60)
- 4.132 One Hundred Thirty-Fourth Supplemental Indenture dated as of August 1, 2013, to the U.S. Bank Indenture and Form of 5.750% Prospect Capital InterNote® due 2021(60)
- 4.133 One Hundred Thirty-Fifth Supplemental Indenture dated as of August 1, 2013, to the U.S. Bank Indenture and Form of 6.125% Prospect Capital InterNote® due 2031(60)
- 4.134 One Hundred Thirty-Sixth Supplemental Indenture dated as of August 1, 2013, to the U.S. Bank Indenture and Form of 6.625% Prospect Capital InterNote® due 2043(60)
- 4.135 One Hundred Thirty-Seventh Supplemental Indenture dated as of August 8, 2013, to the U.S. Bank Indenture and Form of 5.000% Prospect Capital InterNote® due 2018(61)
- 4.136 One Hundred Thirty-Eighth Supplemental Indenture dated as of August 8, 2013, to the U.S. Bank Indenture and Form of 5.500% Prospect Capital InterNote® due 2020(61)

- 4.137 One Hundred Thirty-Ninth Supplemental Indenture dated as of August 8, 2013, to the U.S. Bank Indenture and Form of 6.000% Prospect Capital InterNote® due 2031(61)
- 4.138 One Hundred Fortieth Supplemental Indenture dated as of August 8, 2013, to the U.S. Bank Indenture and Form of 6.500% Prospect Capital InterNote® due 2043(61)
- 4.139 One Hundred Forty-First Supplemental Indenture dated as of August 15, 2013, to the U.S. Bank Indenture and Form of 5.000% Prospect Capital InterNote® due 2018(62)
- 4.140 One Hundred Forty-Second Supplemental Indenture dated as of August 15, 2013, to the U.S. Bank Indenture and Form of 5.500% Prospect Capital InterNote® due 2020(62)
- 4.141 One Hundred Forty-Third Supplemental Indenture dated as of August 15, 2013, to the U.S. Bank Indenture and Form of 6.000% Prospect Capital InterNote® due 2028(62)
- 4.142 One Hundred Forty-Fourth Supplemental Indenture dated as of August 15, 2013, to the U.S. Bank Indenture and Form of 6.500% Prospect Capital InterNote® due 2038(62)
- 4.143 One Hundred Forty-Fifth Supplemental Indenture dated as of August 22, 2013, to the U.S. Bank Indenture and Form of 5.000% Prospect Capital InterNote® due 2018(63)
- 4.144 One Hundred Forty-Sixth Supplemental Indenture dated as of August 22, 2013, to the U.S. Bank Indenture and Form of 5.500% Prospect Capital InterNote® due 2020(63)
- 4.145 One Hundred Forty-Seventh Supplemental Indenture dated as of August 22, 2013, to the U.S. Bank Indenture and Form of 6.000% Prospect Capital InterNote® due 2028(63)
- 4.146 One Hundred Forty-Eighth Supplemental Indenture dated as of August 22, 2013, to the U.S. Bank Indenture and Form of 6.500% Prospect Capital InterNote® due 2038(63)
- 4.147 One Hundred Forty-Ninth Supplemental Indenture dated as of September 6, 2013, to the U.S. Bank Indenture and Form of 5.000% Prospect Capital InterNote® due 2018(64)
- 4.148 One Hundred Fiftieth Supplemental Indenture dated as of September 6, 2013, to the U.S. Bank Indenture and Form of 5.500% Prospect Capital InterNote® due 2020(64)
- 4.149 One Hundred Fifty-First Supplemental Indenture dated as of September 6, 2013, to the U.S. Bank Indenture and Form of 6.000% Prospect Capital InterNote® due 2028(64)
- 4.150 One Hundred Fifty-Second Supplemental Indenture dated as of September 6, 2013, to the U.S. Bank Indenture and Form of 6.500% Prospect Capital InterNote® due 2038(64)

Exhibit No.

- 4.151 One Hundred Fifty-Third Supplemental Indenture dated as of September 12, 2013, to the U.S. Bank Indenture and Form of 5.000% Prospect Capital InterNote® due 2018(65)
- 4.152 One Hundred Fifty-Fourth Supplemental Indenture dated as of September 12, 2013, to the U.S. Bank Indenture and Form of 5.500% Prospect Capital InterNote® due 2020(65)
- 4.153 One Hundred Fifty-Fifth Supplemental Indenture dated as of September 12, 2013, to the U.S. Bank Indenture and Form of 6.000% Prospect Capital InterNote® due 2033(65)
- 4.154 One Hundred Fifty-Sixth Supplemental Indenture dated as of September 12, 2013, to the U.S. Bank Indenture and Form of 6.500% Prospect Capital InterNote® due 2043(65)
- 4.155 One Hundred Fifty-Seventh Supplemental Indenture dated as of September 19, 2013, to the U.S. Bank Indenture and Form of 5.000% Prospect Capital InterNote® due 2018(66)
- 4.156 One Hundred Fifty-Eighth Supplemental Indenture dated as of September 19, 2013, to the U.S. Bank Indenture and Form of 5.500% Prospect Capital InterNote® due 2020(66)
- 4.157 One Hundred Fifty-Ninth Supplemental Indenture dated as of September 19, 2013, to the U.S. Bank Indenture and Form of 6.000% Prospect Capital InterNote® due 2033(66)
- 4.158 One Hundred Sixtieth Supplemental Indenture dated as of September 19, 2013, to the U.S. Bank Indenture and Form of 6.500% Prospect Capital InterNote® due 2043(66)
- 4.159 One Hundred Sixty-First Supplemental Indenture dated as of September 26, 2013, to the U.S. Bank Indenture and Form of 5.000% Prospect Capital InterNote® due 2018(67)
- 4.160 One Hundred Sixty-Second Supplemental Indenture dated as of September 26, 2013, to the U.S. Bank Indenture and Form of 5.500% Prospect Capital InterNote® due 2020(67)
- 4.161 One Hundred Sixty-Third Supplemental Indenture dated as of September 26, 2013, to the U.S. Bank Indenture and Form of 6.000% Prospect Capital InterNote® due 2033(67)
- 4.162 One Hundred Sixty-Fourth Supplemental Indenture dated as of September 26, 2013, to the U.S. Bank Indenture and Form of 6.500% Prospect Capital InterNote® due 2043(67)

- 4.163 One Hundred Sixty-Fifth Supplemental Indenture dated as of October 3, 2013, to the U.S. Bank Indenture and Form of 5.000% Prospect Capital InterNote® due 2018(68)

- 4.164 One Hundred Sixty-Sixth Supplemental Indenture dated as of October 3, 2013, to the U.S. Bank Indenture and Form of 5.500% Prospect Capital InterNote® due 2020(68)

- 4.165 One Hundred Sixty-Seventh Supplemental Indenture dated as of October 3, 2013, to the U.S. Bank Indenture and Form of 6.000% Prospect Capital InterNote® due 2033(68)

- 4.166 One Hundred Sixty-Eighth Supplemental Indenture dated as of October 3, 2013, to the U.S. Bank Indenture and Form of 6.500% Prospect Capital InterNote® due 2043(68)

- 4.167 One Hundred Sixty-Ninth Supplemental Indenture dated as of October 10, 2013, to the U.S. Bank Indenture and Form of 5.000% Prospect Capital InterNote® due 2018(69)

- 4.168 One Hundred Seventieth Supplemental Indenture dated as of October 10, 2013, to the U.S. Bank Indenture and Form of 5.500% Prospect Capital InterNote® due 2020(69)

- 4.169 One Hundred Seventy-First Supplemental Indenture dated as of October 10, 2013, to the U.S. Bank Indenture and Form of 6.000% Prospect Capital InterNote® due 2033(69)

- 4.170 One Hundred Seventy-Second Supplemental Indenture dated as of October 10, 2013, to the U.S. Bank Indenture and Form of 6.500% Prospect Capital InterNote® due 2043(69)

- 4.171 One Hundred Seventy-Third Supplemental Indenture dated as of October 18, 2013, to the U.S. Bank Indenture and Form of 5.000% Prospect Capital InterNote® due 2018(70)

- 4.172 One Hundred Seventy-Fourth Supplemental Indenture dated as of October 18, 2013, to the U.S. Bank Indenture and Form of 5.500% Prospect Capital InterNote® due 2020(70)

- 4.173 One Hundred Seventy-Fifth Supplemental Indenture dated as of October 18, 2013, to the U.S. Bank Indenture and Form of 6.000% Prospect Capital InterNote® due 2033(70)

- 4.174 One Hundred Seventy-Sixth Supplemental Indenture dated as of October 18, 2013, to the U.S. Bank Indenture and Form of 6.500% Prospect Capital InterNote® due 2043(70)

- 4.175 One Hundred Seventy-Seventh Supplemental Indenture dated as of October 24, 2013, to the U.S. Bank Indenture and Form of 4.000% Prospect Capital InterNote® due 2016(71)

- 4.176 One Hundred Seventy-Eighth Supplemental Indenture dated as of October 24, 2013, to the U.S. Bank Indenture and Form of 5.000% Prospect Capital InterNote® due 2018(71)

Exhibit No.

- 4.177 One Hundred Seventy-Ninth Supplemental Indenture dated as of October 24, 2013, to the U.S. Bank Indenture and Form of 5.500% Prospect Capital InterNote® due 2020(71)
- 4.178 One Hundred Eightieth Supplemental Indenture dated as of October 24, 2013, to the U.S. Bank Indenture and Form of 6.000% Prospect Capital InterNote® due 2033(71)
- 4.179 One Hundred Eighty-First Supplemental Indenture dated as of October 24, 2013, to the U.S. Bank Indenture and Form of 6.500% Prospect Capital InterNote® due 2043(71)
- 4.180 One Hundred Eighty-Second Supplemental Indenture dated as of October 31, 2013, to the U.S. Bank Indenture and Form of 4.000% Prospect Capital InterNote® due 2017(72)
- 4.181 One Hundred Eighty-Third Supplemental Indenture dated as of October 31, 2013, to the U.S. Bank Indenture and Form of 5.000% Prospect Capital InterNote® due 2018(72)
- 4.182 One Hundred Eighty-Fourth Supplemental Indenture dated as of October 31, 2013, to the U.S. Bank Indenture and Form of 5.500% Prospect Capital InterNote® due 2020(72)
- 4.183 One Hundred Eighty-Fifth Supplemental Indenture dated as of October 31, 2013, to the U.S. Bank Indenture and Form of 6.000% Prospect Capital InterNote® due 2028(72)
- 4.184 One Hundred Eighty-Sixth Supplemental Indenture dated as of October 31, 2013, to the U.S. Bank Indenture and Form of 6.500% Prospect Capital InterNote® due 2038(72)
- 4.185 One Hundred Eighty-Seventh Supplemental Indenture dated as of November 7, 2013, to the U.S. Bank Indenture and Form of 4.000% Prospect Capital InterNote® due 2017(73)
- 4.186 One Hundred Eighty-Eighth Supplemental Indenture dated as of November 7, 2013, to the U.S. Bank Indenture and Form of 5.000% Prospect Capital InterNote® due 2018(73)
- 4.187 One Hundred Eighty-Ninth Supplemental Indenture dated as of November 7, 2013, to the U.S. Bank Indenture and Form of 5.500% Prospect Capital InterNote® due 2020(73)
- 4.188 One Hundred Ninetieth Supplemental Indenture dated as of November 7, 2013, to the U.S. Bank Indenture and Form of 6.000% Prospect Capital InterNote® due 2028(73)

- 4.189 One Hundred Ninety-First Supplemental Indenture dated as of November 7, 2013, to the U.S. Bank Indenture and Form of 6.500% Prospect Capital InterNote® due 2038(73)

- 4.190 One Hundred Ninety-Second Supplemental Indenture dated as of November 15, 2013, to the U.S. Bank Indenture and Form of 4.000% Prospect Capital InterNote® due 2017(74)

- 4.191 One Hundred Ninety-Third Supplemental Indenture dated as of November 15, 2013, to the U.S. Bank Indenture and Form of 5.000% Prospect Capital InterNote® due 2018(74)

- 4.192 One Hundred Ninety-Fourth Supplemental Indenture dated as of November 15, 2013, to the U.S. Bank Indenture and Form of 5.500% Prospect Capital InterNote® due 2020(74)

- 4.193 One Hundred Ninety-Fifth Supplemental Indenture dated as of November 15, 2013, to the U.S. Bank Indenture and Form of 6.000% Prospect Capital InterNote® due 2028(74)

- 4.194 One Hundred Ninety-Sixth Supplemental Indenture dated as of November 15, 2013, to the U.S. Bank Indenture and Form of 6.500% Prospect Capital InterNote® due 2038(74)

- 4.195 One Hundred Ninety-Seventh Supplemental Indenture dated as of November 21, 2013, to the U.S. Bank Indenture and Form of 4.000% Prospect Capital InterNote® due 2017(75)

- 4.196 One Hundred Ninety-Eighth Supplemental Indenture dated as of November 21, 2013, to the U.S. Bank Indenture and Form of 5.000% Prospect Capital InterNote® due 2018(75)

- 4.197 One Hundred Ninety-Ninth Supplemental Indenture dated as of November 21, 2013, to the U.S. Bank Indenture and Form of 5.500% Prospect Capital InterNote® due 2020(75)

- 4.198 Two Hundredth Supplemental Indenture dated as of November 21, 2013, to the U.S. Bank Indenture and Form of 6.000% Prospect Capital InterNote® due 2028(75)

- 4.199 Two Hundred First Supplemental Indenture dated as of November 21, 2013, to the U.S. Bank Indenture and Form of 6.500% Prospect Capital InterNote® due 2038(75)

- 4.200 Two Hundred Second Supplemental Indenture dated as of November 29, 2013, to the U.S. Bank Indenture and Form of 4.000% Prospect Capital InterNote® due 2017(76)

- 4.201 Two Hundred Third Supplemental Indenture dated as of November 29, 2013, to the U.S. Bank Indenture and Form of 5.000% Prospect Capital InterNote® due 2018(76)

- 4.202 Two Hundred Fourth Supplemental Indenture dated as of November 29, 2013, to the U.S. Bank Indenture and Form of 5.500% Prospect Capital InterNote® due 2020(76)

Exhibit No.

- 4.203 Two Hundred Fifth Supplemental Indenture dated as of November 29, 2013, to the U.S. Bank Indenture and Form of 6.000% Prospect Capital InterNote® due 2025(76)
- 4.204 Two Hundred Sixth Supplemental Indenture dated as of November 29, 2013, to the U.S. Bank Indenture and Form of 6.500% Prospect Capital InterNote® due 2038(76)
- 4.205 Two Hundred Seventh Supplemental Indenture dated as of December 5, 2013, to the U.S. Bank Indenture and Form of 4.000% Prospect Capital InterNote® due 2017(77)
- 4.206 Two Hundred Eighth Supplemental Indenture dated as of December 5, 2013, to the U.S. Bank Indenture and Form of 5.000% Prospect Capital InterNote® due 2018(77)
- 4.207 Two Hundred Tenth Supplemental Indenture dated as of December 5, 2013, to the U.S. Bank Indenture and Form of 6.000% Prospect Capital InterNote® due 2025(77)
- 4.208 Two Hundred Eleventh Supplemental Indenture dated as of December 5, 2013, to the U.S. Bank Indenture and Form of 6.500% Prospect Capital InterNote® due 2038(77)
- 4.209 Two Hundred Twelfth Supplemental Indenture dated as of December 12, 2013, to the U.S. Bank Indenture and Form of 4.000% Prospect Capital InterNote® due 2017(78)
- 4.210 Two Hundred Thirteenth Supplemental Indenture dated as of December 12, 2013, to the U.S. Bank Indenture and Form of 5.000% Prospect Capital InterNote® due 2018(78)
- 4.211 Two Hundred Fifteenth Supplemental Indenture dated as of December 12, 2013, to the U.S. Bank Indenture and Form of 6.000% Prospect Capital InterNote® due 2025(78)
- 4.212 Two Hundred Sixteenth Supplemental Indenture dated as of December 12, 2013, to the U.S. Bank Indenture and Form of 6.500% Prospect Capital InterNote® due 2038(78)
- 4.213 Two Hundred Seventeenth Supplemental Indenture dated as of December 19, 2013, to the U.S. Bank Indenture and Form of 4.000% Prospect Capital InterNote® due 2017(79)
- 4.214 Two Hundred Eighteenth Supplemental Indenture dated as of December 19, 2013, to the U.S. Bank Indenture and Form of 5.000% Prospect Capital InterNote® due 2018(79)

- 4.215 Two Hundred Twentieth Supplemental Indenture dated as of December 19, 2013, to the U.S. Bank Indenture and Form of 6.000% Prospect Capital InterNote® due 2025(79)
- 4.216 Two Hundred Twenty-First Supplemental Indenture dated as of December 19, 2013, to the U.S. Bank Indenture and Form of 6.500% Prospect Capital InterNote® due 2038(79)
- 4.217 Two Hundred Twenty-Second Supplemental Indenture dated as of December 27, 2013, to the U.S. Bank Indenture and Form of 4.000% Prospect Capital InterNote® due 2017(80)
- 4.218 Two Hundred Twenty-Third Supplemental Indenture dated as of December 27, 2013, to the U.S. Bank Indenture and Form of 5.000% Prospect Capital InterNote® due 2018(80)
- 4.219 Two Hundred Twenty-Fifth Supplemental Indenture dated as of December 27, 2013, to the U.S. Bank Indenture and Form of 6.000% Prospect Capital InterNote® due 2025(80)
- 4.220 Two Hundred Twenty-Sixth Supplemental Indenture dated as of December 27, 2013, to the U.S. Bank Indenture and Form of 6.500% Prospect Capital InterNote® due 2038(80)
- 4.221 Two Hundred Twenty-Seventh Supplemental Indenture dated as of January 3, 2014, to the U.S. Bank Indenture and Form of 4.000% Prospect Capital InterNote® due 2018(81)
- 4.222 Two Hundred Twenty-Eighth Supplemental Indenture dated as of January 3, 2014, to the U.S. Bank Indenture and Form of 5.000% Prospect Capital InterNote® due 2019(81)
- 4.223 Two Hundred Twenty-Ninth Supplemental Indenture dated as of January 3, 2014, to the U.S. Bank Indenture and Form of 5.500% Prospect Capital InterNote® due 2021(81)
- 4.224 Two Hundred Thirtieth Supplemental Indenture dated as of January 3, 2014, to the U.S. Bank Indenture and Form of 6.000% Prospect Capital InterNote® due 2026(81)
- 4.225 Two Hundred Thirty-First Supplemental Indenture dated as of January 3, 2014, to the U.S. Bank Indenture and Form of 6.500% Prospect Capital InterNote® due 2039(81)
- 4.226 Two Hundred Thirty-Second Supplemental Indenture dated as of January 9, 2014, to the U.S. Bank Indenture and Form of 4.000% Prospect Capital InterNote® due 2018(82)
- 4.227 Two Hundred Thirty-Third Supplemental Indenture dated as of January 9, 2014, to the U.S. Bank Indenture and Form of 5.000% Prospect Capital InterNote® due 2019(82)
- 4.228 Two Hundred Thirty-Fourth Supplemental Indenture dated as of January 9, 2014, to the U.S. Bank Indenture and Form of 5.500% Prospect Capital InterNote® due 2021(82)

Exhibit No.

- 4.229 Two Hundred Thirty-Fifth Supplemental Indenture dated as of January 9, 2014, to the U.S. Bank Indenture and Form of 6.000% Prospect Capital InterNote® due 2026(82)
- 4.230 Two Hundred Thirty-Sixth Supplemental Indenture dated as of January 9, 2014, to the U.S. Bank Indenture and Form of 6.500% Prospect Capital InterNote® due 2039(82)
- 4.231 Two Hundred Thirty-Seventh Supplemental Indenture dated as of January 16, 2014, to the U.S. Bank Indenture and Form of 4.000% Prospect Capital InterNote® due 2018(83)
- 4.232 Two Hundred Thirty-Eighth Supplemental Indenture dated as of January 16, 2014, to the U.S. Bank Indenture and Form of 5.000% Prospect Capital InterNote® due 2019(83)
- 4.233 Two Hundred Thirty-Ninth Supplemental Indenture dated as of January 16, 2014, to the U.S. Bank Indenture and Form of 5.500% Prospect Capital InterNote® due 2021(83)
- 4.234 Two Hundred Fortieth Supplemental Indenture dated as of January 16, 2014, to the U.S. Bank Indenture and Form of 6.000% Prospect Capital InterNote® due 2026(83)
- 4.235 Two Hundred Forty-First Supplemental Indenture dated as of January 16, 2014, to the U.S. Bank Indenture and Form of 6.500% Prospect Capital InterNote® due 2039(83)
- 4.236 Two Hundred Forty-Second Supplemental Indenture dated as of January 24, 2014, to the U.S. Bank Indenture and Form of 4.000% Prospect Capital InterNote® due 2018(84)
- 4.237 Two Hundred Forty-Third Supplemental Indenture dated as of January 24, 2014, to the U.S. Bank Indenture and Form of 5.000% Prospect Capital InterNote® due 2019(84)
- 4.238 Two Hundred Forty-Fourth Supplemental Indenture dated as of January 24, 2014, to the U.S. Bank Indenture and Form of 5.500% Prospect Capital InterNote® due 2021(84)
- 4.239 Two Hundred Forty-Fifth Supplemental Indenture dated as of January 24, 2014, to the U.S. Bank Indenture and Form of 6.000% Prospect Capital InterNote® due 2026(84)
- 4.240 Two Hundred Forty-Sixth Supplemental Indenture dated as of January 24, 2014, to the U.S. Bank Indenture and Form of 6.500% Prospect Capital InterNote® due 2039(84)

- 4.241 Two Hundred Forty-Seventh Supplemental Indenture dated as of January 30, 2014, to the U.S. Bank Indenture and Form of 4.000% Prospect Capital InterNote® due 2018(85)
- 4.242 Two Hundred Forty-Eighth Supplemental Indenture dated as of January 30, 2014, to the U.S. Bank Indenture and Form of 5.000% Prospect Capital InterNote® due 2019(85)
- 4.243 Two Hundred Forty-Ninth Supplemental Indenture dated as of January 30, 2014, to the U.S. Bank Indenture and Form of 5.500% Prospect Capital InterNote® due 2021(85)
- 4.244 Two Hundred Fiftieth Supplemental Indenture dated as of January 30, 2014, to the U.S. Bank Indenture and Form of 6.000% Prospect Capital InterNote® due 2026(85)
- 4.245 Two Hundred Fifty-First Supplemental Indenture dated as of January 30, 2014, to the U.S. Bank Indenture and Form of 6.500% Prospect Capital InterNote® due 2039(85)
- 4.246 Two Hundred Fifty-Second Supplemental Indenture dated as of February 6, 2014, to the U.S. Bank Indenture and Form of 4.000% Prospect Capital InterNote® due 2018(86)
- 4.247 Two Hundred Fifty-Third Supplemental Indenture dated as of February 6, 2014, to the U.S. Bank Indenture and Form of 5.000% Prospect Capital InterNote® due 2019(86)
- 4.248 Two Hundred Fifty-Fourth Supplemental Indenture dated as of February 6, 2014, to the U.S. Bank Indenture and Form of 5.500% Prospect Capital InterNote® due 2021(86)
- 4.249 Two Hundred Fifty-Fifth Supplemental Indenture dated as of February 6, 2014, to the U.S. Bank Indenture and Form of 6.000% Prospect Capital InterNote® due 2026(86)
- 4.250 Two Hundred Fifty-Sixth Supplemental Indenture dated as of February 6, 2014, to the U.S. Bank Indenture and Form of 6.500% Prospect Capital InterNote® due 2039(86)
- 4.251 Two Hundred Fifty-Seventh Supplemental Indenture dated as of February 13, 2014, to the U.S. Bank Indenture and Form of 4.000% Prospect Capital InterNote® due 2018(87)
- 4.252 Two Hundred Fifty-Eighth Supplemental Indenture dated as of February 13, 2014, to the U.S. Bank Indenture and Form of 5.000% Prospect Capital InterNote® due 2019(87)
- 4.253 Two Hundred Fifty-Ninth Supplemental Indenture dated as of February 13, 2014, to the U.S. Bank Indenture and Form of 5.500% Prospect Capital InterNote® due 2021(87)
- 4.254 Two Hundred Sixtieth Supplemental Indenture dated as of February 13, 2014, to the U.S. Bank Indenture and Form of 6.000% Prospect Capital InterNote® due 2026(87)

Exhibit No.

- 4.255 Two Hundred Sixty-First Supplemental Indenture dated as of February 13, 2014, to the U.S. Bank Indenture and Form of 6.500% Prospect Capital InterNote® due 2039(87)

- 4.256 Two Hundred Sixty-Seventh Supplemental Indenture dated as of February 19, 2014, to the U.S. Bank Indenture and Form of 4.75% Prospect Capital InterNote® due 2019(88)

- 4.257 Two Hundred Sixty-Second Supplemental Indenture dated as of February 21, 2014, to the U.S. Bank Indenture and Form of 4.000% Prospect Capital InterNote® due 2018(89)

- 4.258 Two Hundred Sixty-Third Supplemental Indenture dated as of February 21, 2014, to the U.S. Bank Indenture and Form of 5.000% Prospect Capital InterNote® due 2019(89)

- 4.259 Two Hundred Sixty-Fourth Supplemental Indenture dated as of February 21, 2014, to the U.S. Bank Indenture and Form of 5.500% Prospect Capital InterNote® due 2021(89)

- 4.260 Two Hundred Sixty-Fifth Supplemental Indenture dated as of February 21, 2014, to the U.S. Bank Indenture and Form of 6.000% Prospect Capital InterNote® due 2026(89)

- 4.261 Two Hundred Sixty-Sixth Supplemental Indenture dated as of February 21, 2014, to the U.S. Bank Indenture and Form of 6.500% Prospect Capital InterNote® due 2039(89)

- 4.262 Two Hundred Sixty-Eighth Supplemental Indenture dated as of February 27, 2014, to the U.S. Bank Indenture and Form of 3.750% Prospect Capital InterNote® due 2018(90)

- 4.263 Two Hundred Sixty-Ninth Supplemental Indenture dated as of February 27, 2014, to the U.S. Bank Indenture and Form of 4.750% Prospect Capital InterNote® due 2019(90)

- 4.264 Two Hundred Seventieth Supplemental Indenture dated as of February 27, 2014, to the U.S. Bank Indenture and Form of 5.250% Prospect Capital InterNote® due 2021(90)

- 4.265 Two Hundred Seventy-First Supplemental Indenture dated as of February 27, 2014, to the U.S. Bank Indenture and Form of 5.750% Prospect Capital InterNote® due 2026(90)

- 4.266 Two Hundred Seventy-Second Supplemental Indenture dated as of February 27, 2014, to the U.S. Bank Indenture and Form of 6.250% Prospect Capital InterNote® due 2039(90)

- 4.267 Two Hundred Seventy-Third Supplemental Indenture dated as March 6, 2014, to the U.S. Bank Indenture and Form of 3.750% Prospect Capital InterNote® due 2018(91)
- 4.268 Two Hundred Seventy-Fourth Supplemental Indenture dated as of March 6, 2014, to the U.S. Bank Indenture and Form of 4.750% Prospect Capital InterNote® due 2019(91)
- 4.269 Two Hundred Seventy-Fifth Supplemental Indenture dated as of March 6, 2014, to the U.S. Bank Indenture and Form of 5.250% Prospect Capital InterNote® due 2021(91)
- 4.270 Two Hundred Seventy-Sixth Supplemental Indenture dated as of March 6, 2014, to the U.S. Bank Indenture and Form of 5.750% Prospect Capital InterNote® due 2026(91)
- 4.271 Two Hundred Seventy-Seventh Supplemental Indenture dated as of March 6, 2014, to the U.S. Bank Indenture and Form of 6.250% Prospect Capital InterNote® due 2039(91)
- 4.272 Supplement No. 1 to the Two Hundred Sixty-Seventh Supplemental Indenture dated as of March 11, 2014, to the U.S. Bank Indenture and Form of 4.75% Prospect Capital InterNote® due 2019(92)
- 4.273 Two Hundred Seventy-Eighth Supplemental Indenture dated as March 13, 2014, to the U.S. Bank Indenture and Form of 3.750% Prospect Capital InterNote® due 2018(93)
- 4.274 Two Hundred Seventy-Ninth Supplemental Indenture dated as of March 13, 2014, to the U.S. Bank Indenture and Form of 4.750% Prospect Capital InterNote® due 2019(93)
- 4.275 Two Hundred Eightieth Supplemental Indenture dated as of March 13, 2014, to the U.S. Bank Indenture and Form of 5.250% Prospect Capital InterNote® due 2021(93)
- 4.276 Two Hundred Eighty-First Supplemental Indenture dated as of March 13, 2014, to the U.S. Bank Indenture and Form of 5.750% Prospect Capital InterNote® due 2026(93)
- 4.277 Two Hundred Eighty-Second Supplemental Indenture dated as of March 13, 2014, to the U.S. Bank Indenture and Form of 6.250% Prospect Capital InterNote® due 2039(93)
- 4.278 Two Hundred Eighty-Fourth Supplemental Indenture dated as March 20, 2014, to the U.S. Bank Indenture and Form of 3.750% Prospect Capital InterNote® due 2018(94)
- 4.279 Two Hundred Eighty-Fifth Supplemental Indenture dated as of March 20, 2014, to the U.S. Bank Indenture and Form of 4.750% Prospect Capital InterNote® due 2019(94)
- 4.280 Two Hundred Eighty-Sixth Supplemental Indenture dated as of March 20, 2014, to the U.S. Bank Indenture and Form of 5.250% Prospect Capital InterNote® due 2021(94)

Exhibit No.

- 4.281 Two Hundred Eighty-Seventh Supplemental Indenture dated as of March 20, 2014, to the U.S. Bank Indenture and Form of 5.750% Prospect Capital InterNote® due 2026(94)

- 4.282 Two Hundred Eighty-Eighth Supplemental Indenture dated as of March 20, 2014, to the U.S. Bank Indenture and Form of 6.250% Prospect Capital InterNote® due 2039(94)

- 4.283 Two Hundred Eighty-Ninth Supplemental Indenture dated as March 27, 2014, to the U.S. Bank Indenture and Form of 3.750% Prospect Capital InterNote® due 2018(95)

- 4.284 Two Hundred Ninetieth Supplemental Indenture dated as of March 20, 2014, to the U.S. Bank Indenture and Form of 4.750% Prospect Capital InterNote® due 2019(95)

- 4.285 Two Hundred Ninety-First Supplemental Indenture dated as of March 27, 2014, to the U.S. Bank Indenture and Form of 5.250% Prospect Capital InterNote® due 2021(95)

- 4.286 Two Hundred Ninety-Second Supplemental Indenture dated as of March 27, 2014, to the U.S. Bank Indenture and Form of 5.750% Prospect Capital InterNote® due 2026(95)

- 4.287 Two Hundred Ninety-Third Supplemental Indenture dated as of March 27, 2014, to the U.S. Bank Indenture and Form of 6.250% Prospect Capital InterNote® due 2039(95)

- 4.288 Two Hundred Ninety-Fourth Supplemental Indenture dated as of April 3, 2014, to the U.S. Bank Indenture and Form of 3.750% Prospect Capital InterNote® due 2018(96)

- 4.289 Two Hundred Ninety-Fifth Supplemental Indenture dated as of April 3, 2014, to the U.S. Bank Indenture and Form of 4.500% Prospect Capital InterNote® due 2019(96)

- 4.290 Two Hundred Ninety-Sixth Supplemental Indenture dated as of April 3, 2014, to the U.S. Bank Indenture and Form of 5.250% Prospect Capital InterNote® due 2021(96)

- 4.291 Two Hundred Ninety-Seventh Supplemental Indenture dated as of April 3, 2014, to the U.S. Bank Indenture and Form of 5.750% Prospect Capital InterNote® due 2024(96)

- 4.292 Two Hundred Ninety-Eighth Supplemental Indenture dated as of April 3, 2014, to the U.S. Bank Indenture and Form of 6.250% Prospect Capital InterNote® due 2039(96)

- 4.293 Supplemental Indenture dated as of April 7, 2014, to the U.S. Bank Indenture and Form of 5.000% Senior Notes due 2019(97)
- 4.294 Two Hundred Ninety-Ninth Supplemental Indenture dated as of April 10, 2014, to the U.S. Bank Indenture and Form of 3.750% Prospect Capital InterNote® due 2018(98)
- 4.295 Three Hundredth Supplemental Indenture dated as of April 10, 2014, to the U.S. Bank Indenture and Form of 4.250% Prospect Capital InterNote® due 2019(98)
- 4.296 Three Hundred First Supplemental Indenture dated as of April 10, 2014, to the U.S. Bank Indenture and Form of 5.250% Prospect Capital InterNote® due 2021(98)
- 4.297 Three Hundred Second Supplemental Indenture dated as of April 10, 2014, to the U.S. Bank Indenture and Form of 5.750% Prospect Capital InterNote® due 2024(98)
- 4.298 Three Hundred Third Supplemental Indenture dated as of April 10, 2014, to the U.S. Bank Indenture and Form of 6.250% Prospect Capital InterNote® due 2039(98)
- 4.299 Indenture dated as of April 11, 2014, by and between Prospect Capital Corporation and American Stock Transfer & Trust Company, as Trustee and Form of Global Note of 4.75% Senior Convertible Notes Due 2020(99)
- 4.300 Three Hundred Fourth Supplemental Indenture dated as of April 17, 2014, to the U.S. Bank Indenture and Form of 3.750% Prospect Capital InterNote® due 2018(100)
- 4.301 Three Hundred Fifth Supplemental Indenture dated as of April 17, 2014, to the U.S. Bank Indenture and Form of 4.250% Prospect Capital InterNote® due 2019(100)
- 4.302 Three Hundred Sixth Supplemental Indenture dated as of April 17, 2014, to the U.S. Bank Indenture and Form of 5.250% Prospect Capital InterNote® due 2021(100)
- 4.303 Three Hundred Seventh Supplemental Indenture dated as of April 17, 2014, to the U.S. Bank Indenture and Form of 5.750% Prospect Capital InterNote® due 2024(100)
- 4.304 Three Hundred Eighth Supplemental Indenture dated as of April 17, 2014, to the U.S. Bank Indenture and Form of 6.250% Prospect Capital InterNote® due 2039(100)
- 4.305 Three Hundred Ninth Supplemental Indenture dated as of April 24, 2014, to the U.S. Bank Indenture and Form of 3.750% Prospect Capital InterNote® due 2018(101)
- 4.306 Three Hundred Tenth Supplemental Indenture dated as of April 24, 2014, to the U.S. Bank Indenture and Form of 4.500% Prospect Capital InterNote® due 2019(101)

Exhibit No.

- 4.307 Three Hundred Eleventh Supplemental Indenture dated as of April 24, 2014, to the U.S. Bank Indenture and Form of 5.250% Prospect Capital InterNote® due 2021(101)
- 4.308 Three Hundred Twelfth Supplemental Indenture dated as of April 24, 2014, to the U.S. Bank Indenture and Form of 5.750% Prospect Capital InterNote® due 2024(101)
- 4.309 Three Hundred Thirteenth Supplemental Indenture dated as of April 24, 2014, to the U.S. Bank Indenture and Form of 6.250% Prospect Capital InterNote® due 2039(101)
- 4.310 Three Hundred Fourteenth Supplemental Indenture dated as of May 1, 2014, to the U.S. Bank Indenture and Form of 3.750% Prospect Capital InterNote® due 2018(102)
- 4.311 Three Hundred Fifteenth Supplemental Indenture dated as of May 1, 2014, to the U.S. Bank Indenture and Form of 4.500% Prospect Capital InterNote® due 2019(102)
- 4.312 Three Hundred Sixteenth Supplemental Indenture dated as of May 1, 2014, to the U.S. Bank Indenture and Form of 5.250% Prospect Capital InterNote® due 2021(102)
- 4.313 Three Hundred Seventeenth Supplemental Indenture dated as of May 1, 2014, to the U.S. Bank Indenture and Form of 5.750% Prospect Capital InterNote® due 2024(102)
- 4.314 Three Hundred Eighteenth Supplemental Indenture dated as of May 1, 2014, to the U.S. Bank Indenture and Form of 6.250% Prospect Capital InterNote® due 2039(102)
- 4.315 Three Hundred Nineteenth Supplemental Indenture dated as of May 8, 2014, to the U.S. Bank Indenture and Form of 3.750% Prospect Capital InterNote® due 2018(103)
- 4.316 Three Hundred Twentieth Supplemental Indenture dated as of May 8, 2014, to the U.S. Bank Indenture and Form of 4.500% Prospect Capital InterNote® due 2019(103)
- 4.317 Three Hundred Twenty-First Supplemental Indenture dated as of May 8, 2014, to the U.S. Bank Indenture and Form of 5.250% Prospect Capital InterNote® due 2021(103)
- 4.318 Three Hundred Twenty-Second Supplemental Indenture dated as of May 8, 2014, to the U.S. Bank Indenture and Form of 5.750% Prospect Capital InterNote® due 2024(103)

- 4.319 Three Hundred Twenty-Third Supplemental Indenture dated as of May 8, 2014, to the U.S. Bank Indenture and Form of 6.250% Prospect Capital InterNote® due 2039(103)

- 4.320 Three Hundred Twenty-Fourth Supplemental Indenture dated as of November 17, 2014, to the U.S. Bank Indenture and Form of 4.250% Prospect Capital InterNote® due 2020(110)

- 4.321 Three Hundred Twenty-Fifth Supplemental Indenture dated as of November 28, 2014, to the U.S. Bank Indenture and Form of 4.250% Prospect Capital InterNote® due 2020(111)

- 4.322 Three Hundred Twenty-Sixth Supplemental Indenture dated as of December 4, 2014, to the U.S. Bank Indenture and Form of 4.250% Prospect Capital InterNote® due 2020(112)

- 4.323 Three Hundred Twenty-Seventh Supplemental Indenture dated as of December 11, 2014, to the U.S. Bank Indenture and Form of 4.250% Prospect Capital InterNote® due 2020(113)

- 4.324 Three Hundred Twenty-Eighth Supplemental Indenture dated as of December 18, 2014, to the U.S. Bank Indenture and Form of 4.250% Prospect Capital InterNote® due 2020(114)

- 4.325 Three Hundred Twenty-Ninth Supplemental Indenture dated as of December 29, 2014, to the U.S. Bank Indenture and Form of 4.250% Prospect Capital InterNote® due 2020(115)

- 4.326 Three Hundred Thirtieth Supplemental Indenture dated as of January 2, 2015, to the U.S. Bank Indenture and Form of 4.250% Prospect Capital InterNote® due 2020(116)

- 4.327 Three Hundred Thirty-First Supplemental Indenture dated as of January 8, 2015, to the U.S. Bank Indenture and Form of 4.250% Prospect Capital InterNote® due 2020(117)

- 4.328 Three Hundred Thirty-Second Supplemental Indenture dated as of January 15, 2015, to the U.S. Bank Indenture and Form of 4.500% Prospect Capital InterNote® due 2020(118)

- 4.329 Three Hundred Thirty-Third Supplemental Indenture dated as of January 23, 2015, to the U.S. Bank Indenture and Form of 4.750% Prospect Capital InterNote® due 2020(119)

- 4.330 Three Hundred Thirty-Fourth Supplemental Indenture dated as of January 29, 2015, to the U.S. Bank Indenture and Form of 4.750% Prospect Capital InterNote® due 2020(120)

- 4.331 Three Hundred Thirty-Fifth Supplemental Indenture dated as of February 5, 2015, to the U.S. Bank Indenture and Form of 4.750% Prospect Capital InterNote® due 2020(121)

- 4.332 Three Hundred Thirty-Sixth Supplemental Indenture dated as of February 20, 2015, to the U.S. Bank Indenture and Form of 4.750% Prospect Capital InterNote® due 2020(122)

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- 4.333 Three Hundred Thirty-Seventh Supplemental Indenture dated as of February 26, 2015, to the U.S. Bank Indenture and Form of 4.750% Prospect Capital InterNote® due 2020(123)
- 4.334 Three Hundred Thirty-Eighth Supplemental Indenture dated as of March 5, 2015, to the U.S. Bank Indenture and Form of 4.750% Prospect Capital InterNote® due 2020(124)
- 4.335 Three Hundred Thirty-Ninth Supplemental Indenture dated as of March 12, 2015, to the U.S. Bank Indenture and Form of 4.750% Prospect Capital InterNote® due 2020(125)
- 4.336 Three Hundred Fortieth Supplemental Indenture dated as of March 19, 2015, to the U.S. Bank Indenture and Form of 4.750% Prospect Capital InterNote® due 2020(126)
- 4.337 Three Hundred Forty-First Supplemental Indenture dated as of March 26, 2015, to the U.S. Bank Indenture and Form of 4.750% Prospect Capital InterNote® due 2020(127)
- 4.338 Three Hundred Forty-Second Supplemental Indenture dated as of April 2, 2015, to the U.S. Bank Indenture and Form of 4.750% Prospect Capital InterNote® due 2020(128)
- 4.339 Three Hundred Forty-Third Supplemental Indenture dated as of April 9, 2015, to the U.S. Bank Indenture and Form of 4.750% Prospect Capital InterNote® due 2020(129)
- 4.340 Three Hundred Forty-Fourth Supplemental Indenture dated as of April 16, 2015, to the U.S. Bank Indenture and Form of 4.750% Prospect Capital InterNote® due 2020(130)
- 4.341 Three Hundred Forty-Fifth Supplemental Indenture dated as of April 16, 2015, to the U.S. Bank Indenture and Form of 3.375% to 6.375% Prospect Capital InterNote® due 2021(130)
- 4.342 Three Hundred Forty-Sixth Supplemental Indenture dated as of April 23, 2015, to the U.S. Bank Indenture and Form of 4.750% Prospect Capital InterNote® due 2020(131)
- 4.343 Three Hundred Forty-Seventh Supplemental Indenture dated as of April 23, 2015, to the U.S. Bank Indenture and Form of 3.375% to 6.375% Prospect Capital InterNote® due 2021(131)
- 4.344 Three Hundred Forty-Eighth Supplemental Indenture dated as of April 30, 2015, to the U.S. Bank Indenture and Form of 4.750% Prospect Capital InterNote® due 2020(132)

- 4.345 Three Hundred Forty-Ninth Supplemental Indenture dated as of April 30, 2015, to the U.S. Bank Indenture and Form of 3.375% to 6.375% Prospect Capital InterNote® due 2021(132)
- 4.346 Three Hundred Fiftieth Supplemental Indenture dated as of May 7, 2015, to the U.S. Bank Indenture and Form of 4.750% Prospect Capital InterNote® due 2020(133)
- 4.347 Three Hundred Fifty-First Supplemental Indenture dated as of May 7, 2015, to the U.S. Bank Indenture and Form of 3.375% to 6.375% Prospect Capital InterNote® due 2021(133)
- 4.348 Three Hundred Fifty-Second Supplemental Indenture dated as of May 21, 2015, to the U.S. Bank Indenture and Form of 4.750% Prospect Capital InterNote® due 2020(134)
- 4.349 Three Hundred Fifty-Third Supplemental Indenture dated as of May 29, 2015, to the U.S. Bank Indenture and Form of 4.625% Prospect Capital InterNote® due 2020(135)
- 4.350 Three Hundred Fifty-Fourth Supplemental Indenture dated as of May 29, 2015, to the U.S. Bank Indenture and Form of 5.100% Prospect Capital InterNote® due 2022(135)
- 4.351 Three Hundred Fifty-Fifth Supplemental Indenture dated as of June 4, 2015, to the U.S. Bank Indenture and Form of 4.625% Prospect Capital InterNote® due 2020(136)
- 4.352 Three Hundred Fifty-Sixth Supplemental Indenture dated as of June 4, 2015, to the U.S. Bank Indenture and Form of 5.100% Prospect Capital InterNote® due 2022(136)
- 4.353 Three Hundred Fifty-Seventh Supplemental Indenture dated as of June 11, 2015, to the U.S. Bank Indenture and Form of 4.625% Prospect Capital InterNote® due 2020(137)
- 4.354 Three Hundred Fifty-Eighth Supplemental Indenture dated as of June 11, 2015, to the U.S. Bank Indenture and Form of 5.100% Prospect Capital InterNote® due 2022(137)
- 4.355 Three Hundred Fifty-Ninth Supplemental Indenture dated as of June 18, 2015, to the U.S. Bank Indenture and Form of 4.625% Prospect Capital InterNote® due 2020(138)
- 4.356 Three Hundred Sixtieth Supplemental Indenture dated as of June 18, 2015, to the U.S. Bank Indenture and Form of 5.100% Prospect Capital InterNote® due 2021(138)
- 4.357 Three Hundred Sixty-First Supplemental Indenture dated as of June 25, 2015, to the U.S. Bank Indenture and Form of 4.625% Prospect Capital InterNote® due 2020(139)
- 4.358 Three Hundred Sixty-Second Supplemental Indenture dated as of June 25, 2015, to the U.S. Bank Indenture and Form of 5.100% Prospect Capital InterNote® due 2021(139)

Exhibit No.

- 4.359 Three Hundred Sixty-Third Supplemental Indenture dated as of July 2, 2015, to the U.S. Bank Indenture and Form of 4.625% Prospect Capital InterNote® due 2020(140)
- 4.360 Three Hundred Sixty-Fourth Supplemental Indenture dated as of July 2, 2015, to the U.S. Bank Indenture and Form of 5.100% Prospect Capital InterNote® due 2021(140)
- 4.361 Three Hundred Sixty-Fifth Supplemental Indenture dated as of July 9, 2015, to the U.S. Bank Indenture and Form of 4.750% Prospect Capital InterNote® due 2020(141)
- 4.362 Three Hundred Sixty-Sixth Supplemental Indenture dated as of July 9, 2015, to the U.S. Bank Indenture and Form of 5.250% Prospect Capital InterNote® due 2022(141)
- 4.363 Three Hundred Sixty-Seventh Supplemental Indenture dated as of July 16, 2015, to the U.S. Bank Indenture and Form of 4.750% Prospect Capital InterNote® due 2020(142)
- 4.364 Three Hundred Sixty-Eighth Supplemental Indenture dated as of July 16, 2015, to the U.S. Bank Indenture and Form of 5.250% Prospect Capital InterNote® due 2022(142)
- 4.365 Three Hundred Sixty-Ninth Supplemental Indenture dated as of July 23, 2015, to the U.S. Bank Indenture and Form of 4.750% Prospect Capital InterNote® due 2020(143)
- 4.366 Three Hundred Seventieth Supplemental Indenture dated as of July 23, 2015, to the U.S. Bank Indenture and Form of 5.250% Prospect Capital InterNote® due 2022(143)
- 4.367 Three Hundred Seventy-First Supplemental Indenture dated as of July 30, 2015, to the U.S. Bank Indenture and Form of 4.750% Prospect Capital InterNote® due 2020(144)
- 4.368 Three Hundred Seventy-Second Supplemental Indenture dated as of July 30, 2015, to the U.S. Bank Indenture and Form of 5.250% Prospect Capital InterNote® due 2022(144)
- 4.369 Three Hundred Seventy-Third Supplemental Indenture dated as of August 6, 2015, to the U.S. Bank Indenture and Form of 4.750% Prospect Capital InterNote® due 2020(145)
- 4.370 Three Hundred Seventy-Fourth Supplemental Indenture dated as of August 6, 2015, to the U.S. Bank Indenture and Form of 5.250% Prospect Capital InterNote® due 2022(145)

- 4.371 Three Hundred Seventy-Fifth Supplemental Indenture dated as of August 13, 2015, to the U.S. Bank Indenture and Form of 4.750% Prospect Capital InterNote® due 2020(146)

- 4.372 Three Hundred Seventy-Sixth Supplemental Indenture dated as of August 13, 2015, to the U.S. Bank Indenture and Form of 5.250% Prospect Capital InterNote® due 2022(146)

- 4.373 Three Hundred Seventy-Fifth Supplemental Indenture dated as of August 20, 2015, to the U.S. Bank Indenture and Form of 4.750% Prospect Capital InterNote® due 2020(147)

- 4.374 Three Hundred Seventy-Sixth Supplemental Indenture dated as of August 20, 2015, to the U.S. Bank Indenture and Form of 5.250% Prospect Capital InterNote® due 2022(147)

- 10.1 Investment Advisory Agreement between Registrant and Prospect Capital Management L.P.(2)

- 10.2 Administration Agreement between Registrant and Propsect Administration LLC(2)

- 10.3 Dividend Reinvestment Plan(2)

- 10.4 Trademark License Agreement between the Registrant and Prospect Capital Investment Management, LLC(2)

- 10.5 Transfer Agency and Registrar Services Agreement(4)

- 10.6 Fifth Amended and Restated Loan and Servicing Agreement, dated August 29, 2014, among Prospect Capital Funding LLC, Prospect Capital Corporation, the lenders from time to time party thereto, the managing agents from time to time party thereto, U.S. Bank National Association as Calculation Agent, Paying Agent and Documentation Agent, KeyBank National Association as Facility Agent, Key Equipment Finance Inc. and Royal Bank of Canada as Syndication Agents, and KeyBank National Association as Structuring Agent, Sole Lead Arranger and Sole Bookrunner(13)

- 10.7 Fourth Amended and Restated Selling Agent Agreement, dated November 7, 2014, by and among, the Registrant, Prospect Capital Management L.P., Prospect Administration LLC, Incapital LLC and the Agents named therein and added from time to time(109)

- 10.8 Amended and Restated Custody Agreement, dated as of September 23, 2014, by and between the Registrant and U.S. Bank National Association(106)

- 10.9 Custody Agreement, dated as of April 24, 2013, by and between the Registrant and Israeli Discount Bank of New York Ltd.(5)

- 10.10 Custody Agreement, dated as of October 28, 2013, by and between the Registrant and Fifth Third Bank(82)

10.11 Custody Agreement, dated as of May 9, 2014, by and between the Registrant and Customers Bank(104)

10.12 Custody Agreement, dated as of May 9, 2014, by and between the Registrant and Peapack-Gladstone Bank(105)

Exhibit No.

- 10.13 Custody Agreement, dated as of October 10, 2014, by and between Prospect Yield Corporation, LLC and U.S. Bank National Association(106)
- 11 Computation of Per Share Earnings (included in the notes to the financial statements contained in this report)
- 12 Computation of Ratios (included in the notes to the financial statements contained in this report)
- 14 Code of Ethics*
- 21 Subsidiaries of the Registrant (included in the notes to the consolidated financial statements contained in this annual report)
- 22.1 Proxy Statement(148)
- 22.2 Published report regarding matters submitted to vote of security holders(149)
- 23.1 Consent of McGladrey LLP, Certified Public Accountants of First Tower Finance Company LLC**
- 23.2 Consent of Doeren Mayhew & Co., P.C., Certified Public Accountants of Harbortouch Payments, LLC**
- 31.1 Certification of Chief Executive Officer pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934, as amended*
- 31.2 Certification of Chief Financial Officer pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934, as amended*
- 32.1 Certification of Chief Executive Officer pursuant to Section 906 of The Sarbanes-Oxley Act of 2002 (18 U.S.C. 1350)*
- 32.2 Certification of Chief Financial Officer pursuant to Section 906 of The Sarbanes-Oxley Act of 2002 (18 U.S.C. 1350)*
- 99.1 Audited Consolidated Financial Statements of First Tower Finance Company LLC and its subsidiaries as of and for the years ended December 31, 2014 and 2013**

* Filed herewith.

** Will be filed by amendment.

- (1) Incorporated by reference to Exhibit 3.1 of the Registrant's Form 8-K, filed on May 9, 2014.
- (2) Incorporated by reference from the Registrant's Pre-effective Amendment No. 2 to the Registration Statement on Form N-2, filed on July 6, 2004.
- (3) Incorporated by reference to Exhibit 3.1 of the Registrant's Form 8-K, filed on August 26, 2011.
- (4) Incorporated by reference from the Registrant's Pre-effective Amendment No. 3 to the Registration Statement on Form N-2, filed on July 23, 2004.
- (5) Incorporated by reference to Exhibit 10.258 of the Registrant's Form 10-K filed on August 21, 2013.
- (6) Incorporated by reference to Exhibit 4.2 of the Registrant's Form 8-K, filed on February 18, 2011.
- (7) Incorporated by reference to Exhibit 4.1 of the Registrant's Form 8-K, filed on December 21, 2010.
- (8) Incorporated by reference to Exhibit 4.1 of the Registrant's Form 8-K, filed on February 18, 2011.
- (9) Incorporated by reference from the Registrant's Registration Statement on Form N-2, filed on September 1, 2011.
- (10) Incorporated by reference from the Registrant's Post-Effective Amendment No. 1 to the Registration Statement on Form N-2, filed on March 1, 2012.
- (11) Incorporated by reference from the Registrant's Post-Effective Amendment No. 2 to the Registration Statement on Form N-2, filed on March 8, 2012.
- (12) Incorporated by reference from the Registrant's Post-Effective Amendment No. 3 to the Registration Statement on Form N-2, filed on March 14, 2012.

- (13) Incorporated by reference to Exhibit 10.1 of the Registrant's Form 8-K, filed on September 2, 2014.
- (14) Incorporated by reference from the Registrant's Post-Effective Amendment No. 5 to the Registration Statement on Form N-2, filed on April 5, 2012.
- (15) Incorporated by reference from the Registrant's Post-Effective Amendment No. 6 to the Registration Statement on Form N-2, filed on April 12, 2012.
- (16) Incorporated by reference to Exhibit 4.1 of the Registrant's Form 8-K, filed on April 16, 2012.
- (17) Incorporated by reference to Exhibit 4.2 of the Registrant's Form 8-K, filed on April 16, 2012.
- (18) Incorporated by reference from the Registrant's Post-Effective Amendment No. 8 to the Registration Statement on Form N-2, filed on April 26, 2012.
- (19) Incorporated by reference to Exhibit 4.1 of the Registrant's Form 8-K, filed on August 14, 2012.
- (20) Incorporated by reference to Exhibit 4.2 of the Registrant's Form 8-K, filed on August 14, 2012.

- (21) Incorporated by reference from the Registrant's Post-Effective Amendment No. 26 to the Registration Statement on Form N-2, filed on September 27, 2012.
- (22) Incorporated by reference from the Registrant's Post-Effective Amendment No. 27 to the Registration Statement on Form N-2, filed on October 4, 2012.
- (23) Incorporated by reference from the Registrant's Post-Effective Amendment No. 2 to the Registration Statement on Form N-2, filed on November 23, 2012.
- (24) Incorporated by reference from the Registrant's Post-Effective Amendment No. 3 to the Registration Statement on Form N-2, filed on November 29, 2012.
- (25) Incorporated by reference from the Registrant's Post-Effective Amendment No. 4 to the Registration Statement on Form N-2, filed on December 6, 2012.
- (26) Incorporated by reference from the Registrant's Post-Effective Amendment No. 5 to the Registration Statement on Form N-2, filed on December 13, 2012.
- (27) Incorporated by reference from the Registrant's Post-Effective Amendment No. 6 to the Registration Statement on Form N-2, filed on December 20, 2012.
- (28) Incorporated by reference to Exhibit 4.1 of the Registrant's Form 8-K, filed on December 21, 2012.
- (29) Incorporated by reference from the Registrant's Post-Effective Amendment No. 8 to the Registration Statement on Form N-2, filed on December 28, 2012.
- (30) Incorporated by reference from the Registrant's Post-Effective Amendment No. 9 to the Registration Statement on Form N-2, filed on January 4, 2013.
- (31) Incorporated by reference from the Registrant's Post-Effective Amendment No. 10 to the Registration Statement on Form N-2, filed on January 10, 2013.
- (32) Incorporated by reference from the Registrant's Post-Effective Amendment No. 11 to the Registration Statement on Form N-2, filed on January 17, 2013.
- (33) Incorporated by reference from the Registrant's Post-Effective Amendment No. 12 to the Registration Statement on Form N-2, filed on January 25, 2013.

- (34) Incorporated by reference from the Registrant's Post-Effective Amendment No. 13 to the Registration Statement on Form N-2, filed on January 31, 2013.
- (35) Incorporated by reference from the Registrant's Post-Effective Amendment No. 14 to the Registration Statement on Form N-2, filed on February 7, 2013.
- (36) Incorporated by reference from the Registrant's Post-Effective Amendment No. 16 to the Registration Statement on Form N-2, filed on February 22, 2013.
- (37) Incorporated by reference from the Registrant's Post-Effective Amendment No. 17 to the Registration Statement on Form N-2, filed on February 28, 2013.
- (38) Incorporated by reference from the Registrant's Post-Effective Amendment No. 18 to the Registration Statement on Form N-2, filed on March 7, 2013.
- (39) Incorporated by reference from the Registrant's Post-Effective Amendment No. 19 to the Registration Statement on Form N-2, filed on March 14, 2013.
- (40) Incorporated by reference to Exhibit 4.1 of the Registrant's Form 8-K, filed on March 15, 2013.
- (41) Incorporated by reference to Exhibit 4.2 of the Registrant's Form 8-K, filed on March 15, 2013.
- (42) Incorporated by reference from the Registrant's Post-Effective Amendment No. 21 to the Registration Statement on Form N-2, filed on March 21, 2013.
- (43) Incorporated by reference from the Registrant's Post-Effective Amendment No. 22 to the Registration Statement on Form N-2, filed on March 28, 2013.
- (44) Incorporated by reference from the Registrant's Post-Effective Amendment No. 23 to the Registration Statement on Form N-2, filed on April 4, 2013.
- (45) Incorporated by reference from the Registrant's Post-Effective Amendment No. 24 to the Registration Statement on Form N-2, filed on April 11, 2013.
- (46) Incorporated by reference from the Registrant's Post-Effective Amendment No. 25 to the Registration Statement on Form N-2, filed on April 18, 2013.
- (47) Incorporated by reference from the Registrant's Post-Effective Amendment No. 26 to the Registration Statement on Form N-2, filed on April 25, 2013.

- (48) Incorporated by reference from the Registrant's Post-Effective Amendment No. 27 to the Registration Statement on Form N-2, filed on May 2, 2013.

- (49) Incorporated by reference from the Registrant's Post-Effective Amendment No. 29 to the Registration Statement on Form N-2, filed on May 9, 2013.

- (50) Incorporated by reference from the Registrant's Post-Effective Amendment No. 30 to the Registration Statement on Form N-2, filed on May 23, 2013.
- (51) Incorporated by reference from the Registrant's Post-Effective Amendment No. 31 to the Registration Statement on Form N-2, filed on May 31, 2013.
- (52) Incorporated by reference from the Registrant's Post-Effective Amendment No. 32 to the Registration Statement on Form N-2, filed on June 6, 2013.
- (53) Incorporated by reference from the Registrant's Post-Effective Amendment No. 33 to the Registration Statement on Form N-2, filed on June 13, 2013.
- (54) Incorporated by reference from the Registrant's Post-Effective Amendment No. 34 to the Registration Statement on Form N-2, filed on June 20, 2013.
- (55) Incorporated by reference from the Registrant's Post-Effective Amendment No. 35 to the Registration Statement on Form N-2, filed on June 27, 2013.
- (56) Incorporated by reference from the Registrant's Post-Effective Amendment No. 36 to the Registration Statement on Form N-2, filed on July 5, 2013.
- (57) Incorporated by reference from the Registrant's Post-Effective Amendment No. 37 to the Registration Statement on Form N-2, filed on July 11, 2013.
- (58) Incorporated by reference from the Registrant's Post-Effective Amendment No. 38 to the Registration Statement on Form N-2, filed on July 18, 2013.
- (59) Incorporated by reference from the Registrant's Post-Effective Amendment No. 39 to the Registration Statement on Form N-2, filed on July 25, 2013.
- (60) Incorporated by reference from the Registrant's Post-Effective Amendment No. 40 to the Registration Statement on Form N-2, filed on August 1, 2013.
- (61) Incorporated by reference from the Registrant's Post-Effective Amendment No. 41 to the Registration Statement on Form N-2, filed on August 8, 2013.
- (62) Incorporated by reference from the Registrant's Post-Effective Amendment No. 42 to the Registration Statement on Form N-2, filed on August 15, 2013.

- (63) Incorporated by reference from the Registrant's Post-Effective Amendment No. 43 to the Registration Statement on Form N-2, filed on August 22, 2013.
- (64) Incorporated by reference from the Registrant's Post-Effective Amendment No. 45 to the Registration Statement on Form N-2, filed on September 6, 2013.
- (65) Incorporated by reference from the Registrant's Post-Effective Amendment No. 46 to the Registration Statement on Form N-2, filed on September 12, 2013.
- (66) Incorporated by reference from the Registrant's Post-Effective Amendment No. 47 to the Registration Statement on Form N-2, filed on September 19, 2013.
- (67) Incorporated by reference from the Registrant's Post-Effective Amendment No. 48 to the Registration Statement on Form N-2, filed on September 26, 2013.
- (68) Incorporated by reference from the Registrant's Post-Effective Amendment No. 49 to the Registration Statement on Form N-2, filed on October 3, 2013.
- (69) Incorporated by reference from the Registrant's Post-Effective Amendment No. 50 to the Registration Statement on Form N-2, filed on October 10, 2013.
- (70) Incorporated by reference from the Registrant's Post-Effective Amendment No. 51 to the Registration Statement on Form N-2, filed on October 18, 2013.
- (71) Incorporated by reference from the Registrant's Post-Effective Amendment No. 3 to the Registration Statement on Form N-2, filed on October 24, 2013.
- (72) Incorporated by reference from the Registrant's Post-Effective Amendment No. 4 to the Registration Statement on Form N-2, filed on October 31, 2013.
- (73) Incorporated by reference from the Registrant's Post-Effective Amendment No. 6 to the Registration Statement on Form N-2, filed on November 7, 2013.
- (74) Incorporated by reference from the Registrant's Post-Effective Amendment No. 7 to the Registration Statement on Form N-2, filed on November 15, 2013.
- (75) Incorporated by reference from the Registrant's Post-Effective Amendment No. 8 to the Registration Statement on Form N-2, filed on November 21, 2013.
- (76) Incorporated by reference from the Registrant's Post-Effective Amendment No. 9 to the Registration Statement on Form

N-2, filed on November 29, 2013.

- (77) Incorporated by reference from the Registrant's Post-Effective Amendment No. 10 to the Registration Statement on Form N-2, filed on December 5, 2013.

- (78) Incorporated by reference from the Registrant's Post-Effective Amendment No. 11 to the Registration Statement on Form N-2, filed on December 12, 2013.
- (79) Incorporated by reference from the Registrant's Post-Effective Amendment No. 12 to the Registration Statement on Form N-2, filed on December 19, 2013.
- (80) Incorporated by reference from the Registrant's Post-Effective Amendment No. 13 to the Registration Statement on Form N-2, filed on December 27, 2013.
- (81) Incorporated by reference from the Registrant's Post-Effective Amendment No. 14 to the Registration Statement on Form N-2, filed on January 3, 2014.
- (82) Incorporated by reference from the Registrant's Post-Effective Amendment No. 15 to the Registration Statement on Form N-2, filed on January 9, 2014.
- (83) Incorporated by reference from the Registrant's Post-Effective Amendment No. 16 to the Registration Statement on Form N-2, filed on January 16, 2014.
- (84) Incorporated by reference from the Registrant's Post-Effective Amendment No. 17 to the Registration Statement on Form N-2, filed on January 24, 2014.
- (85) Incorporated by reference from the Registrant's Post-Effective Amendment No. 18 to the Registration Statement on Form N-2, filed on January 30, 2014.
- (86) Incorporated by reference from the Registrant's Post-Effective Amendment No. 19 to the Registration Statement on Form N-2, filed on February 6, 2014.
- (87) Incorporated by reference from the Registrant's Post-Effective Amendment No. 20 to the Registration Statement on Form N-2, filed on February 13, 2014.
- (88) Incorporated by reference from the Registrant's Post-Effective Amendment No. 21 to the Registration Statement on Form N-2, filed on February 19, 2014.
- (89) Incorporated by reference from the Registrant's Post-Effective Amendment No. 22 to the Registration Statement on Form N-2, filed on February 21, 2014.
- (90) Incorporated by reference from the Registrant's Post-Effective Amendment No. 23 to the Registration Statement on Form N-2, filed on February 27, 2014.

- (91) Incorporated by reference from the Registrant's Post-Effective Amendment No. 24 to the Registration Statement on Form N-2, filed on March 6, 2014.
- (92) Incorporated by reference from the Registrant's Post-Effective Amendment No. 25 to the Registration Statement on Form N-2, filed on March 11, 2014.
- (93) Incorporated by reference from the Registrant's Post-Effective Amendment No. 26 to the Registration Statement on Form N-2, filed on March 13, 2014.
- (94) Incorporated by reference from the Registrant's Post-Effective Amendment No. 27 to the Registration Statement on Form N-2, filed on March 20, 2014.
- (95) Incorporated by reference from the Registrant's Post-Effective Amendment No. 28 to the Registration Statement on Form N-2, filed on March 27, 2014.
- (96) Incorporated by reference from the Registrant's Post-Effective Amendment No. 29 to the Registration Statement on Form N-2, filed on April 3, 2014.
- (97) Incorporated by reference from the Registrant's Post-Effective Amendment No. 30 to the Registration Statement on Form N-2, filed on April 7, 2014.
- (98) Incorporated by reference from the Registrant's Post-Effective Amendment No. 31 to the Registration Statement on Form N-2, filed on April 10, 2014.
- (99) Incorporated by reference to Exhibit 4.1 of the Registrant's Form 8-K, filed on April 16, 2014.
- (100) Incorporated by reference from the Registrant's Post-Effective Amendment No. 32 to the Registration Statement on Form N-2, filed on April 17, 2014.
- (101) Incorporated by reference from the Registrant's Post-Effective Amendment No. 33 to the Registration Statement on Form N-2, filed on April 24, 2014.
- (102) Incorporated by reference from the Registrant's Post-Effective Amendment No. 34 to the Registration Statement on Form N-2, filed on May 1, 2014.
- (103) Incorporated by reference from the Registrant's Post-Effective Amendment No. 35 to the Registration Statement on Form N-2, filed on May 8, 2014.
- (104) Incorporated by reference to Exhibit 10.12 of the Registrant's Form 10-K, filed on August 25, 2014.

(105) Incorporated by reference to Exhibit 10.13 of the Registrant's Form 10-K, filed on August 25, 2014.

(106) Incorporated by reference from the Registrant's Pre-Effective Amendment No. 1 to the Registration Statement on Form N-2, filed on October 14, 2014.

- (107) Incorporated by reference to Exhibit 99.1 of the Registrant's Form 10-K/A, filed on November 3, 2014.
- (108) Incorporated by reference from the Registrant's Pre-Effective Amendment No. 2 to the Registration Statement on Form N-2, filed on November 3, 2014.
- (109) Incorporated by reference from the Registrant's Post-Effective Amendment No. 1 to the Registration Statement on Form N-2, filed on November 3, 2014.
- (110) Incorporated by reference from the Registrant's Post-Effective Amendment No. 2 to the Registration Statement on Form N-2, filed on November 20, 2014.
- (111) Incorporated by reference from the Registrant's Post-Effective Amendment No. 3 to the Registration Statement on Form N-2, filed on November 28, 2014.
- (112) Incorporated by reference from the Registrant's Post-Effective Amendment No. 4 to the Registration Statement on Form N-2, filed on December 4, 2014.
- (113) Incorporated by reference from the Registrant's Post-Effective Amendment No. 5 to the Registration Statement on Form N-2, filed on December 11, 2014.
- (114) Incorporated by reference from the Registrant's Post-Effective Amendment No. 6 to the Registration Statement on Form N-2, filed on December 18, 2014.
- (115) Incorporated by reference from the Registrant's Post-Effective Amendment No. 7 to the Registration Statement on Form N-2, filed on December 29, 2014.
- (116) Incorporated by reference from the Registrant's Post-Effective Amendment No. 8 to the Registration Statement on Form N-2, filed on January 5, 2015.
- (117) Incorporated by reference from the Registrant's Post-Effective Amendment No. 9 to the Registration Statement on Form N-2, filed on January 8, 2015.
- (118) Incorporated by reference from the Registrant's Post-Effective Amendment No. 10 to the Registration Statement on Form N-2, filed on January 15, 2015.
- (119) Incorporated by reference from the Registrant's Post-Effective Amendment No. 11 to the Registration Statement on Form N-2, filed on January 23, 2015.

- (120) Incorporated by reference from the Registrant's Post-Effective Amendment No. 12 to the Registration Statement on Form N-2, filed on January 29, 2015.
- (121) Incorporated by reference from the Registrant's Post-Effective Amendment No. 13 to the Registration Statement on Form N-2, filed on February 5, 2015.
- (122) Incorporated by reference from the Registrant's Post-Effective Amendment No. 14 to the Registration Statement on Form N-2, filed on February 20, 2015.
- (123) Incorporated by reference from the Registrant's Post-Effective Amendment No. 15 to the Registration Statement on Form N-2, filed on February 26, 2015.
- (124) Incorporated by reference from the Registrant's Post-Effective Amendment No. 16 to the Registration Statement on Form N-2, filed on March 5, 2015.
- (125) Incorporated by reference from the Registrant's Post-Effective Amendment No. 17 to the Registration Statement on Form N-2, filed on March 12, 2015.
- (126) Incorporated by reference from the Registrant's Post-Effective Amendment No. 18 to the Registration Statement on Form N-2, filed on March 19, 2015.
- (127) Incorporated by reference from the Registrant's Post-Effective Amendment No. 19 to the Registration Statement on Form N-2, filed on March 26, 2015.
- (128) Incorporated by reference from the Registrant's Post-Effective Amendment No. 20 to the Registration Statement on Form N-2, filed on April 2, 2015.
- (129) Incorporated by reference from the Registrant's Post-Effective Amendment No. 21 to the Registration Statement on Form N-2, filed on April 9, 2015.
- (130) Incorporated by reference from the Registrant's Post-Effective Amendment No. 22 to the Registration Statement on Form N-2, filed on April 16, 2015.
- (131) Incorporated by reference from the Registrant's Post-Effective Amendment No. 23 to the Registration Statement on Form N-2, filed on April 23, 2015.
- (132) Incorporated by reference from the Registrant's Post-Effective Amendment No. 24 to the Registration Statement on Form N-2, filed on April 29, 2015.
- (133) Incorporated by reference from the Registrant's Post-Effective Amendment No. 25 to the Registration Statement on Form N-2, filed on May 7, 2015.

- (134) Incorporated by reference from the Registrant's Post-Effective Amendment No. 26 to the Registration Statement on Form N-2, filed on May 21, 2015.

- (135) Incorporated by reference from the Registrant's Post-Effective Amendment No. 27 to the Registration Statement on Form N-2, filed on May 29, 2015.
- (136) Incorporated by reference from the Registrant's Post-Effective Amendment No. 28 to the Registration Statement on Form N-2, filed on June 4, 2015.
- (137) Incorporated by reference from the Registrant's Post-Effective Amendment No. 29 to the Registration Statement on Form N-2, filed on June 11, 2015.
- (138) Incorporated by reference from the Registrant's Post-Effective Amendment No. 30 to the Registration Statement on Form N-2, filed on June 18, 2015.
- (139) Incorporated by reference from the Registrant's Post-Effective Amendment No. 31 to the Registration Statement on Form N-2, filed on June 25, 2015.
- (140) Incorporated by reference from the Registrant's Post-Effective Amendment No. 32 to the Registration Statement on Form N-2, filed on July 2, 2015.
- (141) Incorporated by reference from the Registrant's Post-Effective Amendment No. 33 to the Registration Statement on Form N-2, filed on July 9, 2015.
- (142) Incorporated by reference from the Registrant's Post-Effective Amendment No. 34 to the Registration Statement on Form N-2, filed on July 16, 2015.
- (143) Incorporated by reference from the Registrant's Post-Effective Amendment No. 35 to the Registration Statement on Form N-2, filed on July 23, 2015.
- (144) Incorporated by reference from the Registrant's Post-Effective Amendment No. 36 to the Registration Statement on Form N-2, filed on July 30, 2015.
- (145) Incorporated by reference from the Registrant's Post-Effective Amendment No. 37 to the Registration Statement on Form N-2, filed on August 6, 2015.
- (146) Incorporated by reference from the Registrant's Post-Effective Amendment No. 38 to the Registration Statement on Form N-2, filed on August 13, 2015.
- (147) Incorporated by reference from the Registrant's Post-Effective Amendment No. 39 to the Registration Statement on Form N-2, filed on August 20, 2015.

(148) Incorporated by reference from the Registrant's Proxy Statement, filed on September 10, 2014.

(149) Incorporated by reference from the Registrant's Form 8-K, filed on December 5, 2014.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized on August 26, 2015.

PROSPECT CAPITAL CORPORATION

By: /s/ JOHN F. BARRY III
John F. Barry III
Chairman of the Board and Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

/s/ JOHN F. BARRY III
John F. Barry III
Chairman of the Board, Chief Executive Officer and Director
August 26, 2015

/s/ ANDREW C. COOPER
Andrew C. Cooper
Director
August 26, 2015

/s/ BRIAN H. OSWALD
Brian H. Oswald
Chief Financial Officer
August 26, 2015

/s/ WILLIAM J. GREMP
William J. Grempe
Director
August 26, 2015

/s/ M. GRIER ELIASEK
M. Grier Eliasek
President, Chief Operating Officer and Director
August 26, 2015

/s/ EUGENE S. STARK
Eugene S. Stark
Director
August 26, 2015

Exhibit 7

**IN THE UNITED STATES BANKRUPTCY COURT
FOR THE SOUTHERN DISTRICT OF OHIO
EASTERN DIVISION**

In re:	)	Chapter 11
	)	
AcuSport Corporation,	)	Case No. 18-52736
	)	
Debtor.	)	Honorable John E. Hoffman, Jr.

DECLARATION OF JOHN K. FLANAGAN IN SUPPORT OF FIRST DAY MOTIONS

John K. Flanagan declares, under penalty of perjury, in accordance with [28 U.S.C. § 1746](#):

1. I am the Chief Financial Officer (“**CFO**”), Treasurer, and Secretary of AcuSport Corporation (“**AcuSport**” or “**Debtor**”), a corporation incorporated under the laws of the state of Ohio and Debtor in this chapter 11 case (the “**Case**”). I have been employed by AcuSport since September 10, 2012, and, since then, I have served in my current positions as CFO, Treasurer, and Secretary. As a result of my tenure and positions with AcuSport, review of relevant documents, and discussions with other members of AcuSport’s management team, I am familiar with AcuSport’s day-to-day operations, business affairs, and books and records.

2. I am authorized to submit this Declaration on behalf of Debtor.

3. Unless otherwise stated, all facts set forth in this Declaration are based on my personal knowledge, review of relevant documents, discussions with other members of AcuSport’s management team, discussions with Debtor’s advisors and other professionals, or are my opinion, which is based on personal experience and knowledge of Debtor’s operations and financial affairs. If I am called as a witness in this Case, I would testify competently to the facts set forth in this Declaration.

4. I submit this Declaration to assist the Court and parties in interest with understanding the background of Debtor and the circumstances that resulted in the

commencement of this Case. Further, I submit this Declaration to support Debtor's request for relief with respect to its (a) voluntary petition for relief under title 11 of the United States Code (the "**Bankruptcy Code**") filed on the date hereof (the "**Petition Date**") and (b) first day motions and applications (collectively, the "**First Day Motions**") filed contemporaneously therewith. This Declaration is referred to as the "Flanagan Declaration" and is incorporated into each of the First Day Motions.

5. To familiarize the Court with Debtor and the various types of relief it seeks at the outset of this Case, this Declaration is organized into four parts. First, I provide general information regarding AcuSport and its business operations. Second, I provide an overview of Debtor's organizational, capital, and debt structures. Third, I describe the circumstances that led to the commencement of this Case, as well as Debtor's prepetition efforts to obtain financing and to market and sell its assets. Fourth, and finally, I provide relevant facts that support each of the First Day Motions, which I believe are critical to ensure the least possible disruption to Debtor's ongoing business operations and chances for success in this Case.

DEBTOR'S BUSINESS OPERATIONS

6. AcuSport is recognized nationwide as one of the leading distributors of outdoor and shooting sports products. Employing more than 200 people, AcuSport is centrally headquartered in Bellefontaine, Ohio and has regional sales offices in Pennsylvania, Georgia, Minnesota, Montana, California and Texas. To ensure and enable customer service to the West Coast, AcuSport also operates a warehouse and distribution facility located in Salt Lake City, Utah.

7. AcuSport provides consulting services to independent retailers, helping them to efficiently acquire products, utilize state-of-the-art business tools and provide value-added

services that increase profitability and strengthen retailers' businesses. AcuSport's commitment to independent retailers, along with great service, is the cornerstone of AcuSport's business.

8. AcuSport is also dedicated to the shooting sports industry. AcuSport has supported the industry through involvement in industry organizations. Indeed, AcuSport has received several awards, including the Shooting Industry Academy of Excellence Wholesale Distributor of the Year award. Besides the Distributor of the Year award, AcuSport is consistently recognized by major manufacturers as a "top distributor" for sales volume.

9. AcuSport's role does not stop when customers' orders are taken and products are shipped. Subsequent to delivery to customers, AcuSport provides ongoing value-added tools and services to make customers' businesses more profitable and efficient.

DEBTOR'S ORGANIZATIONAL, CAPITAL, AND DEBT STRUCTURE

10. Since its inception in 1982, AcuSport has been privately owned by no more than three shareholders. Currently, AcuSport's shareholders include: (i) William L. Fraim, Chairman and Chief Executive Officer; (ii) James A. Broering, President and Chief Operating Officer; and (iii) Key National Trust Company of Delaware, as Trustee of the 2012 Fraim Family Trust. Only Mr. Fraim and Mr. Broering have voting power, with Mr. Fraim holding the majority vote.

11. In June 2015, AcuSport entered into a Credit Agreement (as amended, restated, supplemented, or otherwise modified from time to time, the "***Prepetition Credit Agreement***") by and among Wells Fargo Bank, N.A., a national banking association, as administrative agent for and member of the prepetition secured lender group ("***Prepetition Lenders***").¹ Pursuant to the terms of the Prepetition Credit Agreement, Prepetition Lenders provided a secured term loan, revolving loan, and other financial accommodations to AcuSport. The initial term loan amount

¹ Prepetition Lenders consist of Wells Fargo Bank, National Association, Regions Bank, Citizens Bank, and Huntington National Bank.

was \$6,345,000.00, and the initial revolving loan commitment was in the amount of \$110,000,000.00, pursuant to the terms of the Prepetition Credit Agreement.

12. As of the Petition Date and the filing of this Declaration, the balance owing the Prepetition Lenders under the Prepetition Credit Agreement is approximately \$17.5 million. As set forth in more detail below, AcuSport proposes to continue using the Prepetition Lenders' cash collateral to fund this Case, and to the extent necessary, to obtain additional postpetition financing from the Prepetition Lenders.

EVENTS PRIOR TO THE COMMENCEMENT OF THIS CASE

A. Since the 2016 Presidential Election, AcuSport and Other Firearms Businesses Have Experienced a Significant Reduction in Sales, Resulting in Financial Distress.

13. At a time when the defense market experienced a downturn in demand, the civilian small arms and ammunition market of the firearms industry was doing well. Consumers were concerned about the possibility of stricter gun control laws, which led to increased sales. Many firearms manufacturers, retailers, and distributors, including AcuSport, understood that consumers anticipated Hillary Clinton would win the presidential election in 2016. The common belief shared by businesses in the firearms industry was that demand would increase if Clinton was elected as President because consumers expected the new administration to seek to implement gun-control legislation. As a result, AcuSport, along with other firearms businesses, prepared for a spike in demand by, among other things, purchasing substantial amounts of inventory.

14. Clinton did not win the election, and in turn, there was no spike in demand for firearms. Indeed, demand decreased. According to an article recently published by Bloomberg,

firearm sales were worse in January 2018 than they have been since 2012.² The reduction in sales directly impacted AcuSport's gross revenue, and, ultimately, its bottom line. The harm to AcuSport's financial position was further exacerbated because AcuSport had expected — and prepared for — an increase in sales.

B. AcuSport's Default under the Prepetition Credit Agreement and Subsequent Negotiations with the Prepetition Lenders

15. The reduction in sales negatively impacted AcuSport's operational performance. AcuSport experienced an approximately 30% decrease in revenue in fiscal year 2017 compared to fiscal year 2016. The reduction to AcuSport's sales and bottom line came when it had extended its resources in preparation for what it (and the rest of the industry) projected to be an unusually profitable period. This scenario produced financial circumstances that left AcuSport unable to comply with certain financial covenants as required by the Prepetition Credit Agreement. Specifically, AcuSport failed to have sufficient "Fixed Charge Coverage Ratios" for the twelve-month period ending April 30, 2017 (and for each measurement period thereafter). Subsequent to April 30, 2017, AcuSport defaulted on certain additional obligations under the Prepetition Credit Agreement, and, ultimately, entered into a number of forbearance agreements with the Prepetition Lenders.

16. On August 11, 2017, AcuSport and Prepetition Lenders entered into a formal forbearance agreement (as amended, the "**Forbearance Agreement**"), pursuant to which Prepetition Lenders agreed to provide additional funding and forbear from exercising rights and remedies relating to events of default that occurred and were ongoing under the Prepetition Credit Agreement. Thereafter, the Forbearance Agreement was amended multiple times, with

² Eliza Ronalds-Hannon and Polly Mosendz, *Remington's Bankruptcy Could Be The Tip Of The Iceberg*, BLOOMBERG, Feb. 16, 2018, <http://www.msn.com/en-us/money/companies/remingtons-bankruptcy-could-be-the-tip-of-the-iceberg/ar-BBJcMXQ?ocid=se>.

Amendment No. 13 to Credit Agreement and Amendment No. 6 to Forbearance Agreement having been executed as of April 16, 2018.

17. AcuSport also retained Huron Consulting Services LLC as its financial advisor and Huron Transaction Advisory LLC as its investment banker, and agreed to seek a refinancing of its secured debt obligations held by Prepetition Lenders. Huron Transaction Advisory LLC was retained for the purposes of preparing, marketing, and leading the consummation of one or more potential strategic alternatives, including without limitation, a refinancing process (and eventually a sale process). With respect thereto, the Forbearance Agreement established particular milestones for AcuSport to satisfy.

18. Through Huron Transaction Advisory LLC, AcuSport launched its refinancing efforts on or about September 5, 2017 and proceeded to contact at least 84 traditional and non-traditional lending institutions. Of those contacted, 28 executed a Nondisclosure Agreement and received a Confidential Information Memorandum and access to a virtual data site. Several of these lending institutions submitted an indication of interest which led to a management presentation and access to additional information about AcuSport. Subsequently, only one of the lending institutions submitted a letter of intent, which was executed, but the terms stated therein could not be satisfied.

19. Following AcuSport's inability to obtain take-out financing, it engaged in a process to sell its business, which was a condition to the continued forbearance of Prepetition Lenders under the Forbearance Agreement.

C. AcuSport's Extensive Prepetition Sale Process.

20. On or about January 16, 2018, AcuSport (with the assistance of Huron Transaction Advisory LLC) began a more fulsome sale process, and in connection with its

marketing efforts, contacted at least 148 financial and strategic investors. Of those contacted, 48 potential investors executed a Nondisclosure Agreement and received a Confidential Information Memorandum and access to the virtual data site. Over the course of four months, AcuSport received several verbal and written indications of interest from both financial and strategic investors. The investors that submitted the indications of interest received a management presentation and access to additional diligence information. Subsequently, the investors were asked to submit a formal letter of intent which would outline their proposed structure and purchase price.

21. This extensive sale and marketing process produced offers from certain parties to purchase specific assets of Debtor. These offers included an offer submitted by Ellett Brothers, LLC (“**Proposed Purchaser**”) to purchase certain of Debtor’s assets, free and clear of all liens, claims, and encumbrances for the amount of \$7,750,000 plus certain additional amounts to be determined at or before closing.

22. On April 11, 2018, AcuSport executed a non-exclusive letter of intent proposal with an affiliate of Proposed Purchaser. Thereafter, the parties negotiated a definitive asset purchase agreement concerning a transaction. On April 30, 2018, AcuSport and Proposed Purchaser executed the asset purchase agreement (the “**Stalking Horse APA**”), which contemplates that, among other things, Proposed Purchaser will acquire AcuSport’s inventory, real estate, equipment, technology, and certain other intangible assets existing as of the closing (the “**Proposed Sale Assets**”) for a purchase price of \$7.75 million plus the value of AcuSport’s inventory as reported on a borrowing base certificate prepared in accordance with its Prepetition Credit Agreement as of the closing. Proposed Purchaser also has agreed, at AcuSport’s option, to collect any accounts receivable existing as of the closing subject to an administrative fee of

2.0% of the amount of any such collections. The Stalking Horse APA requires that consummation of a transaction take place in a chapter 11 case pursuant to an order entered by the Bankruptcy Court administering such case.³

DEBTOR'S FIRST DAY MOTIONS

23. Through its First Day Motions filed in this Case, Debtor requests various types of relief in order to permit Debtor to continue to effectively operate its business and, ultimately, maximize the value of its estate. Debtor's First Day Motions include the following:

- (a) Motion For An Order (I) Scheduling Expedited Hearings On Certain First Day Motions And Applications And (II) Approving The Form And Manner Of Notice Thereof ("***Expedited Hearing Motion***");
- (b) Motion For An Order Extending Debtor's Time To File Schedules Of Assets And Liabilities And Statement Of Financial Affairs ("***Schedules Motion***");
- (c) Motion For Authority To Continue Use of Existing Bank Accounts, Business Forms, Cash Management System, And For Waiver Of Investment Guidelines ("***Cash Management Motion***");
- (d) Motion For An Order (I) Authorizing Debtor To (A) Pay Prepetition Employee Wages, Salaries, And Other Compensation, (B) Reimburse Prepetition Employee Business Expenses, (C) Pay Prepetition Payroll Taxes And Benefits For Which Payroll Deductions Were Made, (D) Make Prepetition Contributions And Pay Prepetition Benefits Under Employee Benefit Programs, And (E) Pay Related Costs And Expenses; And (II) Directing Financial Institutions To Honor And Process Checks And Transfers Related To Such Relief ("***Employee Motion***");
- (e) Motion For An Order Authorizing Debtor To Pay Certain Prepetition Taxes And Fees ("***Taxes Motion***");

³ On April 30, 2018, AcuSport closed on the sale of certain assets to J.W. Shultz, LLC pursuant to that certain Asset Purchase Agreement dated April 27, 2018. Pursuant to that agreement, AcuSport sold certain businesses and related assets currently conducted by AcuSport's Retail Technology Group relating to the provision of point of sale software and services for certain of AcuSport's retail customers, as well as maintenance and support for AcuSport's point of sale software. The business assets sold to J.W. Shultz, LLC did not include any other line of business conducted by AcuSport, including any of the assets to be sold to Proposed Purchaser, and did not result in the payment of any funds by J.W. Shultz, LLC to AcuSport. In consideration of the acquisition, J.W. Shultz, LLC did agree to hire approximately 17 employees of AcuSport and to assume certain liabilities and obligations of AcuSport.

- (f) Motion For An Order Authorizing Debtor (I) To Perform Obligations Necessary To Maintain Insurance Coverage And (II) To Enter Into New Insurance Coverage As Needed (“**Insurance Motion**”);
- (g) Motion For An Order (I) Prohibiting Utilities From Altering, Refusing, Or Discontinuing Services To Debtor And (II) Establishing Procedures For Determining Requests For Additional Adequate Assurance (“**Utilities Motion**”);
- (h) Debtor’s Application For An Order Authorizing Debtor To Employ And Retain Donlin, Recano & Company, Inc. As Notice, Claims And Solicitation Agent, Effective *Nunc Pro Tunc* To The Petition Date (“**DRC Application**”); and
- (i) Motion For Interim And Final Orders (I) Authorizing Debtor To Use Cash Collateral; (II) Authorizing Debtor To Enter Into A Standby Postpetition Financing Facility; (III) Granting Adequate Protection To Prepetition Secured Creditors; (IV) Modifying The Automatic Stay; And (V) Scheduling And Approving The Form And Method Of Notice Of Final Hearing (“**Cash Collateral Motion**”).

24. Having reviewed the First Day Motions, I believe the information they contain is accurate and correct and the relief they seek is necessary to avoid disruption and irreparable harm to Debtor and its estate. Additional information regarding each of the First Day Motions is set forth below.

A. Motion For An Order (I) Scheduling Expedited Hearings On Certain First Day Motions And Applications And (II) Approving The Form And Manner Of Notice Thereof

25. The relief requested in the First Day Motions is essential to Debtor’s operations and, in turn, its ability to successfully utilize the chapter 11 process. Any delay with respect to the relief requested in the First Day Motions would severely hinder Debtor’s ability to preserve and maximize the value of its estate for the benefit of its creditors. For example, Debtor cannot continue operating its business without the relief requested in the Cash Collateral Motion, as it will not have the authority to make necessary payments in the ordinary course of its business. Similarly, the Employee Motion addresses issues critical to ensuring a stable relationship with

Debtor's employees as Debtor enters bankruptcy, without which Debtor may not be able to operate effectively. The Cash Management Motion requests relief necessary for Debtor to continue making authorized payments and operating its business without disruption. The Insurance Motion and the Taxes Motion likewise request relief necessary to maintaining Debtor's operations on a postpetition basis without taking unnecessary risks or jeopardizing the stability of the Case. In addition, the Schedules Motion and the DRC Application request relief regarding administrative requirements that must be resolved quickly in order for Debtor's Case to run smoothly, without which the Case may suffer logistical or administrative issues. Thus, all of the First Day Motions necessitate expedited, emergency hearings.

B. Motion For An Order Extending Debtor's Time To File Schedules Of Assets And Liabilities And Statement Of Financial Affairs

26. Debtor estimates that its matrix includes approximately 6,500 parties that may be interested in this Case. Debtor has begun gathering the information needed in order to prepare and file its Schedules of Assets and Liabilities (the "**Schedules**") and Statement of Financial Affairs (the "**SOFA**"). However, given the circumstances, Debtor has a relatively small administrative staff, and properly completing its Schedules and SOFA will require the accumulation, review, and analysis of a significant amount of information and documents. Prior to filing its chapter 11 petition in this Case, Debtor focused much of its efforts on financial restructuring and marketing for the sale of its business. As a result, the fourteen-day time period provided by Bankruptcy Rule 1007(c) does not give Debtor sufficient time to complete its Schedules and SOFA properly. Further, Debtor (and its employees) must devote their time and attention to business operations during the initial critical weeks of this Case. Debtor anticipates the Schedules and SOFA will be completed no later than June 14, 2018, and thus, is requesting an extension of thirty-one (31) days to file its Schedules and SOFA (for a total of forty-five (45)

days from the Petition Date). Nevertheless, Debtor will make a good-faith effort to complete the Schedules and SOFA as soon as reasonably practicable within the additional time requested herein.

C. Motion For Authority To Continue Use of Existing Bank Accounts, Business Forms, Cash Management System, And For Waiver Of Investment Guidelines

27. As set forth in the Cash Management Motion, Debtor seeks to maintain its six (6) existing bank accounts (the “**Bank Accounts**”) at Wells Fargo Bank N.A. (“**Wells Fargo**”) and at PNC Bank, NA (“**PNC Bank**”) and to continue its existing cash management system (the “**Cash Management System**”). A diagram showing Debtor’s Cash Management System and Bank Accounts is attached to the Cash Management Motion as Exhibit A.

28. With respect to Wells Fargo, Debtor currently maintains five (5) separate accounts. These accounts are internally labeled and described as follows:

- Master Operating Account, No. XXXXXX8529
- Depository Account, No. XXXXXX8511
- Payroll Account, No. XXXXXX8552
- ACH/Wire Account, No. XXXXXX8560
- Controlled Disbursement Account, No. XXXXXX1869

29. With respect to PNC Bank, Debtor currently maintains one (1) account known as its Local Depository Account, No. XX-XXXX-5627.

30. Each of these Bank Accounts is maintained for separate and distinct business purposes in support of Debtor’s Cash Management System. The depository account at Wells Fargo (the “**Depository Account**”) serves as the collection point for funds moving through the Cash Management System. No ACH originations or wire transfers are authorized from the Depository Account, and no checks or withdrawals are permitted therefrom. The local

depository account at PNC Bank serves as a local depository account, from which funds are swept to the Wells Fargo Depository Account on a daily basis.

31. The master operating account at Wells Fargo serves as Debtor's central operations account. The funds in this account are transferred to the payroll account, the ACH/Wire account, or the controlled disbursement account at Wells Fargo to facilitate orderly payments for payroll, to vendors, and for other operations expenses.

32. In addition, in connection with certain of the Bank Accounts and as a customary business practice, Debtor uses various checks and other business forms, including, without limitation, letterhead, purchase orders, and invoices (collectively, the "***Checks and Business Forms***").

33. Debtor seeks to maintain the Bank Accounts to avoid delays in payments to administrative creditors, to ensure uninterrupted collection of payments from its customers, to ensure as smooth a transition into chapter 11 as soon as possible with minimal disruption, and to aid in Debtor's efforts to successfully complete its sale process and maximize value for creditors. The maintenance of the Bank Accounts provides stability, continuity, and convenience to Debtor, its customers, and its creditors at a time when mutual cooperation will assist in Debtor's ability to function effectively and preserve value in its Case. Debtor also seeks the authority to, if necessary, open new accounts (while giving the U.S. Trustee notice of such newly opened accounts), wherever they are needed.

34. Debtor does not intend to pay any debts incurred before the Petition Date without prior approval from the Court. Debtor has the capability of determining what, if any, checks are unpaid and outstanding as of the Petition Date. Debtor will direct each bank at which Debtor maintains the Bank Accounts not to pay any prepetition debts unless authorized by the Court.

35. Destruction of all of Debtor's existing Checks and Business Forms would be a waste of the estate's resources. Moreover, purchasing new correspondence, letterhead, checks, and other business forms would be expensive and burdensome to Debtor's estate and disruptive to Debtor's business operations, without conferring any benefit upon those dealing with Debtor or its estate.

36. The ability of Debtor to maintain its current Cash Management System will help to ensure uninterrupted business operations. Debtor's Cash Management System is ordinary, usual, and essential. A significant amount of Debtor's revenue is directly deposited into Debtor's depository accounts. The Cash Management System allows Debtor to control the flow of deposits into a centralized account and to distribute the funds to appropriate creditors when necessary. Allowing Debtor to maintain its current Cash Management System will also allow Debtor to continue its business operations and focus on its chapter 11 Case and sale process, thereby benefiting the estate and creditors.

D. Motion For An Order (I) Authorizing Debtor To (A) Pay Prepetition Employee Wages, Salaries, And Other Compensation, (B) Reimburse Prepetition Employee Business Expenses, (C) Pay Prepetition Payroll Taxes And Benefits For Which Payroll Deductions Were Made, (D) Make Prepetition Contributions And Pay Prepetition Benefits Under Employee Benefit Programs, And (E) Pay Related Costs And Expenses; And (II) Directing Financial Institutions To Honor And Process Checks And Transfers Related To Such Relief

37. As set forth in the Employee Motion, as of the Petition Date, Debtor owed certain Prepetition Compensation, Prepetition Deductions, Employee Benefits, and Business Expenses (each as defined below) to its current employees and those that were terminated just prior to the commencement of the Case. Any delay in paying such items would seriously harm the Debtor's relationship with its workforce and could irreparably impair employee morale at the very time the dedication, confidence, and cooperation of Debtor's employees is most critical. Accordingly,

Debtor faces the imminent risk that its operations will be severely impaired if it is not immediately granted authority to make the payments described in the Employee Motion.

Prepetition Compensation and Deductions

38. As of the Petition Date, Debtor had approximately 220 employees, 211 of which were full time employees (“**FT Employees**”) and 9 of which were part time employees (“**PT Employees**,” and collectively with FT Employees, “**Employees**”). None of the Employees were members of a union. On the Petition Date, and immediately prior to commencing this Case, Debtor terminated approximately 32 Employees (the “**Former Employees**”) as part of its ongoing cost-reduction efforts, leaving the Debtor with just under 200 Employees on a postpetition basis.⁴

39. Debtor pays Employees directly, rather than through a third-party vendor. On or prior to each regular pay date, Debtor deposits funds in its payroll or general disbursement accounts to cover gross payroll and related benefits and taxes.

40. Depending on their respective roles, Employees are either hourly wage earners or salaried. Of the Employees, approximately 141 are hourly, and 79 are salaried. Employees are paid on a biweekly basis every other Friday for services performed through the period ending one week prior to the pay date. In other words, following each payroll payment, Employees are owed for one week of earned but unpaid compensation. Employees are paid through direct deposit.

⁴ The relief requested in the Employee Motion applies to all Employees, including the Former Employees, as it was not feasible for Debtor to make final payments to the Former Employees for wages or other obligations owing prior to filing the Case. Debtor believes that honoring its obligations to both current Employees and Former Employees is absolutely vital to Debtor’s ability to maintain a stable workforce and to preserve value for all creditors during this Case, the failure of which will be extremely detrimental to Debtor’s ability to continue functioning in chapter 11. Thus, references herein to “Employees” include both remaining employees and Former Employees, unless otherwise noted.

41. In addition, certain Employees are compensated through commissions based on sales in the previous month. Commissions are paid once per month, in arrears. Debtor's obligation for commissions varies; it historically has been in the approximate range of \$100,000.00 per month, but in the time period leading up to the filing of this Case, commissions owed have been substantially lower.

42. Debtor's current average biweekly gross payroll (including commissions and including taxes owed for Employee withholding taxes) is approximately \$490,000.00, plus applicable employer-paid payroll taxes of approximately \$35,000.00 related to such earnings. As noted, payroll obligations are higher for payroll periods when commissions are paid, and lower for periods when commissions are not included.

43. Debtor last paid payroll to Employees on April 27, 2018 for work completed through April 22, 2018.

44. Debtor estimates that as of the Petition Date, it owes Employees approximately \$380,000.00 for earned but unpaid wages, salaries, commissions, and other compensation, including applicable payroll taxes and withholdings ("**Prepetition Compensation**"). Of this amount, approximately \$10,000.00 is attributable to commissions earned in March 2018. In addition, approximately \$36,500.00 of the Prepetition Compensation relates to the Former Employees. Debtor believes that no individual Employee is owed more than \$12,850.00 in Prepetition Compensation.

45. In connection with the Prepetition Compensation, prior to the Petition Date, Debtor made certain deductions ("**Prepetition Deductions**") from Employees' compensation in order to make payments to third parties on behalf of Employees for items such as taxes, loan repayments to third parties, garnishments, support payments, and employee benefits, including

retirement accounts and insurance. These amounts essentially belong to Employees but are temporarily held on their behalf by Debtor. In the ordinary course of business, Debtor's Prepetition Deductions totaled approximately \$182,000.00 per payroll period, including deductions for retirement account contributions, which totaled approximately \$38,000.00 per period.

46. The Prepetition Deductions owing to Employees as of the Petition Date are included in the estimated amount of Prepetition Compensation set forth above, and thus do not represent additional amounts owing beyond the Prepetition Compensation. To further clarify the nature and magnitude of the Prepetition Deductions, however, Debtor estimates that the total amount of Prepetition Deductions held and owing by Debtor on the Petition Date was approximately \$91,000.00, of which approximately \$19,000.00 relates to Employee contributions to retirement accounts and \$8,500.00 relates to deductions for the Employees' portion of medical and other insurance premiums, with the rest relating to taxes and other various obligations.

47. Payment to Employees of Prepetition Compensation and the remittance of Prepetition Deductions are critical to Debtor's ability to continue its business operations and to maintain satisfactory Employee morale. Indeed, without an order of this Court authorizing Debtor to timely satisfy its obligations to Employees for Prepetition Compensation and Prepetition Deductions, Debtor's ongoing operations, and, ultimately, its ability to maximize the value of its assets will be in serious jeopardy. Employees (and their families) rely on their compensation and benefits to pay daily living expenses and provide for their households. To minimize the personal hardship that Employees would face if Debtor could not timely pay Prepetition Compensation and Prepetition Deductions, and to maintain morale and stability

during this challenging time, Debtor is seeking authority to pay and honor all Prepetition Compensation and Prepetition Deductions that have accrued but remain unpaid. Debtor does not intend to pay any individual Employee more than \$12,850.00 in Prepetition Compensation, which is the statutory “priority cap” set forth in section 507(a)(4) of the Bankruptcy Code.

Reimbursement of Prepetition Expenses

48. In the ordinary course of business, Debtor’s Employees incurred a variety of business expenses prior to the Petition Date (“**Prepetition Expenses**”), relating to such items as automobile mileage, parking, meals, postage, packaging, and office supply, for which they have not been reimbursed. Debtor’s existing policy and procedure is to reimburse Employees on a weekly basis for such expenses, subject to the approval of Employees’ expense reports. On average, Debtor reimburses Employees approximately \$21,878.00 on a monthly basis for business expenses. As of the Petition Date, Debtor estimates that less than \$5,000.00 in unpaid Prepetition Expenses were outstanding.

49. Failure to pay the Prepetition Expenses would hinder Debtor’s ability to successfully operate its business in this Case. Without such relief, Employees will be concerned about personal liability for business-related expenses, which will further diminish Employees’ attention to satisfactorily doing their jobs.

Employee Benefit Programs

50. In the ordinary course of its business, Debtor provides Employees with various employee benefits, including various types of medical and other insurance, health savings and flexible spending accounts, educational assistance, paid time off, 401(k) savings plans, workers’ compensation coverage, and other similar programs and miscellaneous benefits (collectively, the “**Employee Benefits**”). Debtor’s monthly cash outlay for expenses related to its various

Employee Benefits plans is approximately \$205,000.00 (exclusive of the Prepetition Deductions referenced above). Interruption of any Employee Benefits would harm Employee morale and undermine Debtor's efforts to preserve value of its estate.

(i) Insurance Benefits

51. Debtor provides eligible Employees with various insurance benefits, including medical, dental, vision, short-term and long-term disability coverage, and life and accidental death and dismemberment insurance. With respect to all insurance benefits, a portion of the monthly premium is paid by Employees via payroll deductions, with Debtor paying the rest of the costs.

52. Debtor offers a comprehensive health insurance plan for its Employees through United Healthcare. Debtor's health insurance plan is self-insured, and Debtor utilizes additional stop-loss insurance coverage to address potential large claims under the plan. Debtor's stop-loss coverage is provided by Alto Holdings, LLC. Debtor also provides a supplemental health insurance plan for executives through ArmadaCare.

53. Debtor's monthly fixed costs in connection with the United Healthcare medical plan (including applicable stop-loss insurance) total approximately \$33,000.00. Debtor's monthly cost to provide the supplemental ArmadaCare health insurance plan is approximately \$6,262.00.

54. Debtor offers Employees dental insurance through Delta Dental of Ohio ("**Delta Dental**"). Debtor's dental insurance plan is also self-insured, and its monthly fixed payments to Delta Dental total approximately \$840.00, in addition to any premiums paid by Employees through payroll deductions.

55. Vision insurance is provided to Debtor's Employees through Vision Service Plan ("VSP"). The vision insurance plan is fully insured. Debtor's monthly premium payments to VSP total approximately \$2,000.00, which is in addition to any premiums paid by Employees through payroll deductions.

56. Short-term and long-term disability insurance is provided to Employees through programs administered by Cigna Health Insurance ("Cigna"). The short-term disability program is self-insured, but the long-term disability program is not. Debtor makes monthly premium payments in respect of such insurance totaling approximately \$2,066.00.

57. Life and accidental death and dismemberment insurance is also provided to Employees through Cigna. Debtor makes monthly premium payments in respect of such insurance totaling approximately \$1,755.00.

58. With respect to the self-insured plans described above, Debtor historically has been obligated to pay an aggregate amount between \$150,000.00 and \$300,000.00 per month in respect of medical, dental, and other covered claims under such plans.

59. As of the Petition Date, Debtor owes the following approximate amounts in respect of its insurance benefit programs:

- United HealthCare: Approximately \$110,000.00 currently owing for known trailing medical claims relating to prepetition periods under the self-insured health plan.
- ArmadaCare: No monthly premiums or other obligations owing (not including Prepetition Deductions as discussed above).
- Delta Dental: Approximately \$12,000.00 for known obligations currently owing covering early 2018 (exclusive of Prepetition Deductions as discussed above).
- VSP: No monthly premiums or other obligations owing (not including Prepetition Deductions as discussed above).

- Cigna: No obligations for short-term and long-term disability and life and accidental death and dismemberment not otherwise captured in the payroll obligations described in connection with the Prepetition Compensation (not including Prepetition Deductions as discussed above).

60. Debtor believes it will have sufficient funding to pay all amounts for insurance benefits when they become due under its anticipated financing arrangements.

(ii) Health Savings and Flexible Spending Accounts

61. Eligible Employees are permitted to enroll in a health savings account (“**HSA**”) or flexible spending account (“**FSA**”) for health and dependent care. Employees who elect to participate in an HSA or FSA make contributions that are deducted from their gross pay at a pre-determined amount set by Employees. In addition, Debtor historically has made contributions to certain of its Employees’ HSAs at the beginning of each year.

62. WageWorks is the administrator for Employees’ FSAs, and Optum Bank, Inc. (“**Optum**”) is the administrator for Employees’ HSAs. Debtor believes it is current on all obligations in respect of the FSAs and HSAs, other than for certain Prepetition Deductions as described above. However, as of the Petition Date, Debtor may owe a nominal amount to WageWorks and Optum in connection with their ongoing administration of the FSAs and HSAs, respectively.

(iii) Paid Time Off

63. Eligible Employees accrue paid time off, which may be used for vacation, sick leave, and personal time off (“**PTO**”). In the ordinary course of Debtor’s business, Debtor has paid Employees for unused but accrued PTO upon termination of employment as part of their compensation. The amount of PTO that an Employee earns, and that is eligible for a payout upon separation, is based upon the number of days or months that the Employee worked during the year of separation, the number of hours accrued, and the number of paid vacation hours taken

during the year. As of the Petition Date, Debtor estimates that Employees had accrued approximately 6,500 hours in PTO for prepetition work. The rough dollar value of such PTO would be approximately \$237,000.00 in total, if paid out all at once. The amount owing to Former Employees for PTO at the time of their separation was approximately \$15,000.00.

64. Debtor is requesting authority to permit Employees to continue to use their PTO in the ordinary course of business, including prepetition PTO, during this Case. Debtor further is requesting authority to continue to pay Employees for unused but accrued PTO upon termination or expiration of employment in the ordinary course of business, pursuant to company policy. In addition, Debtor is requesting authority to pay the PTO amounts owing to Former Employees who were terminated just prior to the filing of this Case. Failure to pay all such amounts would have serious negative consequences for Debtor's operations and would adversely affect the ability to retain the Employees during the Case.

(iv) 401(k) Plan

65. Eligible Employees may elect to participate in a 401(k) retirement savings plan administered by Prudential Retirement (the "**401(k) Plan**"). Under the 401(k) Plan, Employees may contribute certain percentages of their gross earnings in order to gain tax benefits while saving for retirement. With respect to those Employees who participate in the 401(k) Plan, Debtor historically has had the option to contribute a discretionary match amount each calendar quarter, limited to the first 6% of Employees' contributed pretax earnings, but no such amounts were owing as of the Petition Date. Aside from the Prepetition Deductions to be contributed to the 401(k) Plan for Employees (as discussed above), Debtor believes that it has no outstanding prepetition obligations under the 401(k) Plan.

(v) Workers' Compensation

66. In addition to the employee benefits discussed above, Debtor provides Employees with workers' compensation insurance through the State of Ohio, as required under state law. The workers' compensation program is a fully insured plan with annual premiums being assessed at the outset of each annual coverage period based on the total dollar amount of claims made in the prior annual coverage period. Debtor's premium payments are paid in advance of each quarter throughout the annual coverage period.

67. Debtor's current coverage period began in July 2017 and will end June 30, 2018, with a new period beginning on July 1, 2018. Payments under the program are due to the State of Ohio every other month in the amount of approximately \$28,000.00. Debtor made its last payment of \$28,000.00 for the current period on April 27, 2018, and thus, believes no prepetition amounts are owing in respect of such insurance. Debtor anticipates that its next payment will not be due until July 1, 2018, and the amount due at such time may be somewhat less than has historically been owed.

Costs and Expenses Incidental to Prepetition Employee Obligations

68. As of the Petition Date, Debtor estimates it may owe approximately \$9,500.00 in additional administration and processing costs relating to prepetition obligations to or on behalf of Employees in connection with their Employee Benefits.

69. Debtor does not believe any prepetition amounts are owing to Prudential Retirement, the 401(k) Plan's third party administrator, or to The Ultimate Software Group, Inc. ("**Ultimate Software**"), Debtor's provider of payroll processing software. Nevertheless, Debtor is requesting authority to make payments for any unknown prepetition obligations in nominal amounts that may be owing to Prudential Retirement and Ultimate Software in order to avoid any disruptions in service related to Employee Benefits and obligations.

Additional Support for Employee Motion

70. Failure to make payments for current wages and benefits to all Employees, including Former Employees, would have a serious detrimental effect on Debtor's workforce and the ability to continue operations on a postpetition basis.

71. If Debtor does not pay Employees the amounts they are owed as of the Petition Date, Debtor will almost certainly suffer harm that will by far outweigh any savings to Debtor's estate. The current Employees are critical – indeed necessary – to Debtor's efforts in this Case. Without such Employees, Debtor could not operate, which would result in immediate harm to the estate and its creditors and would jeopardize Debtor's ability to consummate the sale of its business. Given the circumstances, Debtor believes it would be not only impractical but virtually impossible to find replacements for the current Employees should they terminate their employment.

72. Moreover, if Debtor fails to pay the amounts it owes to the Former Employees as described above, the remaining workforce will almost certainly have an extremely negative reaction. The remaining Employees will know the Debtor has not kept its promises to the Former Employees and will question whether they can be comfortable working for Debtor in that environment. The estimated amounts owing to the Former Employees for Prepetition Compensation and PTO are approximately \$51,500.00 -- a relatively small payment in the context of this Case. Yet the consequences of failure to honor such obligations could be catastrophic.

73. The importance of the relief sought in this Motion cannot be overstated. Debtor relies on Employees to run its business and sell its products. In turn, Employees rely on Debtor for compensation and benefits to support their livelihoods and families. Without payment of the

amounts sought herein, Debtor will lose its Employees, who are trained and who possess institutional knowledge. It is therefore a sound business decision to continue to pay these obligations in the ordinary course. And, again, to the extent the payments requested herein relate to Former Employees, the benefits (and avoidance of negative consequences) from making such payments far outweighs the costs involved.

74. To the extent payment of any medical or other insurance claims under self-insured Employee Benefit plans might exceed the statutory cap on priority claims of \$12,850.00 for any individual Employee, such payments are likewise necessary and appropriate. Employees are not commercial parties that can readily evaluate the credit risk attendant to their employment and benefits. They rely on Debtor to assist in paying their medical and other insurance claims under the Employee Benefit plans in return for their work and the premiums they have paid under the plans. If Debtor does not fulfill its obligations under the Employee Benefits plans, including the payment of medical and dental claims, Employee morale will be irreparably damaged, and Debtor risks quickly losing its workforce. Under the circumstances, relief to pay such claims as they become due in accordance with Debtor's financing arrangements is crucial to the success of this Case.

75. Debtor has sufficient funds to satisfy the amounts identified in the Employee Motion, by virtue of expected cash flows from ongoing business operations and anticipated access to cash collateral and/or postpetition financing. Also, under Debtor's cash management system, it can identify checks or transfer requests that relate to an authorized payment in connection with Employees' prepetition obligations and claims.

E. Motion For An Order Authorizing Debtor To Pay Certain Prepetition Taxes And Fees

76. In the ordinary course of its business, Debtor collects, withholds, and incurs taxes, assessments, and fees (collectively, the “**Taxes and Fees**”) that it periodically remits to taxing, licensing, regulatory, and other governmental authorities (“**Taxing Authorities**”). The types of Taxes and Fees can be generally categorized as one of the following: sales and use taxes, property taxes, franchise and corporate-level taxes, and other business taxes.

77. In connection with certain of the Taxes and Fees, Debtor collected funds prior to the Petition Date that it is holding in trust for Taxing Authorities, and that should be remitted to those Taxing Authorities. In addition, other Taxes and Fees relating to prepetition periods may be assessed during the Case.

Sales and Use Taxes

78. Debtor incurs and collects sales taxes that it must remit to various sales tax authorities on a periodic basis. These taxes are incurred in connection with sales of its inventory to customers, and the sales tax rates are set by the relevant Taxing Authorities. Debtor’s filing and remittance deadlines vary by state. Debtor periodically files sales tax returns in at least fourteen states. In general, these are “trust-fund taxes” that are held by Debtor but essentially belong to the various Taxing Authorities.

79. As of the Petition Date, Debtor estimates that it has collected and owes an aggregate amount of approximately \$5,000.00 in sales taxes to various Taxing Authorities for sales completed prior to the Petition Date.

80. In addition, Debtor is required to pay use taxes in Ohio on account of certain purchases of personal property and goods. Debtor must self-assess the use taxes and make payments according to the requirements of applicable state law. Debtor’s use taxes are typically

estimated and paid in advance, then trued up the following month (depending on the actual taxes assessed), with Debtor receiving a credit or paying an additional amount the next month. As of the Petition Date, Debtor estimates that it owes \$2,000.00 in prepetition use taxes.

Property Taxes

81. Debtor has obligations to certain Taxing Authorities for real and personal property taxes that come due periodically. Debtor generally pays such property taxes in the ordinary course of business at differing times throughout the year, depending on the jurisdictions.

82. Property taxes are generally calculated and assessed in arrears. For 2017, Debtor owed Taxing Authorities approximately \$95,000.00 for real and personal property taxes, of which nearly \$90,000.00 related to real property taxes and approximately \$5,000.00 related to personal property taxes.

83. Debtor has previously paid \$44,945.00 toward the real property taxes assessed for 2017. Debtor estimates that as of the Petition Date, it owes a total of \$43,605.00 in additional real property taxes for 2017. Real property taxes for the first four months of 2018 have also accrued through the Petition Date, but such taxes will not be due until the end of 2018.

84. Debtor typically pays a total of approximately \$5,000.00 per year in personal property taxes in various jurisdictions where it operates. The amounts making up this total are due and payable at various points throughout the year in the jurisdictions in which Debtor has personal property. As of the Petition Date, Debtor estimates that it may owe a total of \$5,000.00 for prepetition personal property tax obligations to all Taxing Authorities where such obligations are owed.

Franchise and Corporate Taxes

85. Debtor is required to pay franchise and corporate-level taxes to certain Taxing Authorities in multiple states. Debtor typically owes and pays approximately \$30,000.00 per year to various Taxing Authorities for such taxes, but such taxes have not been paid in some time. Thus, as of the Petition Date, Debtor owes an estimated \$30,000.00 in franchise and corporate-level taxes to various Taxing Authorities.

Other Taxes

86. Debtor is subject to various other types of taxes based on the volume of business Debtor conducts in the relevant jurisdictions, including the Ohio commercial activity tax (the “**CAT Tax**”), the Georgia net worth tax (the “**GNW Tax**”), and the Washington sales volume tax (the “**WSV Tax**”).

87. The CAT Tax is imposed on certain businesses for the privilege of doing business in Ohio. It is measured by gross receipts relating to business transactions occurring in Ohio, and it is imposed on businesses with gross receipts exceeding \$150,000.00 per calendar year. The CAT Tax is paid quarterly, and Debtor’s current approximate quarterly obligation is \$8,878.00 (which is the amount Debtor paid for the first quarter of 2018). As of the Petition Date, Debtor estimates that it may owe prepetition CAT Tax in the approximate amount of \$3,000.00 for the period beginning April 1, 2018 through the Petition Date.

88. The GNW Tax is based on Debtor’s sales in Georgia. The GNW Tax is typically paid annually, in the approximate aggregate amount of \$18,860.00 (which is the amount paid for 2017). Estimating the current amount that would be owing for 2018 is difficult, but Debtor believes it may owe an amount approximating \$5,000.00 in GNW Tax relating to prepetition periods.

89. The WSV Tax is based on Debtor's shipments into Washington, which results in Debtor owing up to approximately \$40,000.00 per year. The WSV Tax is typically paid monthly. As of the Petition Date, Debtor estimates it may owe WSV Tax in the amount of \$1,000.00 for prepetition periods.

90. If Debtor fails to timely satisfy its obligations to Taxing Authorities, the failure to do so will result in additional but unnecessary administrative and financial burdens on Debtor. Among other things, Taxing Authorities could attempt to suspend Debtor's operations, file liens, impose audits, and pursue other remedies for unpaid Taxes and Fees. Accordingly, there is a sound business purpose for paying the prepetition Taxes and Fees now, and it is in the best interest of its estate and creditors for the relationships between Debtor and Taxing Authorities to remain undisturbed.

F. Motion For An Order Authorizing Debtor (I) To Perform Obligations Necessary To Maintain Insurance Coverage And (II) To Enter Into New Insurance Coverage As Needed

91. Debtor maintains various insurance policies (the "**Insurance Policies**") in accordance with laws governing the jurisdictions in which Debtor operates its business as well as its contractual obligations with third parties. The Insurance Policies include coverage for, among other things, trade receivables, property and casualty, general liability, directors' and officers' liability, and workers' compensation liability.

92. The total annual premiums for the Insurance Policies subject to the Insurance Motion are approximately \$703,290.17. Debtor's premiums are due at varying times throughout the year, and given the size of the overall obligation for insurance coverage, Debtor finances certain of the premiums through third parties.

93. The coverage types, levels, and premiums for the Insurance Policies are neither unusual in amount nor in number in relation to the extent of the business operations conducted

by Debtor, and Debtor believes that they are similar to insurance coverages typically carried by businesses of a comparable size and type to that of Debtor. Debtor further believes it has no due but unpaid obligations under the Insurance Policies as of the Petition Date.

94. Debtor obtains trade credit insurance through Coface North America Insurance Company (“**Coface**”) pursuant to a Premium Payment Agreement (the “**Coface Agreement**”) that Debtor entered into on or about January 30, 2018. A copy of the Coface Agreement is attached to the Insurance Motion as Exhibit A.

95. Pursuant to the Coface Agreement, Coface permits Debtor to pay its annual premium over time, rather than paying the full amount that would otherwise be due up front. In effect, Coface finances Debtor’s premium, which totals \$275,000.00 for 2018. Under the Coface Agreement, Debtor has agreed to pay Coface a total of \$293,500.00 in exchange for the right to pay the premium over time, with an initial installment of \$87,250.00 followed by three (3) quarterly installments of \$68,750.00 each. Debtor’s next quarterly payment in the amount of \$68,750.00 will be due and payable on June 30, 2018.

96. Debtor finances its general corporate liability and related policies through IPFS Corporation (“**IPFS**”) pursuant to a premium financing agreement (the “**IPFS PFA**”) that was entered into on or about November 2, 2017. The policies subject to the IPFS PFA provide property and casualty coverage and coverage for various types of general liability claims, including automobile liability, workers’ compensation liability, crime, directors’ and officers’ liability, executive risk liability, errors and omissions, and travel accident. A copy of the IPFS PFA is attached to the Insurance Motion as Exhibit B.

97. Pursuant to the IPFS PFA, IPFS pays the up-front premiums on various policies to Debtor’s insurance carriers. The total annual amount of such premiums is approximately

\$428,290.17. In return, Debtor was required to make an initial downpayment of \$42,829.02, followed by ten monthly installments totaling \$396,481.40. Under the IPFS PFA, Debtor is obligated to pay IPFS \$39,648.14 per month to and through September 2018. The interest rate under the IPFS PFA is 6.19%. Debtor paid the May installment under the IPFS PFA on or about April 18, 2018, so the next monthly payment will be due June 1, 2018.

98. The Insurance Policies maintained by Debtor will eventually expire under their terms, beginning with policies due to expire on October 31, 2018. Maintenance of insurance coverage is required under the certain laws of the jurisdictions in which Debtor operates, contractual agreements, prudent business practices, and the requirements of the Office of the United States Trustee.

99. To the extent that any Insurance Policy premiums may be attributed to prepetition insurance coverage, Debtor believes that payment of such Insurance Policy premiums is necessary and appropriate to ensure continued coverage. Similarly, the continued payment of Insurance Policy premiums as and when such payments are due and payable is necessary to ensure continued coverage. Furthermore, payment of amounts due under the Coface Agreement and the IPFS PFA is necessary and reasonable to continue uninterrupted insurance coverage for Debtor's business. Unless Debtor is authorized to continue to pay its financed premiums, Coface and IPFS may have the right to cancel Debtor's Insurance Policies and leave Debtor without ongoing coverage.

100. As a fiduciary for the bankruptcy estate, Debtor would be at risk of violating its fiduciary duties if it in any way jeopardizes coverage provided under the Insurance Policies. The potential harm and economic disadvantage that would stem from the cancellation of the Insurance Policies and failure to renew the Insurance Policies or revise, extend, supplement,

change, or enter into new insurance arrangements as needed, are grossly disproportionate to the amount of the Insurance Obligations and the costs to renew, revise, extend, supplement, change, or enter into new insurance coverage.

G. Motion For An Order (I) Prohibiting Utilities From Altering, Refusing, Or Discontinuing Services To Debtor And (II) Establishing Procedures For Determining Requests For Additional Adequate Assurance

101. In the normal conduct of its business operations, Debtor obtains typical utility services, such as electric, telephone, and other services which may be deemed to be utilities, such as telecommunications, network, and other similar services (the “**Utility Services**”) from numerous utility providers (“**Utilities**”).

102. Ensuring that Utility Services continue without interruption is essential to Debtor’s ongoing operations and, therefore, to the success of Debtor’s Case. If Utilities refuse or discontinue service, even for a brief period, Debtor’s operations would be negatively impacted, thereby severely prejudicing Debtor’s ability to achieve a sale of its assets and to meet the goals of this Case. It is therefore critical that Utility Services continue uninterrupted.

103. At this time, Debtor’s management believes that the only Utilities providing Utility Services to Debtor are those Utilities listed on Exhibit A attached to the Utilities Motion. The amounts shown on Exhibit A to the Utilities Motion equal one half of the estimated average monthly disbursement made to each Utility for Utility Service. As shown on Exhibit A to the Utilities Motion, prior to the Petition Date, Debtor spent approximately \$42,000 per month for Utility Services. Debtor anticipates continued utilization of Utility Services commensurate with its prepetition usage thereof.

H. Debtor's Application For An Order Authorizing Debtor To Employ And Retain Donlin, Recano & Company, Inc. As Notice, Claims And Solicitation Agent, Effective Nunc Pro Tunc To The Petition Date

104. It is expected that more than 6,000 parties will require notice of Debtor's bankruptcy filing and these proceedings. In view of the number of anticipated claimants and the complexity of Debtor's business, the appointment of Donlin, Recano & Company, Inc. ("**DRC**") as notice, claims and solicitation agent is both necessary and in the best interests of both Debtor's estate and its creditors.

105. Debtor believes, based on all engagement proposals obtained and reviewed, that DRC's rates, as set forth in the DRC Application, are competitive and reasonable given DRC's quality of services and expertise.

I. Motion For Interim And Final Orders (I) Authorizing Debtor To Use Cash Collateral; (II) Authorizing Debtor To Enter Into A Standby Postpetition Financing Facility; (III) Granting Adequate Protection To Prepetition Secured Creditors; (IV) Modifying The Automatic Stay; And (V) Scheduling And Approving The Form And Method Of Notice Of Final Hearing

106. Pursuant to the Cash Collateral Motion,⁵ Debtor is seeking authority to use Cash Collateral, in accordance with the terms of the proposed Interim Order and final order to be entered after a final hearing. Debtor also is seeking authority to enter into a standby postpetition financing facility (more fully described below) (the "**Standby Loan**" or "**Postpetition Revolving Loan**") from Wells Fargo Bank, N.A., a national banking association, as administrative agent ("**Postpetition Agent**") for each member of the Lender Group and the Bank Product Providers ("**Postpetition Lenders**"), pursuant to the terms of the Interim Order and a final order to be entered after a final hearing. Debtor is further requesting authority to execute and enter into the Postpetition Agreement (as defined below) and other loan documents (collectively, the

⁵ Capitalized terms used but not defined in this description of the Cash Collateral Motion have the meanings given them in the Cash Collateral Motion.

“Postpetition Loan Documents”) and to perform such other and further acts as may be necessary to obtain DIP Financing. The use of cash collateral (as such term is defined in the Interim Order) (the **“Cash Collateral”**) together with access to a Standby Loan, should it be needed, will provide working capital to Debtor for use in its operations in accordance with the budget (the **“Budget”**) that is attached to the Interim Order as Exhibit A.

107. Debtor has worked with its existing lenders to propose a financing solution in this Case that solves two issues: (i) although Debtor’s budget suggests that it will have enough cash collections during the Case to pay its expenses as they come due while avoiding a deterioration of the lenders’ collateral position, a delayed payment or other timing mismatch could cause Debtor to have inadequate funds to pay its bills and could put at risk the sale process designed to maximize value for all creditors; and (ii) the existing cash management system automatically applies cash receipts to the Prepetition Obligations (as described in the Cash Collateral Motion) and altering the cash management system would cause distracting operational disruptions.

108. Under the proposed financing agreement, Debtor would be allowed to use cash collateral without changing its cash management system. As Debtor’s customers make payments into the existing cash management system, such cash receipts would be provisionally applied to the Prepetition Obligations (similar to how receipts were applied prepetition, though final application of postpetition payments is subject to the Challenge Period provisions found in Paragraph 8 of the proposed Interim Order). However, so long as Debtor is protecting the Prepetition Lenders’ collateral position (which is measured by “Adjusted Availability” as defined in the proposed Interim Order), Prepetition Agent will un-apply and remit cash receipts to Debtor to pay expenses set forth in the Budget negotiated between Debtor and the Agent and Lenders. The conditions for this remittance are (i) no Events of Default having occurred

postpetition and (ii) Debtor must have “Adjusted Availability” under the Prepetition Credit Agreement. This “Adjusted Availability” test helps ensure that Prepetition Lenders are adequately protected by confirming that the Prepetition Obligations’ collateral coverage, as calculated by the prepetition Borrowing Base, has not deteriorated precipitously. Currently, Debtor has approximately \$2.2 million of cushion in the Borrowing Base calculation, and, under Debtor’s forecasts, the smallest this cushion even gets is approximately \$300,000. Together, these provisions enable Debtor to perform to its Budget (if collections are consistent with expectations) and avoid disrupting Debtor’s established cash management process. This proposal also assuages concerns of the Prepetition Lenders regarding collateral erosion due to cash collateral use and preserves the ability of other parties to review the Prepetition Lenders’ liens and claims before any payments are applied on a permanent basis.

109. The proposed cash collateral use and financing achieves these goals while also costing less than a typical debtor-in-possession loan – this arrangement avoids the need for Debtor to obtain a financing to fund all of its expenses and instead provides for an emergency reserve of financing that only creates costs for Debtor if Debtor uses that emergency financing.

110. Under the proposed Interim Order, when funds are applied to the Obligations, the Prepetition Lenders have agreed that the repaid Prepetition Obligations will no longer accrue interest, even if those funds are eventually un-applied and remitted to Debtor. The effect of the un-application of funds will be that the applicable Prepetition Obligations will be automatically reinstated, with the same validity, security, and priority as if no payment had even been applied to such Prepetition Obligations (though again, no interest will accrue on such “paid” Prepetition Obligations during the period when funds have been applied to such Prepetition Obligations, providing Debtor significant interest savings).

111. The Standby Loan is discrete and designed to protect the value maximizing sale and orderly wind-down process of Debtor. Specifically, the Agent and Lenders have proposed providing up to \$1,000,000 of Postpetition Debt. The Standby Loan would only be drawn upon if Debtor has inadequate postpetition cash collateral to pay its bills (i.e., if a timing mismatch happens and cash receipts have not been received when expected). The Standby Loan is governed by the same terms and conditions as the Prepetition Revolving Loans, and it would bear the same interest as is currently accruing on the Prepetition Debt. There is no commitment fee attached to the Standby Loan. Instead, Debtor will only incur fees if it actually uses the Standby Loan, as follows: a \$50,000 fee for the first draw and a \$100,000 fee upon the second draw. Debtor does not project needing to use the Standby Loan, but it believes it is necessary and appropriate to protect against unforeseen risks to the estate and the Case.

112. Debtor believes this hybrid cash collateral and Standby Loan structure offers the best opportunity to maximize the value of the estate and distributions to creditors. Here, Debtor, through negotiation with its existing lenders, has avoided the cost of documenting a new postpetition loan, avoided having to pay added fees and interest involved with such a facility, and avoided an unnecessary distraction from the primary goal of this case: to maximize value of Debtor's assets under the circumstances. Debtor is not proposing to cross-collateralize prepetition debt, and the terms of this proposed financing structure should be evaluated as an alternative to the more aggressive postpetition financing proposals that are typical in similar cases.

113. Debtor could not obtain postpetition financing by merely offering a prospective lender an administrative expense claim or a junior lien – particularly given Debtor's recent efforts to obtain financing from other lenders and the circumstances surrounding this Case.

Consequently, Debtor focused its efforts and negotiations with Prepetition Agent, who is also Postpetition Agent, in an attempt to reach the best possible terms for Debtor's postpetition financing. Debtor, in the exercise of its business judgment and consistent with its fiduciary duties, has concluded that the terms and conditions of the Standby Loan, particularly given the Prepetition Lenders' willingness to consent to Debtor's use of Cash Collateral, are fair and reasonable under the circumstances.

114. Debtor submits that the interest rate proposed under the Standby Loan is more than reasonable given the state of the market and Debtor's financial affairs. Further, Debtor is confident that it would not be able to obtain unsecured credit allowed as an administrative expense, or credit secured solely by liens and security interests junior to any and all existing liens on Debtor's assets. Rather, the circumstances of this Case require Debtor to obtain financing by granting Postpetition Lenders a lien that is junior to Prepetition Liens on the same assets, junior to preexisting liens that are senior in priority to the Prepetition Liens, and senior to any and all preexisting liens that are junior to the Prepetition Liens.

115. The terms set forth in the Standby Loan were negotiated in good faith and at arm's length.

(Remainder of Page Intentionally Left Blank)

Executed this 1st day of May, 2018

/s/ John K. Flanagan

John K. Flanagan

AcuSport Corporation

Respectfully submitted,

/s/ Thomas R. Allen

Thomas R. Allen (0017513)

Richard K. Stovall (0029978)

J. Matthew Fisher (0067192)

Erin L. Gapinski (0084984)

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*Proposed Local Counsel for Debtor and
Debtor in Possession, AcuSport Corporation*

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and

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St. Louis, MO 63102

Tel: (314) 259-2000

Fax: (314) 552-8869

ckkuhn@bclplaw.com

*Proposed Counsel for Debtor and
Debtor in Possession, AcuSport Corporation*

Exhibit 8

Fill in this information to identify your case:

United States Bankruptcy Court for the:

SOUTHERN DISTRICT OF OHIO

Case number (if known) Chapter **11**

☐ Check if this an amended filing

Official Form 201

Voluntary Petition for Non-Individuals Filing for Bankruptcy

4/16

If more space is needed, attach a separate sheet to this form. On the top of any additional pages, write the debtor's name and case number (if known). For more information, a separate document, *Instructions for Bankruptcy Forms for Non-Individuals*, is available.

1. Debtor's name	AcuSport Corporation	
2. All other names debtor used in the last 8 years Include any assumed names, trade names and doing business as names	Successor in Interest to ARS Business Solutions LLC (merged into Debtor effective 12/31/12)	
3. Debtor's federal Employer Identification Number (EIN)	34-1355555	
4. Debtor's address	Principal place of business One Hunter Place Bellefontaine, OH 43311 Number, Street, City, State & ZIP Code Logan County	Mailing address, if different from principal place of business P.O. Box, Number, Street, City, State & ZIP Code Location of principal assets, if different from principal place of business Number, Street, City, State & ZIP Code
5. Debtor's website (URL)	www.acusport.com	
6. Type of debtor	☒ Corporation (including Limited Liability Company (LLC) and Limited Liability Partnership (LLP)) ☐ Partnership (excluding LLP) ☐ Other. Specify:	

Debtor **AcuSport Corporation**
Name

Case number (if known)

7. Describe debtor's business A. Check one:

- ☐ Health Care Business (as defined in [11 U.S.C. § 101\(27A\)](#))
☐ Single Asset Real Estate (as defined in [11 U.S.C. § 101\(51B\)](#))
☐ Railroad (as defined in [11 U.S.C. § 101\(44\)](#))
☐ Stockbroker (as defined in [11 U.S.C. § 101\(53A\)](#))
☐ Commodity Broker (as defined in [11 U.S.C. § 101\(6\)](#))
☐ Clearing Bank (as defined in [11 U.S.C. § 781\(3\)](#))
☒ None of the above

B. Check all that apply

- ☐ Tax-exempt entity (as described in [26 U.S.C. §501](#))
☐ Investment company, including hedge fund or pooled investment vehicle (as defined in [15 U.S.C. §80a-3](#))
☐ Investment advisor (as defined in [15 U.S.C. §80b-2\(a\)\(11\)](#))

C. NAICS (North American Industry Classification System) 4-digit code that best describes debtor.
 See <http://www.uscourts.gov/four-digit-national-association-naics-codes>.

4239

8. Under which chapter of the Bankruptcy Code is the debtor filing? Check one:

- ☐ Chapter 7
☐ Chapter 9
☒ Chapter 11. Check all that apply:
☐ Debtor's aggregate noncontingent liquidated debts (excluding debts owed to insiders or affiliates) are less than \$2,566,050 (amount subject to adjustment on 4/01/19 and every 3 years after that).
☐ The debtor is a small business debtor as defined in [11 U.S.C. § 101\(51D\)](#). If the debtor is a small business debtor, attach the most recent balance sheet, statement of operations, cash-flow statement, and federal income tax return or if all of these documents do not exist, follow the procedure in [11 U.S.C. § 1116\(1\)\(B\)](#).
☐ A plan is being filed with this petition.
☐ Acceptances of the plan were solicited prepetition from one or more classes of creditors, in accordance with [11 U.S.C. § 1126\(b\)](#).
☐ The debtor is required to file periodic reports (for example, 10K and 10Q) with the Securities and Exchange Commission according to § 13 or 15(d) of the Securities Exchange Act of 1934. File the attachment to Voluntary Petition for Non-Individuals Filing for Bankruptcy under Chapter 11 (Official Form 201A) with this form.
☐ The debtor is a shell company as defined in the Securities Exchange Act of 1934 Rule 12b-2.
☐ Chapter 12

9. Were prior bankruptcy cases filed by or against the debtor within the last 8 years? ☒ No.
☐ Yes.

If more than 2 cases, attach a separate list.

District	_____	When	_____	Case number	_____
District	_____	When	_____	Case number	_____

10. Are any bankruptcy cases pending or being filed by a business partner or an affiliate of the debtor? ☒ No.
☐ Yes.

List all cases. If more than 1, attach a separate list

Debtor	_____	Relationship	_____
District	_____	When	_____
		Case number, if known	_____

Debtor **AcuSport Corporation**
Name

Case number (if known)

11. Why is the case filed in this district?

Check all that apply:

- ☒ Debtor has had its domicile, principal place of business, or principal assets in this district for 180 days immediately preceding the date of this petition or for a longer part of such 180 days than in any other district.
- ☐ A bankruptcy case concerning debtor's affiliate, general partner, or partnership is pending in this district.

12. Does the debtor own or have possession of any real property or personal property that needs immediate attention?

- ☒ No
- ☐ Yes. Answer below for each property that needs immediate attention. Attach additional sheets if needed.

Why does the property need immediate attention? (Check all that apply.)

- ☐ It poses or is alleged to pose a threat of imminent and identifiable hazard to public health or safety.
What is the hazard? _____
- ☐ It needs to be physically secured or protected from the weather.
- ☐ It includes perishable goods or assets that could quickly deteriorate or lose value without attention (for example, livestock, seasonal goods, meat, dairy, produce, or securities-related assets or other options).
- ☐ Other _____

Where is the property? _____

Number, Street, City, State & ZIP Code

Is the property insured?

- ☐ No
- ☐ Yes. Insurance agency _____
- Contact name _____
- Phone _____

Statistical and administrative information

13. Debtor's estimation of available funds

Check one:

- ☒ Funds will be available for distribution to unsecured creditors.
- ☐ After any administrative expenses are paid, no funds will be available to unsecured creditors.

14. Estimated number of creditors

☐ 1-49	☒ 1,000-5,000	☐ 25,001-50,000
☐ 50-99	☐ 5001-10,000	☐ 50,001-100,000
☐ 100-199	☐ 10,001-25,000	☐ More than 100,000
☐ 200-999		

15. Estimated Assets

☐ \$0 - \$50,000	☐ \$1,000,001 - \$10 million	☐ \$500,000,001 - \$1 billion
☐ \$50,001 - \$100,000	☒ \$10,000,001 - \$50 million	☐ \$1,000,000,001 - \$10 billion
☐ \$100,001 - \$500,000	☐ \$50,000,001 - \$100 million	☐ \$10,000,000,001 - \$50 billion
☐ \$500,001 - \$1 million	☐ \$100,000,001 - \$500 million	☐ More than \$50 billion

16. Estimated liabilities

☐ \$0 - \$50,000	☐ \$1,000,001 - \$10 million	☐ \$500,000,001 - \$1 billion
☐ \$50,001 - \$100,000	☐ \$10,000,001 - \$50 million	☐ \$1,000,000,001 - \$10 billion
☐ \$100,001 - \$500,000	☒ \$50,000,001 - \$100 million	☐ \$10,000,000,001 - \$50 billion
☐ \$500,001 - \$1 million	☐ \$100,000,001 - \$500 million	☐ More than \$50 billion

Debtor **AcuSport Corporation**
Name

Case number (if known)

Request for Relief, Declaration, and Signatures

WARNING -- Bankruptcy fraud is a serious crime. Making a false statement in connection with a bankruptcy case can result in fines up to \$500,000 or imprisonment for up to 20 years, or both. 18 U.S.C. §§ 152, 1341, 1519, and 3571.

**17. Declaration and signature
of authorized
representative of debtor**

The debtor requests relief in accordance with the chapter of title 11, United States Code, specified in this petition.

I have been authorized to file this petition on behalf of the debtor.

I have examined the information in this petition and have a reasonable belief that the information is true and correct.

I declare under penalty of perjury that the foregoing is true and correct.

Executed on **May 1, 2018**

MM / DD / YYYY

X /s/ John K. Flanagan

Signature of authorized representative of debtor

John K. Flanagan

Printed name

Title **Chief Financial Officer**

18. Signature of attorney

X /s/ Thomas R. Allen

Signature of attorney for debtor

Date **May 1, 2018**

MM / DD / YYYY

Thomas R. Allen 0017513

Printed name

Allen Kuehnle Stovall & Neuman LLP

Firm name

17 South High Street

Suite 1220

Columbus, OH 43215

Number, Street, City, State & ZIP Code

Contact phone **(614) 221-8500**

Email address **allen@aksnlaw.com**

0017513 OH

Bar number and State

ACTION OF THE BOARD OF DIRECTORS

TAKEN BY WRITTEN CONSENT IN LIEU OF MEETING

[Pursuant to Ohio Revised Code § 1701.54]

April 30, 2018

AUTHORIZATION OF FILING CHAPTER 11 BANKRUPTCY

WHEREAS, the Board of Directors of AcuSport Corporation, (the “Company”), an Ohio for-profit corporation, have reviewed and considered the materials presented by the management and the advisors of Company regarding the liabilities and liquidity situation of Company, the strategic alternatives available to it, and impact of the foregoing on Company’s businesses; and

WHEREAS, the Board of Directors has had the opportunity to consult with the management and the advisors of Company and fully consider each of the strategic alternatives available to Company; and

WHEREAS, Company, through its duly elected Board of Directors, deems it advisable and in the best interests of Company, its creditors, and all parties in interest to seek protection under Chapter 11 of Title 11 of the United States Code, and to employ competent professional assistance to guide Company through its reorganization process.

RESOLVED, that Company be, and hereby is, authorized to file a petition for relief under Chapter 11 of Title 11 of the United States Code in the United States Bankruptcy Court for the Southern District of Ohio, Eastern Division (the “Bankruptcy Case”).

RESOLVED FURTHER, that William L. Fraim, chair and chief executive officer, James A. Broering, president and chief operating officer, John K. Flanagan, chief financial officer, treasurer and secretary, or any one of them, or any person or persons so designated by the Board of Directors (collectively, the “Authorized Officers”), acting singularly or jointly, on behalf of Company, be, and hereby are, authorized to execute and file on behalf of Company any and all petitions for relief, papers, and other documents which are proper and necessary to initiate the Bankruptcy Case, together with any and all other papers and documents incidental thereto.

RESOLVED FURTHER, that the Authorized Officers, be and they hereby are authorized to execute and file (or direct others to do so on their behalf as provided herein) on behalf of Company all necessary documents, including, without limitations, all petitions, affidavits, schedules, motions, lists, applications, pleadings, and other papers or documents, and to take any and all action that they deem necessary or proper to obtain the relief described herein.

RESOLVED FURTHER, that Company be, and hereby is, authorized to retain the law firms of Bryan Cave Leighton Paisner LLP and Allen Kuehnle Stovall & Neuman LLP as legal counsel to represent and assist Company in carrying out its duties under the Bankruptcy Code, and to take any and all actions to advance Company’s rights and obligations; and in connection therewith, the Authorized Officers of Company are hereby authorized and directed to execute appropriate retention agreements, pay appropriate retainers, and to cause to be filed an appropriate application for authority to retain the services of Bryan Cave Leighton Paisner LLP and Allen Kuehnle Stovall & Neuman LLP.

RESOLVED FURTHER, that the Authorized Officers are, and each of them hereby is, authorized and directed to enter into the proposed Asset Purchase Agreement (the “APA”) with Ellett Brothers, LLC or its affiliate for the sale of substantially all of Company’s assets, and each of the ancillary documents to be entered into in connection therewith (the “Transaction Documents”), and to enter into the transactions and obligations contemplated by the APA and the Transaction Documents, subject to bankruptcy court approval in the Bankruptcy Case, on substantially the terms presented to the Board of Directors.

RESOLVED FURTHER, that the Authorized Officers are, and each of them hereby is, authorized and directed to retain Huron Transaction Advisory LLC (“HTA”) as investment banker to Company, to execute retention agreements, pay retainers prior to, and, immediately upon and after the filing of the Bankruptcy Case, to execute and cause to be filed an application for authority to retain HTA as Company’s investment banker.

RESOLVED FURTHER, that the Authorized Officers are, and each of them hereby is, authorized and directed to retain and employ Huron Consulting Services LLC (“Huron Consulting”) as financial advisor, to execute retention agreements, pay retainers prior to, and, immediately upon and after the filing of the Bankruptcy Case, to execute and cause to be filed an application for authority to retain Huron Consulting as Company’s financial advisor.

RESOLVED FURTHER, that the Authorized Officers are, and each of them hereby is, authorized and directed to retain Donlin, Recano & Company, Inc. (“DRC”) as claims, noticing and solicitation agent, to execute retention agreements, pay retainers prior to, and, immediately upon and after the filing of the Bankruptcy Case, to execute and cause to be filed an application for authority to retain the services of DRC as claims, noticing and solicitation agent.

RESOLVED FURTHER, that in connection with the Bankruptcy Case, any Authorized Officer be, and each hereby is, authorized and empowered on behalf and in the name of Company, to negotiate, execute, deliver, and perform or cause the performance of: (i) that certain Postpetition Agreement, by and among Company, as Borrower, Wells Fargo Bank, N.A., as Administrative Agent, and Wells Fargo Bank, N.A., Regions Bank, Citizens Bank, and Huntington National Bank, as Lenders (as amended, modified, supplemented or restated, the “Postpetition Agreement”), on substantially the terms and subject to the conditions described to the Board and as set forth in the Postpetition Agreement or as may hereafter be authorized by the Board; (ii) any and all transactions contemplated by the Postpetition Agreement, including, without limitation, the payment of any fees and expenses payable under the Postpetition Documents (defined therein) and the grant of security interests in and liens upon (including priming liens) some, any or all of Company’s assets, as any such Authorized Officers executing the same may consider necessary, proper or desirable, such determination to be evidenced by such execution (the “Authorized Financing Transactions”); (iii) the “Prepetition Documents” as that term is defined in the Postpetition Agreement to which Company is a party and any and all agreements or instruments on behalf of Company (including, without limitation, in connection therewith, such notes, security agreements, pledge agreements, mortgages, guarantees, fee letters, bailee letters, collateral access agreements, deposit account control agreements, securities account control agreements, and other agreements or instruments on behalf of Company (such other agreements and instruments, together with the Postpetition Agreement, the other Postpetition Documents and the Prepetition Documents, collectively, the “Financing Documents”) necessary or advisable in order to consummate the transactions contemplated under the Financing Documents, the performance of Company’s obligations and grant of security interest

contemplated thereby, with such changes to the Financing Documents or additions thereto as the Authorized Officer executing the same shall approve as being necessary or desirable, such approval to be evidenced by such execution; and (iv) any and all amendments, supplements and changes to the Financing Documents, as any such Authorized Person executing the same may consider necessary, proper or desirable, such determination to be evidenced by such execution.

RESOLVED FURTHER, that the form, terms and provisions of the Postpetition Agreement and each of the other Postpetition Documents to which Company is a party be, and the same hereby are, in all respects approved, and that any Authorized Officer is hereby authorized and empowered, in the name of and on behalf of Company, to execute and deliver the Postpetition Agreement and each of the Postpetition Documents to which Company is a party, each in the form or substantially in the form thereof submitted to the Board, with such changes, additions and modifications thereto as any such Authorized Person executing the same may consider necessary, proper, or desirable, such determination to be evidenced by such execution.

RESOLVED FURTHER, that each of the Authorized Officers be, and hereby is, authorized and empowered to take all such further actions including, without limitation, to pay all fees and expenses, in connection with the Authorized Financing Transactions, to arrange for and enter into supplemental agreements, amendments, instruments, certificates, or documents contemplated by the Authorized Financing Transactions and to execute and deliver all such supplemental agreements, amendments, instruments, certificates, or documents in the name and on behalf of Company under its corporation seal or otherwise, which shall in their sole judgment be necessary, proper, or advisable in order to perform the Company's obligations under or in connection with the Authorized Financing Transactions, and to carry out fully the intent of the foregoing resolutions.

RESOLVED FURTHER, that each of the Authorized Officers be, and hereby is, authorized and empowered to execute and deliver any amendments, amendments and restatements, supplements, modifications, renewals, replacements, consolidations, substitutions, and extensions of the Authorized Financing Transactions which shall in their sole judgment be necessary, proper or advisable.

RESOLVED FURTHER, that each of the Authorized Officers of Company, jointly, or any one or more of them individually, is hereby authorized and directed, after consultation with legal counsel for Company, to take in the name and on behalf of Company, any and all action as necessary to effect the matters set forth in or reasonably contemplated by the foregoing resolutions, including without limitation the execution and delivery of any additional agreements, certificates, waivers, consents, amendments, or other agreements or instruments deemed appropriate by such Authorized Officer or Authorized Officers, the payment of all fees, including recording and filing fees, and the observance and performance of Company's obligations, and the enforcement of Company's rights thereunder or otherwise with respect to such matters.

RESOLVED FURTHER, that all actions previously taken or that will be taken by any Authorized Officer of Company in connection with or related to the matters set forth in or reasonably contemplated by the foregoing resolutions be, and each of them hereby is, adopted, ratified, confirmed and approved in all respects as the acts and deeds of Company.

RESOLVED FURTHER, that any prior resolutions of the Board of Directors to the contrary are hereby superseded and of no further force and effect.

IN WITNESS WHEREFORE this unanimous written consent of the Board of Directors of Company is hereby executed and adopted as of the date first above written.

BOARD OF DIRECTORS:

DocuSigned by:

Tom Britt

4F7B5F116A7F4AC...

Thomas E. Britt

DocuSigned by:

Andy Harris

14C772026EA34D4...

Andrew M. Harris

DocuSigned by:

Mike Perry

1172D1529773443...

Michael K. Perry

DocuSigned by:

David Ray

B7AFEADC10EB4D5...

David K. Ray

DocuSigned by:

Bill Fraim

A89138625F374FA...

William L. Fraim

DocuSigned by:

Jim Broering

B3177BDC018D4D4...

James R. Broering

Fill in this information to identify the case:

Debtor name: AcuSport Corporation

United States Bankruptcy Court for the: Southern District of Ohio

Case number (if known): 18-_____

☐ Check if this is an amended filing

Official Form 204

Chapter 11 or Chapter 9 Cases: List of Creditors Who Have the 20 Largest Unsecured Claims and Are Not Insiders

12/15

A list of creditors holding the 20 Largest unsecured claims must be filed in a Chapter 11 or Chapter 9 case. Include claims which the debtor disputes. Do not include claims by any person or entity who is an insider, as defined in 11 U.S.C. § 101(31). Also, do not include claims by secured creditors, unless the unsecured claim resulting from inadequate collateral value places the creditor among the holders of the 20 Largest unsecured claims.

	Name of creditor and complete mailing address, including zip code	Name, telephone number, and email address of creditor contact	Nature of the claim (for example, trade debts, bank loans, professional services, and government contracts)	Indicate if claim is contingent, unliquidated, or disputed	Amount of unsecured claim If the claim is fully unsecured, fill in only unsecured claim amount. If claim is partially secured, fill in total claim amount and deduction for value of collateral or setoff to calculate unsecured claim.		
					Total claim, if partially secured	Deduction for value of collateral or setoff	Unsecured claim
1	VISTA OUTDOOR 900 EHLEN DRIVE ANOKA MN 55303-1778	JAMES HANUS jim.hanus@vistaoutdoor.com Tel: 763-323-2485 Fax: 763-323-2504	Trade Debts	☐ C ☒ U ☐ D			\$11,294,785.29
2	REMINGTON ARMS CO. 870 REMINGTON DRIVE MADISON NC 27025-0700	DELEIA HUTCHERSON deleia.hutcherson@remington.com Tel: 336-548-8679 Fax: 336-548-7879	Trade Debts	☐ C ☒ U ☐ D			\$3,670,306.31
3	DANIEL DEFENSE 101 WARFIGHTER WAY BLACK CREEK GA 31308	ROGER MUSTIAN rmustian@danieldefense.com Tel: 912-851-3280 Fax: 912-851-3311	Trade Debts	☐ C ☐ U ☐ D			\$1,952,430.39
4	SPRINGFIELD, INC. 420 W MAIN ST. GENESEO IL 61254-1524	DENNIS REESE dennistr@springfield-armory.com Tel: 309-944-5631	Trade Debts	☐ C ☒ U ☐ D			\$1,920,342.33
5	HENRY REPEATING ARMS CO. 59 EAST 1ST STREET BAYONNEN NJ 07002	ANTHONY IMPERATO anthony@henryusa.com Tel: 201-858-4400 Fax: 201-858-4435	Trade Debts	☐ C ☐ U ☐ D			\$1,595,281.32
6	PMC AMMUNITION, INC. 10777 WESTHEIMER RD. HOUSTON TX 77042	ENZA COHN enza.cohn@pmcammo.com Tel: 818-458-4688	Trade Debts	☐ C ☐ U ☐ D			\$1,394,677.91
7	RICK ROBISON Address Intentionally Omitted	RICK ROBISON Tel: 937-935-9861	Deferred Compensation	☐ C ☒ U ☐ D			\$1,262,603.00
8	STURM, RUGER & COMPANY, INC. ONE LACEY PLACE SOUTHPORT CT 06890	THOMAS DINEEN tdineen@ruger.com Tel: 203-319-2485 Fax: 203-254-2195	Trade Debts	☐ C ☒ U ☐ D			\$889,054.34

Debtor **AcuSport Corporation**

Case number (if known) **18-**_____

	Name of creditor and complete mailing address, including zip code	Name, telephone number, and email address of creditor contact	Nature of the claim (for example, trade debts, bank loans, professional services, and government contracts)	Indicate if claim is contingent, unliquidated, or disputed	Amount of unsecured claim If the claim is fully unsecured, fill in only unsecured claim amount. If claim is partially secured, fill in total claim amount and deduction for value of collateral or setoff to calculate unsecured claim.		
					Total claim, if partially secured	Deduction for value of collateral or setoff	Unsecured claim
9	LEUPOLD & STEVENS INC. 14400 NW Greenbrier Pkwy BEAVERTON OR 97006-5790	HOWARD WERTH hwerth@leupold.com Tel: 503-526-1456	Trade Debts	☐ C ☒ U ☐ D			\$819,581.28
10	O.F. MOSSBERG & SONS, INC. 7 GRASSO AVENUE NORTH HAVEN CT 06473	PAUL CHARTIER pchartier@mossberg.com Tel: 203-230-5383	Trade Debts	☐ C ☒ U ☐ D			\$725,764.40
11	FN AMERICA LCC 7918 JONES BRANCH DRIVE SUITE 400 MCLEAN VA 22102	JOHN FREILING John.Freiling@fnhusa.com Tel: 703-288-3500	Trade Debts	☐ C ☐ U ☐ D			\$716,355.17
12	COLT'S MANUFACTURING CO., INC. 545 NEW PARK AVE. WEST HARTFORD CT 06110	MARTIN NEWTON mnewton@colt.com Tel: 860-236-6311	Trade Debts	☐ C ☐ U ☐ D			\$714,045.10
13	KEL-TEC CNC INDUSTRIES INC 1505 COX ROAD COCOA FL 32926	DEREK KELLGREN dkellgren@keltecweapons.com Tel: 321-631-0068	Trade Debts	☐ C ☒ U ☐ D			\$631,351.10
14	HECKLER & KOCH, INC. 5675 TRANSPORT BLVD., SUITE 200 COLUMBUS GA 31907	MIKE HOLLEY michael.holley@heckler-koch-us.com Tel: 706-568-1906	Trade Debts	☐ C ☒ U ☐ D			\$629,803.62
15	HORNADY 3625 WEST OLD POTASH HWY GRAND ISLAND NE 68803	CARLA ROBERTSON crobertson@hornady.com Tel: 308-382-1390	Trade Debts	☐ C ☐ U ☐ D			\$605,281.15
16	ARMSCOR PRECISION INTERNATIONAL 150 NORTH SMART WAY PAHRUMP NV 89060	DUSTIN JONES dustinjones@armscor.com Tel: 775-751-4444	Trade Debts	☐ C ☐ U ☐ D			\$603,786.72
17	GLOCK INC. 6000 HIGHLANDS PARKWAY SMYRNA GA 30082	JACOB WITTEN jacob.witten@glock.us Tel: 770-319-4791	Trade Debts	☐ C ☐ U ☐ D			\$587,432.68
18	SIG SAUER INC 72 PEASE BLVD NEWINGTON NH 03801	STANLEY BAUMGARTNER stan.baumgartner@sigsauer.com Tel: 603-610-3111 Fax: 603-610-3013	Trade Debts	☐ C ☐ U ☐ D			\$584,000.87
19	OMNI HOTELS 1300 HOUSTON STREET FORT WORTH TX 76102	LISA REYES Tel: 817-350-4056 Fax: 817-886-4554	Trade Debts	☒ C ☒ U ☐ D			\$563,216.00
20	HENRY WISCONSIN LLC 107 WEST COLEMAN STREET RICE LAKE WI 54868	ANTHONY IMPERATO anthony@henryusa.com Tel: 201-858-4400 Fax: 201-858-4435	Trade Debts	☐ C ☐ U ☐ D			\$465,598.99

UNITED STATES BANKRUPTCY COURT

SOUTHERN DISTRICT OF OHIO

In re:

ACUSPORT CORPORATION,

Debtor.

Chapter 11

Case No. 18-____ (____)

**CERTIFICATION CONCERNING LIST
OF CREDITORS HOLDING 20 LARGEST UNSECURED CLAIMS**

The debtor and debtor in possession (the “Debtor”) in the above-captioned case hereby certifies under penalty of perjury that the *List of Creditors Who Have the 20 Largest Unsecured Claims and Are Not Insiders*, submitted herewith, is complete and to the best of the Debtor’s knowledge correct and consistent with Debtor’s books and records.

The information contained herein is based upon a review of the Debtor’s books and records. However, no comprehensive legal and/or factual investigations with regard to possible defenses to any claims set forth in the *List of Creditors who Have the 20 Largest Unsecured Claims and Are Not Insiders* have been completed. Therefore, the listing does not and should not be deemed to constitute: (1) a waiver of any defense to any listed claims; (2) an acknowledgement of the allowability of any list claims; and/or (3) a waiver of any other right or legal position of the Debtor.

I declare under penalty of perjury that the foregoing is true and correct. Executed this 1st day of May, 2018, at Bellefontaine, Ohio.

/s/ John K. Flanagan

John K. Flanagan
Chief Financial Officer

UNITED STATES BANKRUPTCY COURT

SOUTHERN DISTRICT OF OHIO

In re:

ACUSPORT CORPORATION,

Debtor.

Chapter 11

Case No. 18-____ (____)

LIST OF EQUITY HOLDERS

Pursuant to Rule 1007 of the Federal Rules of Bankruptcy Procedure, the following identifies all holders having a direct or indirect ownership interest, of the above-captioned debtor in possession.

Name and Last Known Address of Equity Interest Holder	Type of Equity Interest	Percentage of Interest
William L. Fraim, as Trustee of the William L. Fraim Trust dated September 3, 1986, as amended 1333 Omaha Road Bellefontaine, OH 43311	Class A and Class B	66.01%
James A. Broering, as Trustee under the James A. Broering Declaration of Trust dated December 23, 2002 6682 Traquair Place Dublin, OH 43016	Class A and Class B	27.99%
Key National Trust Company of Delaware, as Trustee of the 2012 Fraim Family Trust 1105 North Market Street, Suite 500 Wilmington, DE 19801 Attn: Isabel A. Pryor	Class B	6.00%

I, John K. Flanagan, the undersigned Chief Financial Officer of AcuSport Corporation, named as the debtor in this case, declare under penalty of perjury that I have read the list of equity security holders and that it is true and correct to the best of my information and belief.

Executed this 1st day of May, 2018, at Bellefontaine, Ohio.

/s/ John K. Flanagan

John K. Flanagan
Chief Financial Officer

UNITED STATES BANKRUPTCY COURT

SOUTHERN DISTRICT OF OHIO

In re:

ACUSPORT CORPORATION,

Debtor.

Chapter 11

Case No. 18-____ (____)

**VERIFIED STATEMENT OF DEBTOR REGARDING CORPORATE
OWNERSHIP PURSUANT TO RULES 1007 AND 7007.1 OF THE
FEDERAL RULES OF BANKRUPTCY PROCEDURE**

In accordance with Rules 1007 and 7007.1 of the Federal Rules of Bankruptcy Procedure, the Debtor submits the following information:

- ☐ The following entity directly or indirectly owns 10% or more of any class of the above-captioned Debtor's equity interests:
- ☐ (Additional names are attached hereto)
- ☒ There are no entities that directly or indirectly own 10% or more of any class of the Debtor's equity interest.

I, John K. Flanagan, as Chief Financial Officer of the debtor in this chapter 11 case, declare under penalty of perjury that I have reviewed the list and that it is true and correct as of May 1, 2018, to the best of my knowledge, information and belief.

Executed this 1st day of May, 2018, at Bellefontaine, Ohio.

/s/ John K. Flanagan
John K. Flanagan
Chief Financial Officer

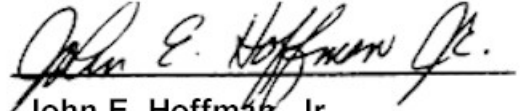
Exhibit 9

This document has been electronically entered in the records of the United States Bankruptcy Court for the Southern District of Ohio.

IT IS SO ORDERED.

Dated: June 28, 2018




John E. Hoffman, Jr.
United States Bankruptcy Judge

IN THE UNITED STATES BANKRUPTCY COURT
FOR THE SOUTHERN DISTRICT OF OHIO
EASTERN DIVISION

In re:	)	Chapter 11
	)	
AcuSport Corporation,	)	Case No. 18-52736
	)	
Debtor.	)	Honorable John E. Hoffman, Jr.

ORDER (I) APPROVING AND AUTHORIZING SALE OF CERTAIN OF DEBTOR'S ASSETS PURSUANT TO SUCCESSFUL BIDDER'S ASSET PURCHASE AGREEMENT, FREE AND CLEAR OF ALL LIENS, CLAIMS, ENCUMBRANCES AND OTHER INTERESTS; (II) APPROVING THE ASSUMPTION AND ASSIGNMENT OF CERTAIN EXECUTORY CONTRACTS AND UNEXPIRED LEASES RELATED THERETO; AND (III) GRANTING RELATED RELIEF

Upon the Debtor's Motion for an Order (I) Approving and Authorizing Sale of Certain of Debtor's Assets Pursuant to Successful Bidder's Asset Purchase Agreement, Free and Clear of All Liens, Claims, Encumbrances and Other Interests; (II) Approving the Assumption and Assignment of Certain Executory Contracts and Unexpired Leases Related Thereto; and (III) Granting Related Relief [Docket No. 140] (the "**Original Sale Motion**") as supplemented by Debtor's Motion for Approval of: (I) Entry Into an Amendment to Debtor's Asset Purchase

Agreement with Ellett Brothers, LLC; (II) Sale Pursuant to Amended Asset Purchase Agreement; (III) Entry into Transition Services Agreement; and (IV) Related Relief [Docket No. 220] (the “**Amended Sale Motion**,” and, collectively with the Original Sale Motion, the “**Sale Motion**”),¹ requesting the entry of this order (“**Order**”); and upon the *Stipulation and Agreed Order Resolving Objection of the Official Committee of Unsecured Creditors to Approval of Amendment to Asset Purchase Agreement with Ellett Brothers, LLC* [Docket No. 229] (the “**Stipulation**”); and the Court having considered the Sale Motion, the declarations submitted to the Court in connection therewith, the Stipulation, and the evidence submitted and arguments of counsel made at the hearing on the Sale Motion (the “**Sale Hearing**”); and due and sufficient notice of the Sale Hearing and the relief sought therein having been given under the particular circumstances; and it appearing that no other or further notice need be provided; and the Court having reviewed the Sale Motion and all objections thereto (the “**Objections**”); and it appearing that the relief requested in the Sale Motion is in the best interest of Debtor, its estate, its creditors and other parties in interest; and after due deliberation thereon and good and sufficient cause appearing therefor, it is hereby,

FOUND AND DETERMINED THAT:

Determination with Respect to the Findings of Fact and Conclusions of Law

A. The findings of fact and conclusions of law set forth in this Order constitute the Court’s findings of fact and conclusions of law pursuant to Bankruptcy Rule 7052, made applicable to this case pursuant to Bankruptcy Rule 9014. To the extent any of the following findings of fact constitute conclusions of law, they are hereby adopted as such. To the extent any of the following conclusions of law constitute findings of fact, they are hereby

¹ Capitalized terms, unless otherwise noted or defined herein, shall have the meanings ascribed to them in the Sale Motion or the APA (as defined below), as the context requires.

adopted as such. Any findings of fact or conclusions of law stated by the Court on the record at the Sale Hearing are hereby incorporated, to the extent they are not inconsistent with this Order.

Jurisdiction, Final Order, and Statutory Predicates

B. This Court has jurisdiction to hear and determine the Sale Motion and over Debtor, its estate, and the Purchased Assets, as defined in the Asset Purchase Agreement dated as of April 30, 2018, as amended or modified as set forth herein (the “**APA**”), by and between Debtor and Ellett Brothers, LLC (“**Ellett Brothers**” or “**Successful Bidder**”), a copy of which, including that certain amendment thereto (the “**APA Amendment**”) and related Transition Services Agreement (“**TSA**”), is attached hereto as Exhibit A, pursuant to 28 U.S.C. §§ 157 and 1334. This is a core proceeding pursuant to 28 U.S.C. § 157(b). Venue of this case and the Sale Motion in the Southern District of Ohio is proper pursuant to 28 U.S.C. §§ 1408 and 1409.

C. The statutory and legal predicates for the relief requested in the Sale Motion are sections 105, 363, and 365 of title 11 of the United States Code (the “**Bankruptcy Code**”), rules 2002, 6004, 6006, 9007, and 9014 of the Federal Rules of Bankruptcy Procedure (the “**Bankruptcy Rules**”), and rules 2002-1, 6004-1, and 9014-1 of the Local Bankruptcy Rules, Forms and Procedures for the United States Bankruptcy Court for the Southern District of Ohio (the “**Local Rules**”).

D. This Order constitutes a final and appealable order within the meaning of 28 U.S.C. § 158(a). Notwithstanding Bankruptcy Rules 6004(h) and 6006(d), and to any extent necessary under Bankruptcy Rule 9014 and Rule 54(b) of the Federal Rules of Civil Procedure, as made applicable by Bankruptcy Rule 7054, the Court expressly finds that there is no just reason for delay in the implementation of this Order, and expressly directs entry of judgment as set forth in this Order.

E. On May 16, 2018, the Court entered the *Order (I) Establishing Bidding Procedures for the Sale of Certain of Debtor's Assets; (II) Approving Break-Up Fee; (III) Establishing Procedures Relating to the Assumption and Assignment of Executory Contracts and Unexpired Leases; (IV) Approving Form and Manner of the Sale, Cure, and Other Notices; and (V) Establishing Auction and Hearing Dates* [Docket No. 109] (the “**Bidding Procedures Order**”).

F. The Purchased Assets constitute property of Debtor's estate, and title to the Purchased Assets is vested in Debtor's estate within the meaning of section 541(a) of the Bankruptcy Code.

G. Successful Bidder is a good faith purchaser under section 363(m) of the Bankruptcy Code and as such, in the absence of a stay pending appeal, may close the transaction contemplated by the APA at any time on or after entry of this Order, and cause has been shown as to why this Order should not be subject to the stay provided by Bankruptcy Rules 6004(h) and 6006(d).

Notice of the Sale, Sale Hearing, and the Cure Amounts

H. Actual written notice of the Sale Motion and the Sale Hearing and a reasonable opportunity to object or be heard with respect to the Sale Motion and the relief requested therein have been afforded to all known creditors and other interested persons and entities, including the following parties: (i) the Office of the United States Trustee for Region 9 (“**US Trustee**”); (ii) counsel to the Official Committee of Unsecured Creditors (“**Committee**”); (iii) counsel to the agent for Debtor's primary secured lender group, Wells Fargo Bank, National Association (“**Agent**”); (iv) all parties that have expressed interest in a purchase or acquisition of the Purchased Assets; and (v) all other parties requesting notice in the Case.

I. In accordance with the provisions of the Bidding Procedures Order, Debtor has served the *Notice of Bidding Procedures for the Sale of Certain Assets at Auction and Subsequent Sale Hearing and Objection Deadlines* [Docket No. 109, Exhibit 1] (the “**Sale Notice**”) on the following parties: (i) the US Trustee; (ii) counsel for the Committee; (iii) counsel for the Agent; (iv) all parties that were served with notice of the *Motion for an Order (I) Establishing Bidding Procedures for the Sale of Certain of Debtor’s Assets; (II) Approving the Break-Up Fee; (III) Establishing Procedures Relating to the Assumption and Assignment of Executory Contracts and Unexpired Leases; (IV) Approving Form and Manner of the Sale, Cure, and Other Notices; and (V) Establishing Auction and Hearing Dates* [Docket No. 19] (excluding the top-20 list of Debtor’s creditors); (v) all parties that have expressed interest in a purchase or acquisition of the Purchased Assets; and (vi) all other parties requesting notice in the Case. The Sale Notice provided all interested parties with timely and proper notice of the Sale, Sale Objection Deadline, Bid Deadline, Auction, and Sale Hearing described therein.

J. In accordance with the provisions of the Bidding Procedures Order, Debtor served the *Notice of Potential Assumption and Assignment of Certain Executory Contracts and Unexpired Leases and Proposed Cure Amounts* [Docket No. 109, Exhibit 2] (the “**Cure Notice**”) upon each counterparty to any potentially assumed executory contract and unexpired lease and its counsel (if known) (the “**Contract Counterparties**”). The Cure Notice (a) stated the amounts sufficient to cure defaults, if any, to assume such contracts or leases in accordance with section 365 of the Bankruptcy Code (the “**Cure Amounts**”); (b) notified the counterparty that such party’s contracts or leases may be assumed and assigned to Successful Bidder of the Purchased Assets at the conclusion of the Auction; (c) stated the date of the Sale Hearing and that any objections to any of the Cure Amounts or to assumption and assignment will be heard at the Sale Hearing, or at a later hearing, as determined by Debtor; and (d) stated the deadline by

which the counterparty shall file an objection to the Cure Amounts or to the assumption and assignment of applicable contracts or leases. Pursuant to Bankruptcy Rule 6006(c), the Court finds that the service of the Cure Notice was adequate, sufficient and appropriate under the circumstances, in compliance with the Bidding Procedures Order, and no further notice need be given in respect of establishing the Cure Amounts. The Contract Counterparties have had an opportunity to object to the Cure Amounts set forth in the Cure Notice.

K. On June 19, 2018, Debtor filed the *Debtor and Debtor in Possession's (A) Notice of Filing Amendment to Asset Purchase Agreement with Ellett Brothers, LLC, and (B) Position Statement Regarding Lack of Materiality of the Amendment and Why No Further Notice is Required* [Docket No. 207] (the "**Amendment Notice**") and related Declaration of Daniel Wikel in support thereof [Docket No. 208] with the Court.

L. On June 22, 2018, the Court entered the *Stipulation and Agreed Order Between Debtor and Ellett Brothers, LLC Regarding Closing of Proposed Sale* [Docket No. 218] and the *Agreed Order Setting (I) Evidentiary Hearing on Committee's Objection, and (II) Hearing on Sale of Assets to Ellett Brothers, LLC Contingent Upon Court Overruling Committee's Objection Thereto* [Docket No. 219] (the "**Sale Hearing Order**"), and Debtor filed the Amended Sale Motion.

M. As evidenced by the affidavits of service previously filed with the Court, proper, timely, adequate and sufficient notice of the Original Sale Motion, Amended Sale Motion, Auction, Sale Hearing, and Sale has been provided in accordance with sections 102(1), 363 and 365 of the Bankruptcy Code, Bankruptcy Rules 2002, 6004, 6006 and 9014 and Local Rules 2002-1, 6004-1, and 9014-1. Debtor also has complied with all obligations to provide notice of the previously contemplated Auction, the Sale Hearing and the Sale as required by the Bidding Procedures Order, and has also complied with all other aspects and requirements of

the Bidding Procedures Order. The notices described above were adequate, sufficient and appropriate under the circumstances, and no other or further notice of the Original Sale Motion, Amended Sale Motion, Sale Hearing, Sale or assumption and assignment of the potentially assumed executory contracts and unexpired leases is required, other than a notice of a final schedule of the executory contracts and unexpired leases to be assumed by Debtor and assigned to Successful Bidder under section 365 of the Bankruptcy Code (the “**Assigned Contracts**”).

N. The Cure Notice provided Successful Bidder and each Contract Counterparty with proper notice of the potential assumption and assignment of the Assigned Contracts and any Cure Amounts relating thereto, and the procedures set forth therein with regard to any such Cure Amounts satisfy section 365 of the Bankruptcy Code and Bankruptcy Rule 6006.

O. Debtor has articulated good and sufficient reasons for the Bankruptcy Court to grant the relief requested in the Sale Motion.

P. The disclosures made by Debtor concerning the Original Sale Motion, Amended Sale Motion, the Sale, the APA, the APA Amendment, the TSA, and the Sale Hearing, were good, complete and adequate.

Good Faith of Successful Bidder

Q. Successful Bidder is purchasing the Purchased Assets in good faith and is a good faith buyer within the meaning of section 363(m) of the Bankruptcy Code and is, therefore, entitled to the full protection of that provision, and otherwise has proceeded in good faith in all respects in connection with this proceeding in that, among other things: (a) subject to the exclusivity provisions in the APA (which created certain restrictions on solicitation of offers from the execution date through the entry of the Bidding Procedures Order), Successful Bidder recognized that Debtor was free to deal with any other party interested in acquiring the Purchased Assets; (b) Successful Bidder complied with the provisions in the Bidding Procedures

Order; (c) Successful Bidder agreed to subject its bid to the competitive bidding procedures set forth in the Bidding Procedures Order; (d) Successful Bidder did not induce or cause the chapter 11 filing by Debtor; (e) all payments to be made by Successful Bidder and other agreements or arrangements entered into by Successful Bidder in connection with the Sale have been disclosed; (f) Successful Bidder has not violated section 363(n) of the Bankruptcy Code by any action or inaction; and (g) the negotiation and execution of the APA, APA Amendment, TSA, and any other agreements or instruments related thereto were at arms' length and in good faith.

Highest or Otherwise Best Offer

R. Debtor solicited offers and noticed the anticipated Auction in accordance with the provisions of the Bidding Procedures Order. Debtor: (a) provided notice of the anticipated Auction; (b) conducted the sale process in a non-collusive manner; and (c) afforded a full, fair, and reasonable opportunity for any person or entity to make a higher or otherwise better offer to purchase the Purchased Assets.

S. Successful Bidder's Bid was the only Qualified Bid received prior to the Bid Deadline. Accordingly, the Auction was cancelled. Pursuant to the Sale Hearing Order, bidding was reopened through June 26, 2018, but no Qualified Bids were received prior to the extended Bid Deadline.

T. The APA, as amended by the APA Amendment and the TSA, is in the best interests of the Debtor, its estate, its creditors, and other parties in interest.

U. The APA constitutes the highest or otherwise best offer for the Purchased Assets and will provide a greater recovery for Debtor's estate than would be provided by any other available alternative. Debtor's determination, in consultation with the Committee and the Agent, that the APA constitutes the highest or best offer for the Purchased Assets constitutes a valid and sound exercise of Debtor's business judgment.

V. The APA represents a fair and reasonable offer to purchase the Purchased Assets, including the Assigned Contracts, under the circumstances of this Case. No other person or entity or group of entities has offered to purchase the Purchased Assets for greater economic value to Debtor's estate than Successful Bidder.

W. Approval of the Sale Motion, APA, APA Amendment, and TSA, and the consummation of the transactions contemplated thereby are in the best interests of Debtor, its creditors, its Employees, its estate, and other parties in interest.

X. Debtor has demonstrated compelling circumstances and a good, sufficient, and sound business purpose and justification for the Sale outside of a plan of reorganization.

No Fraudulent Transfer

Y. The consideration provided by Successful Bidder pursuant to the APA, APA Amendment, and TSA is fair and adequate and constitutes reasonably equivalent value and fair consideration under the Bankruptcy Code and under the laws of the United States, any state, territory, possession, and the District of Columbia. The APA, APA Amendment, and TSA were not entered into and will not be consummated for the purpose of hindering, delaying or defrauding creditors of Debtor, and neither Debtor nor Successful Bidder has entered into the APA, APA Amendment, and TSA or is consummating the transactions contemplated thereby with any fraudulent or otherwise improper purpose.

Validity of Transfer

Z. Debtor has full corporate power and authority to execute and deliver the APA and all other documents contemplated thereby, and no further consents or approvals are required for Debtor to consummate the transactions contemplated by the APA, except as otherwise set forth in the APA.

AA. The transfer of each of the Purchased Assets in accordance with this Order, including the Assigned Contracts, to Successful Bidder will be, as of June 29, 2018 (the “**Closing Date**”), a legal, valid and effective transfer of such assets and will vest Successful Bidder with all right, title, and interest of Debtor to the Purchased Assets free and clear of all Encumbrances (as defined below) accruing, arising or relating to any time prior to the Closing Date, except for any Permitted Encumbrances and Assumed Liabilities under the APA.

Section 363(f) of the Bankruptcy Code Is Satisfied

BB. Successful Bidder would not have entered into the APA and would not consummate the transactions contemplated thereby (by paying the Purchase Price and assuming the Assumed Liabilities) if the sale of the Purchased Assets to Successful Bidder, and the sale and assumption and assignment of the Assigned Contracts to Successful Bidder, were not, except as otherwise provided in the APA or the APA Amendment with respect to the Assumed Liabilities, free and clear of all Encumbrances of any kind or nature whatsoever, or if Successful Bidder would, or in the future could, be liable for any of such Encumbrances, including, but not limited to the following (except and only to the extent expressly provided in the APA or this Order): (1) Cure Amounts with respect to Assigned Contracts, up to the Cure Amount Cap and then only in strict accordance with Successful Bidder’s undertakings with respect thereto; (2) any liabilities or obligations arising out of or relating to Debtor’s ownership or operation of the Business and the Purchased Assets prior to the Closing Date; (3) any liabilities or obligations relating to or arising out of the Excluded Assets; (4) any liabilities or obligations under any Contract that is not an Assigned Contract; (5) any liabilities or obligations for (i) Taxes relating to the Business, the Purchased Assets or the Assumed Liabilities arising on or before the Closing Date and (ii) any other Taxes of Debtor (other than Taxes allocated to Successful Bidder under the APA) for any taxable period; (6) any liabilities or obligations of Debtor relating to or arising

out of (i) the employment, or termination of employment, of any Employee (including accrued payroll, deferred compensation, accrued benefits, bonuses, paid time off, accrued vacation or other ordinary course expenses of any Employees), or (ii) workers' compensation claims of any Employee; (7) any liabilities or obligations relating to, resulting from, or arising out of any Environmental Laws to the extent relating to, resulting from, or arising out of the operation of the Business or the ownership of the Purchased Assets on or prior to the Closing Date; (8) any liabilities or obligations relating to or arising out of any Benefit Plan; (9) any liabilities or obligations of Debtor arising or incurred in connection with the negotiation, preparation, investigation and performance of the APA, the other transaction documents and the transactions contemplated thereby, and any alternative thereto, including, without limitation, fees and expenses of counsel, accountants, consultants, advisers and others; and (10) all liabilities or obligations for fees, costs and expenses incurred and/or owed in connection with the administration of the Case.

CC. Successful Bidder (i) is not, and shall not be considered, a successor to Debtor, (ii) has not, *de facto* or otherwise, merged with or into Debtor, (iii) is not a continuation or substantial continuation, and is not holding itself out as a mere continuation, of Debtor or its estate, business or operations, or any enterprise of Debtor, and (iv) does not have a common identity of incorporators, directors or equity holders with Debtor. Successful Bidder shall have no, and shall not be deemed to have or to have assumed or become obligated by operation of law or in equity for, any liability or Encumbrance except as expressly assumed under the APA, APA Amendment, or TSA.

DD. Debtor may sell the Purchased Assets, including the Assigned Contracts, free and clear of all Encumbrances (except for the Assumed Liabilities) because, in each case, one or more of the standards set forth in section 363(f)(1)-(5) of the Bankruptcy Code shall be satisfied

on the Closing Date of the Sale in accordance with this Order. Those holders of Encumbrances who did not object, or who withdrew their objections, to the Sale or the Sale Motion are deemed to have consented pursuant to section 363(f)(2) of the Bankruptcy Code. Those holders of the Encumbrances who did object fall within one or more of the other subsections of section 363(f) of the Bankruptcy Code and are adequately protected by having their Encumbrances, if any, attach to the cash proceeds of the Sale attributable to the Purchased Assets in which such holder alleges an Encumbrance, to the same extent and in the same order of priority, and with the same validity, force and effect that such Encumbrance had prior to the Sale, subject to any claims and defenses Debtor and its estate may possess with respect thereto, and by the other relief granted herein.

Assumption and Assignment of Executory Contracts and Leases

EE. The sale and assumption and assignment of the Assigned Contracts pursuant to the terms of this Order is integral to the APA, is in the best interests of Debtor and its estate, creditors and other parties in interest and represents the reasonable exercise of sound and prudent business judgment by Debtor.

FF. Upon payment of the amounts set forth in the revised cure schedule attached hereto as Exhibit B (the “**Cure Schedule**”), Debtor shall have cured any default requiring cure existing prior to the date hereof under any of the Assigned Contracts within the meaning of Section 365(b)(1)(A) of the Bankruptcy Code.

GG. Pursuant to the terms of the APA and on the Closing Date, Debtor shall assume and assign to Successful Bidder each of the Assigned Contracts identified in the Cure Schedule. Debtor shall be responsible for the payment of Cure Amounts solely with respect to the Assigned Contracts specifically set forth on the Cure Schedule attached hereto in the amounts set forth therein. Successful Bidder shall assume and perform and discharge the Assumed Liabilities, if

any, under the Assigned Contracts, including pursuant to any contract or lease assignment agreements, as applicable. Successful Bidder has provided adequate assurance of its future performance under the Assigned Contracts within the meaning of sections 365(b)(1)(C) and 365(f)(2)(B) of the Bankruptcy Code to any counterparty to an Assigned Contract that requests such assurance and shall have no further obligation to provide assurance of performance to any counterparty, except to the extent of timely-filed objections to such adequate assurance information.

Compelling Circumstances for an Immediate Sale

HH. To enhance Debtor's level of liquidity, to preserve the value of Debtor's estate, and to increase the amount of claims paid by Debtor, and to maximize the amount of funding available to provide for a timely exit from this Case, it is essential that the Sale of the Purchased Assets occur within the time constraints set forth in the APA, as modified by the Bidding Procedures Order. Time is of the essence in consummating the Sale.

II. Given all of the circumstances of this Case and the adequacy and fair value of the Purchase Price under the APA, the proposed Sale of the Purchased Assets to Successful Bidder constitutes a reasonable and sound exercise of Debtor's business judgment and should be approved.

JJ. The Sale does not constitute a *de facto* or *sub rosa* plan of reorganization or liquidation because it does not propose to (i) impair or restructure existing debt of, or equity interests in, Debtor, (ii) impair or circumvent voting rights with respect to any plan proposed by Debtor, (iii) circumvent chapter 11 safeguards, including those set forth in sections 1125 and 1129 of the Bankruptcy Code, or (iv) classify claims or equity interests.

KK. The consummation of the Sale is legal, valid and properly authorized under all applicable provisions of the Bankruptcy Code, including, without limitation, sections 105(a),

363(b), 363(f), 363(m), 365(b) and 365(f), and all of the applicable requirements of such sections have been complied with in respect of the Sale.

IT IS, THEREFORE, ORDERED, ADJUDGED, AND DECREED THAT:

General Provisions

1. The relief requested in the Sale Motion is GRANTED AND APPROVED as set forth in this Order, and the Sale contemplated thereby is APPROVED.
2. This Court's findings of fact and conclusions of law set forth in the Bidding Procedures Order and above are fully incorporated into this Order by reference.
3. The terms and conditions of the Stipulation are approved and are incorporated herein by reference as a part of this Order.
4. Notice of the Sale Motion, the Sale Hearing, and the Sale was adequate, fair and equitable under the circumstances and complied in all respects with section 102(1) of the Bankruptcy Code, Bankruptcy Rules 2002, 6004, and 6006, and Local Rules 2002-1 and 6004-1 and the Bidding Procedures Order. All objections to the Sale Motion or the relief requested therein that have not been withdrawn, waived or settled as announced to the Court at the Sale Hearing or by stipulation filed with the Court, and all reservations of rights included therein, are hereby overruled on the merits or have been otherwise satisfied or adequately provided for pursuant to this Order.

Approval of the APA

5. The APA, APA Amendment, TSA, and the terms and conditions thereof are hereby APPROVED, and Debtor is authorized and directed to enter into all related agreements and such other ancillary documents consistent with the terms hereof and in furtherance thereof.
6. Pursuant to section 363(b) of the Bankruptcy Code, Debtor is authorized and directed to take any and all actions necessary or appropriate to (i) consummate the Sale of the

Purchased Assets to Successful Bidder pursuant to and in accordance with the terms and conditions of the APA, (ii) close the Sale as contemplated in the APA and this Order, and (iii) execute and deliver, close, perform under, consummate, and implement the APA, together with all additional instruments and documents that may be reasonably necessary or desirable to implement the APA and the Sale or as may be reasonably necessary or appropriate to the performance of the obligations as contemplated by the APA and such ancillary documents.

7. This Order shall be binding in all respects upon Debtor, its estate, all holders of equity interests in Debtor, all holders of any Claim(s) (as defined in the Bankruptcy Code) against Debtor, whether known or unknown, any holders of Liens (as defined in the Bankruptcy Code) and Encumbrances on all or any portion of the Purchased Assets, all Contract Counterparties, Successful Bidder, all successors and assigns of Successful Bidder, any other bidders for the Purchased Assets, any trustees, if any, subsequently appointed in the Case or upon a conversion to chapter 7 under the Bankruptcy Code of Debtor's case, and all employee benefit plans in which Debtor participated. This Order and the APA, APA Amendment, and TSA shall inure to the benefit of Debtor, its estate, its creditors, Successful Bidder, and their respective successors and assigns. Unless otherwise ordered by the Court, nothing contained in any plan of reorganization or liquidation or order of any type or kind entered in this Case or any subsequent chapter 7 or chapter 11 case for Debtor or any related proceedings subsequent to the entry of this Order shall directly conflict with or derogate from the provisions of the APA or the terms of this Order.

Transfer of the Purchased Assets

8. Pursuant to sections 105(a), 363(b), 363(f), 365(b), and 365(f) of the Bankruptcy Code, Debtor is authorized and directed to transfer the Purchased Assets on the Closing Date, and Debtor shall file the Closing Notice with the Court promptly thereafter. The Purchased

Assets (including the Assigned Contracts) shall be transferred to Successful Bidder upon and as of the Closing Date, and such transfer shall constitute a legal, valid, binding and effective transfer of such Purchased Assets and, upon payment of the Purchase Price in accordance with paragraph 16 of this Order, shall be free and clear of all Liens, Claims, interests, rights of setoff, netting and deductions, rights of first offer, first refusal and any other similar contractual rights, and any successor or successor-in-interest liability theories (collectively, the “**Encumbrances**”), except for the Assumed Liabilities under the APA. Upon the Closing Date in accordance with this Order, Successful Bidder shall take title to and possession of the Purchased Assets subject only to the Assumed Liabilities; provided, however, that Successful Bidder shall not be relieved of liability with respect to the Assumed Liabilities and any obligations accruing under the Assigned Contracts as provided in paragraph 24 of this Order. All Encumbrances shall attach to the proceeds of the Sale to the same extent and with the same validity, priority, force and effect that they now have as against the Purchased Assets, subject to any claims and defenses Debtor and its estate may possess with respect thereto (including the challenge rights of the Committee pursuant to the final cash collateral order entered in this case, Docket No. 129, the “**Final Cash Collateral Order**”). For the avoidance of doubt, the Purchased Assets shall not include Debtor’s accounts receivable, and entry of this Order shall in no way impact any party’s rights with respect thereto.

9. The Sale of the Purchased Assets to Successful Bidder and the sale and assumption and assignment of the Assigned Contracts to Successful Bidder, shall be, except as otherwise provided in the APA and this Order, free and clear of all Encumbrances of any kind or nature whatsoever, including, but not limited to, in respect of the following: (1) Cure Amounts with respect to Assigned Contracts, up to the Cure Amount Cap and then only in strict accordance with Successful Bidder’s undertakings with respect thereto; (2) any liabilities or

obligations arising out of or relating to Debtor's ownership or operation of the Business and the Purchased Assets prior to the Closing Date; (3) any liabilities or obligations relating to or arising out of the Excluded Assets; (4) any liabilities or obligations under any Contract that is not an Assigned Contract; (5) any liabilities or obligations for (i) Taxes relating to the Business, the Purchased Assets or the Assumed Liabilities arising on or before the Closing Date and (ii) any other Taxes of Debtor (other than Taxes allocated to Successful Bidder under the APA) for any taxable period; (6) any liabilities or obligations of Debtor relating to or arising out of (i) the employment, or termination of employment, of any Employee (including accrued payroll, deferred compensation, accrued benefits, bonuses, paid time off, accrued vacation or other ordinary course expenses of any Employees), or (ii) workers' compensation claims of any Employee; (7) any liabilities or obligations relating to, resulting from, or arising out of any Environmental Laws to the extent relating to, resulting from, or arising out of the operation of the Business or the ownership of the Purchased Assets on or prior to the Closing Date; (8) any liabilities or obligations relating to or arising out of any Benefit Plan; (9) any liabilities or obligations of Debtor arising or incurred in connection with the negotiation, preparation, investigation and performance of the APA, the other transaction documents and the transactions contemplated thereby, and any alternative thereto, including, without limitation, fees and expenses of counsel, accountants, consultants, advisers and others; and (10) all liabilities or obligations for fees, costs and expenses incurred and/or owed in connection with the administration of the Case.

10. Except as expressly provided by the APA or in this Order, all persons and entities holding Encumbrances on all or any portion of the Purchased Assets hereby are forever barred, estopped and permanently enjoined from asserting against Successful Bidder or its successors or assigns, their property or the Purchased Assets, such Encumbrances and all claims and rights

relating thereto. On the Closing Date, each holder of an Encumbrance is authorized and directed (at Debtor's expense) to execute such documents and take all other actions as may be deemed by Successful Bidder to be necessary or desirable to release its Encumbrances on the Purchased Assets, as provided for herein, as such Encumbrances may have been recorded or may otherwise exist.

11. All persons and entities are hereby forever prohibited and enjoined from taking any action that would adversely affect or interfere with the ability of Debtor to sell and transfer the Purchased Assets, including the sale, assumption and assignment of the Assigned Contracts, to Successful Bidder in accordance with the terms of the APA and this Order.

12. All persons and entities that are in possession of some or all of the Purchased Assets on the Closing Date are directed to surrender possession of such Purchased Assets to Successful Bidder or its assignee at the Closing, or permit Successful Bidder or its assignees to access the property where such Purchased Assets are located in order to take possession of such Purchased Assets.

13. Upon the Closing Date of the Sale in accordance with this Order, a certified copy of this Order may be filed with the appropriate clerk and/or recorded with the appropriate recorder to cancel any Encumbrances of record.

14. If any person or entity that has filed statements or other documents or agreements evidencing Encumbrances on all or any portion of the Purchased Assets shall not have delivered to Debtor prior to the Closing Date of the Sale in accordance with this Order, in proper form for filing and executed by the appropriate parties, termination statements, instruments of satisfaction, releases of Liens and easements and any other documents necessary or desirable to Successful Bidder for the purpose of documenting the release of all Encumbrances, which the person or entity has or may assert with respect to all or any portion of the Purchased Assets, Debtor is

hereby authorized and directed, and Successful Bidder is hereby authorized, to execute and file such statements, instruments, releases and other documents on behalf of such person or entity with respect to the Purchased Assets.

15. This Order shall govern the acts of all persons and entities, including, without limitation, all filing agents, filing officers, title agents, title companies, recorders of mortgages, recorders of deeds, registrars of deeds, administrative agencies, governmental departments, secretaries of state, federal and local officials and all other persons and entities who may be required by operation of law, the duties of their office or contract to accept, file, register or otherwise record or release any documents or instruments, or who may be required to report or insure any title or state of title in or to any lease; and each of the foregoing persons and entities is hereby authorized and directed to accept for filing any and all of the documents and instruments necessary and appropriate to consummate the transactions contemplated by the APA.

16. On the Closing Date, Successful Bidder shall transmit the Purchase Price to Agent and Debtor as otherwise provided on the closing statement (which shall be in form agreeable to Debtor, Successful Bidder, and Agent). Debtor shall cause a portion of Purchase Price to be remitted to Debtor's counsel, to be held subject to further order of this Court, in a segregated account for the sole and exclusive benefit of the "Carveout Professionals"², in an amount equal to the maximum, aggregate, unpaid "Carveout" as of the Closing Date, which amount shall be deemed allocated among the respective Carveout Professionals in accordance with the Final Cash Collateral Order. Upon the receipt of such amount by Debtor's counsel, the obligations of Agent and the "Prepetition Lenders" regarding the Carveout shall be deemed fully satisfied and discharged. From the next amount of Sale proceeds after funding the Carveout in such manner, Debtor shall cause such proceeds of the Sale to be remitted to Agent and applied subject to the

² All defined terms in this paragraph 16 that are not otherwise defined in this Order have the meanings ascribed thereto in the Final Cash Collateral Order.

terms of the Final Cash Collateral Order. If the Committee delivers a "No Action Notice" to Agent or the "Investigation Period" otherwise ends without a "Challenge", all applications to the "Prepetition Debt" from Sale proceeds or otherwise shall be deemed final and indefeasible.

Executory Contracts and Leases

17. Other than as otherwise set forth herein, the Cure Amounts as modified by the Cure Schedule attached hereto as Exhibit B are hereby APPROVED.

18. Debtor is authorized and directed to assume and sell and assign the Assigned Contracts to Successful Bidder free and clear of all Encumbrances, except for Successful Bidder's obligation to pay certain applicable Cure Amounts in excess of the Cure Amount Cap, if any, and the obligations expressly provided for in paragraph 24 of this Order. With respect to each Assigned Contract, the payment of the applicable Cure Amount (if any) by Debtor, or Debtor and Successful Bidder if the Cure Amount exceeds the Cure Amount Cap pursuant to the APA and paragraph 18 of this Order, shall (a) effect a cure of all monetary defaults existing thereunder as of the Closing Date, (b) compensate the applicable Contract Counterparty for any actual pecuniary loss resulting from such default, and (c) together with the assumption of the Assigned Contracts by Successful Bidder, constitute adequate assurance of future performance thereof. As of the Closing Date, Successful Bidder shall be deemed to have acquired and assumed the Assigned Contracts pursuant to sections 363 and 365(f) of the Bankruptcy Code. The assignment by Debtor of such Assigned Contracts shall not be a default thereunder and Successful Bidder is entitled to the protections afforded under section 363(m) of the Bankruptcy Code with respect thereto.

19. Notwithstanding Section 2.5(a) of the APA, the Successful Bidder shall have until 5:00 p.m. Eastern Time on July 5, 2018 (the "***S&W Designation Deadline***") to designate that certain Smith & Wesson U.S. Distributor Agreement between Smith & Wesson Corp. ("***S&W***")

and the Debtor dated May 1, 2017, and amended on September 29, 2017 (the “**S&W Distributor Agreement**”) as an Assigned Contract that shall be assumed and assigned, pursuant to paragraph 18 hereof, subject to the right of any party-in-interest to object to the S&W Designation Notice (as defined herein) for any reason, including, but not limited to, challenging whether the S&W Distributor Agreement is a contract that can be assumed and assigned under section 365 of the Bankruptcy Code. Such designation shall be evidenced by the filing of a notice with the Court (and served on all parties listed in Section H hereof) by the Successful Bidder by the S&W Designation Deadline (the “**S&W Designation Notice**”). Any party in interest, including, but not limited to the Debtor and the Committee, shall have until 5:00 p.m. Eastern Time on July 16, 2018 to file any opposition to the S&W Designation Notice, upon which the Court may enter an order setting a hearing and briefing schedule related to such dispute. In the event that no such opposition is filed by 5:00 p.m. Eastern Time on July 16, 2018, then the S&W Distributor Agreement, subject to all rights, claims and defenses, including recoupment and setoff, shall be deemed assigned to the Successful Bidder as an Assigned Contract.

20. Debtor shall be liable for the payment of all Cure Amounts with respect to the Assigned Contracts, up to the Cure Amount Cap. Debtor and Successful Bidder shall cooperate concerning the resolution of any disputed Cure Amounts.

21. Any provision in or effect of any Assigned Contract that prohibits or conditions the assignment of such Assigned Contract or allows the party to such Assigned Contract to terminate, recapture, impose any penalty, condition on renewal or extension or modify any term or condition upon the assignment of such Assigned Contract constitutes an unenforceable anti-assignment provision that is void and of no force and effect pursuant to section 365(f) of the Bankruptcy Code. All other requirements and conditions under sections 363 and 365 of the Bankruptcy Code for the assumption by Debtor and assignment to Successful Bidder of the

Assigned Contracts have been satisfied, and such assumption and assignment shall not constitute a default thereunder. Upon the Closing and the payment of the required Cure Amounts, in accordance with sections 363 and 365 of the Bankruptcy Code, Successful Bidder shall be fully and irrevocably vested with all right, title and interest of Debtor under each Assumed Contract.

22. Notwithstanding anything to the contrary in this Order or the APA, no contract between Debtor and Oracle America, Inc., successor in interest to NetSuite, Inc., (“**Oracle**”) will be assumed and/or assigned without (a) Oracle’s prior written consent; (b) cure of any default under such contract; (c) the provision to Oracle of satisfactory adequate assurance of future performance by the Assignee; and (d) execution by Debtor or its successor and the assignee of mutually agreeable assignment documentation in a final form to be negotiated after entry of this Order. In addition, no provision of this Order or the Transition Services Agreement shall authorize (1) the transfer of any Oracle license agreement to any third party; or (2) use of any Oracle license agreement that is inconsistent with the relevant license grant including, but not limited to, exceeding the number of authorized users, shared use or license splitting, absent Oracle’s express prior written consent.

23. Notwithstanding anything in the APA to the contrary, Successful Bidder may add or remove executory contracts and unexpired leases from the list of Assigned Contracts at any time until two (2) business days prior to the Closing Date. Pursuant to this provision, Successful Bidder has requested that the executory contracts set forth on Exhibit C hereto be assumed and assigned to it in connection with the Sale. Because the non-Debtor counterparties on Exhibit C did not previously receive notice of the potential assumption and assignment of their executory contracts with Debtor, within two (2) business days of the entry of this Order, Debtor shall send a notice to such parties substantially in the form of Debtor’s Cure Notice under the Bidding Procedures Order, notifying them of the potential assumption and assignment of their executory

contracts and related proposed cure amounts, and providing an opportunity to object to such assumption and assignment within not less than twenty-one (21) days from the date of the notice, during which time such executory contracts will remain in force and effect. To the extent such parties do not file an objection to the proposed assumption and assignment of their contracts within the objection period, such assumptions and assignments shall be approved, including the cure amounts set forth on Exhibit C, without further order of the Court. To the extent any non-Debtor counterparties file timely objections to the relief requested in the notice required hereunder and such objections cannot be consensually resolved by the parties, Debtor may request a hearing for a determination regarding the assumption and assignment of the subject contracts. In no event shall Debtor have or incur any monetary or other obligations not provided for under the APA, APA Amendment, or TSA in connection with the assumption and assignment of such contracts, except to the extent the Bankruptcy Code would impose such obligations on the Debtor prior to assumption and assignment or rejection of such contracts. In addition, the Closing Date shall not be delayed in any way related to the request to assume and assign the contracts listed on Exhibit C.

24. Successful Bidder shall be obligated for rent, fees, charges or other expenses or obligations arising under or relating to any Assigned Contract, solely to the extent arising after the Closing Date and not relating to breaches or defaults occurring on or prior to the Closing Date. Notwithstanding any other provision of this Order, Successful Bidder will assume obligations for payment of 2018 year-end adjustments for taxes, insurance, and common area maintenance, up to a cap of \$10,000, under the Industrial Lease Agreement dated February 1, 2007, by and between the Debtor, as tenant, and Colfin 2017-10 Industrial Owner, LLC, successor-in-interest to TPRF III/Central Valley Industrial, LLC, as Landlord, as amended.

25. Upon the Closing and the payment of the Cure Amounts applicable to any Assigned Contract, Successful Bidder shall be deemed to be substituted for Debtor as a party to such Assigned Contract, and Debtor shall be relieved, pursuant to section 365(k) of the Bankruptcy Code, from any further liability to the Contract Counterparties under such Assigned Contracts.

26. Upon the Closing and the payment of the applicable Cure Amounts, if any, the Assigned Contracts shall remain in full force and effect, and no default shall exist thereunder nor shall there exist any event or condition which, with the passage of time or giving of notice, or both, would constitute such a default.

27. There shall be no rent accelerations or increases, assignment fees, deposits, increases or any other fees charged to Successful Bidder or Debtor as a result of the assumption and assignment (including any change in control) of the Assigned Contracts.

28. Pursuant to sections 105(a), 363 and 365 of the Bankruptcy Code, all Contract Counterparties are forever barred and permanently enjoined from raising or asserting against Debtor, its estate, Successful Bidder, or any of their respective successors and assigns any increased rent or fees, assignment fee, default, breach or claim or pecuniary loss or condition to assignment, arising under or related to the Assigned Contracts existing as of the Closing Date or arising by reason of the Case or the Closing.

Miscellaneous

29. Effective upon the Closing Date and transfer of the Sale proceeds in accordance with paragraph 16 herein, all persons and entities are forever prohibited and permanently enjoined from commencing or continuing in any manner any action or other proceeding, whether in law or equity, in any judicial, administrative, arbitral or other proceeding against Successful Bidder, its successors and assigns, or the Purchased Assets, including, without limitation the

Assigned Contracts, with respect to (a) any Encumbrance arising prior to the Closing Date, (b) any theory of claim or remedy sounding in successor liability, or (c) revoking, terminating, failing or refusing to renew any license, permit or authorization to operate any of the Purchased Assets or conduct any of the businesses operated with the Purchased Assets.

30. Except as otherwise provided in this Order and to the maximum extent available under applicable law and to the extent provided for under the APA, Successful Bidder shall be authorized, as of the Closing Date, to operate under any license, permit, registration and governmental authorization or approval of Debtor with respect to the Purchased Assets, including the Assigned Contracts and, to the maximum extent available under applicable law and to the extent provided for under the APA, all such licenses, permits, registrations and governmental authorizations and approvals are deemed to have been transferred to Successful Bidder as of the Closing Date. All existing licenses or permits applicable to the Purchased Assets shall remain in place for Successful Bidder's benefit until either new licenses and permits are obtained or existing licenses and permits are transferred in accordance with applicable administrative procedures. To the extent provided by section 525 of the Bankruptcy Code, no governmental unit may revoke or suspend any grant, permit, or license relating to the operation of the Purchased Assets sold, transferred or conveyed to Successful Bidder on account of the filing or pendency of this Case or the consummation of the Sale.

31. Except for the Permitted Encumbrances and Assumed Liabilities, Successful Bidder shall not have any liability for any obligation of Debtor arising under or related to any of the Purchased Assets. Without limiting the generality of the foregoing, Successful Bidder shall not be liable for any Claims against Debtor or any of its predecessors or affiliates. By virtue of the Sale, Successful Bidder and its affiliates, successors and assigns shall not be deemed or considered to (a) be a legal successor or otherwise be deemed a successor to Debtor, (b) have, de

facto or otherwise, merged with or into Debtor or (c) be a continuation or substantial continuation, or be holding itself out as a mere continuation, of Debtor or its estate, business or operations, or any enterprise of Debtor, in each case by any law or equity, and Successful Bidder has not assumed nor is it in any way responsible for any liability or obligation of Debtor or Debtor's estate, except with respect to the Assumed Liabilities. Successful Bidder shall have no successor or vicarious liabilities of any kind or character, including, but not limited to, any theory of antitrust, environmental, successor or transferee liability, labor law, *de facto* merger or substantial continuity, whether known or unknown as of the Closing Date, now existing or hereafter arising, whether fixed or contingent, with respect to Debtor or any obligations of Debtor arising prior to the Closing Date, including, but not limited to, liabilities on account of any taxes arising, accruing or payable under, out of, in connection with, or in any way relating to the operation of any of the Purchased Assets prior to the Closing. Buyer shall not be responsible for any liabilities or obligations relating to or arising out of Seller's Firearms Acquisition and Disposition Records, and any such liabilities or obligations shall be Excluded Liabilities under the APA.

32. The transactions contemplated by and consummated under the APA are undertaken by Successful Bidder without collusion and in good faith, as that term is defined in section 363(m) of the Bankruptcy Code, and accordingly, the reversal or modification on appeal of the authorization provided herein to consummate the Sale shall not affect the validity of the Sale (including the assumption and assignment of the Assigned Contracts), unless such authorization and such Sale are duly stayed pending such appeal. Successful Bidder is a good faith buyer within the meaning of section 363(m) of the Bankruptcy Code and, as such, is entitled to the full protections of section 363(m) of the Bankruptcy Code. The APA and the transactions contemplated thereby cannot be avoided under section 363(n) of the Bankruptcy

Code. Debtor and Successful Bidder have not engaged in any conduct that would cause or permit the APA or the consummation of the transactions contemplated thereby to be avoided, or costs or damages to be imposed, under section 363(n) of the Bankruptcy Code.

33. Pursuant to Bankruptcy Rules 6004(h), 6006(d), 7062, and 9014, this Order shall be effective immediately upon its entry, and Debtor and Successful Bidder are authorized to close the Sale immediately upon entry of this Order.

34. No bulk sales law or any similar law of any state or other jurisdiction applies in any way to the Sale.

35. The failure specifically to include any particular provision of the APA in this Order shall not diminish or impair the effectiveness of such provision, it being the intent of the Court that the APA be authorized and approved in its entirety.

36. The APA and any related agreements, documents or other instruments may be modified, amended or supplemented by the parties thereto and in accordance with the terms thereof, without further order of the Court but after consultation with the Committee (during the term of its existence) and the Agent, provided that any such modification, amendment or supplement does not have a material adverse effect on Debtor's estate or on the interests of Successful Bidder.

37. All time periods set forth in this Order shall be calculated in accordance with Bankruptcy Rule 9006(a) and Local Rule 9006-1.

38. To the extent that this Order is inconsistent with any prior order or pleading with respect to the Sale Motion filed in this Case, the terms of this Order shall govern.

39. (a) After the Closing Date, Debtor shall receive in trust and remit any payment or revenue received by Debtor that belongs to Successful Bidder pursuant to the terms of the APA to Successful Bidder within two (2) business days of Debtor's receipt thereof and, prior to such

transmission, such payments shall be held by Debtor in trust for Successful Bidder; and (b) after the Closing Date, Successful Bidder shall receive in trust and remit any payment or revenue received by Successful Bidder that belongs to Debtor pursuant to the terms of the APA to Debtor within two (2) business days of Successful Bidder's receipt thereof and, prior to such transmission, such payments shall be held by Successful Bidder in trust for Debtor.

40. Debtor is authorized and directed to change its corporate name in the domestic jurisdictions in which it is registered or authorized to do business to names mutually agreed upon between Debtor and Successful Bidder, and to provide Successful Bidder with evidence of such name changes upon request thereof. Upon the filing of a Certification of Counsel, following consultation with Successful Bidder, the Committee, the Agent, and the US Trustee, the caption of all pleadings shall be changed as stated in such Certification of Counsel (with any necessary reflection that the case was formerly known as In re AcuSport Corporation), and all pleadings shall be filed under the new caption.

41. The Court shall retain jurisdiction to, among other things, interpret, implement and enforce the terms and provisions of this Order and the APA, all amendments thereto and any releases, waivers and consents hereunder and thereunder, and each of the agreements executed in connection therewith to which Debtor is a party or which has been assigned by Debtor to Successful Bidder, and to adjudicate, if necessary, any and all disputes concerning or relating in any way to any of the foregoing.

42. The Debtor shall serve this Order immediately upon entry thereof on those parties identified in Rule 2002(i) of the Federal Rules of Bankruptcy Procedure, and those counterparties reflected on Exhibits B and C by regular mail.

IT IS SO ORDERED.

Submitted By:

/s/ Thomas R. Allen

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EXHIBIT A

Asset Purchase Agreement

ASSET PURCHASE AGREEMENT

BY AND BETWEEN

ACUSPORT CORPORATION

AND

ELLETT BROTHERS, LLC

April 30, 2018

ASSET PURCHASE AGREEMENT

This ASSET PURCHASE AGREEMENT (this “**Agreement**”), dated as of April 30, 2018 (the “**Agreement Date**”), is entered into by and between ACUSPORT CORPORATION, an Ohio corporation (“**Seller**”), and ELLETT BROTHERS, LLC, a South Carolina limited liability company (“**Buyer**”). Buyer and Seller are referred to herein collectively as the “Parties,” and individually, a “Party.”

RECITALS

A. Seller is engaged in the business of the distribution and sales of outdoor and shooting sports products, as well as providing point of sale Software (as defined below) and services (including maintenance and support) for certain of Seller’s retail customers (the “**Business**”).

B. Seller desires to sell certain of its assets used in the Business to Buyer, and Buyer desires to purchase such assets from Seller, in a sale to be conducted following Seller’s filing of a voluntary bankruptcy petition for relief in the United States Bankruptcy Court for the Southern District of Ohio, Eastern Division (the “**Bankruptcy Court**”), under Chapter 11 of the United States Bankruptcy Code, 11 U.S.C. §§ 101, et seq. (the “**Bankruptcy Code**”), in accordance with Bankruptcy Code sections 363 and 365.

AGREEMENT

In consideration of the mutual covenants and agreements hereinafter set forth and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, Parties agree as follows:

ARTICLE I **DEFINITIONS**

The following terms have the meanings specified or referred to in this ARTICLE I:

“**Administrative Claim**” means any Claim constituting a cost or expense of administration of the Bankruptcy Case under Bankruptcy Code section 503(b) and that is entitled to priority under Bankruptcy Code section 507(a), including, *inter alia*, any actual and necessary expenses of preserving the estate, and all fees and charges assessed against the bankruptcy estate under Chapter 123 of Title 28, United States Code.

“**Affiliate**” of a Person means any other Person that directly or indirectly, through one or more intermediaries, controls, is controlled by, or is under common control with, such Person. The term “control” (including the terms “controlled by” and “under common control with”) means the possession, directly or indirectly, of the power to direct or cause the direction of the management and policies of a Person, whether through the ownership of voting securities, by contract, or otherwise.

“**Affiliate Purchased Assets**” has the meaning set forth in Section 2.6(b).

“Agreement” means this Asset Purchase Agreement, effective as of the Agreement Date and as amended, modified, or supplemented in accordance with the terms hereof, including all schedules and exhibits hereto.

“Agreement Date” has the meaning set forth in the preamble.

“Alternative Transaction” has the meaning set forth in Section 10.1(d)(iii).

“Assigned Contracts” means the Contracts listed in Section 2.5 of the Disclosure Schedules to be assumed by Seller and assigned to Buyer under Section 365 of the Bankruptcy Code, as such schedule may be amended from time to time prior to the Closing pursuant to Section 2.5; *provided, however*, that notwithstanding anything else herein, Contracts related exclusively to RTG Assets shall not be Assigned Contracts.

“Assignment and Assumption Agreement” has the meaning set forth in Section 3.2(a)(ii).

“Assignment and Assumption of Lease” has the meaning set forth in Section 3.2(a)(iv).

“Auction” means the auction contemplated by the Sale Procedures Order.

“Avoidance Claims” means any and all Claims or Proceedings under Chapter 5 of the Bankruptcy Code.

“Bankruptcy Case” means a case to be commenced by Seller in the Bankruptcy Court under Chapter 11 of the Bankruptcy Code in the Bankruptcy Court.

“Bankruptcy Code” has the meaning set forth in the recitals.

“Bankruptcy Court” has the meaning set forth in the recitals.

“Benefit Plan” means any (i) deferred compensation plan, (ii) incentive compensation plan, (iii) equity compensation plan, (iv) “welfare” plan, fund, or program (within the meaning of Section 3(1) of ERISA), (v) “pension” plan, fund, or program (within the meaning of Section 3(2) of ERISA) (vi) “employee benefit plan” (within the meaning of Section 3(3) of ERISA), (vii) employment (other than offer letters entered into in the ordinary course of the Business), termination, severance, or “change in control” agreement, and (viii) other employee benefit plan, fund, program, agreement, or arrangement, in each case, that is sponsored, maintained, or contributed to or required to be contributed to by Seller or any ERISA Affiliate, or to which Seller or any ERISA Affiliate is party, for the benefit of any of Sellers’ Employees.

“Bill of Sale” has the meaning set forth in Section 3.2(a)(i).

“Books and Records” means books of account, general, financial, warranty and shipping records, invoices, correspondence, engineering, maintenance, operating and production records, in each case related to the Purchased Assets.

“Break-Up Fee” means an amount equal to Four Hundred Thousand Dollars

(\$400,000.00), which shall, subject to Bankruptcy Court approval, constitute a super priority Administrative Claim of Buyer under Bankruptcy Code sections 364(c)(1) and 507(a)(2) with priority over any other super priority Administrative Claims and all Administrative Claims in the Bankruptcy Case.

“Business” has the meaning set forth in the recitals.

“Business Confidential Information” has the meaning set forth in Section 7.2(a).

“Business Day” means any day except Saturday, Sunday, or any other day on which banks are required or authorized by Law to be closed in the States of Ohio, New York, or South Carolina.

“Buyer” has the meaning set forth in the preamble.

“Buyer Closing Certificate” has the meaning set forth in Section 8.3(d).

“Claim” shall have the meaning set forth in Bankruptcy Code section 101(5).

“Closing” has the meaning set forth in Section 3.1.

“Closing Date” has the meaning set forth in Section 3.1.

“Closing Notice” has the meaning set forth in Section 2.5(d).

“Computer Equipment” means all equipment and devices (including data processing hardware and related telecommunications equipment, media, materials, program documentation and tools) owned or leased by Seller, including the warehouse management system, the IBM AS 400 system, the “Power 8” software, and the CLX fulfillment system, together with Seller’s rights under all related warranties.

“Contracts” means all legally binding contracts, leases, mortgages, licenses, instruments, notes, commitments, undertakings, purchase orders, indentures and other agreements or arrangements of any nature.

“Cure Amount Cap” has the meaning set forth in Section 2.5(b).

“Cure Amounts” means, as to each Assigned Contract, the amount required to be paid pursuant to Section 365(b) of the Bankruptcy Code in connection with the assumption by Seller of such Assigned Contract as (a) reported on a schedule to be filed with the Bankruptcy Court at least three (3) days prior to the hearing for the approval of the Sale Order, as such schedule may be amended; (b) determined by agreement of Parties; or (c) determined by Final Order of the Bankruptcy Court.

“Deed” has the meaning set forth in Section 3.2(a)(iii).

“Deposit” has the meaning set forth in Section 6.7(a).

“Disclosure Schedules” means the Disclosure Schedules delivered by Seller and Buyer

concurrently with the execution and delivery of this Agreement.

“Dollars” or **“\$”** means the lawful currency of the United States.

“Drop Dead Date” has the meaning set forth in Section 10.1.

“Effective Time” has the meaning set forth in Section 3.1.

“Employees” means those Persons employed by Seller who worked for the Business immediately prior to the Closing.

“Encumbrance” means any lien, pledge, mortgage, security interest, easement, encroachment, encumbrance, third-party interest, right of first refusal, right of first offer, conditional sale agreement, option, or other restriction or limitation of any kind, whether legal, contractual, or otherwise, including or any other restriction or covenant with respect to, or condition governing, the use, transfer, alienation, or exercise of any attributes to ownership.

“Environmental Laws” has the meaning set forth in Section 4.9(a).

“ERISA” means the United States Employee Retirement Income Security Act of 1974, as amended, and the regulations promulgated thereunder.

“ERISA Affiliate” means any trade or business, whether or not incorporated, that together with Seller would be deemed a “single employer” within the meaning of Section 4001(b) of ERISA.

“Excluded Assets” has the meaning set forth in Section 2.2.

“Excluded Liabilities” has the meaning set forth in Section 2.4.

“Expense Reimbursement” has the meaning set forth in Section 6.6.

“Facility” means the warehouse facility located on the Real Property.

“Fee Criteria” means, with respect to the termination of this Agreement pursuant to Section 10.1(b)(iv): (a) Buyer is ready, willing, and able to close when it delivers written notice of its intention to terminate this Agreement pursuant to Section 10.1(b)(iv), or a breach by Seller of this Agreement has rendered Buyer unable to close, (b) the Sale Order shall have become a Final Order prior to or on the date Buyer delivers written notice of its intention to terminate this Agreement pursuant to Section 10.1(b)(iv), and (c) Seller is not ready, willing, and able to close within one (1) Business Day after Buyer delivers written notice of its intention to terminate this Agreement pursuant to Section 10.1(b)(iv).

“Final Order” means an action taken or Order issued by a Governmental Authority as to which: (i) no request for stay of the action or Order is pending, no such stay is in effect, and, if any deadline for filing any such request is designated by statute or regulation, said deadline has passed, including any extensions thereof; (ii) no petition for rehearing or reconsideration of the action or Order, or protest of any kind, is pending before the Governmental Authority and the

time for filing any such petition or protest has passed; (iii) the Governmental Authority does not have the action or Order under reconsideration or review on its own motion and the time for such reconsideration or review has passed; and (iv) the action or Order is not then under judicial review, there is no notice of appeal or other application for judicial review pending, and the deadline for filing such notice of appeal or other application for judicial review has passed, including any extensions thereof; provided, however, that the availability of relief under Federal Rule of Civil Procedure 60(b) or Federal Rule of Bankruptcy Procedure 9024 shall not, by itself, render an action or Order not a Final Order.

“Firearms Acquisition and Disposition Records” means Seller’s records required to be maintained pursuant to Subpart H of 27 CFR Part 478.

“FIRPTA Certificate” has the meaning set forth in Section 8.2(h).

“GAAP” means the United States generally accepted accounting principles and practices in effect from time to time.

“Governmental Authority” means any federal, state, or local government, governmental authority, or regulatory or administrative authority or any court, tribunal, or judicial body having jurisdiction, including, *inter alia*, the Bankruptcy Court.

“Governmental Authorization” means any Permit, certificate, permission, variance, clearance, registration, qualification, or approval issued, granted, given or otherwise made available by or under the authority of any Governmental Authority or pursuant to any Law, including the Bankruptcy Code.

“Hazardous Substance” means any pollutant, contaminant, hazardous waste, hazardous material, or hazardous substance as defined by or regulated under any Environmental Laws.

“Intellectual Property” means all of the following, anywhere in the world, along with all income, royalties, damages and payments due or payable on the Closing Date or thereafter, including damages and payments for past or future infringements or misappropriations thereof, the right to sue and recover for past infringements or misappropriations thereof and any and all corresponding rights: all patents and patent applications; trademarks, service marks, and trade dress, and registrations and applications for registration therefor; trade secrets; copyrights and registrations, and applications for registration therefor; know-how; Software; and all similar proprietary rights in trade names, domain names, websites, fictitious names or other names used in connection with the Business, logos, formulae, processes, and inventions, and discoveries, whether or not patentable or otherwise subject to registration.

“Intellectual Property Assets” means all Intellectual Property that is owned by Seller and used in connection with the Business, including the Intellectual Property Registrations set forth on Section 4.10(a) of the Disclosure Schedules; *provided, however*, that notwithstanding anything else set forth herein, Intellectual Property Assets shall not include any Intellectual Property that is owned by Seller and related exclusively to RTG Assets.

“Intellectual Property Registrations” means all Intellectual Property Assets that are subject to any issuance, registration, application or other filing by, to or with any Governmental

Authority or authorized private registrar in any jurisdiction, including registered trademarks, domain names, and copyrights, issued and reissued patents and pending applications for any of the foregoing.

“Internal Revenue Code” means the United States Internal Revenue Code of 1986, as amended.

“Inventory” has the meaning set forth in Section 2.1(a).

“Inventory Value” means the value of Seller’s Inventory using the advance rate methodology as set forth on Seller’s borrowing base certificate pursuant to its senior secured lending facility provided as of Closing, consistent with the calculation of the value of Inventory as set forth on the borrowing base certificate attached to this Agreement as Exhibit A.

“IT Assets” means all of Seller’s IT Inventories, Technical Documentation, Computer Equipment, and Software Contracts.

“IT Inventories” means (i) Software code (in all media) and materials, including all Software; (ii) Software documentation, including user materials; and (iii) all other unused or reusable materials, stores, and supplies related to Software.

“Law” means any statute, law, ordinance, regulation, rule, code, order, constitution, treaty, common law, judgment, decree, directive, injunction, or other requirement or rule of law of any Governmental Authority.

“Leased Real Property” has the meaning set forth in Section 4.8(b).

“Leases” has the meaning set forth in Section 4.8(b).

“Material Adverse Effect” means any event, occurrence, fact, condition or change that is materially adverse to (a) the business, results of operations, financial condition or assets of the Business, taken as a whole, or (b) the ability of Seller to consummate the transactions contemplated hereby; *provided, however*, that “Material Adverse Effect” shall not, solely with respect to clause (a) of this definition, include any event, occurrence, fact, condition or change arising out of or attributable to: (i) general economic or political conditions; (ii) conditions generally affecting the industries in which the Business operates; (iii) any changes in financial, banking or securities markets in general; (iv) acts of war (whether or not declared), armed hostilities or terrorism, or the escalation or worsening thereof; (v) any action specifically required by this Agreement or any action taken (or omitted to be taken) with the written consent of or at the written request of Buyer; (vi) any changes in applicable Laws or accounting rules (including GAAP) or the enforcement, implementation, or interpretation thereof; or (vii) any natural or man-made disaster or acts of God; in each case, except in the case of each of clauses (i), (ii), (iii), (iv), (v), or (vii) to the extent such change, effect, event, occurrence, state of facts or development has a disproportionate effect on the Seller or the Business relative to other similarly situated participants in the industry in which the Seller operates.

“Names” has the meaning set forth in Section 7.9.

“Necessary Consent” has the meaning set forth in Section 2.6(a).

“Non-Solicitation Period” has the meaning set forth in Section 6.2(b).

“Order” means any order, writ, judgment, injunction, decree, stipulation, determination, or award entered, issued, made, or rendered by or with any Governmental Authority.

“Organizational Documents” means the legal document(s) by which any Person (other than an individual) establishes its legal existence or which govern its structure and internal affairs.

“Owned Real Property” has the meaning set forth in Section 4.8(a).

“Party” or **“Parties”** has the meaning set forth in the preamble.

“Permits” means all permits, licenses, franchises, approvals, authorizations, and consents required to be obtained from Governmental Authorities or are otherwise necessary for the conduct of the Business.

“Permitted Encumbrances” means (a) liens for Taxes not yet due and payable or being contested in good faith by appropriate procedures; (b) mechanics’, carriers’, workmen’s, repairmen’s or other like liens arising or incurred in the ordinary course of business; (c) easements, rights of way, zoning ordinances and other similar encumbrances affecting Real Property that do not materially detract from the use or value of such Real Property; and (d) other than with respect to Owned Real Property, liens arising under original purchase price conditional sales contracts and equipment leases with third parties entered into in the ordinary course of business.

“Person” means an individual, corporation, partnership, joint venture, limited liability company, Governmental Authority, unincorporated organization, trust, association, or other entity.

“Proceeding” means any action, claim, demand, suit, proceeding, litigation, arbitration, grievance, citation, summons, subpoena, inquiry or investigation of any nature, civil, criminal, regulatory or otherwise, in law or in equity (including actions or proceedings seeking injunctive relief).

“Purchase Price” has the meaning set forth in Section 2.5.

“Purchased Assets” has the meaning set forth in Section 2.1.

“Real Property” means, collectively, the Owned Real Property and the Leased Real Property.

“Release” means any past or present spilling, leaking, pumping, pouring, emitting, emptying, discharging, injecting, escaping, leaching, dumping, or disposing of a Hazardous Substance into the environment.

“Representative” means, with respect to any Person, any and all directors, officers, employees, consultants, financial advisors, counsel, accountants and other agents of such Person.

“RTG Assets” means those assets to be sold by Seller to J.W. Shultz, LLC pursuant to that certain Asset Purchase Agreement dated April 27, 2018.

“Sale Order” has the meaning set forth in Section 6.4.

“Sale Procedures Order” means the Order entered by the Bankruptcy Court in the Bankruptcy Case, setting forth the bidding procedures for the Auction.

“Seller” has the meaning set forth in the preamble.

“Seller Closing Certificate” has the meaning set forth in Section 8.2(e).

“Seller’s Knowledge” means the actual knowledge, after reasonable inquiry, of Seller’s Chief Financial Officer, Chief Information Officer, Chief Executive Officer/President, and Vice President of Operations.

“Side Letter” has the meaning set forth in Section 7.1.

“Software” means computer programs, whether in object code, source code or other form, firmware, databases and data.

“Software Contracts” means Contracts to which Seller is a party respecting the ownership, license, acquisition, design, development, distribution, marketing, development, use, outsourcing, or maintenance of Software.

“Tangible Personal Property” has the meaning set forth in Section 2.1(d).

“Tax” or **“Taxes”** means all federal, state, local, foreign, and other income, gross receipts, sales, use, production, ad valorem, transfer, franchise, registration, profits, license, lease, service, service use, withholding, payroll, employment, unemployment, estimated, excise, severance, stamp, occupation, premium, property (real or personal), real property gains, windfall profits, customs, duties or other taxes, fees, assessments or charges of any kind whatsoever, together with any interest, additions or penalties with respect thereto and any interest in respect of such additions or penalties.

“Tax Return” means any return, declaration, report, claim for refund, information return or statement or other document required to be filed with respect to Taxes, including any schedule or attachment thereto, and including any amendment or supplement thereof.

“Technical Documentation” means all technical and descriptive materials (other than Inventory) relating to the acquisition, design, development, use, or maintenance of computer code and Computer Equipment, including all images and dimensional information necessary or desirable for the operation of Seller’s systems relating to Inventory.

“Transaction Documents” means this Agreement, the Bill of Sale, the Assignment and

Assumption Agreement, Deeds, Assignment and Assumption of Leases, Sale Order, and the other agreements, instruments, and documents required to be delivered at the Closing.

“**Transferred Employee**” has the meaning set forth in Section 7.1.

ARTICLE II

PURCHASE AND SALE

Section 2.1 Purchase and Sale of Assets. Subject to the terms and conditions of this Agreement, at the Closing, Seller shall sell, assign, transfer, convey and deliver to Buyer, and Buyer shall purchase and assume from Seller, free and clear of all Encumbrances other than Permitted Encumbrances, all of Seller’s right, title, and interest in, to, and under the following assets, properties, and rights of Seller, to the extent that such assets, properties, and rights exist as of the Closing Date (collectively, the “**Purchased Assets**”):

(a) all inventory, finished goods, raw materials, work in progress, packaging, supplies, parts, and other inventories of the Business, regardless of value (and including, for the avoidance of doubt, inventory with zero value as set forth in Seller’s borrowing base certificate) (“**Inventory**”);

(b) all Assigned Contracts set forth on Section 2.5 of the Disclosure Schedules;

(c) all Intellectual Property Assets described on Section 2.1(c) of the Disclosure Schedules;

(d) all furniture, fixtures, equipment, supplies, and other tangible personal property of the Business listed on Section 2.1(d) of the Disclosure Schedules (the “**Tangible Personal Property**”); *provided, however*, that Tangible Personal Property shall not include any furniture, fixtures, equipment, supplies, or other tangible personal property included within the RTG Assets;

(e) all Owned Real Property and Leased Real Property described on Section 2.1(e) of the Disclosure Schedules;

(f) all Permits, listed on Section 2.1(f) of the Disclosure Schedules, but only to the extent such Permits may be transferred under applicable Law;

(g) all IT Assets, other than those IT Assets set forth in Section 2.1(g) of the Disclosure Schedules;

(h) all credits, prepaid expenses, deferred charges, security deposits, prepaid items and duties to the extent related to a Purchased Asset or an Assumed Liability;

(i) all signage and marketing materials relating to the Business;

(j) all insurance benefits, including claims, rights and proceeds, arising from or related to the Business, the Purchased Assets, or the Assumed Liabilities, except

for those insurance benefits arising from credit insurance and claims arising thereunder for accounts or notes receivable of the Business;

(k) all Books and Records, to the extent not excluded by Section 2.2(e);

(l) all client lists, customer lists, supplier lists, vendor lists, mailing lists, and other data related to the Business, including service and warranty records, customer data and transaction history, operating guides and manuals, studies, and correspondence (electronic or otherwise); and

(m) all goodwill generated by or associated with the Business.

Section 2.2 Excluded Assets. Other than the Purchased Assets subject to Section 2.1, Buyer understands and agrees that it is not purchasing or acquiring, and Seller is not selling or assigning, any other assets or properties of Seller, and all such other assets and properties shall be excluded from the Purchased Assets (the “**Excluded Assets**”). Excluded Assets include the following assets and properties of Seller:

(a) all accounts or notes receivable of the Business (subject to Section 7.3 hereof);

(b) all cash and cash equivalents, bank accounts, and securities of Seller;

(c) all Contracts that are not Assigned Contracts;

(d) all Intellectual Property other than the Intellectual Property Assets;

(e) the corporate seals, Organizational Documents, minute books, stock books, Tax Returns, books of account or other records having to do with the corporate organization of Seller, all employee-related or employee benefit-related files or records, other than personnel files of Transferred Employees, and any other books and records which Seller is prohibited from disclosing or transferring to Buyer under applicable Law and is required by applicable Law to retain;

(f) all insurance policies of Seller and all rights to applicable claims and proceeds thereunder (except as set forth in Section 2.1(j));

(g) all Benefit Plans and trusts or other assets attributable thereto;

(h) all Tax assets (including duty and Tax refunds and prepayments) of Seller or any of its Affiliates;

(i) all rights, claims, and causes of action of Seller against third parties and the proceeds thereof, including, without limitation, any Avoidance Claims, tort claims, and causes of action against officers and directors, and including all rights to any action, suit or claim of any nature available to or being pursued by Seller, whether arising by way of counterclaim or otherwise;

(j) all assets, properties and rights that Seller uses exclusively in its businesses other than the Business, including all RTG Assets; and

(k) the rights which accrue or will accrue to Seller under the Transaction Documents.

Section 2.3 Assumed Liabilities. Subject to the terms and conditions of this Agreement, Buyer shall assume and agree to pay, perform, and discharge when due only the following liabilities and obligations of Seller arising out of or relating to the Business or the Purchased Assets (collectively, the “**Assumed Liabilities**”):

(a) all liabilities and obligations arising under or relating to the Assigned Contracts, solely to the extent arising after the Closing Date and not relating to breaches or defaults occurring on or prior to the Closing Date;

(b) all liabilities and obligations for (i) Taxes relating to the Business, the Purchased Assets or the Assumed Liabilities arising after the Closing Date and (ii) Taxes for which Buyer is liable pursuant to Section 7.6; and

(c) all other liabilities and obligations arising out of or relating to Buyer’s ownership or operation of the Business and the Purchased Assets solely to the extent arising after the Closing.

Section 2.4 Excluded Liabilities. Notwithstanding any other provision of this Agreement or any other Transaction Document to the contrary, and regardless of any disclosure to Buyer, the Parties agree that, other than the Assumed Liabilities, Buyer shall not assume and shall not be responsible to pay, perform or discharge (and Seller shall retain, pay, perform or otherwise discharge without recourse to Buyer) any liabilities or obligations of Seller (collectively, the “**Excluded Liabilities**”), including the following:

(a) other than the Assumed Liabilities, any liabilities or obligations arising out of or relating to Seller’s ownership or operation of the Business and the Purchased Assets prior to the Closing Date;

(b) any liabilities or obligations relating to or arising out of the Excluded Assets;

(c) any liabilities or obligations of any nature under any Contract that is not an Assigned Contract;

(d) any liabilities or obligations for (i) Taxes relating to the Business, the Purchased Assets or the Assumed Liabilities arising on or before the Closing Date and (ii) any other Taxes of Seller (other than Taxes allocated to Buyer under Section 7.7) for any taxable period;

(e) any liabilities or obligations of Seller relating to or arising out of (i) the employment, or termination of employment, of any Employee (including accrued payroll, deferred compensation, accrued benefits, bonuses, paid time off, accrued vacation

or other ordinary course expenses of any Employees), or (ii) workers' compensation claims of any Employee;

(f) any liabilities or obligations relating to, resulting from, or arising out of any Environmental Laws to the extent relating to, resulting from, or arising out of the operation of the Business or the ownership of the Purchased Assets on or prior to the Closing Date;

(g) any liabilities or obligations relating to or arising out of any Benefit Plan; and

(h) any liabilities or obligations of Seller arising or incurred in connection with the negotiation, preparation, investigation and performance of this Agreement, the other Transaction Documents and the transactions contemplated hereby and thereby, including, without limitation, fees and expenses of counsel, accountants, consultants, advisers and others.

Section 2.5 Contract and Lease Matters.

(a) Prior to the Agreement Date, Buyer shall designate each of the Assigned Contracts, if any, that Buyer elects to have assumed and assigned to it as an Assigned Contract effective as of the Closing Date, with all such Assigned Contracts to be set forth on Section 2.5 of the Disclosure Schedules. Buyer shall have the right, until the second business day prior to the Closing Date, to either (i) designate any Contract not already so designated to be an Assigned Contract or (ii) remove any Contract from Section 2.5 of the Disclosure Schedules. Section 2.5 of the Disclosure Schedules shall be amended to include or remove any such Contract as an Assigned Contract. Any Contract removed from Section 2.5 of the Disclosure Schedules shall become an Excluded Asset and shall not be an Assigned Contract for all purposes of this Agreement and all liabilities and obligations under such Contract shall be Excluded Liabilities for all purposes of this Agreement.

(b) Seller shall be responsible for the payment of Cure Amounts solely with respect to the Assigned Contracts specifically set forth on Section 2.5 of the Disclosure Schedules in an aggregate amount not to exceed the aggregate of the Cure Amounts set forth on Section 2.5 of the Disclosure Schedules (the "**Cure Amount Cap**"). Such Cure Amounts may be paid from Seller's own funds, or may be paid at Closing from the proceeds of the Purchase Price. Seller represents that all material Assigned Contracts are listed on Section 2.5 of the Disclosure Schedules as of the Agreement Date.

(c) For the avoidance of doubt, Seller shall not be responsible for the payment of Cure Amounts with respect to (i) any Contract that is not an Assigned Contract (solely as a result of this Agreement) or (ii) any Assigned Contract that is added to Section 2.5 of the Disclosure Schedules after the Agreement Date, but only to the extent the aggregate Cure Amount(s) exceeds the Cure Amount Cap as a result of any additional Assigned Contract(s) added to Section 2.5 of the Disclosure Schedules after the Agreement

Date; *provided, however*, that (x) to the extent there are any material Assigned Contracts necessary for the operation of the Business and the Facility not listed on Section 2.5 of the Disclosure Schedules as of the Agreement Date that have corresponding Cure Amounts, the Cure Amount Cap shall be automatically increased by the full amount of any such Cure Amounts to reflect the addition of such Contracts to Section 2.5 of the Disclosure Schedules; and (y) Seller shall not be required to proceed with Closing if the Cure Amount Cap has materially increased from the Cure Amount Cap listed on Section 2.5 of the Disclosure Schedules as of the Agreement Date.

(d) Seller shall include in its Bankruptcy Court pleadings relief to assume and assign to Buyer all executory Contracts and unexpired Leases related to the Business and the Purchased Assets. No assumption and assignment shall be effective until the filing of a Notice of Closing and Contract Treatment (the “**Closing Notice**”), which shall be filed within two (2) days prior to the Closing. At Buyer’s request, Seller shall also file and serve any updates to the Contract schedules which may be made prior to the filing of the Closing Notice. From the Agreement Date through the Closing Date, Seller shall pay all amounts that accrue or come due post-petition under the Assigned Contracts.

Section 2.6 Assignment of Purchased Assets.

(a) To the maximum extent permitted by the Bankruptcy Code, the Purchased Assets that constitute Assigned Contracts shall be assumed by Seller and assigned to Buyer pursuant to Section 365 of the Bankruptcy Code as of the Closing Date or such other date as specified in the Sale Order or this Agreement, as applicable. Notwithstanding any other provision of this Agreement to the contrary, this Agreement shall not constitute an agreement to assign any asset or any right thereunder if an attempted assignment without the consent of a third party (a “**Necessary Consent**”), which Necessary Consent has not been obtained prior to the Closing (after giving effect to the Sale Order and the Bankruptcy Code), would be legally invalid, unless the Bankruptcy Court has entered a Final Order (which may include the Sale Order) providing that (i) such Necessary Consent is not required or (ii) the Purchased Assets shall be assigned or transferred regardless of any such Necessary Consent and there shall be no breach or adverse effect on the rights of Buyer thereunder for the failure to obtain any such Necessary Consent. If, with respect to any Purchased Asset, such Necessary Consent is not obtained, the Bankruptcy Court has not entered such an Order, or such assignment is not attainable pursuant to Sections 105, 363, or 365 of the Bankruptcy Code, then such Purchased Asset shall not be transferred hereunder and, provided that all conditions to Closing under ARTICLE VIII have been satisfied or waived, the Closing shall proceed with respect to the remaining Purchased Assets, but with a reduction in the Purchase Price to account for the Purchased Asset that is not transferred hereunder; *provided, however*, (i) as Buyer may reasonably request, Seller and Buyer will use their commercially reasonable efforts to obtain the Necessary Consents with respect to any such Purchased Asset or any claim or right or any benefit arising thereunder for the assignment thereof to Buyer and (ii) Buyer shall not be required to proceed with Closing if any Necessary Consent is not obtained, the Bankruptcy Court has not entered an order as described in this Section, or

such assignment is not attainable pursuant to Sections 105, 363, or 365 of the Bankruptcy Code with respect to any material Purchased Asset.

(b) Notwithstanding anything to the contrary contained in this Agreement, if it is determined by Buyer or Seller before, at or after the Closing that any Affiliate of Seller owns or possesses any assets or properties that would be deemed to be Purchased Assets if such Affiliate were a Seller under this Agreement (such assets and properties, the “**Affiliate Purchased Assets**”), then Seller shall, upon Buyer’s request, promptly cause such Affiliate of Seller to transfer, assign, convey and deliver to Buyer such Affiliate Purchased Assets in accordance with the terms and conditions of this Agreement; *provided* that Buyer shall not be obligated to pay any additional amounts to Seller in consideration for the transfer of such Affiliate Purchased Assets to Buyer other than those amounts that Buyer is obligated to pay pursuant to Section 2.7.

Section 2.7 Purchase Price. The aggregate purchase price (the “**Purchase Price**”) for the Purchased Assets shall be the sum of (i) Seven Million Seven Hundred and Fifty Thousand Dollars (\$7,750,000), plus (ii) an amount equal to the Inventory Value (collectively, the “**Cash Purchase Price**”). The excess of the Cash Purchase Price over the amount of the Deposit shall be paid, at the Closing, by wire transfer of immediately available funds to an account designated in writing by Seller to Buyer no later than two (2) Business Days prior to the Closing Date.

ARTICLE III **CLOSING**

Section 3.1 Closing. Subject to the terms and conditions of this Agreement, the consummation of the transactions contemplated by this Agreement (the “**Closing**”) shall take place at the offices of Bryan Cave Leighton Paisner LLP, 161 North Clark Street, Suite 4300, Chicago, Illinois 60601, at 11:59 p.m. Central Time (the “**Effective Time**”), on the first day that is three (3) Business Days after the satisfaction or waiver of all of the conditions to Closing set forth in ARTICLE VIII (other than those to be satisfied at the Closing itself, but subject to the satisfaction or, if permitted by Law, waiver of such conditions at the Closing), or at such other time, date or place as Seller and Buyer may mutually agree upon in writing. The date on which the Closing is to occur is herein referred to as the “**Closing Date**.”

Section 3.2 Closing Deliverables.

(a) At the Closing, Seller shall deliver to Buyer the following:

(i) a bill of sale in a form mutually agreed upon by Buyer and Seller (the “**Bill of Sale**”) and duly executed by Seller, transferring the tangible personal property included in the Purchased Assets to Buyer;

(ii) an assignment and assumption agreement in a form mutually agreed upon by Buyer and Seller (the “**Assignment and Assumption Agreement**”) and duly executed by Seller, effecting the assignment to and assumption by Buyer of the Purchased Assets (including any Intellectual Property and other intangible assets) and the Assumed Liabilities;

(iii) with respect to each parcel of Owned Real Property, a special warranty deed in a form mutually agreed upon by Buyer and Seller (each, a “**Deed**”) and duly executed and notarized by Seller;

(iv) with respect to each Lease, an Assignment and Assumption of Lease substantially in a form mutually agreed upon by Buyer and Seller (each, an “**Assignment and Assumption of Lease**”), duly executed by Seller and, if necessary, Seller’s signature shall be witnessed and/or notarized;

(v) a copy of the Sale Order;

(vi) the Seller Closing Certificate;

(vii) the FIRPTA Certificate;

(viii) the certificates of the Secretary of Seller required by Section 8.2(f) and Section 8.2(g);

(ix) a borrowing base certificate consistent with the borrowing base certificate attached hereto as Exhibit A disclosing the current Inventory Value, based upon an appraisal of the Inventory conducted within thirty days prior to the Closing Date; and

(x) such other customary instruments of transfer, assumption, filings or documents, in form and substance reasonably satisfactory to Buyer, as may be required to give effect to this Agreement (including any other documents that may be required by the Sale Order or pursuant to any other direction by the Bankruptcy Court to be effected on or prior to the Closing).

(b) At the Closing, Buyer shall deliver the following:

(i) the Cash Purchase Price to Seller, less the Deposit;

(ii) the Assignment and Assumption Agreement duly executed by Buyer to Seller;

(iii) with respect to each Lease, an Assignment and Assumption of Lease duly executed by Buyer and, if necessary, Buyer’s signature shall be witnessed and/or notarized, to Seller;

(iv) the Buyer Closing Certificate to Seller; and

(v) the certificates of the Secretary of Buyer required by Section 8.3(f) and Section 8.3(g) to Seller.

ARTICLE IV

REPRESENTATIONS AND WARRANTIES OF SELLER

Seller represents and warrants to Buyer as follows as of the Agreement Date and as of the Closing Date:

Section 4.1 Organization and Good Standing. Seller is a corporation validly existing and in good standing under the Laws of the state of Ohio. Seller has the requisite corporate power and corporate authority to own and use its properties and assets and to carry on its business as now conducted. Seller is duly qualified to do business in each jurisdiction where the character of its business or the nature of its properties and assets makes such qualification necessary, except for any failure to be so qualified which would not, individually or in the aggregate, have a Material Adverse Effect.

Section 4.2 Authority; Validity. Subject to Bankruptcy Court approval, Seller has the requisite corporate power and corporate authority to enter into and perform its obligations under this Agreement and the Transaction Documents to which Seller is a party and to consummate the transactions contemplated hereby and thereby. Subject to Bankruptcy Court approval, the execution, delivery, and performance by Seller of this Agreement and the Transaction Documents to which it is a party have been duly and validly authorized by all requisite action on the part of Seller. This Agreement has been duly and validly executed and delivered by Seller and each Transaction Document to which Seller is a party will be duly and validly executed and delivered by Seller at the Closing. Subject to Bankruptcy Court approval, this Agreement constitutes, and upon execution and delivery by Seller, each Transaction Document to which Seller is a party will constitute, the legal, valid, and binding obligations of Seller, enforceable against Seller in accordance with their respective terms, except as such enforceability is limited by general principles of equity.

Section 4.3 Consents. Seller is not required to give any notice to, make any filing with, or obtain any consent from any Person in connection with the execution and delivery of this Agreement and the Transaction Documents or the consummation or performance of any of the transactions contemplated hereby and thereby (including the compliance with any provisions hereof or thereof) except (a) for the approval of the Bankruptcy Court and any notices, filings, and consents required in connection with the Bankruptcy Case, including, without limitation, the entry of the Sale Order, and (b) as set forth in Section 4.3 of the Disclosure Schedules. Notwithstanding the foregoing, Seller represents that it has obtained the consent of its secured lenders to the transactions contemplated under this Agreement.

Section 4.4 No Conflict. The execution and delivery of this Agreement and the Transaction Documents by Seller and the consummation of the transactions contemplated hereby and thereby will not breach of any of the terms of, constitute a default under, conflict with, give rise to any right of consent, termination, or cancellation, result in the creation or imposition of any Encumbrance upon any Purchased Asset, or cause any acceleration of any obligation of Seller under (a) the Organizational Documents of Seller, (b) any Contract to which Seller is a party or by which any of the Purchased Assets are bound, or (c) any Law or Order applicable to Seller, any of the Purchased Assets, or the Business.

Section 4.5 Title. Subject to the terms of the Sale Order and Section 2.6, Seller will transfer good and marketable title to, or, in the case of any assets leased or licensed by Seller, a valid leasehold or licensed interest in, all of the Purchased Assets, free and clear of all Encumbrances but subject to Permitted Encumbrances. Upon the Closing and subject to entry of the Sale Order, Buyer will acquire exclusive, good and marketable title (or in the case of any leased or licensed Purchased Asset, a valid leasehold or licensed interest in or valid rights to use) the Purchased Assets and no restrictions will exist on the right of Buyer (or its designated Affiliate(s)) to resell or license any of the Purchased Assets or Assumed Liabilities or engage in the Business.

Section 4.6 Assigned Contracts. Each of the Assigned Contracts is in full force and effect and is a valid and binding obligation of Seller and, to Seller's Knowledge, the other parties thereto, enforceable in accordance with its terms and conditions, in each case except (a) as such enforceability may be limited by bankruptcy, insolvency, reorganization, moratorium, or similar laws now or hereafter in effect relating to creditors' rights generally or general principles of equity, or (b) as set forth on Section 4.6 of the Disclosure Schedules attached hereto. Upon entry of the Sale Order and payment of the Cure Amounts, the Assigned Contracts shall be assigned by Seller to Buyer.

Section 4.7 Undisclosed Liabilities. Seller has no liabilities that would constitute an Assumed Liability hereunder or to which, to Seller's Knowledge, Buyer would become subject under applicable Law, in each case, that have not been disclosed to Buyer, disclosed on the Financial Statements, or incurred by Seller after the date of the Interim Financial Statements in the ordinary course of business (none of which results from or is related to any breach of Contract, breach of warranty, tort, infringement or violation of Law).

Section 4.8 Real Property.

(a) Seller does not own any Real Property other than the Real Property described in Section 4.8(a) of the Disclosure Schedules (the "**Owned Real Property**"). Seller is the sole legal and equitable owner of Owned Real Property and possesses good and marketable, indefeasible fee simple title thereto. All improvements on the Owned Real Property are in good operating condition and repair, normal wear and tear expected, are supplied with utilities and other services necessary for the operation of the Business as currently conducted at such improvements and, to Seller's Knowledge, safe for their current occupancy and use and are suitable for the conduct of the Business.

(b) Seller is the lessor of real property (the "**Leased Real Property**") under the Contracts described in Section 4.8(b) of the Disclosure Schedules (the "**Leases**") and the Leases are unexpired and in force and effect as of the Closing Date. Seller is the sole legal and equitable owner of the leasehold interest in the Leased Real Property and possesses good and marketable, indefeasible title thereto. All improvements on the Leased Real Property are in good operating condition and repair, normal wear and tear expected, are supplied with utilities and other services necessary for the operation of the Business as currently conducted at such improvements and, to Seller's Knowledge, safe for their current occupancy and use and are suitable for the conduct of the Business. Seller is not in default under the terms of any Lease which default gives or would, with the passage of

time, give the lessor of such Leased Real Property the right to terminate or adversely alter the terms of such Lease.

(c) Except as set forth in Section 4.8(c) of the Disclosure Schedules, Seller has not received written notice of, and, to Seller's Knowledge, there is no threatened (i) condemnation, eminent domain, expropriation, or similar Proceeding affecting the Real Property; (ii) proceeding to change the zoning classification of any portion of the Real Property; or (iii) imposition of any special assessments affecting the Real Property, which would, individually or in the aggregate, have a Material Adverse Effect. Buyer shall have the right to cause to be conducted an environmental assessment or assessments for the Real Property.

Section 4.9 Environmental Matters. Except as set forth in Section 4.9 of the Disclosure Schedules, or as would not, individually or in the aggregate, be material to the operation of the Business or to the Purchased Assets:

(a) The current operations of the Business comply in all respects with all Laws concerning environmental, health, or safety matters ("**Environmental Laws**"), and Seller has not received written notice alleging that the activities of the Business violate any Environmental Laws;

(b) (1) to Seller's Knowledge, there has been no Release of any Hazardous Substances that requires reporting under applicable Environmental Laws at, on, or under the Real Property, and (2) the Real Property has not been used by Seller, or to Seller's Knowledge, by any other Person, as a landfill or storage, treatment, or disposal site for any Hazardous Substance or non-hazardous solid wastes as defined under the Resource Conservation and Recovery Act of 1976, as amended;

(c) neither the Facility nor any aspect of the Business is subject to any Order with or from any Governmental Authority under any Environmental Law;

(d) all material Permits required to be obtained or filed by Seller under any Environmental Law in connection with the Purchased Assets as normally operated prior to Closing have been duly obtained or filed; and

(e) Seller has made available or provided Buyer with copies of all material documents, records, and information in Seller's possession concerning the environmental condition of the Real Property.

Section 4.10 Intellectual Property.

(a) Section 4.10(a) of the Disclosure Schedules sets forth a true and complete list of all pending applications for Intellectual Property owned by Seller and used in the Business.

(b) Except as disclosed on Section 4.10(b) of the Disclosure Schedules, and except as would not be material to the Business or the Purchased Assets, to Seller's Knowledge, (i) the Business as currently conducted by Seller does not infringe or

otherwise violate any Person's Intellectual Property rights, and no such claims are pending or threatened in writing against Seller, and (ii) no Person is infringing or otherwise violating any of the Intellectual Property.

(c) Except as disclosed on Section 4.10(c) of the Disclosure Schedules, to Seller's Knowledge, the Purchased Assets and any rights provided to Buyer pursuant to the Transaction Documents include all Intellectual Property rights required to operate the Facility and the Business as currently conducted by Seller. None of the IT Assets nor any other Intellectual Property set forth on Section 2.1(c) of the Disclosure Schedules (including, for the avoidance of doubt, the IBM AS 400, Seller's "Power 8" Software, and any related Software code) is a derivative work of, or is otherwise dependent on, any RTG Asset. Further, none of the product-related images, information, or data created, maintained, or stored in the Seller's "Stibo System" are maintained, used, or incorporated in any RTG Asset (including any point-of-sale system included therein).

(d) Seller exclusively owns all right, title and interest in the Software and any other Intellectual Property included in the Purchased Assets. Seller has taken such actions as are necessary or desirable to maintain and protect each item of Intellectual Property owned by Seller, including making all necessary filings and recordings and has paid all required fees and Taxes to record and maintain its ownership of each item of the its registered Intellectual Property in the U.S. Patent and Trademark Office, the U.S. Copyright Office, and the applicable domain name registrars. Each item of Intellectual Property included in the Purchased Assets will be owned or available for use by Buyer on identical terms and conditions following the Closing.

(e) Seller has taken commercially reasonable steps to design, engineer, install and operate the Software and the IT Assets included in the Purchased Assets in a secure manner. To the Seller's Knowledge, the security of the Software and the IT Assets included in the Purchased Assets have not been compromised. The Software included in the Purchased Assets does not contain any "viruses", "worms", "time-bombs", "key-locks", or any other devices that could disrupt or interfere with the operation of such Software or the IT Assets, or the integrity of the data, information or signals the IT Assets produce. To Seller's Knowledge, the Software included in the Purchased Assets does not include or install any spyware, adware, or other similar software that monitors the use of such Software or contacts any remote computer without the knowledge and express consent of the user(s) of such Software and remote computer. The IT Assets included in the Purchased Assets are adequate in all material respects for the operation of the Business as currently conducted.

Section 4.11 Employment Matters.

(a) Seller has provided to Buyer a list of all of the Employees of Seller as of the Agreement Date, together with all relevant information regarding compensation, status, and tenure. Seller is in compliance in all material respects with all applicable Laws pertaining to employment and employment practices to the extent they relate to the Employees.

(b) There are no collective bargaining agreements to which Seller is a party relating to any of Seller's Employees. To Seller's Knowledge, there is no pending application for certification of a collective bargaining agent involving any of Seller's Employees. Since January 1, 2016, there has not been, nor, to Seller's Knowledge, has there been any threat of, any strike, slowdown, work stoppage, lockout, concerted refusal to work overtime or other similar labor activity or dispute affecting Seller or any of the its Employees.

Section 4.12 Taxes.

(a) Seller has timely filed all material Tax Returns required to be filed in all jurisdictions in which such Tax Returns are required to be filed (subject to any filing extension), and all Taxes due and payable have been paid, except for any unpaid Taxes which are to be paid at Closing. All such Tax Returns were complete, accurate and prepared in compliance with all applicable Laws.

(b) There is no pending, or, to Seller's Knowledge, threatened, audit or examination of any of Seller's Tax Returns. No claim has been made in writing by any Governmental Authority in a jurisdiction where Seller does not file Tax Returns to the effect that such filings may be required with respect to the Business by that jurisdiction. To Seller's Knowledge, there is no presently outstanding dispute or claim concerning any liability for Taxes of Seller or otherwise on account of the Business. To Seller's Knowledge, there are no Encumbrances (other than Permitted Encumbrances) on any Purchased Assets that arose in connection with any failure or alleged failure to pay any Tax.

Section 4.13 Contracts. Except as set forth in Section 4.13 of the Disclosure Schedules:

(a) each Assigned Contract is a valid and binding agreement of Seller, enforceable against Seller in accordance with its terms, except as such enforceability is limited by general principles of equity;

(b) Seller is not in material breach of or default under any Assigned Contract, and, to Seller's Knowledge, no event has occurred that with the passage of time or giving of notice or both would constitute such a breach or default, result in a loss of material rights, result in the payment of any damages or penalties or result in the creation of any Encumbrance thereunder or pursuant thereto other than Permitted Encumbrances;

(c) to Seller's Knowledge, no other Person party to any Assigned Contract has breached in any material respect any provision, or is in material default under, any Assigned Contract;

(d) Seller has not, at any time since January 1, 2016, received any written notice or, to Seller's Knowledge, other communication, in each case regarding any actual, alleged or potential violation or breach of, or default under, any of the Assigned Contracts;

(e) there are no pending renegotiations of any of the Assigned Contracts and Seller has not received written notice from any Person party to any Assigned Contract regarding the termination, cancelation or material change to the terms of, any such Assigned Contract; and

(f) the Business does not rely upon or use rights under any Assigned Contract that has expired or been terminated.

Section 4.14 Proceedings. Except for the Bankruptcy Case and as set forth in Section 4.14 of the Disclosure Schedules, there is no Proceeding or Order pending, outstanding, or, to Seller's Knowledge, threatened, against Seller that seeks to restrain or prohibit or otherwise challenge the consummation, legality, or validity of the transactions contemplated hereby or that would have, if determined adversely to Seller's interests, individually or in the aggregate, a Material Adverse Effect. Except for Orders of the Bankruptcy Court, there are no Orders outstanding against Seller, the Business, or any Purchased Asset.

Section 4.15 Compliance With Laws. Except as set forth in Section 4.9 and Section 4.15 of the Disclosure Schedules, Seller is not, and has not been in the past three (3) years, in violation in any material respect of any Law applicable to the operation of the Business and holds all Permits required for Seller to conduct the Business as currently conducted. No proceeding is threatened in writing or, to Seller's Knowledge, threatened orally, to terminate, revoke, impair or limit any Permit included within the Purchased Assets, nor has any event occurred which would give rise to any right of notice, modification, acceleration, payment, cancellation or termination thereunder. Seller has taken all necessary action to maintain each such Permit, and no loss or expiration of any such Permit is pending or, to Seller's Knowledge, threatened or reasonably foreseeable (other than expiration upon the end of any term). Seller has conducted the Business and any export transactions in all material respects in accordance with all applicable U.S. export and re-export controls, including the United States Export Administration Act and Export Administration Regulations, the International Traffic in Arms Regulations, and Foreign Assets Control Regulations, other U.S. economic sanction requirements and customs regulations and, to Seller's Knowledge, all other applicable import/export controls in other countries in which Seller conducts the Business.

Section 4.16 Insurance. Seller is, and will through the Closing Date be, insured with, to Seller's Knowledge, responsible insurers (including general liability insurance coverage of the Purchased Assets, Owned Real Property and Leased Real Property, and professional liability coverage) against risks normally insured against by similar businesses under similar circumstances. Seller has not failed to give any notice or present any claim under any insurance policy or binder in due and timely fashion, has not received notice of cancellation or non-renewal of any insurance policy or binder and is not aware of any threatened or proposed cancellation or non-renewal of any insurance policy or binder. There are no outstanding claims under any such policy that have gone unpaid for more than thirty (30) days, or as to which the insurer has disclaimed liability.

Section 4.17 Brokers. Neither Seller nor any Person acting on behalf of Seller has paid or become obligated to pay any fee or commission to any broker, finder, investment

banker, agent, or intermediary for or on account of the transactions contemplated by this Agreement for which Buyer is or will become liable.

Section 4.18 No Other Representations and Warranties. Except for the representations and warranties contained in this ARTICLE IV, neither Seller nor any other Person has made or makes any other express or implied representation or warranty, either written or oral, on behalf of Seller, including any representation or warranty as to the accuracy or completeness of any information regarding the Business and the Purchased Assets furnished or made available to Buyer and its Representatives (including management presentations or in any other form in expectation of the transactions contemplated hereby) or as to the future revenue, profitability or success of the Business, or any representation or warranty arising from statute or otherwise in law.

ARTICLE V

REPRESENTATIONS AND WARRANTIES OF BUYER

Buyer represents and warrants to Seller as follows as of the Agreement Date and as of the Closing Date.

Section 5.1 Organization. Buyer is a limited liability company validly existing and in good standing under the Laws of the state of South Carolina. Buyer has the requisite corporate power and authority to own or lease and to operate and use its properties and to carry on its business as now conducted.

Section 5.2 Authority; Validity. Buyer has the requisite power and authority necessary to enter into and perform its obligations under this Agreement and the Transaction Documents to which Buyer is a party and to consummate the transactions contemplated hereby and thereby. The execution, delivery, and performance by Buyer of this Agreement and the Transaction Documents to which it is a party have been duly and validly authorized by all requisite action on the part of Buyer. This Agreement has been duly and validly executed and delivered by Buyer and each Transaction Document to which Buyer is a party will be duly and validly executed and delivered by Buyer. This Agreement constitutes, and upon execution and delivery by Buyer, each Transaction Document to which Buyer is a party will constitute, the legal, valid, and binding obligations of Buyer, enforceable against Buyer in accordance with their respective terms, except in each case as such enforceability is limited by bankruptcy, insolvency, reorganization, moratorium, or similar laws now or hereafter in effect relating to creditors' rights generally or general principles of equity.

Section 5.3 Consents. Except for the consents contemplated by Section 8.2(j) or as set forth on Section 5.3 of the Disclosure Schedules, Buyer is not required to give any notice to, make any filing with, or obtain any consent from any Person in connection with the execution and delivery of this Agreement and the Transaction Documents or the consummation or performance of any of the transactions contemplated hereby and thereby.

Section 5.4 No Conflict. Except as set forth on Section 5.4 of the Disclosure Schedules and assuming receipt of the consents referred to in Section 5.3, the execution and delivery of this Agreement and the Transaction Documents by Buyer and the consummation of

the transactions contemplated hereby and thereby will not breach of any of the terms of, or constitute a default under, or conflict with, or cause any acceleration of any obligation of Buyer under (a) the Organizational Documents of Buyer; (b) any contract or agreement with respect to which Buyer is a party or otherwise bound, (c) any Order applicable to Buyer, or (d) any Law.

Section 5.5 Availability of Funds. Buyer has, or will have at Closing, sufficient cash in immediately available funds, available lines of credit, or other sources of funds to satisfy all of its obligations hereunder so as to permit Buyer to consummate the transactions contemplated by this Agreement and the Transaction Documents.

Section 5.6 No Brokers. Neither Buyer nor any Person acting on behalf of Buyer has paid or become obligated to pay any fee or commission to any broker, finder, investment banker, agent, or intermediary for or on account of the transactions contemplated by this Agreement for which Seller is or will become liable, and Buyer shall hold harmless and indemnify Seller from any claims with respect to any such fees or commissions that Seller has become liable to pay.

Section 5.7 Litigation. There are no Proceedings pending or, to the knowledge of Buyer, threatened, that would affect Buyer's ability to perform its obligations under this Agreement or any Transaction Documents or to consummate the transactions contemplated hereby or thereby.

Section 5.8 Assigned Contracts. Buyer is and will be capable of satisfying the conditions contained in Section 365(f)(2)(B) of the Bankruptcy Code with respect to the Assigned Contracts and shall, consistent with Section 6.3, cooperate with Seller to provide proof of such capability as is necessary to satisfy counterparties to such Assigned Contracts or to satisfy the Bankruptcy Court.

ARTICLE VI

ACTIONS PRIOR TO THE CLOSING DATE

Section 6.1 Operations Prior to the Closing Date. From and after the Agreement Date through the Closing, except as expressly contemplated by this Agreement and subject to the bidding procedures for the Auction as set forth in the Sale Procedures Order, as disclosed in Section 6.1 of the Disclosure Schedules, with the prior written consent of Buyer (which consent shall not be unreasonably withheld or delayed), or as otherwise required by Law:

(a) Seller shall, subject to Seller's obligations and duties as a debtor in possession and except as may be actually required in connection with the Bankruptcy Case:

(i) comply in all material respects with all Laws with respect to the conduct of the Business and maintain in full force and effect all Permits;

(ii) use commercially reasonable efforts to keep available the services of its current Employees and agents employed or retained as of the bankruptcy petition date;

(iii) maintain the Purchased Assets in good operating condition and repair, subject to ordinary wear and tear;

(iv) comply in all material respects with contractual obligations under the Assigned Contracts; and

(v) not take any action inconsistent with this Agreement or with the consummation of the Closing.

(b) Seller shall not:

(i) other than the sale of Inventory in the ordinary course of business and other than the incurrence of Encumbrances pursuant to any debtor-in-possession financing of Seller or Order of the Bankruptcy Court authorizing Seller's use of cash collateral, sell, lease (as lessor), transfer, or otherwise dispose of, or mortgage or pledge or voluntarily impose, or suffer to be imposed, any Encumbrance on any of the Purchased Assets;

(ii) amend, modify, or terminate any of the Assigned Contracts other than non-material amendments made in the ordinary course;

(iii) amend or modify any Organizational Document of Seller;

(iv) incur any liability, whether absolute, fixed or contingent, except in the ordinary course of business consistent with past practices;

(v) institute or settle any Proceeding or threatened Proceeding with any Governmental Authority, or for an amount involving in excess of \$25,000 in the aggregate, or involving equitable or injunctive relief; provided that Seller may institute or settle any Proceeding or threatened Proceeding as is required, in Seller's business judgment, for collection of Seller's accounts receivable;

(vi) except as required by Law or in connection with the Bankruptcy Case, disclose the existence or the terms of this Agreement or the transactions contemplated hereby to the public or any customer, supplier or Employee of Seller, without obtaining the prior written approval of Buyer (not to be unreasonably withheld or delayed) relating to the contents and manner of presentation and publication thereof; provided that Seller shall, as soon as reasonably practicable after making any such communication required by applicable Law, give Buyer a copy of the proposed disclosure; or

(vii) enter into any Contract or commit to take any action prohibited by this Section 6.1.

Section 6.2 Reasonable Efforts.

(a) Each of Seller and Buyer shall use its reasonable best efforts to take, or cause to be taken, all actions, and to do, or cause to be done, and to assist and cooperate

with the other in doing, all things necessary, proper, or advisable to consummate, in the most expeditious manner practicable, the transactions contemplated hereby, including, without limitation, using reasonable best efforts to: (i) cause the conditions precedent set forth in ARTICLE VIII to be satisfied, (ii) obtain, at the earliest practicable date but consistent with the provisions of this Agreement and the Sale Procedures Order, all necessary Governmental Authorizations and make all necessary registrations, declarations, and filings, (iii) obtain Bankruptcy Court approval of the Sale Order, and (iv) apply for its Federal Firearms License and Special Occupational Taxpayers license by Buyer.

(b) From the Agreement Date until the date on which the Sale Procedures Order is entered by the Bankruptcy Court (the “**Non-Solicitation Period**”), neither Seller, nor any of its Affiliates, nor any of its or their Representatives will directly or indirectly (i) directly solicit, initiate, or encourage any inquiries or proposals regarding any merger, consolidation, sale of assets, assumption of liabilities, or similar transaction involving Seller that, if consummated, would constitute an Alternative Transaction, (ii) participate in any discussions or negotiations with third parties regarding an Alternative Transaction, or (iii) enter into any Contract regarding any Alternative Transaction; *provided, however*, that during the Non-Solicitation Period, so long as Seller is not in breach of this Agreement, nothing in this Agreement shall prohibit Seller, its Affiliates, and its and their Representatives from participating in any discussions or furnishing to any entity any information relating to Seller or its assets with respect to any unsolicited proposal, inquiry, or expression of interest that constitutes, or which may lead to, a bid for Seller’s assets.

(c) Subject to any restrictions under applicable Laws, Seller and Buyer (i) shall promptly inform each other of any communication from any Governmental Authority concerning this Agreement, the transactions contemplated hereby, and any filing, notification, or request for approval and (ii) shall permit the other to review in advance any proposed written or material oral communication or information submitted to any such Governmental Authority in response thereto. Unless otherwise required by Law, neither Seller nor Buyer shall agree to participate in any meeting with any Governmental Authority in respect of any filings, investigation, or other inquiry with respect to this Agreement or the transactions contemplated hereby without consulting with the other Party in advance and, to the extent permitted by any such Governmental Authority, giving the other Party the opportunity to attend and participate thereat, in each case to the maximum extent practicable. Subject to any restrictions under applicable Laws, each of Buyer and Seller shall furnish the other with copies of all correspondence, filings, and communications between it (or its respective Representatives) and the Governmental Authority or members of its staff with respect to this Agreement, the transactions contemplated hereby (excluding documents and communications which are subject to confidentiality agreements existing as of the Agreement Date or to the attorney-client privilege or work product doctrine or which refer to valuation of the Business), or any such filing, notification, or request for approval. Each Party shall furnish the other with such necessary information and assistance as such other Party may reasonably request in connection with their preparation of necessary filings, registration, or submissions of information to the Governmental Authority in connection with this Agreement, the transactions contemplated hereby and any such filing, notification or request for approval.

(d) Seller shall use its reasonable best efforts to take, or cause to be taken, all actions, and to do, or cause to be done, and to assist and cooperate with Buyer in doing, all things necessary, proper, or advisable to cause, in the most expeditious manner practicable, all material Permits to be transferred to Buyer as of the Closing Date and Seller shall execute any and all applications, forms or other documents of any Governmental Authority necessary, proper, or advisable to cause such transfer of such Permits. Seller shall be responsible for any fees or other payments due in connection with any such Permit transfers.

Section 6.3 Bankruptcy Court Approval. Seller and Buyer acknowledge that this Agreement and the consummation of the transactions contemplated hereby are subject to Bankruptcy Court approval. Seller will use its reasonable best efforts to file the Bankruptcy Case on or before May 1, 2018. Seller and Buyer acknowledge that (a) each must comply with the Sale Procedures Order, and (b) Buyer must provide adequate assurance of future performance within the meaning of Bankruptcy Code section 365(f)(2)(B) with respect to the Assigned Contracts. With respect to each Assigned Contract, Buyer shall provide adequate assurance as required under the Bankruptcy Code of the future performance by Buyer of each Assigned Contract. Buyer agrees that it will promptly take all actions reasonably required to assist in obtaining a Bankruptcy Court finding that there has been an adequate demonstration of adequate assurance of future performance under the Assigned Contracts, such as furnishing timely requested and factually accurate affidavits, non-confidential financial information, and other documents or information for filing with the Bankruptcy Court and making Buyer's Representatives available to testify before the Bankruptcy Court. Buyer acknowledges that Seller has no duty to maintain any letters of credit to secure performance or payment under any Assigned Contracts after the Closing, and Buyer agrees to reasonably cooperate with Seller in Seller's efforts to secure the release of any such letters of credit posted by Seller, such cooperation to include, if necessary, the provision by Buyer of a letter of credit to secure Buyer's payment and/or performance under any Assigned Contracts after the Effective Time.

Section 6.4 Sale Order. Subject to Seller's right to pursue an Alternative Transaction in accordance with the terms of this Agreement, Seller will use its reasonable best efforts to consummate the transactions contemplated hereby by seeking, with one or more appropriate motion or motions and the entry of appropriate Orders of the Bankruptcy Court (all such motions and Orders being in form and substance reasonably satisfactory to Buyer), such Orders, among other things approving this Agreement and the purchase of the Purchased Assets by Buyer, free and clear of all Encumbrances, and the assumption of the Assumed Liabilities pursuant to Bankruptcy Code section 363(b), (f), (1), and (m) and Section 365 (the "**Sale Order**"). The Sale Order will be in a form and of a substance agreeable to Seller and Buyer in their reasonable discretion.

Section 6.5 Sale Procedures Order. On the same day on which the Bankruptcy Case is filed, Seller shall also file a motion pursuant to Bankruptcy Code Sections 105 and 363 and other applicable Law seeking entry and approval of the Sale Procedures Order. Seller will use its reasonable best efforts to seek a "first day" hearing on the motion to approve the Sale Procedures Order, subject to the Bankruptcy Court's calendar and approval. The "Sale Procedures Order," as entered by the Bankruptcy Court, shall be in a form consistent

with the terms of this Agreement and in substantially the same form as Exhibit B attached hereto (as may be modified by the Parties prior to its entry by the Bankruptcy Court).

Section 6.6 Break-Up Fee. In consideration of the substantial time and resources that Buyer has devoted and will devote to the transactions contemplated hereby and subject to the terms and conditions stated herein, and subject in all respects to Bankruptcy Court approval, Seller agrees to pay the Break-Up Fee, plus a reimbursement to Buyer in cash in an amount equal to all of Buyer's reasonable and actual out-of-pocket and third-party costs and expenses, including expenses of counsel and other outside consultants, incurred and documented by Buyer or its Affiliate(s) in connection with Buyer's due diligence investigation of Seller and the Business, the negotiation, execution and delivery of this Agreement and the other Transaction Documents and the transactions contemplated by this Agreement, and incurred in connection with the Bankruptcy Case, subject to a cap of \$400,000 (the "**Expense Reimbursement**"), in accordance with Section 10.2 hereof. The Break-Up Fee and Expense Reimbursement shall be payable first from the sale proceeds from an Alternative Transaction and otherwise from Seller's cash balances. Subject to Bankruptcy Court approval, Seller's obligation to pay the Break-Up Fee and Expense Reimbursement shall be given administrative expense super-priority pursuant to 11 U.S.C. § 507(a)(2); *provided, however*, that Seller's obligation to pay the Break-Up Fee and Expense Reimbursement shall become operative only if and to the extent that the Bankruptcy Court enters the Sale Procedures Order. The Break-Up Fee and the Expense Reimbursement are integral parts of the transactions contemplated by this Agreement and are not a penalty but rather are reasonable amounts that will compensate Buyer for the efforts and resources expended and opportunities foregone while negotiating this Agreement.

Section 6.7 Deposit.

(a) Buyer will deposit with Seller's counsel Four Hundred Thousand Dollars (\$400,000.00) (the "**Deposit**") within two (2) Business Days after the Bankruptcy Court enters a Sale Procedures Order consistent with Section 6.5. Seller acknowledges that the Deposit shall not be property of Seller and shall not become property Seller's estate in the Bankruptcy Case. The Deposit shall be held in an interest-bearing account and shall be disbursed pursuant to the terms of this Agreement. Upon receipt by Seller's counsel of the Deposit, the Deposit shall be deemed to be a Good Faith Deposit under the Sales Procedures Order.

(b) Disposition of Deposit. If this Agreement is terminated by Seller pursuant to Section 10.1(c)(i), as its sole and exclusive remedy and complete liquidated damages, Seller shall retain the Deposit, together with any interest accrued thereon, but only to the extent necessary to satisfy any damages to which Seller is entitled as a result of such termination ("**Seller Damages**"). If this Agreement is terminated pursuant to any provision other than Section 10.1(c)(i), then in each case the Deposit, together with any interest accrued thereon, shall be returned to Buyer. If the Closing occurs, the Deposit shall be delivered to Seller and credited towards the Purchase Price.

Section 6.8 Notice of Developments. Until the Closing, Seller shall give prompt written notice to Buyer upon becoming aware (a) of any development constituting a Material Adverse Effect or which will or is reasonably expected to result in a material breach by

Seller of this Agreement or otherwise result in any of the conditions set forth in ARTICLE VIII becoming incapable of being satisfied, (b) that any representation or warranty made by Seller herein was untrue or inaccurate as of the Agreement Date or would be untrue or inaccurate as of the Closing Date, (c) of any matter or event first arising or occurring after the Agreement Date that, if existing or occurring on or before the Agreement Date, would have been required to be set forth, disclosed, or described in the Disclosure Schedules to this Agreement in order for any representation or warranty made by Seller herein to be true and correct, (d) of any development materially and adversely affecting the ability of Seller to consummate the transactions contemplated by this Agreement (including any written notice or other written communication from any Person alleging that the consent of such Person is or may be required in connection with the transactions contemplated by this Agreement, or objecting to the consummation of any of the transactions contemplated by this Agreement), (e) of any written notice or other written communication from any Governmental Authority (other than the Bankruptcy Court) in connection with the transactions contemplated by this Agreement, and (f) of any competing proposals to purchase any of the Purchased Assets. Seller shall have the right, from time to time prior to the Closing, to amend or supplement the schedules to this Agreement with respect to any matter described in clause (c) above. No disclosure pursuant to this Section 6.7 and no amendment or supplement of the schedules to this Agreement pursuant to the preceding sentence shall be deemed to prevent or cure any misrepresentation, breach of warranty, or breach of covenant, or to otherwise affect or diminish any representation, warranty, covenant, or obligation of Seller in this Agreement, for purposes of determining whether any condition set forth in Section 8.2 has been satisfied; provided, however, this Section 6.7 shall not constitute a covenant or agreement for purposes of Section 8.2(b).

Section 6.9 Communications with Customers and Suppliers. Seller agrees that, on and after the Agreement Date, Buyer and its Representatives may communicate with Seller's Employees and customers and vendors of the Business regarding the transactions contemplated under this Agreement.

Section 6.10 List of Contracts. Prior to the Closing Date, Seller shall provide Buyer with a list and copies of all then-executory Contracts and unexpired Leases to which it is a party, or a schedule setting forth the name of the counterparty thereto, a description of the type and quantity of goods covered thereby, an estimated dollar value thereof, and the delivery and/or other key performance dates thereunder.

ARTICLE VII

ADDITIONAL AGREEMENTS

Section 7.1 Employees. Buyer will offer new employment effective as of the Effective Time to the Employees of Seller set forth in that certain confidential side letter delivered by Buyer to Seller contemporaneously with this Agreement (the "**Side Letter**"), as may be amended by Buyer in its discretion prior to the Effective Time. Those Employees who accept Buyer's offer of employment made pursuant to this Section 7.1 and commence working for Buyer as of the Effective Time are referred to herein as "**Transferred Employees.**" Buyer shall not have any obligations on account of any employee who is not a Transferred Employee. Any Transferred Employees will be hired by Buyer on salary and benefit terms acceptable to the

Buyer, in its discretion, and Buyer shall not be liable with respect to any liabilities arising out of any such Transferred Employee's employment by Seller.

Section 7.2 Confidentiality.

(a) Seller covenants and agrees that, from and for a period of two (2) years after the Closing, Seller shall, and shall use its commercially reasonable efforts to cause its Affiliates and Representatives to, (i) treat and hold as confidential any proprietary information relating to the Business or the Purchased Assets that was provided or exchanged between Seller and Buyer in connection with this Agreement and any confidential information relating to the negotiation of the transactions contemplated hereby (the "**Business Confidential Information**") and (ii) refrain from using and disclosing the Business Confidential Information except to the extent (A) necessary in connection with their obligations under this Agreement or with respect to winding up their affairs following the Closing, (B) approved in writing in advance by Buyer, (C) required by Law, or (D) compelled by Order to disclose such Business Confidential Information, provided, however, that prior to any such compelled disclosure, Seller shall give Buyer reasonable advance notice of any such disclosure and shall cooperate with Buyer in protecting against any such disclosure and/or obtaining a protective order narrowing the scope of such disclosure and/or use of such information.

(b) Buyer covenants and agrees to keep confidential information provided to Buyer pursuant to this Agreement; *provided, however*, that disclosure of matters that become a matter of public record without any fault of Buyer shall not constitute a breach of any confidential agreement.

Section 7.3 Collection of Accounts Receivable. On or before the Closing Date, Buyer, Seller, and Seller's secured lenders shall enter into a separate agreement with respect to the collection of Seller's accounts receivable by Buyer (in a form agreeable to all such parties).

Section 7.4 Public Announcements. Unless otherwise required by applicable Law or by obligations of Buyer or Seller pursuant to any listing agreement with or rules of any securities exchange, Buyer and Seller shall consult with each other before issuing any press release or otherwise making any public statement with respect to this Agreement, the transactions contemplated hereby, or the activities and operations of the other and shall not issue any such release or make any such statement without the prior written consent of the other (such consent not to be unreasonably withheld or delayed), which written consent may be via e-mail.

Section 7.5 Bulk Sales Laws. The Parties hereby waive compliance with the provisions of any bulk sales, bulk transfer, or similar Laws of any jurisdiction that may otherwise be applicable with respect to the sale of any or all of the Purchased Assets to Buyer.

Section 7.6 Transfer Taxes. All transfer, documentary, sales, use, stamp, registration, value added, and other such Taxes and fees (including any penalties and interest) incurred in connection with this Agreement and the other Transaction Documents (including any real property transfer Tax and any other similar Tax) shall be borne and paid by Seller when due.

Buyer shall, at its own expense, timely file any Tax Return or other document with respect to such Taxes or fees (and Seller shall cooperate with respect thereto as necessary).

Section 7.7 Further Assurances. Following the Closing, each of Parties shall, and shall cause their respective Affiliates to, execute and deliver such additional documents, instruments, conveyances and assurances and take such further actions as may be reasonably required to carry out the provisions hereof and give effect to the transactions contemplated by this Agreement and the other Transaction Documents.

Section 7.8 No Other Representations or Warranties.

(a) Buyer acknowledges that, except for the representations and warranties contained in ARTICLE IV, neither Seller nor any Person on behalf of Seller makes any express or implied representation or warranty with respect to Seller, the Business, or any of the Purchased Assets (including any representations and warranties as to the condition of any of the Purchased Assets or their fitness for a particular purpose) or with respect to any information provided by or on behalf of Seller to Buyer.

(b) Buyer agrees that (i) Buyer is purchasing the Purchased Assets on an “AS IS” and “WITH ALL FAULTS” basis based solely on Buyer’s own investigation of the Purchased Assets and the representations and warranties set forth in ARTICLE IV and (ii) neither Seller nor any real estate broker or other Representative of Seller has made any warranties or representations, express, implied, or statutory, written or oral, respecting the Purchased Assets, any part of the Purchased Assets, the financial performance of the Purchased Assets or the Business, or the physical condition of any of the Purchased Assets other than the representations and warranties set forth in ARTICLE IV. Buyer further acknowledges that the consideration for the Purchased Assets specified in this Agreement has been agreed upon by Seller and Buyer after good faith arms-length negotiation in light of Buyer’s agreement to purchase the Purchased Assets “AS IS” and “WITH ALL FAULTS”. EXCEPT AS SET FORTH IN THIS AGREEMENT, SELLER MAKES NO EXPRESS WARRANTY, NO WARRANTY OF MERCHANTABILITY, NO WARRANTY OF FITNESS FOR A PARTICULAR PURPOSE, AND NO IMPLIED OR STATUTORY WARRANTY WHATSOEVER WITH RESPECT TO ANY REAL OR PERSONAL PROPERTY OR ANY FIXTURES OR THE PURCHASED ASSETS.

Section 7.9 Firearms Acquisition and Disposition Records. On the Closing Date and subject to and in accordance with applicable Law, Seller shall close its Firearms Acquisition and Disposition Records and, as promptly as practicable after the Closing (but in any event, within thirty days), shall deliver such Firearms Acquisition and Disposition Records to the Bureau of Alcohol, Tobacco, Firearms and Explosives in connection with the discontinuance of Seller’s licensed business pursuant to 27 CFR §478.127. For the avoidance of doubt, Buyer shall not be responsible for any liabilities or obligations relating to or arising out of Seller’s Firearms Acquisition and Disposition Records, and any such liabilities or obligations shall be Excluded Liabilities under this Agreement.

Section 7.10 Seller Name Change. Seller acknowledges and agrees that all of the rights of Seller in and to the trade names, fictitious names, and other names used in connection

with the Business (the “Names”) will be transferred hereunder to Buyer effective as of the Closing Date. From and after the Closing Date, none of Seller, or any of its successors, heirs, Representatives, assignees or Affiliates, shall have the right to use such Names or any names similar thereto, except as necessary to effect the change of the name of Seller (consistent with the terms hereof) or to evidence that such changes have occurred. At the Closing, Seller shall deliver to Buyer all documents required to be filed by Seller with the appropriate Governmental Authority in the State of Ohio and such other states in which Seller is qualified or registered to do business as a foreign corporation, to change the name of Seller to a name which does not contain such Names or any names similar thereto, and Seller shall file all such documents and effect such change of names within three (3) Business Days following the Closing, with evidence thereof promptly delivered to Buyer.

ARTICLE VIII

CONDITIONS TO CLOSING

Section 8.1 Conditions to Obligations of All Parties. The obligations of each Party to consummate the transactions contemplated by this Agreement shall be subject to the following conditions:

(a) No Governmental Authority having enacted, issued, promulgated, enforced, or entered any Order which is in effect and has the effect of making the transactions contemplated by this Agreement illegal, otherwise restraining or prohibiting consummation of such transactions or causing any of the transactions contemplated hereunder to be rescinded following completion thereof.

(b) The Bankruptcy Court shall have entered the Sale Order and the Sale Order shall have become a Final Order.

Section 8.2 Conditions to Obligations of Buyer. The obligations of Buyer to consummate the transactions contemplated by this Agreement shall be subject to the fulfillment or Buyer’s waiver, at or prior to the Closing, of each of the following conditions:

(a) The representations and warranties of Seller contained in Section 4.1, Section 4.2, Section 4.5, and Section 4.17 of this Agreement shall be true and correct in the aggregate in all material respects (without giving effect to any limitation as to materiality or Material Adverse Effect set forth therein), in each case at and as of the date of this Agreement and the Closing Date with the same force and effect as though then made at and as of such date (except those representations and warranties that address matters only as of a specified date, which shall be true and correct in all respects as of that specified date). All other representations and warranties of Seller contained in ARTICLE IV shall be true and correct in all material respects as of the Agreement Date and as of the Closing Date with the same effect as though made at and as of such date (except those representations and warranties that address matters only as of a specified date, which shall be true and correct in all respects as of that specified date), except where the failure of such representations and warranties to be true and correct would not have a Material Adverse Effect.

(b) Seller shall have duly performed and complied in all material respects with all agreements, covenants, and conditions required by this Agreement and each of the other Transaction Documents to be performed or complied with by it prior to or on the Closing Date.

(c) Since the Agreement Date, no event has occurred, the effects of which are continuing, that has had, or would reasonably be expected to have, a Material Adverse Effect.

(d) Seller shall have delivered to Buyer duly executed counterparts to the Transaction Documents (other than this Agreement) and such other documents and deliveries set forth in Section 3.2(a).

(e) Buyer shall have received a certificate, dated the Closing Date and signed by a duly authorized officer of Seller, that each of the conditions set forth in Section 8.2(a), Section 8.2(b), and Section 8.2(c) have been satisfied (the “**Seller Closing Certificate**”).

(f) Buyer shall have received a certificate of the Secretary (or equivalent officer) of Seller certifying that attached thereto are true and complete copies of all resolutions adopted by the board of directors of Seller authorizing the execution, delivery, and performance of this Agreement and the other Transaction Documents and the consummation of the transactions contemplated hereby and thereby, and that all such resolutions are in full force and effect and are all the resolutions adopted in connection with the transactions contemplated hereby and thereby.

(g) Buyer shall have received a certificate of the Secretary (or equivalent officer) of Seller certifying the names and signatures of the officers of Seller authorized to sign this Agreement, the Transaction Documents and the other documents to be delivered hereunder and thereunder.

(h) Buyer shall have received a certificate pursuant to Treasury Regulations Section 1.1445-2(b) (the “**FIRPTA Certificate**”) that Seller is not a foreign person within the meaning of Section 1445 of the Internal Revenue Code duly executed by Seller.

(i) No Order shall have been entered and no stay shall exist that restrains or prohibits the consummation of the transactions contemplated by this Agreement.

(j) Buyer or Seller, as applicable, shall have received all consents set forth on Section 4.3 and Section 5.3 of the Disclosure Schedules.

Section 8.3 Conditions to Obligations of Seller. The obligations of Seller to consummate the transactions contemplated by this Agreement shall be subject to the fulfillment or Seller’s waiver, at or prior to the Closing, of each of the following conditions:

(a) The representations and warranties of Buyer contained in Section 5.1, Section 5.2, and Section 5.5 of this Agreement shall be true and correct in the aggregate in all material respects (without giving effect to any limitation as to materiality or material adverse effect set forth therein), in each case at and as of the date of this Agreement and the Closing Date with the same force and effect as though then made at and as of such date (except those representations and warranties that address matters only as of a specified date, which shall be true and correct in all respects as of that specified date). All other representations and warranties of Buyer contained in ARTICLE V shall be true and correct in all respects as of the Closing Date with the same effect as though made at and as of such date (except those representations and warranties that address matters only as of a specified date, which shall be true and correct in all respects as of that specified date), except where the failure of such representations and warranties to be true and correct would not have a material adverse effect on Buyer's ability to consummate the transactions contemplated hereby.

(b) Buyer shall have duly performed and complied in all material respects with all agreements, covenants and conditions required by this Agreement and each of the other Transaction Documents to be performed or complied with by it prior to or on the Closing Date.

(c) Buyer shall have delivered to Seller the Purchase Price, duly executed counterparts to the Transaction Documents (other than this Agreement) and such other documents and deliveries set forth in Section 3.2(b).

(d) Buyer shall have delivered to Seller a final form of Schedule 2.5 of the Disclosure Schedules, provided that the Cure Amount Cap shall not have materially increased from the Cure Amount Cap listed on Section 2.5 of the Disclosure Schedules as of the Agreement Date.

(e) Seller shall have received a certificate, dated the Closing Date and signed by a duly authorized officer of Buyer, that each of the conditions set forth in Section 8.3 and Section 8.3(b) have been satisfied (the "**Buyer Closing Certificate**").

(f) Seller shall have received a certificate of the Secretary (or equivalent officer) of Buyer certifying that attached thereto are true and complete copies of all resolutions adopted by the board of directors of Buyer authorizing the execution, delivery and performance of this Agreement and the other Transaction Documents and the consummation of the transactions contemplated hereby and thereby, and that all such resolutions are in full force and effect and are all the resolutions adopted in connection with the transactions contemplated hereby and thereby.

(g) Seller shall have received a certificate of the Secretary (or equivalent officer) of Buyer certifying the names and signatures of the officers of Buyer authorized to sign this Agreement, the Transaction Documents and the other documents to be delivered hereunder and thereunder.

ARTICLE IX

DUE DILIGENCE

Section 9.1 Due Diligence. After the Agreement Date and prior to the Closing Date, Seller shall (a) afford Buyer's Representatives timely access during normal business hours to the offices, properties (including the Facility), Employees, outside accountants, agreements, and other documentation and financial records with respect to the Business, the Purchased Assets, and the Assumed Liabilities to the extent Buyer reasonably deems necessary (including any environmental audits and investigations, a physical counting of Inventory, and inspection of Purchased Assets), and permit Buyer and its Representatives to make copies of such materials, and (b) furnish to Buyer or its Representatives such additional information concerning the Purchased Assets, the Business, and the Assumed Liabilities as shall be reasonably requested by Buyer or its Representatives; provided that, if requested by Seller, Buyer shall submit to Seller written requests for such access, information, or cooperation, including reasonable detail regarding the requested access, information, or cooperation, a reasonable period in advance of the time at which such access, information, or cooperation is to be provided, and all such requests shall be submitted only to such individual or individuals as Seller may designate from time to time to receive such requests. Notwithstanding anything herein to the contrary, no such access, information, or cooperation shall be permitted or required to the extent that it would require Seller to disclose information subject to attorney-client privilege, *provided* that Seller shall identify any instance where such information is not disclosed and describe with reasonable particularity such withheld information. Further, Seller shall otherwise cooperate and assist, to the extent reasonably requested by Buyer, with Buyer's investigation of Seller, the Business, the Purchased Assets, and the Assumed Liabilities. Without limiting the generality of the foregoing, to the extent not provided to Buyer as of the Agreement Date, Seller shall provide to Buyer true, correct and complete copies of all Contracts and unexpired Leases entered into prior to the date hereof, no later than 15 days after the date hereof but in any case at least 30 days prior to the Closing Date.

ARTICLE X

TERMINATION

Section 10.1 Termination. This Agreement may be terminated at any time prior to the Closing:

(a) by the mutual written consent of Seller and Buyer;

(b) by Buyer if:

(i) any of the conditions set forth in Section 8.1 or Section 8.2 shall not have been satisfied by July 6, 2018 (the "**Drop Dead Date**"), other than as a result of the failure of Buyer to perform or comply with any of the covenants, agreements or conditions hereof to be performed or complied with by it prior to the Closing;

(ii) if a Governmental Authority issues a Final Order prohibiting the transactions contemplated hereby where such Final Order was requested, encouraged, or supported by Seller;

(iii) if Buyer is not the successful bidder at the Auction; provided that if Buyer is the only back-up bidder, then Buyer shall not be permitted to terminate this Agreement pursuant to this Section 10.1(b)(iii) until after the earlier of (A) the closing of an Alternative Transaction or (B) the Drop Dead Date; *provided, however*, that Buyer shall be permitted to terminate this Agreement pursuant to this Section 10.1(b)(iii) only if Buyer is not in material breach of any of its representations, warranties, covenants, or agreements contained herein;

(iv) if Buyer is the successful bidder at the Auction and the Closing does not occur on or before the Drop Dead Date; *provided, however*, that Buyer shall not be permitted to terminate this Agreement pursuant to this Section 10.1(b)(iv) if (I) the failure of the Closing to occur is caused by the failure of Buyer to perform or comply with any of the covenants, agreements or conditions hereof to be performed or complied with by it prior to the Closing or (II) Buyer is in material breach of any of its representations, warranties, covenants, or agreements contained herein;

(v) there has been a material breach by Seller of any representation or warranty contained herein or in the due and timely performance of any covenant or agreement contained herein, Buyer has notified the Seller of such breach in writing, and the breach has not been cured within five (5) Business Days after delivery of such notice (or such longer notice and cure period as may be set forth in any other provision of this Agreement); or

(vi) if the Seller has filed any pleading or entered into any agreement (other than this Agreement and motions for the entry of Orders of the Bankruptcy Court consistent with the transactions contemplated hereby) relating to or otherwise regarding the sale, transfer, lease or other disposition, directly or indirectly, of all or a material portion of the Purchased Assets or regarding an Alternative Transaction (including in either instance, for the avoidance of doubt, a credit bid, deed in lieu, exercise of rights and remedies or foreclosure with respect to some or all of the Purchased Assets);

(c) by Seller if:

(i) Seller is not then in material breach of any provision of this Agreement and there has been a material breach, inaccuracy in or failure to perform any representation, warranty, covenant or agreement made by Buyer pursuant to this Agreement that would render any of the conditions specified in ARTICLE VIII incapable of being satisfied and such breach, inaccuracy or failure cannot be cured by Buyer by the Drop Dead Date or is not cured within ten (10) Business Days (whichever is later), provided that that Drop Dead Date shall be extended for such ten (10)-Business Day period if such date is later;

(ii) if a Governmental Authority issues a Final Order prohibiting the transactions contemplated hereby where such Order was requested or actively encouraged or supported by Buyer;

(iii) if Buyer is not the successful bidder at the Auction;

(iv) if the Closing shall not have occurred and an Alternative Transaction shall not have closed on or before the Drop Dead Date, *provided, however*, that Seller shall be permitted to terminate this Agreement pursuant to this Section 10.1(c)(iv) only if Seller is not in material breach of any of its representations, warranties, covenants, or agreements contained herein; or

(v) if Buyer has modified Schedule 2.5 of the Disclosure Schedules after the Agreement Date and such modification(s) has (or have) materially increased the Cure Amount Cap listed on Section 2.5 of the Disclosure Schedules as of the Agreement Date;

(d) by Buyer or Seller in the event that:

(i) there shall be any Law that makes consummation of the transactions contemplated by this Agreement illegal or otherwise prohibited;

(ii) any Governmental Authority issues a Final Order prohibiting the transactions contemplated hereby where such Order was not requested, encouraged, or supported by Seller or Buyer; or

(iii) if, in accordance with the terms and conditions of this Agreement, Seller enters into one or more agreements to sell, transfer, or otherwise dispose of any material portion of the Purchased Assets in a transaction or series of transactions (other than in the ordinary course of business) with one or more Persons, other than Buyer (an “**Alternative Transaction**”) that actually closes.

Section 10.2 Effect of Termination.

(a) In the event of termination of this Agreement by Buyer or Seller pursuant to this ARTICLE X, all rights and obligations of the Parties under this Agreement shall terminate without any liability of any Party to any other Party, except for (i) any obligation of Seller to disburse (or cause the disbursement of) the Deposit in accordance with Section 6.7(b), (ii) any obligations of Seller to pay the Break-Up Fee and Expense Reimbursement as required by Section 10.2(b), (iii) the obligations of Buyer pursuant to Section 7.2(b), and (iv) other than as set forth in Section 10.2(b), no such termination shall relieve any Party from any damages, losses, or liabilities suffered or incurred by the other Party arising out of any intentional breach of any covenant in this Agreement by a Party that occurs upon or prior to the termination of this Agreement. The provisions of this Section 10.2 (and, to the extent applicable to the interpretation or enforcement of such provisions, ARTICLE I and ARTICLE XI), shall expressly survive the termination of this Agreement.

(b) In the event of a termination of this Agreement pursuant to Section 10.1(a), Section 10.1(b), Section 10.1(c)(iii), or Section 10.1(c)(iv) (but in the case of Section 10.1(c)(iv), only upon the closing of an Alternative Transaction, and in the case of Section 10.1(b)(iv), only if the Fee Criteria are satisfied as of the termination), Seller shall pay to Buyer the Break-Up Fee and the Expense Reimbursement within two (2) Business Days following such termination or if later, in the case of a termination pursuant to Section 10.1(c)(iv), upon the closing of an Alternative Transaction. In the event of a termination of this Agreement pursuant to the subsections of this Section 10.2 pursuant to which Buyer is entitled to the return of the Deposit and payment of the Break-Up Fee and the Expense Reimbursement, Buyer may elect, as the sole and exclusive remedy of Buyer, to (i) receive the Deposit and payment of the Break-Up Fee and Expense Reimbursement from Seller, and in such event Seller shall not have any further liability whatsoever to Buyer hereunder, or (ii) pursue its equitable remedies, including, without limitation, specific performance of this Agreement or the obligations of Seller hereunder. In the event of a termination of this Agreement pursuant to which Seller is entitled to retain the Deposit, Seller may elect, as the sole and exclusive remedy of Seller, to (i) retain the Deposit, and in such event Buyer shall not have any further liability whatsoever to Seller hereunder, or (ii) pursue its equitable remedies, including, without limitation, specific performance of this Agreement or the obligations of Buyer hereunder.

ARTICLE XI

MISCELLANEOUS

Section 11.1 Expenses. Except as otherwise expressly provided herein (including Section 6.6 hereof), all costs and expenses, including, without limitation, fees and disbursements of counsel, financial advisors and accountants, incurred in connection with this Agreement and the transactions contemplated hereby shall be paid by the Party incurring such costs and expenses, whether or not the Closing shall have occurred.

Section 11.2 Notices. All notices, requests, consents, claims, demands, waivers, and other communications hereunder shall be in writing and shall be deemed to have been given (a) when delivered by hand (with written confirmation of receipt); (b) when received by the addressee if sent by a nationally recognized overnight courier (receipt requested); (c) on the date sent by facsimile or e-mail of a PDF document (with non-automatic confirmation of transmission) if sent during normal business hours of the recipient, and on the next Business Day if sent after normal business hours of the recipient; or (d) on the third (3rd) day after the date mailed, by certified or registered mail, return receipt requested, postage prepaid. Such communications must be sent to the respective Parties at the following addresses (or at such other address for a Party as shall be specified in a notice given in accordance with this Section 11.2):

If to Seller:

AcuSport Corporation
One Hunter Place
Bellefontaine, Ohio 43311
Attention: President and COO
Chief Financial Officer
Facsimile: 937.592.2595
E-mail: jbroering@AcuSport.com

jflanagan@AcuSport.com

with a copy to:

Bryan Cave Leighton Paisner LLP
161 North Clark Street
Suite 4300
Chicago, Illinois 60601
Attention: Ben Sidbury
Jason DeJonker
Facsimile: 704-749 9339
E-mail: ben.sidbury@bclplaw.com
jason.dejonker@bclplaw.com

If to Buyer:

Ellett Brothers, LLC
267 Columbia Avenue
Chapin, SC 29036
Attention: Bradley P. Johnson
E-mail: BradJohnson@Ellett.com

with a copy to:

McDermott Will & Emery LLP
340 Madison Avenue
New York, New York 10173
Attention: Frank Steinherr
Timothy W. Walsh
Facsimile: 646-219-6778
E-mail: fsteinherr@mwe.com
twwalsh@mwe.com

Section 11.3 Interpretation. For purposes of this Agreement, (a) the words “include,” “includes” and “including” shall be deemed to be followed by the words “without limitation”; (b) the word “or” is not exclusive; (c) the word “extent” in the phrase “to the extent” shall mean the degree to which a subject or other thing extends, and such phrase shall not simply mean “if”; and (d) the words “herein,” “hereof,” “hereby,” “hereto” and “hereunder” refer to this Agreement as a whole. Unless the context otherwise requires, references herein: (x) to Articles, Sections, Disclosure Schedules, and Exhibits mean the Articles and Sections of, and Disclosure Schedules and Exhibits attached to, this Agreement; (y) to an agreement, instrument or other document means such agreement, instrument or other document as amended, supplemented and modified from time to time to the extent permitted by the provisions thereof and (z) to a statute means such statute as amended from time to time and includes any successor legislation thereto and any regulations promulgated thereunder. If the last day for the giving of any notice or the performance of any act required or permitted under this Agreement is a day that is not a Business Day, then the time for the giving of such notice or the performance of such action shall be extended to the next succeeding Business Day. This Agreement shall be construed without regard to any presumption or rule requiring construction or interpretation against the Party drafting an instrument or causing any instrument to be drafted. The Disclosure Schedules and Exhibits referred to herein shall be construed with, and as an integral part of, this Agreement to the same extent as if they were set forth verbatim herein.

Section 11.4 Headings. The headings in this Agreement are for reference only and shall not affect the interpretation of this Agreement.

Section 11.5 Severability. If any term or provision of this Agreement is invalid, illegal, or unenforceable in any jurisdiction, such invalidity, illegality or unenforceability shall not affect any other term or provision of this Agreement or invalidate or render unenforceable such term or provision in any other jurisdiction. Upon such determination that any term or other provision is invalid, illegal or unenforceable, the Parties shall negotiate in good faith to modify this Agreement so as to effect the original intent of the Parties as closely as possible in a mutually acceptable manner in order that the transactions contemplated hereby be consummated as originally contemplated to the greatest extent possible.

Section 11.6 Entire Agreement. This Agreement and the other Transaction Documents constitute the sole and entire agreement of Parties with respect to the subject matter contained herein and therein, and supersede all prior and contemporaneous representations, warranties, understandings and agreements, both written and oral, with respect to such subject matter. In the event of any inconsistency between the statements in the body of this Agreement and those in the other Transaction Documents, the Exhibits, and Disclosure Schedules (other than an exception expressly set forth as such in the Disclosure Schedules), the statements in the body of this Agreement will control.

Section 11.7 Successors and Permitted Assigns. This Agreement shall be binding upon and shall inure to the benefit of Parties and their respective successors and permitted assigns. Neither Party may assign its rights or obligations hereunder without the prior written consent of the other Party, which consent shall not be unreasonably withheld or delayed; *provided, however*, that Buyer may, without the prior approval of Seller, assign any or all of its rights and interests hereunder to any Affiliate of Buyer, to a lender of Buyer, or, following the Closing, in whole or in part to any successor-in-interest to any Person acquiring all or any portion of the Purchased Assets. No assignment shall relieve the assigning Party of any of its obligations hereunder.

Section 11.8 No Third-Party Beneficiaries. This Agreement is for the sole benefit of Parties and their respective successors and permitted assigns and nothing herein, express or implied, is intended to or shall confer upon any other Person or entity any legal or equitable right, benefit or remedy of any nature whatsoever under or by reason of this Agreement.

Section 11.9 Amendment and Modification; Waiver. This Agreement may only be amended, modified or supplemented by an agreement in writing signed by each Party. No waiver by any Party of any of the provisions hereof shall be effective unless explicitly set forth in writing and signed by the Party so waiving. No waiver by any Party shall operate or be construed as a waiver in respect of any failure, breach or default not expressly identified by such written waiver, whether of a similar or different character, and whether occurring before or after that waiver. No failure to exercise, or delay in exercising, any right, remedy, power, or privilege arising from this Agreement shall operate or be construed as a waiver thereof; nor shall any single or partial exercise of any right, remedy, power, or privilege hereunder preclude any other or further exercise thereof or the exercise of any other right, remedy, power, or privilege.

Section 11.10 Governing Law; Consent to Jurisdiction and Venue; Waiver of Jury Trial.

(a) Except to the extent the mandatory provisions of the Bankruptcy Code apply, this Agreement shall be governed by, and construed in accordance with, the Laws of the State of Ohio applicable to contracts made and to be performed entirely in such state without regard to principles of conflicts or choice of Laws or any other Law that would make the laws of any other jurisdiction other than the State of Ohio applicable hereto.

(b) Without limitation of any Party's right to appeal any Order of the Bankruptcy Court, (i) the Bankruptcy Court shall retain exclusive jurisdiction to enforce the terms of this Agreement and to decide any claims or disputes which may arise or result from, or be connected with, this Agreement, any breach or default hereunder, or the transactions contemplated hereby and (ii) any and all claims relating to the foregoing shall be filed and maintained only in the Bankruptcy Court, and Parties hereby consent and submit to the exclusive jurisdiction and venue of the Bankruptcy Court and irrevocably waive the defense of an inconvenient forum to the maintenance of any such Proceeding; *provided, however*, that, if the Bankruptcy Case is closed, all Proceedings arising out of or relating to this Agreement shall be heard and determined in a Ohio state court or a federal court sitting in the State of Ohio, and the Parties hereby irrevocably submit to the exclusive jurisdiction and venue of such courts in any such Proceeding and irrevocably waive the defense of an inconvenient forum to the maintenance of any such Proceeding. Parties consent to service of process by mail (in accordance with Section 11.2) or any other manner permitted by law.

(c) THE PARTIES HEREBY IRREVOCABLY WAIVE ALL RIGHT TO TRIAL BY JURY IN ANY PROCEEDING OR COUNTERCLAIM (WHETHER BASED IN CONTRACT, TORT, OR OTHERWISE) ARISING OUT OF OR RELATING TO THIS AGREEMENT OR THE ACTIONS OF SELLER, BUYER, OR THEIR RESPECTIVE REPRESENTATIVES IN THE NEGOTIATION OR PERFORMANCE HEREOF.

Section 11.11 Specific Performance for Post-Closing Covenants. (a) Each Party recognizes that if such Party breaches or refuses to perform any such covenant, monetary damages alone would not be adequate to compensate the non-breaching Party or Parties for their injuries, (b) the non-breaching Party or Parties shall therefore be entitled, in addition to any other remedies that may be available, to obtain specific performance of the terms of such covenants, (c) if any Proceeding is brought by the non-breaching Party or Parties to enforce such covenants, the Party in breach shall waive the defense that there is an adequate remedy at law, (d) each Party agrees to waive any requirement for the security or posting of any bond in connection with any Proceeding seeking specific performance of such covenants, and (e) each Party agrees that the only permitted objection that it may raise in response to any action for specific performance of such covenants is that it contests the existence of a breach or threatened breach of such covenants.

Section 11.12 No Special Damages. Notwithstanding anything to the contrary set forth in this Agreement, no Party shall be liable to or otherwise responsible to any other Party

or any other Person for exemplary, punitive, consequential, indirect, incidental, or other special damages (including loss of revenue, income, or profits or loss in value of assets or securities) for any matter arising out of or relating to this Agreement or any other Transaction Document and the transactions contemplated hereby or thereby, regardless of how caused and regardless of the theory of recovery.

Section 11.13 Counterparts. This Agreement may be executed in counterparts, each of which shall be deemed an original, but all of which together shall be deemed to be one and the same agreement. A signed copy of this Agreement delivered by facsimile, e-mail or other means of electronic transmission shall be deemed to have the same legal effect as delivery of an original signed copy of this Agreement.

Section 11.14 Non-recourse. This Agreement may only be enforced against, and any claim, action, suit or other legal proceeding based upon, arising out of, or related to this Agreement, or the negotiation, execution or performance of this Agreement, may only be brought against the entities that are expressly named as Parties. No past, present or future director, officer, employee, incorporator, manager, member, partner, stockholder, Affiliate, agent, attorney or other Representative of any Party or of any Affiliate of any Party, or any of their successors or permitted assigns, shall have any liability for any obligations or liabilities of any Party under this Agreement or for any claim, action, suit, or other legal proceeding based on, in respect of or by reason of the transactions contemplated hereby.

[Signature Page Follows]

IN WITNESS WHEREOF, the Parties have caused this Agreement to be executed as of the date first written above by their respective officers thereunto duly authorized.

ACUSPORT CORPORATION

By: James Broering
Name: Jim Broering
Title: President and Chief Operating Officer

ELLETT BROTHERS, LLC

By: _____
Name: Bradley P. Johnson
Title: Chief Executive Officer

IN WITNESS WHEREOF, the Parties have caused this Agreement to be executed as of the date first written above by their respective officers thereunto duly authorized.

ACUSPORT CORPORATION

By: _____

Name: _____

Title: _____

ELLETT BROTHERS, LLC

By: _____

Name: Bradley P. Johnson

Title: Chief Executive Officer

Exhibit A

Borrowing Base Certificate



Date 4/26/18
 Name AcuSport Corporation

A/R As of: 4/25/18
 Inventory As of: 4/25/18

The undersigned, *AcuSport Corporation* ("Borrower"), pursuant to that certain Credit Agreement dated as of *June 4, 2015* (as amended, restated, modified, supplemented, refinanced, renewed, or extended from time to time, the "Credit Agreement"), entered into among Borrower, the lenders signatory thereto from time to time and Wells Fargo Bank, N.A. as the arranger and administrative agent (in such capacity, together with its successors and assigns, if any, "Agent"), hereby certifies to Agent that the following items, calculated in accordance with the terms and definitions set forth in the Credit Agreement for such items are true and correct, and that Borrower is in compliance with and, after giving effect to any currently requested Revolving Loans, will be in compliance with, the terms, conditions, and provisions of the Credit Agreement.

Accounts Receivable

Accounts Receivable Balance per Aging Report Assigned To Wells Fargo Capital Finance	20,512,642.15
Less Ineligibles (detailed on page 2)	6,764,226.46
Eligible Accounts Receivable	13,748,415.69
Accounts Receivable Availability before Sublimit(s)	11,686,153.34
Net Available Accounts Receivable after Sublimit(s)	11,686,153.34

Inventory

Inventory Balance Assigned To Wells Fargo Capital Finance	14,187,395.39
Less Ineligibles (detailed on page 3)	106,104.12
Eligible Inventory	14,081,291.27
Inventory Availability before Sublimit(s)	6,647,049.36
Available Inventory after Sublimit(s)	6,647,049.36

Summary & Other Assets

Total Revolver Collateral Availability		18,333,202.70
Revolver Availability before Reserves	Total Credit Line <u>48,000,000.00</u>	18,333,202.70
Reserves		
MTM Reserve		-
Rent Reserve		37,000.00
OH Use Tax Liability		82,000.00
Excess Slow Moving		-
Availability Block		1,500,000.00
AR Exceeding Sub-Limits		-
Total Reserves Calculated after the Credit Line		1,619,000.00
Total Revolver Availability after Reserves before Loan Balance and LCs		16,714,202.70
Letter of Credit Balance	As of: <u>4/25/18</u>	-
Revolver Loan Ledger Balance	As of: <u>4/25/18</u>	13,737,721.45
Revolver Net Availability		2,976,481.25
Term Loan		3,776,809.00
Total Loan Balance		17,514,530.45

Additionally, the undersigned hereby certifies and represents and warrants to the Lender Group on behalf of Borrower that (i) as of the date hereof, each representation and warranty contained in or pursuant to any Loan Document, any agreement, instrument, certificate, document or other writing furnished at any time under or in connection with any Loan Document, and as of the effective date of any advance, continuation or conversion requested above is true and correct in all material respects (except to the extent any representation or warranty expressly related to an earlier date), (ii) each of the covenants and agreements contained in any Loan Document have been performed (to the extent required to be performed on or before the date hereof or each such effective date), (iii) no Default or Event of Default has occurred and is continuing on the date hereof, nor will any thereof occur after giving effect to the request above, and (iv) all of the foregoing is true and correct as of the effective date of the calculations set forth above and that such calculations have been made in accordance with the requirements of the Credit Agreement.

Authorized Signer

Accounts Receivable Availability Detail

Name: AcuSport Corporation

Report based on Aging dated:

Report based on Aging dated:		4/25/18			
Loan ID #:		CRO00	CRO00	CRO00	
Division Name:		Range & New Cust Terms	Terms > 120 Days	Terms < 121 Days	Total
Aging Spreads:					
	Post dated	-	-	-	-
	0 - 30 DOI	13,771.25	(7,888.53)	5,452,510.62	5,458,393.34
	31 - 60 DOI	383,670.32	(22,897.81)	3,743,674.92	4,104,447.43
	61 - 90 DOI	578,011.46	(14,896.62)	2,798,174.78	3,361,289.62
	91 - 120 DOI	198,187.97	83,338.97	737,302.58	1,018,829.52
	121+ DOI	3,140,130.37	25,136.73	3,404,415.14	6,569,682.24
A/R Aging Balance:		4,313,771.37	62,792.74	16,136,078.04	20,512,642.15
Ineligibles:					
ERS	Past Due2-> 120 DOI or > 60 DPD for terms < 121; > 0 DPD for all others	1,246,551.88	39,645.23	3,485,951.76	4,772,148.87
ERS	Past Due Credits	5,995.29	17,760.08	2,484.70	26,240.07
ERS	CrossAge @-25%	184,565.95	967.84	1,077,106.98	1,262,640.77
ERS	Intercompany	-	20,887.87	15,850.69	36,738.56
ERS	Foreign	-	-	-	-
ERS	Government	-	-	1,707.35	1,707.35
ERS	COD	-	-	45,977.60	45,977.60
ERS	Debit Memo	178,367.89	138,398.39	140,868.71	457,634.99
ERS	Employee Sales	-	-	2,053.32	2,053.32
ERS	Progress Billing	-	-	-	-
ERS	Extended Terms > 210 for Range Terms, > 300 for New Cust & Terms > 120 (Excluding Vance & Fin Feather)	1,076.08	8,881.89	-	9,957.97
ERS	Finance Charges	-	-	-	-
ERS	Guaranteed	-	-	-	-
ERS	Samples	-	-	-	-
ERS	Consignment Sales	-	-	-	-
ERS	Bill & Hold	-	-	-	-
ERS	Bankrupt/Doubtful	-	-	-	-
ERS	Shortpay	-	-	15,849.47	15,849.47
ERS	Other1-Post Dated	-	-	-	-
ERS	Other2-VMI Accounts	-	-	-	-
ERS	Other3-Notes Receivable AR	-	-	81,141.87	81,141.87
ERS	Other4-Aesthetic Finishers AR	-	-	-	-
ERS	Other5-CDNN Sports Inc. (firearm liquidator)	-	-	-	-
ERS	Contra	-	(507.68)	26,643.30	26,135.62
ERS	Other6	-	-	-	-
ERS	Other7	-	-	-	-
ERS	Other8	-	-	-	-
Manual	Contra - O/S Checklist			20,000.00	20,000.00
Manual	Contra - Unvouchered AP GL #000200000200	1,000.00			1,000.00
Manual	Contra - Accrued Miscellaneous GL #000-2400-000-00	-			-
Manual	Deferred Revenue-Merchandising Software License Fee			5,000.00	5,000.00
Manual	Manual5				-
Manual	Manual6				-
Manual	Manual7				-
Manual	Concentration Cap	-			-
Manual	Reserve grossed up as Ineligible				-
Manual	Reserve grossed up as Ineligible				-
Manual	Reserve grossed up as Ineligible				-
Manual	Dilution Ineligible (grossed up)	-	-	-	-
Total Ineligible A/R:		1,617,557.09	226,033.62	4,920,635.75	6,764,226.46
Eligible A/R		2,696,214.28	(163,240.88)	11,215,442.29	13,748,415.69
Advance Rate		85%	85%	85%	
A/R Availability before Sublimit(s)		2,291,782.14	(138,754.75)	9,533,125.95	11,686,153.34
Line Limit or Sublimit(s)		7,000,000.00	3,000,000.00		
Net A/R Availability		2,291,782.14	(138,754.75)	9,533,125.95	11,686,153.34
AR Exceeding Sub-Limit		-	-		-

AR CONCENTRATIONS

AcuSport Corporation

As of: 4/25/2018

Consolidated

Consolidated												Ineligibles				
#	Customer Name Calc	% or \$ Allowed of Eligible AR	% of Eligible	% of AR	Total	Post dated	0 - 30 DOI	31 - 60 DOI	61 - 90 DOI	91 - 120 DOI	121+ DOI	Total	Eligible A/R	Conc Cap	Conc IE	% of Balance
1	TROP GUN SHOP LTD	10%	0%	16%	3,275,530.80	-	506,755.17	62,450.90	87,449.85	166,069.85	2,452,805.03	3,275,530.80	-	1,374,841.57	-	0%
2	TARGET SPORTS RETAIL LLC	10%	0%	3%	525,255.99	-	-	-	-	-	525,255.99	525,255.99	-	1,374,841.57	-	0%
3	FRONTIER JUSTICE	10%	3%	2%	426,688.16	-	20,783.98	7,194.78	692.58	19,059.98	378,956.84	60,195.59	366,492.57	1,374,841.57	-	0%
4	BIG R	10%	3%	2%	426,096.68	-	168,422.06	257,670.96	156.87	(184.29)	31.08	-	426,096.68	1,374,841.57	-	0%
5	MILLER JONAS DBA	10%	0%	2%	367,834.22	-	-	99,958.49	89.00	89.00	267,697.73	367,834.22	-	1,374,841.57	-	0%
6	POINT BLANK RANGE & GUN SHOP	10%	0%	2%	349,540.70	-	97,368.49	15,942.08	9,586.54	20,142.88	206,500.71	349,540.70	-	1,374,841.57	-	0%
7	TURNERS OUTDOORSMAN CORP OFFIC	10%	2%	1%	282,430.25	-	6,610.73	201,507.52	74,312.00	-	-	-	282,430.25	1,374,841.57	-	0%
8	BUCK DOES MERCANTILE LLC	10%	2%	1%	255,899.41	-	1,498.52	3,350.21	5,304.53	1,250.15	244,496.00	45,489.67	210,409.74	1,374,841.57	-	0%
9	SHEEPDOG FIREARMS LLC	10%	0%	1%	251,280.25	-	100.00	46,993.44	100.00	2,601.38	201,485.43	251,280.25	-	1,374,841.57	-	0%
10	KNOXVILLE OPERATIONS LLC DBA	10%	2%	1%	248,310.14	-	7,206.26	-	-	-	241,103.88	-	248,310.14	1,374,841.57	-	0%
Total Analyzed			11%	31%	6,408,866.60	-	808,745.21	695,068.38	177,691.37	209,028.95	4,518,332.69	4,875,127.22	1,533,739.38		-	

CONSOLIDATED TOTAL AR	100%	20,512,642.15	-	5,458,393.34	4,104,447.43	3,361,289.62	1,018,829.52	6,569,682.24

Remaining AR	69%	14,103,775.55	-	4,649,648.13	3,409,379.05	3,183,598.25	809,800.57	2,051,349.55

Ineligible AR Prior to Concentration Ineligible	6,764,226.46

Net Eligible AR Prior to Concentration Ineligible	13,748,415.69

Concentration Caps or Limits per LSA:

Names (Customer_Name_Calc)	% or Dollar Cap
All Others	10%

AR DILUTION

Per Field Exam

<i>Dilution Calculation Detail:</i>	<i>Range & New Cust Terms</i>	<i>Terms > 120 Days</i>	<i>Terms < 121 Days</i>
<i>Allowed Dilution</i>	5.0%	5.0%	5.0%
<i>Current Dilution (per Field Exam-Consolidated Method)</i>	1.7%	1.7%	1.7%
<i>Dilution Reserve %</i>	0.0%	0.0%	0.0%
<i>Eligible Receivables</i>	2,696,214.28	(163,240.88)	11,215,442.29
<i>Dilution Ineligible</i>	-	-	-
<i>Dilution Ineligible (grossed up)</i>	-	-	-
Lookback period per Credit Agreement	12	12	12
Field exam cutoff date	11/30/17	11/30/17	11/30/17

Inventory Availability Detail

Name: AcuSport Corporation

Based on the Inventory Perpetual dated:

4/25/18

Loan ID #:		CRO10	CRO11	CRO12	CRO13	CRO14	CRO15	CRO16	CRO17	Total
Inventory Category:		Ammunition	HandGuns	LongGuns	Other	Pending Putaway	6-9 Months From Receipt Date	9-12 Months From Receipt Date	Over 12 Months From Receipt Date	
ERS Inventory Total:		893,977.00	2,663,177.15	2,039,294.70	1,695,738.08		1,919,402.26	2,750,535.13	2,225,271.07	14,187,395.39
Manual Inventory Total:						-				-
Total Gross Inventory:		893,977.00	2,663,177.15	2,039,294.70	1,695,738.08	-	1,919,402.26	2,750,535.13	2,225,271.07	14,187,395.39
ERS	Books, Tapes, Software	-	-	-	-		41.66	847.00	-	888.66
ERS	Knives & Promotional Items	-	-	-	-		-	-	-	-
ERS	Inventory Subject to 503b9 Claims	-	-	-	8,215.46		-	-	-	8,215.46
ERS	Ineligible4	-	-	-	-		-	-	-	-
ERS	Ineligible5	-	-	-	-		-	-	-	-
ERS	Small Locations	-	-	-	-		-	-	-	-
ERS	Ineligible6	-	-	-	-		-	-	-	-
ERS	Ineligible7	-	-	-	-		-	-	-	-
ERS	Ineligible8	-	-	-	-		-	-	-	-
ERS	Ineligible9	-	-	-	-		-	-	-	-
ERS	Ineligible10	-	-	-	-		-	-	-	-
ERS	Ineligible11	-	-	-	-		-	-	-	-
ERS	Ineligible12	-	-	-	-		-	-	-	-
ERS	Ineligible13	-	-	-	-		-	-	-	-
ERS	Ineligible14	-	-	-	-		-	-	-	-
ERS	Ineligible15	-	-	-	-		-	-	-	-
Manual	Rebate Receivable GL #000120001200		97,000.00							97,000.00
Manual	Manual2									-
Manual	Manual3									-
Manual	Manual4									-
Manual	Manual5									-
Manual	Manual6									-
Manual	Manual7									-
Manual	Manual8									-
Manual	Manual9									-
Manual	Manual10									-
Manual	Manual11									-
Manual	Manual12									-
Manual	Reserve grossed up as Ineligible									-
Manual	Reserve grossed up as Ineligible									-
Manual	Reserve grossed up as Ineligible									-
Manual	Appraisal Reserve (grossed up)	-	-	-	-	-	-	-	-	-
Total Ineligible Inventory:		-	97,000.00	-	8,215.46	-	41.66	847.00	-	106,104.12
Eligible Inventory		893,977.00	2,566,177.15	2,039,294.70	1,687,522.62	-	1,919,360.60	2,749,688.13	2,225,271.07	14,081,291.27
Advance Rate		60.52%	60.52%	60.52%	60.52%	60.52%	53.40%	46.28%	0.00%	47.20%
Availability before Sublimit		541,034.88	1,553,050.41	1,234,181.15	1,021,288.69	-	1,024,938.56	1,272,555.67	-	6,647,049.36
Sublimits										18,000,000.00
Net Inventory Availability		541,034.88	1,553,050.41	1,234,181.15	1,021,288.69	-	1,024,938.56	1,272,555.67	-	6,647,049.36

Appraisal Review									
As of: <u>April 30, 2017</u>		Ammunition	HandGuns	LongGuns	Other	Pending Putaway	6-9 Months From Receipt Date	9-12 Months From Receipt Date	Over 12 Months From Receipt Date
Eligible Inventory per Appraisal		893,977.00	2,566,177.15	2,039,294.70	1,687,522.62	-	1,919,360.60	2,749,688.13	2,225,271.07
Appraised NOLV %		71.20%	71.20%	71.20%	71.20%	71.20%	71.20%	71.20%	0.00%
% times the NOLV		85%	85%	85%	85%	85%	75%	65%	85%
% of NOLV		60.52%	60.52%	60.52%	60.52%	60.52%	53.40%	46.28%	0.00%
Appraised Value		541,034.88	1,553,050.41	1,234,181.15	1,021,288.69	-	1,024,938.56	1,272,555.67	-
Appraisal Reserve		-	-	-	-	-	-	-	-
Appraisal Ineligible (grossed up)		-	-	-	-	-	-	-	-

Consolidated AR Past Due Analysis (per Credit Agreement)

AcuSport Corporation

As of: 4/25/18

		Currency: USD									
#	Customer Name Calc	% of Total PD	Total Balance	Post dated	0 - 30 DOI	31 - 60 DOI	61 - 90 DOI	91-120 DOI	121+ DOI	Total Past Due	Total ERS Ineligible
1	TROP GUN SHOP LTD	51%	3,275,530.80	-	506,755.17	62,450.90	87,449.85	166,069.85	2,452,805.03	2,454,165.16	3,275,530.80
2	TARGET SPORTS RETAIL LLC	11%	525,255.99	-	-	-	-	-	525,255.99	525,255.99	525,255.99
3	MILLER JONAS DBA	6%	367,834.22	-	-	99,958.49	89.00	89.00	267,697.73	267,786.73	367,834.22
4	POINT BLANK RANGE & GUN SHOP	4%	349,540.70	-	97,368.49	15,942.08	9,586.54	20,142.88	206,500.71	208,815.02	349,540.70
5	SHEEPDOG FIREARMS LLC	4%	251,280.25	-	100.00	46,993.44	100.00	2,601.38	201,485.43	204,086.81	251,280.25
6	CAPITAL AREA FIREARMS LLC	4%	169,195.66	-	-	-	-	-	169,195.66	169,195.66	169,195.66
7	BAYPORT HOLDINGS INC DBA	3%	153,361.29	-	-	-	-	-	153,361.29	153,361.29	153,361.29
8	SHOOTERS ALLEY LLC DBA	3%	127,280.07	-	-	-	-	-	127,280.07	127,280.07	127,280.07
9	DGS TOTAL RANGE LTD	1%	69,615.39	-	-	-	-	-	69,615.39	69,615.39	69,615.39
10	FRONTIER JUSTICE	1%	426,688.16	-	20,783.98	7,194.78	692.58	19,059.98	378,956.84	60,195.59	60,195.59
Total Analyzed		28%	5,715,582.53	-	625,007.64	232,539.69	97,917.97	207,963.09	4,552,154.14	4,239,757.71	5,349,089.96
Remaining AR		72%	14,797,059.62	-	4,833,385.70	3,871,907.74	3,263,371.65	810,866.43	2,017,528.10	532,391.16	1,389,136.50
Total AR		100%	20,512,642.15	-	5,458,393.34	4,104,447.43	3,361,289.62	1,018,829.52	6,569,682.24	4,772,148.87	6,738,226.46

Inventory by Location (Top 20)

AcuSport Corporation

	Period	Activity date	Location_calc	extended_value_calc
1	201804	20180425	One Hunter Place, Bellefontaine, OH 43311	13,711,152.62
2	201804	20180425	3015 South 1030 West, Salt Lake City, UT 84119-3355	476,242.77
3				
4				
5				
6				
7				
8				
9				
10				
11				
12				
13				
14				
15				
16				
17				
18				
19				
20				
Subtotal top 20				14,187,395.39
All others				-
Grand total inventory				14,187,395.39

Exhibit B

Sale Procedures Order

**IN THE UNITED STATES BANKRUPTCY COURT
FOR THE SOUTHERN DISTRICT OF OHIO
EASTERN DIVISION**

In re:	)	Chapter 11
	)	
AcuSport Corporation,	)	Case No. ____-____
	)	
Debtor.	)	Honorable _____

**ORDER (I) ESTABLISHING BIDDING
PROCEDURES FOR THE SALE OF CERTAIN
OF DEBTOR’S ASSETS; (II) APPROVING BREAK-UP FEE;
(III) ESTABLISHING PROCEDURES RELATING TO THE ASSUMPTION
AND ASSIGNMENT OF EXECUTORY CONTRACTS AND UNEXPIRED
LEASES; (IV) APPROVING FORM AND MANNER OF THE SALE, CURE, AND
OTHER NOTICES; AND (V) ESTABLISHING AUCTION AND HEARING DATES**

Upon the motion [Docket No. ____] (the “**Motion**”)¹ for entry of an order (this “**Order**” or the “**Bidding Procedures Order**”): (i) establishing bidding procedures, which are attached as Exhibit 1 hereto (the “**Bidding Procedures**”), to be employed in connection with the proposed sale (the “**Sale**”) of certain of Debtor’s assets (the “**Proposed Sale Assets**”); (ii) approving the form of Asset Purchase Agreement, dated as of April 30, 2018, by and between Debtor and Ellet Brothers, LLC (“**Buyer**”), including the proposed break-up fee and expense reimbursement, together with all related documents and agreements as well as all exhibits, schedules, and addenda thereto (the “**Stalking Horse APA**”); (iii) establishing procedures relating to the assumption and assignment of executory contracts and unexpired leases (the “**Assumption and Assignment Procedures**”); (iv) approving the form and manner of the sale, cure, and other notices; and (v) establishing auction and hearing dates (collectively, the “**Bidding Procedures Relief**”); and the Court having considered the Motion and the arguments of counsel made at the hearing on the Motion (the “**Bidding Procedures Hearing**”); and due and sufficient notice of the Bidding Procedures Hearing and the relief sought therein having been given under the particular

¹ Capitalized terms, unless otherwise defined herein, shall have the meanings ascribed to them in the Motion.

circumstances; and it appearing that no other or further notice need be provided; and the Court having reviewed the Motion and all objections thereto (the “**Objections**”) and it appearing that the Bidding Procedures Relief requested in the Motion is in the best interest of Debtor, its estate, its creditors and other parties in interest; and after due deliberation thereon and good and sufficient cause appearing therefor, it is hereby,

FOUND AND DETERMINED THAT:

A. This Court has jurisdiction to consider the Motion pursuant to 28 U.S.C. §§ 157 and 1334. This is a core proceeding pursuant to 28 U.S.C. § 157(b). Venue of this case and this Motion in the Southern District of Ohio is proper pursuant to 28 U.S.C. §§ 1408 and 1409. The statutory and legal predicates for the relief requested in this Motion are sections 105, 363, 364, 365, and 503 of title 11 of the United States Code (the “**Bankruptcy Code**”), rules 2002, 6004, and 6006 of the Federal Rules of Bankruptcy Procedure (the “**Bankruptcy Rules**”), and rule 6004-1 of the Local Rules of Bankruptcy Procedure for the Southern District of Ohio (the “**Local Rules**”).

B. The relief granted herein is in the best interests of Debtor, its estate and creditors, and other parties in interest.

C. Debtor has articulated good and sufficient business reasons for the Court to (i) approve the form of Stalking Horse APA and Buyer as the Stalking Horse Bidder, (ii) approve the Bidding Procedures, the Break-up Fee and Expense Reimbursement, the Assumption and Assignment Procedures, the form and manner of notice as set forth in the Motion, the Auction, and the Sale Hearing as set forth herein, (iii) set the date for the Auction, the Sale Hearing, and the other dates set forth herein, and (iv) grant the relief requested in the Motion as provided herein.

D. Due, sufficient and adequate notice of the Bidding Procedures Hearing and the

relief granted in this Order has been given in light of the circumstances and the nature of the relief requested, and no other or further notice thereof is required. Debtor's notice of the Motion and the relief requested in the Motion for which approval was sought at the Bidding Procedures Hearing is appropriate and reasonably calculated to provide all interested parties with timely and proper notice under Bankruptcy Rules 2002, 4001, 6004, and 6006, and no other or further notice of, or hearing on, this Order and that portion of the Motion being approved hereby is required.

E. Debtor's proposed notice of the Sale, the Cure Notice, and other notices contemplated hereunder with respect to the Sale, the Auction, the Assumption and Assignment Procedures, and the Sale Hearing are appropriate and reasonably calculated to provide all interested parties with timely and proper notice thereof and no further notice of each is necessary or required.

F. The Bidding Procedures, substantially in the form attached hereto as Exhibit 1, and incorporated herein by reference as if fully set forth herein, and the Break-up Fee and Expense Reimbursement are fair, reasonable, and appropriate, were negotiated in good faith by Debtor and Proposed Purchaser and represent the best method for maximizing the value of Debtor's estates in connection with the Sale.

G. The Break-up Fee and Expense Reimbursement, to the extent payable under the Stalking Horse APA, (i) shall be deemed an actual and necessary cost of preserving Debtor's estate within the meaning of section 503(b) of the Bankruptcy Code, (ii) are of substantial benefit to Debtor's estate, (iii) are reasonable and appropriate, including in light of the size and nature of the transactions and the efforts that have been and will be expended by Proposed Purchaser, (iv) have been negotiated by the parties and their respective advisors at arm's length and in good faith, and (v) are necessary to ensure that Proposed Purchaser will continue to pursue the proposed Sale of the Proposed Sale Assets. The Break-up Fee and Expense Reimbursement are

material inducements for, and a condition of, Proposed Purchaser's entry into the Stalking Horse APA. Proposed Purchaser is unwilling to commit to purchase the Proposed Sale Assets under the terms of the Stalking Horse APA unless Proposed Purchaser receives the Break-up Fee and Expense Reimbursement.

IT IS, THEREFORE, ORDERED, ADJUDGED, AND DECREED THAT:

1. The Motion is GRANTED as set forth herein.
2. Any objection to the Motion, to the extent not resolved, waived, or withdrawn, and all reservations of rights included therein, is hereby overruled and denied on the merits.
3. The Bidding Procedures, including references therein to the Stalking Horse APA, are hereby APPROVED and shall apply with respect to the proposed Sale and the assumption and assignment of contracts and unexpired leases contemplated by the Motion. Debtor is authorized to take any and all actions necessary or appropriate to implement the Bidding Procedures.
4. As it relates to the Proposed Sale Assets, the form of Stalking Horse APA is approved. Buyer is approved as the Stalking Horse Bidder.

Auction and Bidding Procedures

5. Debtor is authorized (a) to conduct an auction (the "**Auction**") with respect to the Proposed Sale Assets and/or particular lots of Debtor's assets. The Auction, if any, shall be conducted on May 31, 2018, at the offices of Allen Kuehnle Stovall & Neuman LLP, 17 South High Street, Suite 1220, Columbus, Ohio 43215 (the "**Auction Site**"), or such other place and time as Debtor shall notify all Qualified Bidders who have submitted Qualified Bids and expressed their intent to participate in the Auction. Debtor is authorized, subject to the terms of this Bidding Procedures Order, to take all actions necessary, in the discretion of Debtor, to conduct and implement such Auction.

6. Debtor may (a) select, in its business judgment, pursuant to the Bidding Procedures, the highest or otherwise best offer(s) and the Successful Bidder or Bidders, and (b) reject any bid that, in Debtor's business judgment, is (i) inadequate or insufficient, (ii) not in conformity with the requirements of the Bankruptcy Code, the Bankruptcy Rules or the Bidding Procedures, or (iii) contrary to the best interests of Debtor and its estate, creditors, interest holders or parties in interest.

7. The failure to specifically include or reference any particular provision, section or article of the Bidding Procedures in this Bidding Procedures Order shall not diminish or impair the effectiveness of such procedures, it being the intent of this Court that the Bidding Procedures be authorized and approved in their entirety.

8. Proposed Purchaser is deemed a Qualified Bidder, and the bid of Proposed Purchaser for the Proposed Sale Assets is deemed a Qualified Bid. In the event there are no other Qualifying Bids, the Debtor shall accept the bid of the Proposed Purchaser.

9. Debtor shall return the Deposit (as defined in the Stalking Horse APA) to Proposed Purchaser and pay to Proposed Purchaser the Break-up Fee and Expense Reimbursement, as applicable, as and when provided for pursuant to the terms of the Stalking Horse APA.

Additional Notice Provisions

10. Within one (1) business day after the entry of this Bidding Procedures Order (the "**Mailing Date**") or as soon thereafter as practicable, the Debtor shall serve a copy of this Bidding Procedures Order, along with the Bidding Procedures attached hereto as Exhibit 1, by first-class mail, postage prepaid, upon (a) the Office of the United States Trustee for the Southern District of Ohio; (b) Debtor's twenty (20) largest unsecured creditors; and (c) the agent for the Debtor's primary secured lender group, Wells Fargo Bank, National Association; and (d)

all other parties requesting notice in the Case (collectively, “***Sale Notice Parties***”). Except for the required notice expressly provided in this paragraph, Debtor shall not be required to provide any further notice of the Motion and/or the relief requested therein, the Bidding Procedures, this Bidding Procedures Order, the Auction, or the relevant dates and deadlines with respect to the foregoing.

Assumption and Assignment Procedures

11. The Assumption and Assignment Procedures are hereby APPROVED.

12. Within five (5) business days after the entry of this Bidding Procedures Order or as soon as practicable thereafter, Debtor will file with this Court and serve the Cure Notice on each counterparty to an executory contract or unexpired lease related to the Proposed Sale Assets, which Cure Notice shall: (a) state the amounts necessary to cure defaults, if any, that Debtor believes are necessary to assume such contracts or leases in accordance with Section 365 of the Bankruptcy Code (the “***Cure Amounts***”); (b) notify the non-Debtor counterparty that such party’s contracts or leases may be assumed and assigned to Successful Bidder of the Proposed Sale Assets at the conclusion of the Auction; (c) state the date of the Sale Hearing and that objections to any of the Cure Amounts or to assumption and assignment will be heard at the Sale Hearing, or at a later hearing, as determined by Debtor; and (d) state the deadline by which the non-Debtor counterparty shall file an objection to the Cure Amounts or to the assumption and assignment of applicable contracts or leases; provided, however, that the inclusion of a contract, lease, or agreement on the Cure Notice shall not constitute an admission that such contract, lease, or agreement is an executory contract or unexpired lease or that it will, in fact, be assumed and/or assigned. Debtor reserves all rights, claims, and causes of action with respect to the contracts, leases, and agreements listed on the Cure Notice.

13. Any objection to the Cure Amounts or the assumption and assignment of the

applicable contracts or leases must be filed with the Court and served so as to be received by:

(a) the Office of the United States Trustee for the Southern District of Ohio; (b) Debtor's twenty (20) largest unsecured creditors or counsel to the official committee of unsecured creditors appointed in this Case, if applicable; (c) the agent for Debtor's primary secured lender group, Wells Fargo Bank, National Association; (d) counsel for Debtor; (e) counsel for the Proposed Purchaser; and (f) all other parties requesting notice in the Case (collectively, "**Cure Notice Parties**"). Any such objection must also state (x) the basis for such objection and (y) with specificity what Cure Amount the non-Debtor counterparty to the relevant executory contracts or unexpired leases believes is required (in all cases with appropriate documentation in support thereof).

14. Any objection solely to the Cure Amounts, or any subset thereof, may not prevent or delay Debtor's assumption and assignment of assumed and assigned contracts or leases. If an entity objects solely to one or more Cure Amounts, Debtor may, with the consent of the relevant Successful Bidder, hold the total amounts claimed by such objecting non-Debtor counterparty in reserve pending further order of the Court or mutual agreement of the parties. So long as the applicable amount is held in reserve, and if there are no other unresolved objections to assumption and assignment of the applicable assumed and assigned contract or lease, Debtor may, without further delay, assume and assign such contract or lease. Under such circumstances, the objecting non-Debtor counterparty's recourse is limited to funds held in reserve.

15. If no objection to the Cure Amounts is timely received on or before May 30, 2018, the Cure Amounts set forth on the Cure Notice shall be controlling notwithstanding anything to the contrary in any assigned contract or lease or other document as of the date of the Cure Notice.

16. On or before June 1, 2018, each Successful Bidder shall provide to Debtor a list

of those executory contracts and unexpired leases that the Successful Bidder elects to have assumed and assigned (the “**Buyer Designated Contracts**”) to such Successful Bidder at closing pursuant to Section 365 of the Bankruptcy Code.

17. On or before June 1, 2018, Debtor shall file with the Court: (a) the list of Buyer Designated Contracts, and (b) a description of each Successful Bidder and information as to each Successful Bidder’s ability to perform Debtor’s obligations under Buyer Designated Contracts.

18. To the extent that any non-Debtor counterparty wishes to object to the adequate assurance of future performance by any Successful Bidder under any applicable executory contract or unexpired lease, then such non-Debtor counterparty shall file a written objection with the Court and serve on the Cure Notice Parties and the applicable Successful Bidder so that such objection is received no later than June 4, 2018.

19. To the extent that any non-Debtor counterparty does not timely file and serve an objection as set forth above herein, such counterparty will be: (a) deemed to have consented to the Cure Amounts, if any, set forth in the Cure Notice; (b) barred, estopped, and enjoined from asserting any additional Cure Amounts under any assumed and assigned executory contracts or unexpired leases; (c) barred from objecting to the assumption and assignment of the applicable assumed and assigned executory contracts or unexpired leases to Successful Bidder; and (d) barred from objecting to adequate assurance of future performance by the assignee.

Additional Provisions

20. Debtor is authorized and empowered to take such actions as may be necessary to implement and effect the terms and requirements established under this Bidding Procedures Order.

21. A Sale Hearing to approve the Sale to any Successful Bidder, free and clear of all interests, shall be held on June 5, 2018, unless otherwise continued upon request of Debtor.

22. Objections, if any, to any Sale must be filed with this Court by May 31, 2018 and served by mail upon counsel for the Debtor.

23. This Bidding Procedures Order shall be binding on and inure to the benefit of Debtor, including any chapter 7 or chapter 11 trustee or other fiduciary appointed for the estate of Debtor.

24. This Bidding Procedures Order shall constitute the findings of fact and conclusions of law of this Court.

25. Notwithstanding the possible applicability of Bankruptcy Rules 6004(h), 7062, 9014, or otherwise, this Court, for good cause shown, orders that the terms and conditions of this Bidding Procedures Order shall be immediately effective and enforceable upon its entry.

26. The requirement set forth in Rule 9013-1(a) of the Local Bankruptcy Rules for the Southern District of Ohio that any motion or other request for relief be accompanied by a memorandum of law is hereby deemed satisfied by the contents of the Motion or otherwise waived.

27. This Court shall retain jurisdiction with respect to all matters arising from or related to the implementation or interpretation of this Bidding Procedures Order, including, but not limited to, any matter, claim or dispute arising from or relating to the Bidding Procedures and the implementation of this Bidding Procedures Order.

IT IS SO ORDERED.

Submitted By:

/s/

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*Proposed Counsel for Debtor and
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EXHIBIT 1

Bidding Procedures

[attached]

Bidding Procedures

Set forth below are the bidding procedures (the “**Bidding Procedures**”) to be employed with respect to the sale (the “**Sale**”) of the assets (the “**Assets**”) of AcuSport Corporation, debtor and debtor in possession (“**Debtor**”) in the chapter 11 case pending in the U.S. Bankruptcy Court for the Southern District of Ohio (the “**Bankruptcy Court**”) under Case Number [____].

On May 1, 2018, Debtor filed a *Motion for an Order (I) Establishing Bidding Procedures for the Sale of Certain of Debtor’s Assets; (II) Approving Break-up Fee; (III) Establishing Procedures Relating to the Assumption and Assignment of Executory Contracts and Unexpired Leases; (IV) Approving Form and Manner of the Sale, Cure and Other Notices; and (V) Establishing Auction and Hearing Dates* (the “**Bidding Procedures Motion**”) (Dkt. No. ____). On _____, 2018, the Bankruptcy Court entered an order approving the Bidding Procedures set forth herein (the “**Bidding Procedures Order**”). The Bidding Procedures Order also set June 5, 2018 as the date and time the Bankruptcy Court will conduct a sale hearing (the “**Sale Hearing**”). At the Sale Hearing, Debtor shall seek entry of an order from the Bankruptcy Court authorizing and approving the Sale of certain of the Assets to Ellet Brothers, LLC (“**Proposed Buyer**”), pursuant to the terms of that certain Asset Purchase Agreement, dated as of April 30, 2018, by and between Debtor and Proposed Buyer (together with all related documents and agreements as well as all exhibits, schedules, and addenda thereto, the “**Stalking Horse APA**”)² or another Qualified Bidder (as defined below) that Debtor determines to have made the highest or best offer for such Assets.

Assets to be Sold

Debtor is offering for sale the Assets and Qualified Bidders may submit bids for substantially all or certain of the Assets.

The Bidding Process

Debtor and its advisors, after consultation with Debtor’s secured lenders, shall (i) determine whether any person is a Qualified Bidder, (ii) coordinate the efforts of Qualified Bidders in conducting their due diligence investigations, (iii) receive offers from Qualified Bidders, and (iv) negotiate any offers made to purchase the Assets (collectively, the “**Bidding Process**”). Debtor, after consultation with Debtor’s secured lenders, shall have the right, in the exercise of its fiduciary duties, to adopt such other rules for the Bidding Process (including rules that may depart from those set forth herein) that will better promote the goals of the Bidding Process.

² For purposes of the Stalking Horse APA, the value of Debtor’s inventory as of the closing shall be calculated using the advance rate methodology as set forth on Debtor’s borrowing base certificate pursuant to its senior secured lending facility provided as of Closing, consistent with the calculation of the value of Inventory (as defined in the Stalking Horse APA) as set forth on the borrowing base certificate attached as Exhibit A to the Stalking Horse APA.

Participation and Bid Requirements

Any person that wishes to participate in the Bidding Process (a “**Potential Bidder**”) must become a “Qualified Bidder” (defined below). As a prerequisite to becoming a Qualified Bidder, a Potential Bidder must deliver (unless previously delivered) the following materials (a “**Bid**”) to the Debtor and to Debtor’s counsel at the addresses specified below, by the Bid Deadline (as defined below):

- i. Each Bid must include the amount of the proposed cash purchase price. Each Bid must also include an estimation of the total value ascribed to such Bid by the Potential Bidder, taking into account cash and, if applicable, any non-cash contributions to the value of such bid (the “**Proposed Bid Value**”); provided that no Proposed Bid Value shall be binding on Debtor, its secured lenders, any creditors committee, or any of their professional advisors in connection with their evaluation of the value provided to Debtor, its estate, and its constituents by such Bid.
- ii. Each Bid for all or substantially all of Debtor’s assets or for the Proposed Sale Assets as defined in the Stalking Horse APA must have a cash purchase price equal to or greater than \$7,750,000.00 plus the Estimated Inventory Purchase Price (as defined below) plus \$800,0000 (representing the Break-Up Fee and Expense Reimbursement) plus \$100,000 (the “**Minimum Bid Amount**”).
- iii. Each Bid must be accompanied by a cash deposit in the amount of five percent (5%) of the Proposed Bid Value designated by such Potential Bidder (the “**Bid Deposit**”). The Bid Deposit shall be disbursed only as follows: (a) if the Qualified Bidder becomes the Successful Bidder, its Bid Deposit will be applied to the purchase price, or as otherwise provided under any letter of intent between Debtor and such Successful Bidder, and (b) if such Qualified Bidder is not the Successful Bidder at the Auction, then its Bid Deposit shall be returned to it (subject to the other provisions of these Bidding Procedures and the terms of its letter of intent with Debtor).
- iv. Each Bid must be based on the form of Stalking Horse APA attached to the Bidding Procedures Motion, and must include binding, executed transaction documents, signed by an authorized representative of such Potential Bidder, pursuant to which the Potential Bidder proposes to effectuate the purchase some or all of the Proposed Sale Assets. Each Bid must also include a copy of such Bidder’s proposed form of asset purchase agreement (including all exhibits thereto) (a “**Counter APA**”) marked against the Stalking Horse APA to show all changes requested by the Bidder (including those related to purchase price and to remove any provisions that apply only to a Stalking Horse Bidder, if applicable). Each Bidder’s Bid and Counter APA must clearly and specifically explain which of the Assets are included in such Bid.

- v. Each Bid must be for (a) all or substantially all of Debtor's Assets; (b) the Proposed Sale Assets as set forth in the Stalking Horse APA; or (c) other specifically identified assets or combinations of assets of Debtor. All lots shall be determined by Debtor (in consultation with its secured lenders and its professional advisors) and shall be announced to all Potential Bidders and other interested parties.
- vi. Each Bid must identify the executory contracts and unexpired leases with respect to which the Potential Bidder seeks assignment from Debtor.
- vii. Each Bid must identify all liabilities that the Potential Bidder proposes to assume.
- viii. Each Bid must include written evidence demonstrating appropriate corporate authorization to consummate the proposed transaction; provided that, if the Potential Bidder is an entity specially formed for the purposes of effectuating the transaction, then the Bidder must furnish written evidence of the approval of the transaction by the equity holder or holders of such Potential Bidder.
- ix. Each Bid must fully disclose the identity of each entity that will be bidding on Debtor's assets, including any equity holders in the case of a Potential Bidder that is an entity specially formed for the purpose of effectuating the contemplated transaction, or otherwise participating in connection with such Bid, and the complete terms of any such participation, including any agreements, arrangements, or understandings concerning a collaborative or joint bid or any other combination concerning the proposed Bid. Each Bid must also fully disclose any connections or agreements with Debtor, the Stalking Horse Purchaser, or any other known, potential, prospective Potential Bidder, or any officer, director, or equity security holder of Debtor.
- x. Each Bid must include written evidence that Potential Bidder has the necessary financial ability to close the proposed transaction, including compliance with Section 365 of the Bankruptcy Code, including providing adequate assurance of future performance under all contracts and leases to be assumed and assigned.
- xi. Each Bid must set forth each regulatory and third-party approval required for the Potential Bidder to consummate the proposed transaction and the time period within which the Potential Bidder expects to receive such regulatory and third-party approvals.
- xii. Each Bid must provide the identity and contact information for the Potential Bidder and full disclosure of any affiliates of the Potential Bidder. The Potential Bidder submitting the Bid must have complied with reasonable requests for additional information and due diligence access from Debtor to the reasonable satisfaction of Debtor.
- xiii. The Bid may not be conditioned on obtaining financing, internal approvals, or due diligence time or cost requirements of any kind, provided that a Bid may be subject to the satisfaction of specific conditions in all material respects at closing.

- xiv. Each Bid must be irrevocable until seven (7) business days after the Sale Hearing; provided that if the Potential Bidder submitting such Bid becomes a Successful Bidder or a Back-up Bidder, such Bid shall continue to remain irrevocable until after the closing of the proposed transaction.
- xv. The Bid must not entitle the Potential Bidder to any break-up fee or transaction fee, expense reimbursement, termination, or similar type of fee or payment. By submitting a Bid, a Potential Bidder waives the right to pursue a substantial contribution claim under Section 503 of the Bankruptcy Code related in any way to the submission of its Bid or participation in any Auction.
- xvi. Each Bid must include a commitment to close the proposed transaction by no later than July 6, 2018.

A “**Qualified Bidder**” is a Potential Bidder that delivers the documents described in subparagraph (i) – (xvi) above, and that Debtor determines is reasonably likely (based on financial information submitted by the Bidder, the availability of financing, experience and other consideration deemed relevant by Debtor) to submit a *bona fide* offer and be able to consummate a sale if selected as the Successful Bidder for the Proposed Sale Assets or other assets subject to such Bid (such Bid, a “**Qualified Bid**”). Prior to the Auction, Debtor shall notify each Potential Bidder whether Debtor has determined that such Bidder is a Qualified Bidder. Notwithstanding anything herein to the contrary, the Stalking Horse Bidder shall be a Qualified Bidder.

Due Diligence

Any person that wishes to participate in the Bidding Process must be a Qualified Bidder. Neither the Debtor nor its representatives shall be obligated to furnish information of any kind whatsoever to any person that is not determined to be a Qualified Bidder. The Debtor will afford any Qualified Bidder the time and opportunity to conduct reasonable due diligence; provided, however, that the Debtor shall not be obligated to furnish any due diligence information after the Bid Deadline. The Debtor will designate an employee or other representative to coordinate all reasonable requests for additional information and due diligence access from such Qualified Bidders. Neither the Debtor nor any of their respective representatives are obligated to furnish any information to any person other than a Qualified Bidder.

Bid Deadline

A Potential Bidder that desires to make a Bid shall deliver written copies of its Bid to Huron Transaction Advisory, LLC and Bryan Cave Leighton Paisner LLP not later than 4:00 p.m. (Eastern Time) on May 29, 2018. Bids shall be provided by email to Geoffrey Frankel, Huron Transaction Advisory, LLC, at gfrankel@hurontransactionadvisory.com, and Jason DeJonker, Bryan Cave Leighton Pasiner LLP, at jason.dejonker@bclplaw.com. In the event that a bid is determined to be a Qualified Bid, Debtor shall deliver a copy of any such Qualified Bid to the Stalking Horse Purchaser via email.

“As Is, With All Faults”

The Sale shall be on an “as is” and “with all faults” basis and without representations, warranties, or guarantees, express, implied or statutory, written or oral, of any kind, nature, or description by Debtor, its agents, its representatives or its estate. By submitting a bid, each Qualified Bidder shall be deemed to acknowledge and represent that it has had an opportunity to conduct any and all due diligence regarding the Assets prior to making its offer, that it has relied solely upon its own independent review, investigation and/or inspection of any documents and/or the Assets in making its bid, and that it did not rely upon any written or oral statements, representations, warranties, or guarantees, express, implied, statutory or otherwise, regarding the Assets, the financial performance of the Assets or the physical condition of the Assets, or the completeness of any information provided in connection therewith or the Auction, except as expressly stated in these Bidding Procedures or any letter of intent entered into with any respective Successful Bidder (defined below).

Free of Any and All Interests

All of Debtor’s right, title and interest in and to the Assets shall be sold free and clear of any pledges, liens, security interests, encumbrances, claims, charges, options and interests thereon (collectively, the “**Interests**”) to the maximum extent permitted by section 363 of the Bankruptcy Code, with such Interests to attach to the net proceeds of the Sale of the Assets with the same validity and priority as such Interests applied against the Assets.

The Auction and Auction Procedures

If a Qualified Bid, other than that submitted by the Stalking Horse Purchaser, has been received by Debtor, Debtor may conduct an auction (the “**Auction**”) with respect to the Proposed Sale Assets and/or particular lots of the Assets. The Auction shall be conducted at the offices of Allen Kuehnle Stovall & Neuman LLP, 17 South High Street, Suite 1220, Columbus, Ohio 43215 (the “**Auction Site**”) on May 31, 2018 at 10:00 a.m. EDT, or such other place and time as Debtor shall notify all Qualified Bidders who have submitted Qualified Bids and expressed their intent to participate in the Auction as set forth above.

Except as otherwise provided herein, based upon the terms of the Qualified Bids received, the number of Qualified Bidders participating in the Auction, and such other information as Debtor determines is relevant, Debtor may conduct the Auction in any manner that it determines will achieve the maximum value for the Assets. Debtor thereafter may offer the Proposed Sale Assets in such successive rounds as Debtor determines to be appropriate so as to obtain the highest or otherwise best bid or combination of bids for the Assets. Except as otherwise provided herein, Debtor also may set opening bid amounts in each round of bidding as Debtor determines to be appropriate.

If Qualified Bidders submit additional bids at the Auction (such bid, an “**Overbid**”), Debtor shall review each Overbid on the basis of the financial and contractual terms and the factors relevant

to the sale process, including those factors affecting the speed and certainty of consummating the proposed transaction. Debtor may consult with Debtor's professionals with respect to the consideration of the value or other attribute or attributes of each Overbid.

As soon as practicable after the conclusion of the Auction, Debtor shall (x) review each Qualified Bid and Overbid on the basis of the financial and contractual terms and the factors relevant to the sale process, including those factors affecting the speed and certainty of consummating the proposed transaction, and (y) identify the highest or otherwise best offers for the Proposed Sale Assets or relevant portions thereof (to the extent any such bid is acceptable to Debtor, each a "**Successful Bid**" and each Qualified Bidder making such bid, a "**Successful Bidder**"). At the Sale Hearing, Debtor may present any Successful Bids and Back-up Bids (as defined below) to the Court for approval. Debtor reserves all rights not to submit any bid which is not acceptable to Debtor for approval to the Court. Debtor acknowledges that the Bid of Stalking Horse Bidder, if applicable, is a Qualified Bid and shall be submitted to the Court for approval in the event that there are no other Successful Bids. Except as otherwise provided herein, Debtor, in the exercise of its fiduciary duties, may adopt rules for bidding at the Auction that, in its business judgment, will better promote the goals of the bidding process, the Bankruptcy Code or any order of the Court entered in connection herewith.

If an Auction is conducted, a Qualified Bidder other than the Successful Bidder that submits the next highest or otherwise best Bid at the Auction for the Proposed Sale Assets or relevant portions thereof, as determined by Debtor in the exercise of its business judgment and in consultation with its professional advisors and its secured lenders, shall be designated as a back-up bidder (a "**Back-up Bidder**" and such bid, a "**Back-up Bid**"). Each Back-up Bidder shall be required to keep its initial Bid (or if such Back-up Bidder submitted one or more subsequent bids at the Auction, the Back-up Bidder's Overbid) open and irrevocable until after the closing of the relevant transaction with the Successful Bidder with respect to such assets.

If no Qualified Bids other than the Qualified Bid of the Stalking Horse Bidder are submitted by the Bid Deadline, Debtor shall cancel the Auction and shall accept the bid of the Qualified Bidder (in which case, such Qualified Bid shall be the Successful Bid and the Stalking Horse Bidder shall be the Successful Bidder).

Minimum Bid Increment

There shall be a minimum bid increment of at least \$100,000.00 for all bids made by Qualified Bidders in respect of Bids for the Proposed Sale Assets as a whole (the "**Minimum Bid Increment**"). Debtor reserves the right to set similar Minimum Bid Increments for portions or lots of the Proposed Sale Assets, as may be appropriate under the circumstances, in Debtor's discretion. All overbids must be made in cash, provided that the value of any overbid not made in cash (but via, *inter alia*, the assumption of debt obligations of Debtor) shall be determined by Debtor in its sole discretion (in consultation with its professional advisors and secured lenders).

Initial Overbid Amount

There shall be an initial overbid amount that a Qualified Bidder for the Proposed Sale Assets as a whole (other than the Stalking Horse Bidder) must bid in excess of the Stalking Horse Purchase Price to exceed the Stalking Horse Purchase Price (the “***Initial Overbid Amount***”), defined as the sum of (i) the amount of the Break-up Fee and Expense Reimbursement; plus (ii) the Minimum Bid Increment. No later than two business days prior to the Bid Deadline, Debtor shall (in consultation with its secured lenders and professional advisors) circulate the then-current amount of the Inventory Value (as defined in the Stalking Horse APA) by writing to each Potential Bidder. The amount set forth in such notice shall be the “***Estimated Inventory Value***” for purposes of those parties wishing to be a Qualified Bidder.

Acceptance of Qualified Bids

Debtor shall sell the Assets to any Successful Bidder only upon the approval of a Successful Bid by the Bankruptcy Court after the Sale Hearing. Debtor’s presentation of a particular Qualified Bid to the Bankruptcy Court for approval does not constitute Debtor’s acceptance of the bid. Debtor will be deemed to have accepted a bid only when the bid has been approved by the Bankruptcy Court at the Sale Hearing.

Sale Hearing

A Sale Hearing is scheduled for June 5, 2018 with Objections to the Sale of the Property to be filed on or before 4:00 p.m. (prevailing Eastern time) on May 31, 2018. Following the approval of the Sale of the Assets to any Successful Bidder at the Sale Hearing other than the Proposed Buyer, if the Successful Bidder fails to consummate an approved Sale within ten (10) days following the Sale Hearing, Debtor shall be authorized, but not required, to deem the Back-up Bid as the Successful Bid, and Debtor shall be authorized, but not required, to consummate the Sale of the Assets with the Back-up Bidder without further order of the Bankruptcy Court. Debtor, in the exercise of its business judgment, reserves its right to change the date of the Sale Hearing in order to achieve the maximum value for the Assets.

Modifications

Debtor may (a) determine which Qualified Bid, if any, is the highest or otherwise best offer; and (b) reject at any time before entry of an order of the Bankruptcy Court approving a Qualified Bid, any bid that is (i) inadequate or insufficient, (ii) not in conformity with the requirements of the Bankruptcy Code, the Bidding Procedures, or the terms and conditions of sale, or (iii) contrary to the best interests of Debtor, its estate and creditors.

Miscellaneous

The Auction and Bidding Procedures are solely for the benefit of Debtor and the Stalking Horse Bidder and nothing contained in the Bidding Procedures Order or Bidding Procedures shall

create any rights in any other person or bidder (including without limitation rights as third party beneficiaries or otherwise) other than the rights expressly granted to a Successful Bidder under the Bidding Procedures Order.

By submitting a Proposed Bid, each Proposed Bidder shall be deemed to have accepted these Bidding Procedures and the Bidding Procedures Order, including, without limitation, Debtor's right, in consultation with its secured lenders and professional advisors, to identify and designate the highest or otherwise best offers for the Proposed Sale Assets or relevant portions thereof.

Except as provided in the Bidding Procedures Order and Bidding Procedures, the Bankruptcy Court shall retain jurisdiction to hear and determine all matters arising from or relating to the implementation of the Bidding Procedures Order.

AMENDMENT TO ASSET PURCHASE AGREEMENT

THIS AMENDMENT TO ASSET PURCHASE AGREEMENT (this “**Amendment**”) is made and is effective as of June 26, 2018, by and between ACUSPORT CORPORATION, an Ohio corporation (“**Seller**”), and ELLETT BROTHERS, LLC, a South Carolina limited liability company (“**Buyer**”). Buyer and Seller are referred to herein collectively as the “**Parties**,” and individually, a “**Party**.”

RECITALS

A. Buyer and Seller entered into that certain Asset Purchase Agreement, dated April 30, 2018 (as amended hereby, the “**Agreement**”), whereby Seller agreed to sell to Buyer, and Buyer agreed to purchase from Seller, the Purchased Assets (the “**Sale**”), as more particularly described in the Agreement. Capitalized terms not defined herein shall have the meanings ascribed to them in the Agreement.

B. Buyer and Seller desire to amend the Agreement as provided herein.

AGREEMENT

NOW, THEREFORE, in consideration of the mutual agreements set forth herein, Buyer and Seller hereby affirm the foregoing recitals and amend the Agreement as follows:

1. Amendments to Agreement. It is hereby agreed and understood that the Agreement is hereby amended and modified as follows:

(a) Amendment to Article I. The following definitions are hereby inserted into the Agreement, in alphabetical order, as follows:

“**Non-Transferred Employees**” has the meaning set forth in Section 7.1(a).

“**Transition Services Agreement**” means a transition services agreement, in the form attached hereto as Exhibit C, providing for certain services to be provided by each Party to the other after the Closing Date.

(b) Amendment to Article I (“Break-Up Fee”). The definition of “Break-Up Fee” is hereby amended by deleting the words “Four Hundred Thousand Dollars (\$400,000.00)” and replacing them with the words “Three Hundred Thousand Dollars (\$300,000.00).”

(c) Amendment to Section 2.2(a). Section 2.2(a) of the Agreement is hereby amended by deleting the clause “(subject to Section 7.3 hereof).”

(d) Amendment to Section 2.7. Section 2.7 of the Agreement is hereby amended by deleting the words “Seven Million Seven Hundred and Fifty Thousand Dollars (\$7,750,000)” and replacing them with the words “Seven Million Three Hundred and Fifty Thousand Dollars (\$7,350,000).”

(e) Amendments to Section 3.2.

(i) Section 3.2(a)(ix) of the Agreement is hereby amended by deleting the clause “based upon an appraisal of the Inventory conducted within thirty days prior to the Closing Date; and”

(ii) Section 3.2(a) is hereby amended by adding the following clause between Section 3.2(a)(ix) and Section 3.2(a)(xi) (prior to such amendment, formerly Section 3.2(a)(x)):

“(x) the Transition Services Agreement duly executed by Seller to Buyer; and”

(iii) Section 3.2(b) of the Agreement is hereby amended by adding the following clause at the end of such Section:

“(vi) the Transition Services Agreement duly executed by Buyer to Seller.”

(f) Amendment to Section 6.6. Section 6.6 of the Agreement is hereby amended by deleting the number “\$400,000” and replacing it with the number “\$300,000.”

(g) Amendments to Section 7.1. Section 7.1 of the Agreement is hereby amended and restated in its entirety to read as follows:

(a) Buyer will offer new employment effective as of the Effective Time to the Employees of Seller set forth in that certain confidential side letter delivered by Buyer to Seller contemporaneously with this Agreement (the “**Side Letter**”), as may be amended by Buyer in its discretion prior to the Effective Time. Those Employees who accept Buyer’s offer of employment made pursuant to this Section 7.1 and commence working for Buyer as of the Effective Time are referred to herein as “**Transferred Employees.**” Any Employees that are not Transferred Employees are referred to herein as “**Non-Transferred Employees.**” Any Transferred Employees will be hired by Buyer on salary and benefit terms acceptable to the Buyer, in its discretion, and Buyer shall not be liable with respect to any liabilities arising out of any such Transferred Employee’s employment by Seller.

(b) Buyer shall be responsible to provide, at the Employees’ sole expense, continuation coverage pursuant to the requirements of Code section 4980B and Part 6 of Title I of ERISA (otherwise known as COBRA coverage) with respect to: (i) the Employees (and their dependents) whose qualifying event occurred prior to the date on which such Employees become Transferred Employees; (ii) the Transferred Employees (and their dependents) whose qualifying event occurs on or after the date on which such Employees become Transferred Employees; and (iii) all Non-Transferred Employees (and their dependents). Other than as set forth in the preceding sentence, Buyer shall not have any other obligations on account of any Non-Transferred Employees.

(c) Seller agrees that, after Bankruptcy Court approval of this Agreement and prior to the Closing Date, Buyer may, in Buyer’s discretion, begin training any employee of Seller who Buyer intends to employ. Seller shall use its

best efforts to cooperate with Buyer to cause any such employee to enter into a customary non-disclosure agreement in favor of Buyer.

(h) Amendment to Section 7.3. Section 7.3 of the Agreement is hereby deleted in its entirety.

(i) Amendment to Section 7.7. Section 7.7 of the Agreement is hereby amended by (i) inserting “(a)” at the beginning of such Section before the words “Following the Closing,” and (ii) adding the following section (b) at the end of such Section:

(b) Buyer authorizes and empowers Seller from and after the Closing to receive and to open all mail received by Seller relating to the Purchased Assets, the Business or the Assumed Liabilities and to deal with the contents of such communications in accordance with the provisions of this Section 7.7(b), provided that Seller shall (x) treat and hold as confidential any such mail and the contents thereof and (y) refrain from using or disclosing any information contained therein, in each case in a manner consistent with Seller’s obligations with respect to Business Confidential Information pursuant to Section 7.2. In addition, Parties agree that:

(i) Seller shall promptly: (A) deliver to Buyer any mail or other communication received by it after the Closing Date and relating to the Purchased Assets, the Business or the Assumed Liabilities; (B) transfer in immediately available funds to Buyer any cash, electronic credit or deposit received by Seller but solely to the extent that such cash, electronic credit or deposit are Purchased Assets, proceeds of any Purchased Asset, or otherwise the property or assets of Buyer (including, for the avoidance of doubt, any payment for goods or services or accounts receivable attributable to the Business or any other business of Buyer and its Affiliates from and after the Closing); and (C) forward to Buyer any checks or other instruments of payment that it receives but solely to the extent that such checks or other instruments are Purchased Assets, proceeds of any Purchased Asset, or otherwise the property or assets of Buyer (including, for the avoidance of doubt, any payment for goods or services or accounts receivable attributable to the Business or any other business of Buyer and its Affiliates from and after the Closing).

(ii) Buyer shall promptly: (A) deliver to Seller any mail or other communication received by it after the Closing Date and relating to the Excluded Assets or the Excluded Liabilities; (B) wire transfer in immediately available funds to Seller, any cash, electronic credit or deposit received by Buyer but solely to the extent that such cash, electronic credit or deposit are Excluded Assets; and (C) forward to Seller any checks or other instruments of payment that it receives but solely to the extent that such checks or other instruments are Excluded Assets.

(iii) From and after the Closing Date, Seller shall refer all inquiries relating to the Purchased Assets and the Assumed Liabilities to Buyer,

and Buyer shall refer all inquiries relating to the Excluded Assets and the Excluded Liabilities to Seller.

2. Non-Solicitation. From the date of this Amendment until the hearing for approval of the Sale Order is held by the Bankruptcy Court, neither Seller, nor any of its Affiliates, nor any of its or their Representatives will directly or indirectly (i) solicit, initiate, or encourage any inquiries or proposals regarding any merger, consolidation, sale of assets, assumption of liabilities, or similar transaction involving Seller that, if consummated, would constitute an Alternative Transaction, (ii) participate in any discussions or negotiations with third parties regarding an Alternative Transaction, or (iii) enter into any Contract regarding any Alternative Transaction; *provided, however*, that if Seller is contacted by parties that previously expressed interest in submitting a bid for the Seller's assets, Seller may have conversations with such parties regarding the status of the Bankruptcy Case and potential sales of such assets to the extent that Buyer is unable to or does not close on the Sale. Notwithstanding the foregoing, Seller acknowledges and agrees that the Bid Deadline under the Sale Procedures Order has passed, and that, subject to the execution of this Amendment and the Transition Services Agreement, the Stalking Horse Bidder is the Successful Bidder (each term as defined in the Sale Procedures Order).

3. Terms Remain in Effect; Other Provisions. Except as modified herein, all other terms and conditions of the Agreement shall remain in full force and effect. To the extent any provision in this Amendment conflicts with any provision in the Agreement, the provisions of this Amendment shall govern. By this Amendment, the Parties hereby declare that all terms and conditions in the Agreement or any other agreement between the Parties relating to matters covered by this Amendment are deemed amended solely to the extent necessary to conform to the provisions of this Amendment. The Agreement (as modified by this Amendment) contains the complete understanding and agreement of the Parties in respect of the Sale and supersedes all prior representations, warranties, agreements, arrangements, understandings, and negotiations with respect to the Sale. The Parties agree that additional court approval, or the filing of this Amendment with the Bankruptcy Court, is not necessary, and that this Amendment shall be effective pending approval of the Agreement by the Bankruptcy Court.

4. Counterparts. This Amendment may be executed in counterparts, each of which shall be deemed an original, but all of which together shall be deemed to be one and the same agreement. A signed copy of this Amendment delivered by facsimile, e-mail or other means of electronic transmission shall be deemed to have the same legal effect as delivery of an original signed copy of this Amendment.

[Signature Page Follows Next]

IN WITNESS WHEREOF, the Parties have executed this Amendment as of the date first set forth herein.

ACUSPORT CORPORATION

By:

Name: James Broering

Title: President and Chief Operating Officer

ELLETT BROTHERS, LLC

By:

Name: Bradley P. Johnson

Title: Chief Executive Officer

TRANSITION SERVICES AGREEMENT

THIS TRANSITION SERVICES AGREEMENT (this “**Agreement**”) is entered into as of the 26th day of June, 2018 (the “**Effective Date**”), by and between AcuSport Corporation, an Ohio corporation (the “**Seller**”), and Ellett Brothers, LLC, a South Carolina limited liability company (the “**Buyer**”).

RECITALS

A. Concurrently with the execution of this Agreement, the Buyer is acquiring certain assets of the Seller pursuant to that certain Asset Purchase Agreement dated as of April 30, 2018, as amended by that certain Amendment to Asset Purchase Agreement dated as of June 14, 2018 (as amended, the “**Purchase Agreement**”), by and between the Buyer and the Seller.

B. The execution and delivery of this Agreement is a condition to the obligations of the Seller and the Buyer to consummate the transactions contemplated by the Purchase Agreement.

C. The Buyer and the Seller desire to set forth the terms and conditions by which (i) the Seller will provide, or cause to be provided, to the Buyer certain identified services, and (ii) the Buyer will provide, or cause to be provided, to the Seller certain identified services, in each case during the term of this Agreement.

D. Capitalized terms used but not defined in this Agreement are used with the meanings given to those terms in the Purchase Agreement.

NOW, THEREFORE, in consideration of the foregoing and the respective representations, warranties, covenants and agreements set forth herein, and subject to the terms and conditions set forth herein, the parties hereby agree as follows:

1. Transition Services.

(a) Scope. Subject to and upon the terms and conditions set forth in this Agreement, (i) the Buyer shall perform, or cause to be performed, certain transition services, as set forth on Schedule A (the “**Buyer Transition Services**”), in each case for the periods indicated on Schedule A (the “**Buyer Transition Services Periods**”), and (ii) the Seller shall perform, or cause to be performed, certain transition services, as set forth on Schedule B (the “**Seller Transition Services**” and, together with the Buyer Transition Services, the “**Transition Services**”), in each case for the periods indicated on Schedule B (the “**Seller Transition Services Periods**” and, together with the Buyer Transition Services Periods, the “**Transition Services Periods**”). In addition to the expressly described Transition Services described in the Schedules hereto, the services, functions, responsibilities and tasks that are reasonably required for, or incidental to, the proper performance and provision of the expressly described Transition Services or are otherwise customarily performed by providers of the expressly described Transition Services are, except as otherwise set forth on Schedule A, deemed to be included in the Transition Services as if expressly described therein. Each party hereto shall, to the extent

required to fulfill its obligations hereunder, cause its Affiliates to assist in providing the Transition Services.

(b) Authority; No Consent Required. Each party hereto represents and warrants to the other party hereto that (i) such party has full power and authority to perform the Transition Services required to be performed by it hereunder and (ii) no consent or approval from any Person is required to perform the Transition Services required to be performed by it hereunder.

(c) Extension by Buyer. The Buyer may extend the Seller Transition Services Period in its discretion for an extension period of up to the lesser of (i) three (3) months and (ii) the earlier of (x) close of the Bankruptcy Case or (y) the effective date of any plan of liquidation confirmed by the Bankruptcy Court in the Bankruptcy Case, on the same terms and conditions (and provided Seller has no additional expenses or costs resulting from such extension), by giving the Seller notice of such extension at least thirty (30) days prior to the end of the then-current Seller Transition Period.

2. Payment of Transition Services Fees.

(a) Transition Service Fees. The Buyer shall pay to the Seller, and the Seller shall pay to the Buyer, as applicable, the transition service fees in accordance with Schedule C (the “**Transition Services Fees**”). Neither party shall be entitled to set off amounts due to the other party based on any amounts payable to such party hereunder.

(b) Invoicing of Transition Services Fees. Unless otherwise set forth on Schedule A or Schedule B, the Buyer and the Seller shall invoice for the Transition Services Fees within fifteen (15) days after the end of each calendar month during the Term (as defined below). Except for any amounts that are disputed in good faith by a party, which the parties agree to promptly discuss and attempt to resolve by informal negotiation, all invoices shall be paid by the applicable party hereto by wire transfer of immediately available funds not later than fifteen (15) calendar days after receipt thereof in accordance with the wiring instructions provided by each party to the other party. Any portion of the Transition Services Fees not paid when due will accrue interest at a rate of two percent (2%) per month or the maximum rate permitted by applicable Law, whichever is less, from the due date until paid.

(c) Taxes. The fees payable pursuant to this Section 2 shall be exclusive of any Taxes now or hereinafter imposed on the performance or delivery of Transition Services or direct costs. Any sales, value added or similar Taxes imposed on the performance or delivery of Transition Services or direct costs hereunder shall be the responsibility of the party for which such Transition Services were provided. Each of the Buyer and the Seller, as applicable, shall be responsible for all other Taxes imposed on it in connection with the performance or delivery of Transition Services or direct costs hereunder, including, but not limited to, Taxes based on its income, profit or assets, and the Seller and the Buyer, as applicable, shall be solely responsible for the payment of all salary and benefits and all taxes (including income tax, social security tax, unemployment compensation, workers’ compensation tax, and other employment taxes or withholdings) and premiums and remittances with respect to employees of the Seller or the Buyer, respectively, who provide Transition Services hereunder.

3. Term and Termination.

(a) Term. This Agreement commences as of the date hereof and will continue until the expiration of the last Transition Services Period, unless earlier terminated in accordance with Section 3(b) (the “**Term**”). Termination or expiration of this Agreement will not act as a waiver of any breach of this Agreement and will not act as a release of either party hereto for any liability or obligations incurred under this Agreement through the effective date of such termination or expiration.

(b) Termination.

- (i) The Buyer may terminate this Agreement with respect to one or more Seller Transition Services for any reason by providing the Seller with at least thirty (30) days’ prior written notice, which notice must specify the date on which such Transition Services are to be terminated.
- (ii) The Seller may terminate this Agreement, in whole or with respect to a specific Seller Transition Service, upon no less than thirty (30) days’ prior written notice to the Buyer for any uncured Buyer Breach. As used herein, “**Buyer Breach**” shall mean the Buyer’s material breach of this Agreement, which such breach is not cured within ten (10) Business Days after receiving written notice thereof from the Seller.
- (iii) The Buyer may terminate this Agreement, in whole or with respect to a specific Buyer Transition Service, upon no less than thirty (30) days’ prior written notice to the Seller for any uncured Seller Breach. As used herein, “**Seller Breach**” shall mean the Seller’s material breach of this Agreement, which such breach is not cured within ten (10) Business Days after receiving written notice thereof from the Buyer.
- (iv) All parties may terminate one or more Transition Services immediately upon mutual agreement.

(c) Amounts Due. In the event of the expiration or termination of this Agreement, the Seller or the Buyer, as applicable, shall be entitled to payment of all Transition Services Fees owing to the Seller or the Buyer, as applicable, pursuant to Section 2 as a result of Transition Services provided to the Buyer or the Seller, as applicable, prior to such expiration or termination.

(d) Effect of Termination. This Section 3, Section 5, Section 6 and Section 10 shall survive the expiration or any termination of this Agreement.

4. Performance of Transition Services.

(a) Service Standard. In rendering Seller Transition Services, the Seller shall follow in all material respects, including as to the timing and notice requirements for provision of Transition Services, the practices the Seller and its Affiliates have followed in delivering comparable services to the Business prior to the Effective Date. Further, the Seller agrees to

perform each Transition Service such that the nature, quality, standard of care, level of priority and the service level at which the same service was performed on behalf of the Business prior to the Effective Date. The Buyer, in rendering Buyer Transition Services, shall use a reasonable degree of care and shall endeavor to follow the practices that the Seller and its Affiliates have typically followed in the twelve (12) months prior to the Effective Date, but only if and to the extent known by Buyer or any Transferred Employees employed by Buyer (who were previously engaged by Seller in providing similar services to Seller prior to the Closing Date) who, in Buyer's sole discretion, are directed by Buyer to perform such Buyer Transition Services.

(b) Third-Party Contracts. With respect to any Contract with a third party to which the Seller or an Affiliate of the Seller is a party, and with respect to which Seller Transition Services are provided hereunder or which is necessary for the Buyer to conduct the Business in substantially the same manner as it is conducted prior to the Closing, the Seller shall, and shall cause its Affiliates or other Persons to: (1) provide to the Buyer the benefits of the applicable Contract (unless such provision causes a breach under that or any other Contract, except as otherwise required by applicable Law), (2) cooperate in any reasonable and lawful arrangement designed to provide such benefits to the Buyer, and (3) enforce at the request and sole expense of the Buyer and for the account of the Buyer any rights of the Seller (or its Affiliate) arising from any such Contract. The parties acknowledge that the Connectria Hosting IT Services Agreement dated as of March 31, 2011 (as the same has been modified, amended, and supplemented from time to time and including all associated Statements of Work, the "**Connectria Agreement**") by and between Seller and Connectria, LLC (f/k/a Connectria Corporation) ("**Connectria**") is a Contract subject to the terms of this Section.

- (i) To the extent any Contract described in clause (b) above includes early termination fees or similar charges ("**Termination Fees**"), the parties hereto agree that the Buyer shall in no event have any liability or responsibility for any Termination Fees and the Seller shall indemnify and hold harmless the Buyer and its officers, directors, employees, agents and Affiliates from and against any and all losses, liabilities, claims, damages, penalties, fines, judgments, awards, settlements, taxes and out-of-pocket costs, fees and expenses (including but not limited to reasonable attorneys' fees) (collectively "**Losses**") incurred by any of such persons relating to any Termination Fees to the extent relating to a party's ceasing to use the Transition Services under this Agreement. Buyer shall give Seller prompt written notice of any attempts by any party to recover Termination or other fees directly from Buyer.
- (ii) Seller represents and warrants to Buyer that (i) maintaining the Connectria Agreement (and all other Contracts between the Seller and Connectria existing as of the date of this Agreement) in place during the Seller Transition Services Period in order to support Buyer's operation of the Business and the Transition Services will not (A) result in a breach of the Connectria Agreement or any other Contract to which Seller or any of its Affiliates is a party, or (B) give, to Seller's knowledge, Connectria the ability to terminate any such Contracts or arrangements or suspend its provision of services thereunder, (ii) Seller shall not take any action that

would permit Connectria to terminate the Connectria Agreement (or any other Contracts between the Seller and Connectria existing as of the date of this Agreement) and (iii) Connectria (A) has consented in writing to the Seller's maintenance of the Connectria Agreement for purposes of providing the Seller Transition Services described herein and to Bankruptcy Court jurisdiction over any disputes that arise with respect to same and (B) has represented in writing to the Seller that it will continue to provide services under the Connectria Agreement as long as the Seller remains current on post-petition payments to Connectria.

(c) Disclaimer of Warranty. EXCEPT AS EXPRESSLY PROVIDED IN THIS AGREEMENT, THE PARTIES HERETO HEREBY EXPRESSLY DISCLAIM ALL OTHER REPRESENTATIONS AND WARRANTIES, EXPRESS OR IMPLIED, INCLUDING, BUT NOT LIMITED TO, THE IMPLIED WARRANTIES OF MERCHANTABILITY, SUITABILITY OR FITNESS FOR ANY PARTICULAR PURPOSE, WITH RESPECT TO THE TRANSITION SERVICES. UNLESS OTHERWISE EXPRESSLY SET FORTH IN THIS AGREEMENT, ALL TRANSITION SERVICES ARE PROVIDED ON AN "AS-IS, WHERE-IS" BASIS WITHOUT WARRANTY OF ANY KIND.

5. Limitation of Liability; Indemnity.

(a) EXCEPT FOR LOSSES RELATED TO EACH PARTY'S INDEMNIFICATION OBLIGATIONS HEREUNDER, IN NO EVENT WILL EITHER PARTY'S AGGREGATE LIABILITY UNDER THIS AGREEMENT, WHETHER BASED ON CONTRACT, TORT (INCLUDING NEGLIGENCE), WARRANTY OR ANY OTHER LEGAL OR EQUITABLE GROUNDS, EXCEED ONE HUNDRED FIFTY THOUSAND DOLLARS (\$150,000.00).

(b) The Buyer shall indemnify and hold harmless the Seller and its officers, directors, employees, agents and Affiliates from and against any and all Losses incurred by any of such persons arising out of the Buyer's (i) Buyer Breach, (ii) gross negligence, or (iii) willful misconduct.

(c) The Seller shall indemnify and hold harmless the Buyer and its officers, directors, employees, agents and Affiliates from and against any and all Losses incurred by any of such persons arising out of the Seller's (i) Seller Breach, (ii) gross negligence, or (iii) willful misconduct.

6. Confidentiality. The Seller and the Buyer shall, and shall cause their respective Affiliates to, hold all information relating to the Transition Services confidential from third parties (other than their respective Affiliates) and will not disclose the same to any Person nor use any such information except as necessary in connection with the provision of Transition Services hereunder. In addition, no party shall, and they shall cause their respective Affiliates not to, disclose to any Person any confidential information concerning the other party or its Affiliates obtained in connection with the performance of this Agreement. Notwithstanding the foregoing, nothing shall prevent any party from disclosing the foregoing confidential information (a) if such information becomes generally available to the public, other than as a result of a

breach of this Agreement by the disclosing party or its Affiliates or representatives, (b) if such information becomes available to the disclosing party on a non-confidential basis from a source that is not known by the disclosing party to be prohibited from disclosing such information, (c) if such information is required to be produced by Law, or (d) if disclosure of such information is necessary in connection with the provision of Transition Services hereunder. Notwithstanding anything to the contrary herein, upon the termination or expiration of this Agreement or the Transition Services hereunder (whichever is earlier), the Seller shall certify in writing to the Buyer that the Seller has, at the written request of the Buyer, returned or destroyed any and all confidential or proprietary information of the Buyer or which otherwise relate to the Business or any other business of the Buyer or its Affiliates (including but not limited to any sales data of the Buyer or its Affiliates that may be accessed or obtained by the Seller or its representatives in connection with any Transition Service) and any copies or derivative works thereof.

7. **Cooperation.** The parties acknowledge and agree that the Transition Services are transitional in nature and are intended to provide each of the Seller and the Buyer sufficient time to develop the internal resources and capacities (or to arrange for third-party providers) for such Transition Services. Each of the Seller and the Buyer shall use commercially reasonable efforts to (a) assist and cooperate with each other in the orderly transfer of the provision of Transition Services to the recipient of such Transition Services and substitute service providers, and (b) make available, or cause to be made available, documentation existing on the date hereof, personnel and know-how reasonably needed to facilitate such orderly transfer.

8. **Force Majeure.** Neither the Buyer nor the Seller shall be liable for any failure of performance (other than obligations regarding confidentiality) attributable to acts, events or causes (including war, riot, rebellion, civil disturbances, terrorism, power failures, flood, storm, fire and earthquake or other acts of God or conditions or events of nature, or any Law, demand or requirement of any Governmental Authority) beyond its control; provided that the Seller and the Buyer, as the party failing or delaying performance, shall (i) take reasonable steps to mitigate the effects of such acts, events or causes, (ii) promptly notify the other party of such force majeure event, and (iii) resume performing its obligations under this Agreement as soon as reasonably practicable. Subject to the foregoing, the affected provisions and other requirements of this Agreement shall be suspended during the period of such force majeure event and no party hereto shall have any liability to any other party in connection therewith.

9. **Use of Names.** Pursuant to the terms of the Purchase Agreement, the Buyer acquired all of the Seller's right, title, and interest in the name "AcuSport" and all other trade names, fictitious names, and other names used in connection with the Business (the "***Company Name***"). During the Term and solely for purposes of the Seller's performance under this Agreement, continued collection of accounts receivable, completion of pending sales, maintenance of any of the Seller's licenses relating to the purchase, sale, or ownership of firearms, accessories, or similar items (including, without limitation, the Seller's Federal Firearms License), and any other activity consented to in writing by the Buyer, the Seller shall have the right to use the Company Name, including to the extent the same appears on or is used in connection with printed purchase orders, sales invoices, marketing materials, stationery, printed forms, other documents and office supplies, packaging materials, stocks, and shipping supplies, provided that (i) the Seller's use of the Company Name shall be conducted in conformity with all applicable Laws, and (ii) the Seller shall not, and shall not permit any of its

employees or other representatives to, do anything to prejudice or endanger the value of the Company Name or otherwise diminish the value, reputation, and goodwill of the Buyer. In addition, Buyer acknowledges that representatives of the Seller may continue to use the Company Name when referring to the Business, and such incidental use is permitted during the Term so long as such use shall in no way imply that the Business is owned or operated by the Seller.

10. Miscellaneous.

(a) Independent Contractor. The parties hereto intend that their relationship hereunder will be that of independent contractors. Nothing contained in this Agreement is to be construed as creating any partnership, joint venture or other arrangement between the parties hereto. Except as otherwise set forth in Schedule B, neither party hereto has any authority to act for, obligate or bind the other party in any way, including, without limitation, by way of creating or incurring any debts, expenses or other liabilities, whether express or implied.

(b) Third Party Beneficiaries. Other than as expressly provided herein, neither party hereto intends that this Agreement benefits or creates any legal or equitable right, remedy or claim in or on behalf of any person other than the parties hereto. This Agreement is for the sole and exclusive benefit of the parties to this Agreement and their successors and assigns.

(c) Notices. All notices, requests, demands, and other communications required or permitted under this Agreement shall be in writing and shall be deemed to have been duly given and made (i) upon being delivered by courier delivery to the party for whom it is intended or (ii) three (3) Business Days after having been deposited in the mail, certified or registered (with receipt requested) and postage prepaid, in each case addressed at the address shown in this Section for, or such other address as may be designated in writing hereafter by, such party:

If to the Seller:

AcuSport Corporation
One Hunter Place
Bellefontaine, Ohio 43311
Attention: Chief Financial Officer

With a copy to (which shall not constitute notice):

Bryan Cave Leighton Paisner LLP
161 North Clark Street
Suite 4300
Chicago, Illinois 60601
Attention: Ben Sidbury
Jason DeJonker

If to the Buyer:

Ellett Brothers, LLC
267 Columbia Avenue
Chapin, South Carolina 29036
Attention: Bradley P. Johnson

With a copy to (which shall not constitute notice):

McDermott Will & Emery LLP
340 Madison Avenue
New York, New York 10173
Attention: Frank P. Steinherr
Timothy W. Walsh

(d) Complete Agreement; Amendment; Waiver. This Agreement and the Purchase Agreement embody the entire agreement and understanding of the parties hereto with respect to the subject matter hereof, and supersede all prior and contemporaneous agreements and understandings between the parties hereto relating to such subject matter. No supplement, modification or amendment of this Agreement will be binding unless executed in writing by the Buyer and the Seller. No waiver of any of the provisions of this Agreement will be deemed to be or will constitute a continuing waiver. No waiver will be binding unless executed in writing by the party making the waiver.

(e) Heading. The article, title and section headings contained in this Agreement are inserted for convenience only and shall not affect in any way the meaning or interpretation of this Agreement.

(f) Governing Law. Except to the extent the mandatory provisions of the Bankruptcy Code apply, this Agreement shall be governed by, and construed in accordance with, the Laws of the State of Ohio applicable to contracts made and to be performed entirely in such state without regard to principles of conflicts or choice of Laws or any other Law that would make the laws of any other jurisdiction other than the State of Ohio applicable hereto.

(g) Submission to Jurisdiction. Each of the parties hereto irrevocably submits to the exclusive jurisdiction of (i) the circuit courts located in Logan County, Ohio and (ii) the United States District Court and the United States Bankruptcy Court for the Northern District of Ohio for the purposes of any suit, action or other proceeding arising out of this Agreement or any transaction contemplated hereby. Each of the parties agrees to commence any action, suit or proceeding relating hereto in the United States Bankruptcy Court or the United States District Court for the Northern District of Ohio or if such suit, action or other proceeding may not be brought in such courts for jurisdictional reasons, in the state courts located in Logan County, Ohio. Each of the parties further agrees that service of any process, summons, notice or document by U.S. registered mail to such party's respective address set forth above shall be effective service of process for any action, suit or proceeding in Ohio with respect to any matters to which it has submitted to jurisdiction in this Section. Each of the parties irrevocably and unconditionally waives any objection to the laying of venue of any action, suit or proceeding

arising out of this Agreement or the transactions contemplated hereby in (A) the state courts located in Logan County, Ohio or (B) the United States Bankruptcy Court or United States District Court for the Northern District of Ohio, and hereby further irrevocably and unconditionally agrees not to plead or claim in any such court that any such action, suit or proceeding brought in any such court has been brought in an inconvenient forum or to raise any similar defense or objection.

(h) WAIVER OF JURY TRIAL. EACH OF THE PARTIES TO THIS AGREEMENT HEREBY IRREVOCABLY WAIVES ALL RIGHT TO A TRIAL BY JURY IN ANY ACTION, PROCEEDING OR COUNTERCLAIM ARISING OUT OF OR RELATING TO THIS AGREEMENT.

(i) Severability. If any term or provision of this Agreement is invalid, illegal, or unenforceable in any jurisdiction, such invalidity, illegality or unenforceability shall not affect any other term or provision of this Agreement or invalidate or render unenforceable such term or provision in any other jurisdiction. Upon such determination that any term or other provision is invalid, illegal or unenforceable, the parties shall negotiate in good faith to modify this Agreement so as to effect the original intent of the parties as closely as possible in a mutually acceptable manner in order that the transactions contemplated hereby be consummated as originally contemplated to the greatest extent possible.

(j) Counterparts. This Agreement may be executed in counterparts, each of which shall be deemed an original, but all of which together shall be deemed to be one and the same agreement. A signed copy of this Agreement delivered by facsimile, e-mail or other means of electronic transmission shall be deemed to have the same legal effect as delivery of an original signed copy of this Agreement.

(k) Assignment. Neither this Agreement nor any of the rights, interests, or obligations hereunder may be transferred, delegated, or assigned by any party hereto without the prior written consent of the other party hereto, and any attempted assignment without the required consent shall be void and of no force or effect. Notwithstanding the foregoing, (i) upon written notice to the Seller, the Buyer shall have the right to transfer and assign its rights and obligations hereunder to any entity which is controlled by the Buyer or its Affiliates or to any purchaser of all or substantially all of the assets of the Buyer, provided that (A) no such assignment shall become effective unless and until the permitted assignee expressly assumes in writing all of the Buyer's obligations hereunder (which written assumption shall promptly be delivered to the Seller), and (B) the Buyer shall also remain primarily liable for its obligations hereunder; and (ii) upon written notice to the Buyer, the Seller shall have the right to transfer and assign its rights hereunder to any entity that is controlled by the Seller or their Affiliates, provided that (A) no such assignment shall become effective unless and until the permitted assignee expressly assumes in writing all of the Seller's obligations hereunder (which written assumption shall promptly be delivered to the Buyer), and (B) the Seller shall also remain primarily liable for its obligations hereunder.

(l) Specific Performance. The obligations under this Agreement of each party hereto are unique. If a party hereto should breach its covenants under this Agreement, the parties hereto each acknowledge that it would be impracticable to measure the resulting

damages. Accordingly, the non-breaching party, in addition to any other available rights or remedies it may have under the terms of this Agreement, may sue in equity for specific performance, and each party hereto expressly waives the defense that a remedy in damages will be adequate.

(m) Subject Assets. The Buyer may transfer any of the assets acquired from the Seller (and certain of its Affiliates) pursuant to the Purchase Agreement (such assets, the “**Subject Buyer Assets**”), in the ordinary course of the business and outside the ordinary course of business, provided in all circumstances that any transfer of the Subject Buyer Assets is not likely to render the Buyer, in its good faith judgment, unable to honor its obligations hereunder.

(Signatures are on the following page.)

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be executed as of the date and year first above written.

ACUSPORT CORPORATION

By: _____
Name: James Broering
Title: President and Chief Executive Officer

ELLETT BROTHERS, LLC

By: _____
Name: Bradley P. Johnson
Title: Chief Executive Officer

SCHEDULE A

BUYER TRANSITION SERVICES

<u>Area</u>	<u>Description of Service</u>	<u>Buyer Transition Services Period</u>
Real Property; Access Rights	License and right to use and occupy the real property leased by the Buyer located at One Hunter Place, Bellefontaine, Ohio 43311 (the “<i>Facility</i>”) to the extent and in the manner used by employees and contractors of Seller immediately before the Closing Date (the “<i>License</i>”) for designated Seller employees, professional advisors, and other approved constituencies, provided that nothing herein shall require the Buyer to maintain any Contracts, network services, or other arrangements with third parties, or to otherwise provide any such services, technology, or hardware to the Seller or such employees, professional advisors, or other approved constituencies. This License is not a grant of real property rights. Buyer shall have no liability whatsoever with respect to such use and occupancy by designated Seller employees, professional advisors, and other approved constituencies. Designated Seller employees include the following: Estil Hoskins, Cory Brinkman, Holly Collins, Cynthia Coleman, Denyail Smith, Denise Painter, Melanie Pillion, Harry Dye, and Betsy Reames. Seller professionals potentially needing periodic access include, Huron Business Advisory, Huron Transaction Advisory, Bryan Cave Leighton Paisner LLP, and Allen Kuehnle Stovall & Neuman LLP. Office visits will be coordinated on a weekly basis with a contact designated by Buyer. Professionals representing other constituencies in the bankruptcy case will be scheduled and approved, with such approval not to be unreasonably withheld, conditioned or delayed, and is expected to primarily be limited to BDO LLP (financial advisor to the official committee of unsecured creditors in Seller’s bankruptcy case).	Four months from the Effective Date
Books & Records; IT	The Buyer shall permit the Seller to transfer from the Connectria-hosted environment maintained by the Seller after the Effective Date any legacy Seller data that, in any case, are	Three months from the

Systems	not Purchased Assets, provided that the Seller shall use its reasonable best efforts to so transfer any such data and systems as promptly as practicable and in any event within three months from the Effective Date.	Effective Date
Compliance Support	In addition to continued use of the Company Name as set forth in Section 9 of the Agreement, continued usage of all information necessary to support the AcuSport compliance policies and licensing in place shall be permitted and shall continue until all firearms and related accessories included in the sale are formally conveyed to the Buyer, the Buyer has taken possession and control of such items, and the Seller has surrendered its Federal Firearms License.	Three months from the Effective Date
Sales In-Progress	The Buyer shall permit the Seller to complete all sales of inventory or products subject to NFA requirements and approvals where the Seller has received payment for such items and a request for approval has been sent to the Bureau of Alcohol, Tobacco & Firearms (the “ ATF ”) but approval has not yet been received at the time of Closing. The Buyer shall reasonably cooperate with the Seller, at the Seller’s sole cost and expense, in the Seller’s completion of such sales. Seller shall segregate such inventory from inventory sold to the Buyer until such items are shipped to customers following receipt of the requisite governmental approval. The parties understand and agree that the Seller shall, before approval of the ATF has been received, secure any such inventory in a segregated location under the control of the Seller (provided that, if such segregated location is located within or on any property of the Buyer, (i) the Seller and the Buyer shall cooperate to ensure that such segregated location is as separate as practicable from any of the Buyer’s operations and (ii) in no event shall any employees or other representatives of the Seller have any right to access any space on such property except as is necessary to enter and exit such segregated location) and any such inventory shall not be commingled or otherwise stored with any inventory of the Buyer.	Three months from the Effective Date
Human Resources	Provide reasonable access, during normal working hours, to the individuals listed below (collectively, “ Buyer Parties ”), and cause the Buyer Parties to provide all reasonable support requested by the Seller in connection with the administration of the Seller’s bankruptcy estate and the wind-down and dissolution of the Seller. Unless otherwise agreed in writing, Buyer Parties will be limited to John Flanagan, Mary Grim, Shannan Stover, and	Three months from the Effective Date

	Kelley Shea. No Buyer Party will assist the Seller for more than six (6) hours during any calendar week.	

SCHEDULE B

SELLER TRANSITION SERVICES

<u>Area</u>	<u>Description of Service</u>	<u>Seller Transition Services Period</u>
IT Systems; Computer Equipment	The Seller shall maintain all of its current Contracts and arrangements with Connectria and shall not reject such Contracts and arrangements, including the Connectria Agreement, and in each case without amendment or other modification, for the Seller Transition Period to support the Buyer's operation of the Business and the Transition Services contemplated herein. In addition, Seller shall maintain all Contracts and other Excluded Assets that are reasonably required for, or incidental to, the Buyer's receiving the full benefit of this Seller Transition Service (including but not limited to Contracts for internet access, MPLS, data connection to Connectria, and other network services). In furtherance of this Seller Transition Service, the Seller hereby irrevocably constitutes and appoints the Buyer as its agent with respect to Connectria in connection with all matters relating to this Seller Transition Service and/or the Buyer's transfer of any Computer Equipment, IT Assets, or other data, property, or assets from Connectria.	At the Buyer's discretion, up to four months from the Closing Date
Asset Migration	The Seller shall reasonably cooperate with the Buyer, its Affiliates, and its and their respective employees and representatives (collectively, the " <i>Buyer Transition Parties</i> ") in connection with the removal, migration, and transfer of any Purchased Assets from the Seller's facilities and properties. In furtherance thereof, the Seller shall provide to the Buyer Transition Parties with a license and right to use and occupy the real property of the Seller.	N/A

SCHEDULE C

TRANSITION FEES

In consideration for the Buyer Transition Services, the Seller will (X) pay the Buyer the amount of up to One Hundred Thousand Dollars (\$100,000), and (Y) provide for two (2) months of services to be provided to the Buyer under the Connectria Agreement at no cost to the Buyer (collectively, the “**Buyer Transition Fee**”). The \$100,000 portion of the Buyer Transition Fee shall be credited towards the Purchase Price or deposited in escrow at Closing, to be used by Buyer to pay costs of Connectria or any third party software provider as required to fully transition the server environment to new hardware owned by Buyer. The Seller shall deposit two (2) months’ worth of service fees under the Connectria Agreement in escrow at Closing, to be distributed to Connectria in accordance with the terms of the Connectria Agreement. To the extent the Buyer Transition Services equal more than \$100,000 (and except as otherwise provided herein), the Buyer shall bear such costs.

In consideration for the Seller Transition Services, the Buyer shall reimburse the Seller for any services provided to the Buyer under the Connectria Agreement after the first two (2) months of services (which are being provided to Buyer at no cost) in accordance with the invoicing and payment provisions of Section 2(b) hereof.

Except as expressly set forth herein, all expenses arising from or relating to the Transition Services, including business and license fees, utility charges, and sales commissions, if any, property and equipment rentals, service charges, and similar prepaid and deferred items, shall be prorated between the Buyer and the Seller in accordance with GAAP and the principle that the Seller shall be responsible for all expenses and obligations allocable to the period prior to the Effective Date, and the Buyer shall be responsible for all expenses and obligations allocable to the period on and after the Effective Date. For the avoidance of doubt, all expenses related to leased real and personal property, and all utility charges associated therewith, are to be prorated between the Buyer and the Seller in the foregoing manner. However, all expenses associated with the sales described in the “Sales In-Progress” section of Schedule A are at Seller’s sole cost and expense. Expenses payable by one party hereto to the other pursuant to this Section shall be invoiced and payable on a monthly basis together with the Transition Services Fees for the applicable period in the same manner as applies to Transition Services Fees pursuant to Section 2(b) above.

EXHIBIT B

Cure Schedule

Assigned Contract or Lease	Name And Contact Information Of Counterparty	Cure Amount
Lease Agreement dated April 9, 2007, by and between AcuSport Corporation, as lessee, and West River Business Park Partnership, LLC, as successor in interest to WestPath LLP, as lessor, as amended by: (a) that certain First Amendment to Lease dated June 25, 2012, (b) that certain Second Amendment to Lease dated March 2, 2015, (c) that certain Third Amendment to Lease dated May 8, 2016, and (d) that certain Fourth Amendment to Lease dated May 24, 2017, of commercial real property located at 417 Great Oak Dr., Waite Park, Minnesota	West River Business Park Partnership LLP 800 Industrial Dr South Ste 206 Sauk Rapids, MI 56379 West River Business Park LLC 800 Industrial Dr South STE 206 Sauk Rapids, MN 56379 West River Business Park Partnership 800 Industrial Dr South Ste # 206 Sauk Rapids, MN 56379	\$0
Industrial Lease Agreement dated February 1, 2007, by and between AcuSport Corporation, as tenant, and Colfin 2017-10 Industrial Owner, LLC, successor in interest to TPRF III/Central Valley Industrial, LLC, as landlord, as amended by: (a) that certain First Amendment to Lease dated April 1, 2012, (b) that certain Second Amendment to Lease dated April 24, 2015, and (c) that certain Third Amendment to Lease dated January 8, 2018, of commercial real property located at 3015 South 1030 West, Salt Lake City, Utah	Colfin Cobalt I-II Owner LLC Asset Manager 13727 Noel Rd STE 750 Dallas TX 75240 Colfin 2017-10 Industrial Owner LLC P.O. Box 209263 Austin, TX 78720-9263	\$6,407.90
Software License and Maintenance Agreement by and between AcuSport Corporation and Chrono-Logic Services Conseils en Informatique Inc. ("Chrono-Logic"). Invoice 99575 from Chrono-Logic, dated May 15, 2017	Chrono-Logic 520 St-Pierre St-Roch-De-Richelieu, QC J0L 2mo Canada Chronologic 1100 Boule Cemazie Ste 600 Montreal, QC H2p 2x2 Canada	\$0
Signed Agreement by and between Dematic Corp. and AcuSport Corporation. Invoice No. 900929948, dated January 30, 2018, from Dematic Corp. Agreement Change Order, dated May 30, 2017, by and between Dematic Corp. and AcuSport Corporation. Agreement relating to Project No. 124848 Rev B, dated July 10, 2013, by and between Dematic Corp. and AcuSport Corporation. Service Agreement No. 137412 Rev D, relating to Dematic Managed Services Program Proposal dated January 30, 2017, by and between Dematic Corp. and AcuSport Corporation.	Dematic Corp. 507 Plymouth Ave NE Grand Rapids, MI 49505 Dematic Corp. 684125 Network Pl Chicago, IL 60673-1684	\$77,410.90

Task Order by and between AcuSport Corp. and EAE Global Technologies, dated as of April 26th, 2016	EAE Global Technologies 4218 Scenic Valley LN Sugar Land, TX 77479	\$12,000
Agreement, dated as of August 18, 2014, by and between AcuSport Corporation and eComSystems, Inc., relating to the "Customer Link Exchange." For the avoidance of doubt, the adVantage AdStudio and AdViewer Software Hosting Agreement is not being assigned to Buyer. Invoice No. LIC-18139, dated March 1, 2018, by and between eComSystems, Inc. and AcuSport Corporation (partial).	eComSystems, Inc 8237 Vicela Dr. Sarasota, FL 34240 eComSystems, Inc 5621 Strand Blvd Ste 211 Naples FL 34110 eComSystems, Inc P.O. Box 112575 Naples, FL 34108	\$43,750.00
HelpSystems, LLC (Customer Number 00039641) Software License and Services Agreement, undated, by and between HelpSystems, LLC and AcuSport Corporation. Invoice No. V0000049825, dated November 4, 2017. Invoice No. V0000037152, dated July 2, 2017. Invoice No. V0000054694, dated December 2, 2017. Invoice No. V000039146, dated August 6, 2017.	Help Systems Inc. NW 5955 P.O. Box 1450 Minneapolis, MN 55485-5955 HelpSystems, LLC 6455 City West Pkwy Eden Prairie, MN 55344	\$0
IBM (Customer Number 0041052-00) Invoice No. 8784612 for Distributed Software, dated March 14, 2017, from IBM Corporation.	IBM 1 New Orchard Rd. Armonk, NY 10504 IBM P.O. Box 643600 Pittsburgh, PA 15264-3600 IBM Corporation 3039 E Cornwallis Rd. Rsrch Tri Pk, NC 27709	\$0
Information Builders Contract Nos. 613P.01 – Acusport Corp, 613P.02 – Acusport Corp, 613P.03 – Acusport Corp, 613P.04 – Acusport Corp, 613P.05 – AcuSport Corporation Master Software License Agreement for IBI System Program Products dated December 31, 2006 between AcuSport Corporation and Information Builders, Inc., as modified by (a) that certain One-Time License Rider dated as of December 31, 2006; (b) that certain One-Time License Rider dated as of March 12, 2012; and (c) that certain One-Time License Rider dated as of April 30, 2015. Invoice No. 1122727, dated November 10, 2017.	Information Builders Inc. Two Penn PLZ New York, NY 10121-2898 Information Builders Inc. P.O. Box 360604 Pittsburgh, PA 15251-6604	\$0

JDA Software Inc. • Schedule 3-A Dated 27 June 2006 For Advanced Warehouse Replenishment, Planning, Booking, Online Forward Buy, and Projections • Schedule 1-A Dated 31 March 2003 For Client Server User Interface • Schedule 2-A Dated 28 December 2004 For Overstock Transfer • Schedule 3-A Dated 27 June 2006 For Export Report to Excel • Invoice No. 180205910, dated April 2, 2018.	JDA Software Group Inc. 15059 N Scottsdale Rd STE 400 Scottsdale, AZ 85254	\$1,632
Lansa – Maintenance Services Invoice No. INV002893 Dated March 15, 2018	Lansa 6762 Eagle Way Chicago, IL 60678 Lansa Inc. 2001 Butterfield Road Suite 102 Downers Grove, IL 60515	\$3,204
Lansa – Maintenance Services Invoice No. 0042527 Dated May 11, 2017	Lansa 6762 Eagle Way Chicago, IL 60678 Lansa Inc. 2001 Butterfield Road Suite 102 Downers Grove, IL 60515	\$1,475
Software License, Services, Support and Enhancements Agreement by and between AcuSport Corporation and Manhattan Associates, Inc. dated as of March 11, 2013 Manhattan Associates Invoice No. 374532	Manhattan Associates, Inc. P.O. Box 405696 Atlanta, GA 30384-5696 Manhattan Associates, Inc 2300 Windy Ridge Pkwy 10th Fl Atlanta, GA 30339	\$972.73 \$95,968.59
Guaranteed Maintenance Agreement dated as of April 14, 2017 by and between AcuSport Corporation and Modern Office Methods	Modern Office Methods 4747 Lake Forest Dr. Cincinnati, OH 45242	\$0
Service Agreement 12894 by and between Service Express, Inc. and AcuSport Corporation dated as of September 1, 2017	Service Express Inc. 3854 Broadmoor Ave. SE Grand Rapids, MI 49512	\$0

Services Agreement by and between AcuSport Corporation and ToolBox Solutions Inc. (SPS Commerce)	SPS Commerce Canada Ltd 44 Peel Centre Dr Ste 300 Brampton, ON L6t 45b Canada SPS Commerce Inc P.O. Box 205782 Dallas, TX 75320-5782 Toolbox Solutions Inc. Suite #2, 126 Devon Rd Brampton, Ontario L6T 5B3 Canada Attn: Marenos Papadopoulos, General Manager	\$2,815
Third Party Software Order Form No. 1 made as of October 1, 2016 between Stibo Systems, Inc. and AcuSport Corporation pursuant to the Software License and Services Agreement executed on March 26, 2006. Order Form made as of January 23, 2017 between Stibo Systems Inc. and AcuSport Corporation pursuant to the Stibo Software License and Services Agreement executed on April 3, 2006. Invoice No. 61408566 (Subscription No. 6160002 – STEP Support Fee), dated January 5, 2018, from Stibo Systems Inc.	Stibo Systems Inc. 3550 George Busbee Pkwy NW Suite 350 Kennesaw, GA 30144	\$22,781
TAA Tools Inc. Account No. 0128527 Invoice No. 4704201, dated March 1, 2018, from TAA Tools, Inc. Software License Agreement by and between TAA Tools, Inc. and AcuSport Corporation.	TAA Tools Inc 2660 Superior Dr NW STE 101 Rochester, MN 55901-8383	\$1,285
Vanguard Systems, Inc. Invoice No. 10930 dated July 5, 2017 Software License Agreement, dated May 15, 2010, by and between Vanguard Systems, Inc. and AcuSport Corporation. Support Agreement, dated May 15, 2010, by and between Vanguard Systems, Inc. and AcuSport Corporation	Vanguard Systems Inc 2901 Dutton Mill Rd STE 220 Aston PA 19014	\$0
Equipment Lease Agreement by and between AcuSport Corporation and Wells Fargo Financial Leasing, Inc. dated as of April 14, 2017.	Wells Fargo Financial Leasing, Inc. 800 Walnut, 4th Floor Des Moines, Iowa 50309	\$0
License Agreement by and between AcuSport Corporation and Easy Metrics Inc. (Labor Management System License)	Easy Metrics Inc 371 NE Gilman Blvd Issaquah, WA 98027	\$0
Contract Agreement, dated February 21, 2017 (as amended by Addendum dated August 1, 2017), by and between Genric Inc. and AcuSport Corporation. Contract for the Supply of Security Services, dated March 6, 2018, by and between Genric Inc. and AcuSport Corporation. Invoice No. ACUSP057, dated May 14, 2018, from Genric Inc.	Genric Inc. 433 Allenby Drive Marysville, OH 43040	\$0

EXHIBIT C

Cure Schedule (Additional Contracts)

Assigned Contract or Lease	Name And Contact Information Of Counterparty	Cure Amount
Purchase Order and Agreement, dated September 16, 2013, by and between Citywide Solutions Inc. and AcuSport Corporation.	Citywide Solutions Inc. 5909 Brookmont Dr. Hilliard, OH 43026	\$0
Invoice No. 201418, dated July 28, 2017, from Exclaimer Ltd.	Exclaimer Ltd. 445 Park Avenue 9th Floor New York, NY 10022 USA	\$0
Standard Service Agreement, dated June 3, 2016, by and between Live Technologies, LLC and AcuSport Corporation.	Live Technologies LLC 3445 Millennium Court Columbus, Ohio 43219	\$0
XMedius FoIP Solution Statement of Work, dated April 15, 2015, by and between Nu-Vision Technologies, LLC (d/b/a Black Box Network Services) and AcuSport Corporation.	Nu-Vision Technologies, LLC d/b/a Black Box Network Services 6000 New Horizons Boulevard, Amityville, NY 11701	\$2,559
Sales Agreement, dated December 12, 2013, by and between Nu-Vision Technologies, LLC d/b/a Black Box Network Services and AcuSport Corporation.	Nu-Vision Technologies, LLC d/b/a Black Box Network Services 6000 New Horizons Boulevard, Amityville, NY 11701	\$0
Software License Agreement, dated March 26, 2006, by and between AcuSport Corporation and Stibo Catalog Incorporated.	Stibo Catalog Incorporated 1990 Vaughn Road, Suite 210 Kennesaw, GA 30144	\$0
Price Quotation, dated July 11, 2017, from Sikich LLP, and related invoices. Engagement Document, dated July 26, 2016, by and between Sikich LLP and AcuSport Corporation. Professional Services Master Agreement, dated July 26, 2016, by and between Sikich LLP and AcuSport Corporation.	Sikich LLP 1415 W. Diehl Rd. Suite 400 Naperville, IL 60563	\$0
All licenses set forth in the document titled "Software Licenses from Insight (SoftwareLicensesfromInsight.XLSB)."	Insight Enterprises Attn: Brittany Favor 6820 S. Harl Ave. Tempe, AZ 85283	\$5,282

Maintenance Purchase Order Number 53001716 and Maintenance Service Order Number 7099073D with NetGain Information Systems Company, as referenced (and relating to the equipment listed in) the document entitled "NetGain SmartNet Licenses" in the data room hosted by Syncplicity.	NetGain Information Systems Company 220 Reynolds Avenue P.O. Box 500 Bellefontaine, Ohio 43311-0500	\$0
Contract No. 63118, dated March 16, 2015, by and between A1 Sprinkler & Systems Integration, LLC and AcuSport Corporation.	A1 Sprinkler & Systems Integration, LLC 2383 Northpoint Drive Miamisburg, OH 45342	\$0
Quote/Order Form No. Q-46567-1, dated June 28, 2017, from Bomgar Corporation.	Bomgar Corporation 578 Highland Colony Parkway Paragon Centre Suite 300 Ridgeland, MS 39157	\$0
Invoice No. 82609, dated March 28, 2017, from Hawkeye Information Systems Inc.	Hawkeye Information Systems P.O. Box 2167 Fort Collins, CO 80522	\$750
Invoice No. 2018011673, dated April 25, 2018, from T.L. Ashford and Associates.	T.L. Ashford and Associates P.O. Box 17098 Fort Mitchell, KY 41017	\$695
Invoice No. INV000653, dated June 22, 2017, from LANSА, Inc. Invoice No. INV002207, dated January 15, 2018, from LANSА, Inc. Statement of Work, dated November 7, 2011, by and between LANSА Inc. and AcuSport Corporation. Professional Services Agreement and Statement of Work, each dated February 12, 2010, by and between LANSА Inc. and AcuSport Corporation. Software License Agreement, dated June 19, 2012, by and between LANSА Inc. and AcuSport Corporation.	Lansa 6762 Eagle Way Chicago, IL 60678 Lansa Inc. 2001 Butterfield Road Suite 102 Downers Grove, IL 60515	\$0

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Exhibit 10

**IN THE UNITED STATES BANKRUPTCY COURT
FOR THE DISTRICT OF DELAWARE**

In re:	)	
	)	Chapter 11
SPORTCO HOLDINGS, INC., <i>et al.</i> , ¹	)	Case No. 19-11299 (LSS)
	)	
Debtors.	)	(Jointly Administered)
	)	Re: Docket Nos. 8, 51, & 160

**FINAL ORDER (I) APPROVING THE DEBTORS' POSTPETITION FINANCING,
(II) AUTHORIZING THE DEBTORS CONTINUED USE OF CASH COLLATERAL,
(III) GRANTING LIENS AND PROVIDING SUPERPRIORITY ADMINISTRATIVE
EXPENSE STATUS, (IV) GRANTING ADEQUATE PROTECTION TO
THE PREPETITION LENDERS, (V) MODIFYING AUTOMATIC STAY,
AND (IV) GRANTING RELATED RELIEF**

Upon the motion (the "Motion") of SportCo Holdings, Inc. and certain of its wholly-owned direct and indirect subsidiaries, as debtors and debtors in possession (collectively, the "Debtors") in the above-captioned chapter 11 cases (the "Chapter 11 Cases"), seeking entry of an order (this "Final Order")² pursuant to sections 105, 361, 362, 363, 364(c)(1), 364(c)(2), 364(c)(3), 364(d), 364(e), and 507 of chapter 11 of title 11 of the United States Code (the "Bankruptcy Code"), Rules 2002, 4001, 6004, and 9014 of the Federal Rules of Bankruptcy Procedure (the "Bankruptcy Rules") and Rule 4001-2 of the Local Bankruptcy Rules for the United States Bankruptcy Court the District of Delaware (the "Local Rules"), *inter alia*:

(i) authorizing the Debtors to obtain senior secured postpetition financing on a superpriority basis consisting of a senior secured superpriority revolving credit facility in the aggregate principal amount of up to \$25,000,000 (the "DIP Facility," and all amounts extended under the DIP Facility, the "DIP Loans") pursuant to the terms and conditions of that certain

¹ The Debtors, together with the last four digits of each Debtor's federal tax identification number, are: Bonitz Brothers, Inc. (4441); Ellett Brothers, LLC (7069); Evans Sports, Inc. (2654); Jerry's Sports, Inc. (4289); Outdoor Sports Headquarters, Inc. (4548); Quality Boxes, Inc. (0287); Simmons Guns Specialties, Inc. (4364); SportCo Holdings, Inc. (0355); and United Sporting Companies, Inc. (5758). The location of the Debtors' corporate headquarters and the service address for all Debtors is 267 Columbia Ave., Chapin, SC 29036.

² Unless otherwise expressly indicated, capitalized terms shall have the meanings set forth in this Final Order.

Debtor-In-Possession Loan and Security Agreement (as the same may be amended, restated, supplemented, or otherwise modified from time to time, the “DIP Agreement”), by and among the Debtors, Bank of America, N.A., as administrative agent and collateral agent (in such capacity, the “DIP Agent”), and the other lenders party thereto (the “DIP Lenders” and collectively with the DIP Agent and the other “Secured Parties” as defined in the DIP Agreement, the “DIP Secured Parties”), substantially in the form of Exhibit A, attached to the Motion;

(ii) authorizing the Debtors to execute and deliver the DIP Agreement and any other agreements and documents related thereto (collectively, with the DIP Agreement, the “DIP Documents”) and to perform such other acts as may be necessary or desirable in connection with the DIP Documents;

(iii) authorizing the use of proceeds of the DIP Facility extended to the Debtors as expressly provided in the DIP Documents and consistent with the Approved Budget and to allow a “creeping roll up” of Prepetition ABL Obligations outstanding under the Prepetition ABL Agreement pursuant to the procedures set forth below;

(iv) granting the DIP Facility and all obligations owing thereunder and under the DIP Documents or otherwise to the DIP Secured Parties (collectively, and including all “Obligations” as described in the DIP Agreement, the “DIP Obligations”) allowed superpriority administrative expense claim status in each of the Chapter 11 Cases and any Successor Cases;

(v) granting to the DIP Agent, for the benefit of the DIP Secured Parties under the applicable DIP Documents, automatically perfected security interests in and liens on all of the DIP Collateral, including, without limitation, all property constituting “Cash Collateral” as

defined in section 363(a) of the Bankruptcy Code, which liens shall be subject to the priorities set forth herein;

(vi) authorizing and directing the Debtors to pay the principal, interest, fees, expenses and other amounts payable under the DIP Documents as such become due, including, without limitation, continuing commitment fees, unused line fees, closing fees, the reasonable fees and disbursements of the DIP Secured Parties' attorneys, advisors, accountants and other consultants, all to the extent provided in, and in accordance with, the DIP Documents;

(vii) authorizing the Debtors to use the Prepetition Collateral, including the Cash Collateral of the Prepetition Secured Parties under the Prepetition Documents, and providing adequate protection to the Prepetition Secured Parties for any diminution in value of their respective interests in the Prepetition Collateral, including the Cash Collateral; and

(viii) vacating and modifying the automatic stay imposed by section 362 of the Bankruptcy Code to the extent necessary to implement and effectuate the terms and provisions of the DIP Documents and this Final Order.

The initial hearing on the Motion having been held by this Court on June 11, 2019 (the "Interim Hearing"), and the Court having entered on June 13, 2019, the *Interim Order (I) Authorizing the Debtors to Obtain Postpetition Financing, (II) Authorizing the Debtors to Use Cash Collateral, (III) Granting Liens and Providing Superpriority Administrative Expense Status, (IV) Granting Adequate Protection to the Prepetition Lenders, (V) Modifying the Automatic Stay, (VI) Scheduling a Final Hearing, and (VII) Granting Related Relief* [Docket No. 51] (the "Interim Order"); and the Court having entered on July 16, 2019 the *Bridge Order Amending the Court's Interim Order (I) Authorizing the Debtors to Obtain Postpetition Financing, (II) Authorizing the Debtors to Use Cash Collateral, (III) Granting Liens and*

Providing Superpriority Administrative Expense Status, (IV) Granting Adequate Protection to the Prepetition Lenders, (V) Modifying Automatic Stay, (VI) Scheduling a Final Hearing, and (VII) Granting Related Relief [Docket No. 160] (the “First Bridge Order”); and the Court having entered on July 29, 2019 the *Second Bridge Order Amending the Court’s Interim Order (I) Authorizing the Debtors to Obtain Postpetition Financing, (II) Authorizing the Debtors to Use Cash Collateral, (III) Granting Liens and Providing Superpriority Administrative Expense Status, (IV) Granting Adequate Protection to the Prepetition Lenders, (V) Modifying Automatic Stay, (VI) Scheduling a Final Hearing, and (VII) Granting Related Relief* [Docket No. 209] (the “Second Bridge Order,” together with the First Bridge Order, the “Bridge Orders” and, together with the Interim Order and this Final Order, the “DIP Financing and Cash Collateral Orders”); and the final hearing on the Motion having been held by this Court on August 6, 2019 (the “Final Hearing” and, together with the Interim Hearing, the “Hearings”);

The Court having considered the Motion, the exhibits attached thereto, the *Declaration of Bradley P. Johnson in Support of the Debtors’ Chapter 11 Petitions and First Day Pleadings* [Docket No. 9], the DIP Documents, and the evidence submitted and argument made at the Hearings; and notice of the Hearings having been given in accordance with Bankruptcy Rules 2002, 4001(b), (c) and (d), and all applicable Local Rules; and the Hearings having been held and concluded; and all objections, including the *Objection of the Official Committee of Unsecured Creditors to the Motion of the Debtors for Entry of Interim and Final Orders (I) Authorizing the Debtors to Obtain Postpetition Financing, (II) Authorizing the Debtors to Use Cash Collateral, (III) Granting Liens and Providing Superpriority Administrative Expense Status, (IV) Granting Adequate Protection to the Prepetition Lenders, (V) Modifying the Automatic Stay, (VI) Scheduling a Final Hearing, and (VII) Granting Related Relief* [Docket No.

130] and the *Supplemental Objection of the Official Committee of Unsecured Creditors to the Motion of the Debtors for Entry of Interim and Final Orders (I) Authorizing the Debtors to Obtain Postpetition Financing, (II) Authorizing the Debtors to Use Cash Collateral, (III) Granting Liens and Providing Superpriority Administrative Expense Status, (IV) Granting Adequate Protection to the Prepetition Lenders, (V) Modifying the Automatic Stay, (VI) Scheduling a Final Hearing, and (VII) Granting Related Relief* [Docket No. 146] (together the “Committee Objections”, to the relief requested in the Motion having been withdrawn, resolved or overruled by the Court; and it appearing that approval of the final relief requested in the Motion is fair and reasonable and in the best interests of the Debtors, their estates and all parties-in-interest, and is essential for the continued operation of the Debtors’ businesses and the preservation of the value of the Debtors’ assets; and it appearing that the Debtors’ entry into the DIP Agreement is a sound and prudent exercise of the Debtors’ business judgment; and after due deliberation and consideration, and good and sufficient cause appearing therefor;

BASED UPON THE RECORD ESTABLISHED AT THE HEARINGS, THE COURT MAKES THE FOLLOWING FINDINGS OF FACT AND CONCLUSIONS OF LAW:³

A. **Petition Date.** On June 10, 2019 (the “Petition Date”), each of the Debtors filed a voluntary petition for relief under chapter 11 of the Bankruptcy Code with the United States Bankruptcy Court for District of Delaware (the “Court”).

³ The findings and conclusions set forth herein constitute the Court’s findings of fact and conclusions of law pursuant to Bankruptcy Rule 7052, made applicable to this proceeding pursuant to Bankruptcy Rule 9014. To the extent that any of the following findings of fact constitute conclusions of law, they are adopted as such. To the extent any of the following conclusions of law constitute findings of fact, they are adopted as such.

B. **Debtors in Possession.** The Debtors have continued in the management and operation of their businesses and properties as debtors in possession pursuant to sections 1107 and 1108 of the Bankruptcy Code.

C. **Jurisdiction and Venue.** This Court has jurisdiction over the Chapter 11 Cases, the DIP Motion, and the parties and property affected hereby pursuant to [28 U.S.C. §§ 157 and 1334](#). Venue for the Chapter 11 Cases and proceedings on the DIP Motion is proper before this Court pursuant to [28 U.S.C. §§ 1408 and 1409](#).

D. **Committee Formation.** On June 17, 2019, the United States Trustee for the District of Delaware (the “U.S. Trustee”) appointed an official committee of unsecured creditors in these Chapter 11 Cases pursuant to section 1102 of the Bankruptcy Code (the “Committee”) [Docket No. 58].

E. **Notice.** Notice of the Hearings and the relief requested in the Motion has been provided by the Debtors, whether by facsimile, electronic mail, overnight courier or hand delivery, to certain parties-in-interest, including: (i) the U.S. Trustee, (ii) those entities or individuals included on the Debtors’ list of thirty largest unsecured creditors on a consolidated basis, (iii) counsel to the Prepetition Agents, (iv) counsel to the Committee and (v) all other parties entitled to notice under the Local Rules.

F. **Debtors’ Stipulations.** After consultation with their attorneys and financial advisors, and without prejudice to the rights of parties-in-interest as set forth in paragraph 40 hereof, the Debtors, on their behalf and on behalf of their estates, admit, stipulate, acknowledge, and agree as follows (paragraphs F(i) through F(xii) below are referred to herein, collectively, as the “Debtors’ Stipulations”):

(i) *Prepetition ABL Facility.* Pursuant to that certain Third Amended and Restated Loan and Security Agreement dated as of September 28, 2012 (as amended, restated, supplemented, or otherwise modified from time to time, the “Prepetition ABL Agreement,” and collectively with any other agreements and documents executed or delivered in connection therewith, including, without limitation, certain mortgages on real property owned by the Debtors, each as may be amended, restated, supplemented, or otherwise modified from time to time, the “Prepetition ABL Documents”), among Bonitz Brothers, Inc., Ellett Brothers, LLC, Evans Sports, Inc., Jerry’s Sports, Inc., Outdoor Sports Headquarters, Inc., and Simmons Gun Specialties, Inc. (collectively, the “Prepetition Borrowers”), Bank of America, N.A., as administrative agent and collateral agent (in such capacity, the “Prepetition ABL Agent”), and the lenders party thereto (the “Prepetition ABL Lenders,” and collectively with the Prepetition Agent and the other “Secured Parties” as defined in the Prepetition ABL Agreement, the “Prepetition ABL Parties”), the Prepetition ABL Lenders provided revolving credit and other financial accommodations to the Prepetition Borrowers pursuant to the Prepetition ABL Documents (the “Prepetition ABL Facility”).

(ii) *Prepetition ABL Obligations.* The Prepetition ABL Facility provided the Prepetition Borrowers with, among other things, a Revolver Commitment (as defined in the Prepetition ABL Agreement). As of the Petition Date, the aggregate principal amount outstanding under the Prepetition ABL Facility was not less than \$23,056,470.93 (collectively, together with accrued and unpaid interest, any fees, expenses and disbursements (including, without limitation, attorneys’ fees, accountants’ fees, auditor fees, appraisers’ fees and financial advisors’ fees, and related expenses and disbursements), treasury, cash management, bank product, indemnification obligations, guarantee obligations, and other charges, amounts and

costs of whatever nature owing, whether or not contingent, whenever arising, accrued, accruing, due, owing, or chargeable in respect of any of the Debtors' obligations pursuant to the Prepetition ABL Documents, including all "Obligations" as defined in the Prepetition ABL Agreement, and all interest, fees, costs and other charges allowable under section 506(b) of the Bankruptcy Code, the "Prepetition ABL Obligations").

(iii) *Prepetition ABL Liens and Prepetition ABL Collateral.* As more fully set forth in the Prepetition ABL Documents, prior to the Petition Date, the Prepetition Borrowers granted to the Prepetition ABL Agent (for the benefit of the Prepetition ABL Parties) a first priority security interest in and continuing lien on (the "Prepetition ABL Liens") substantially all their Property (as defined in the Prepetition ABL Agreement) of such Prepetition Borrowers whether then owned or existing or thereafter acquired or arising (collectively, the "Prepetition ABL Collateral").

(iv) *Prepetition Term Loan Facility.* Pursuant to that certain Second Lien Loan and Security Agreement dated as of September 28, 2012 (as amended, restated, supplemented, or otherwise modified from time to time in accordance with the terms hereof and the Intercreditor Agreement (the "Prepetition Term Loan Agreement," and collectively with any other agreements and documents executed or delivered in connection therewith, each as may be amended, restated, supplemented, or otherwise modified from time to time, the "Prepetition Term Loan Documents," and together with the Prepetition ABL Documents and the Intercreditor Agreement, the "Prepetition Documents") by and among the Prepetition Borrowers, Prospect Capital Corporation, as administrative agent and collateral agent (in such capacity, the "Prepetition Term Loan Agent," and together with the Prepetition ABL Agent, the "Prepetition Agents") and the lenders party thereto (the "Prepetition Term Loan Lenders," and collectively

with the Prepetition Term Loan Agent and the other “Secured Parties” as defined in the Prepetition Term Loan Agreement, the “Prepetition Term Loan Parties,” and together with the Prepetition ABL Parties, individually or collectively, the “Prepetition Secured Parties”) Prepetition Term Loan Lenders provided term loans to the Prepetition Borrowers (the “Prepetition Term Loan Facility,” and together with the Prepetition ABL Facility, the “Prepetition Secured Facilities”).

(v) *Prepetition Term Obligations.* As of the Petition Date, the aggregate principal amount outstanding under the Prepetition Term Loan Facility, together with accrued and unpaid interest as of the Petition Date, was not less than \$249,800,405.00 (collectively, together with any fees, expenses and disbursements (including, without limitation, attorneys’ fees, accountants’ fees, auditor fees, appraisers’ fees and financial advisors’ fees, and related expenses and disbursements), indemnification obligations, guarantee obligations, and other charges, amounts and costs of whatever nature owing, whether or not contingent, whenever arising, accrued, accruing, due, owing, or chargeable in respect of any of the Prepetition Borrowers’ obligations pursuant to the Prepetition Term Loan Documents, including all “Obligations” as defined in the Prepetition Term Loan Agreement, and all interest, fees, costs and other charges allowable under section 506(b) of the Bankruptcy Code, the “Prepetition Term Loan Obligations,” and together with the Prepetition ABL Obligations, the “Prepetition Secured Obligations”).

(vi) *Prepetition Term Loan Liens and Prepetition Term Collateral.* As more fully set forth in the Prepetition Term Loan Documents, prior to the Petition Date, the Prepetition Borrowers granted to the Prepetition Term Loan Agent (for the benefit of the Prepetition Term Loan Parties) a second priority security interest in and continuing lien on (the “Prepetition Term

Loan Liens,” and together with the Prepetition ABL Liens, the “Prepetition Liens”) substantially all their real and personal Property (as defined in the Prepetition Term Loan Agreement, including, without limitation, the Debtors’ distribution facility in Bellefontaine, Ohio) of such Prepetition Borrowers whether then owned or existing or thereafter acquired or arising (collectively, the “Prepetition Term Collateral,” and together with the Prepetition ABL Collateral, the “Prepetition Collateral”).

(vii) *Priority of Prepetition Liens; Intercreditor Agreement.* The Prepetition Agents entered into that certain Intercreditor and Subordination Agreement (the “Intercreditor Agreement”) dated as of September 28, 2012 to govern the respective rights, interests, obligations, priority, and positions of the Prepetition Secured Parties with respect to the assets and properties of the Debtors and other obligors. Each of the Prepetition Borrowers under the Prepetition Documents acknowledged and agreed to the Intercreditor Agreement.

(viii) *Validity, Perfection, and Priority of Prepetition ABL Liens and Prepetition ABL Obligations.* The Debtors acknowledge and agree that as of the Petition Date (a) the Prepetition ABL Liens on the Prepetition Collateral were valid, binding, enforceable, nonavoidable, and properly perfected and were granted to, or for the benefit of, the Prepetition ABL Parties for fair consideration and reasonably equivalent value; (b) the Prepetition ABL Liens were senior in priority over any and all other liens on the Prepetition Collateral, subject only to liens senior by operation of law or permitted by the Prepetition ABL Documents (solely to the extent any such liens were valid, properly perfected, non-avoidable, and senior in priority to the Prepetition ABL Liens as of the Petition Date, the “Prepetition ABL Permitted Prior Liens”); (c) the Prepetition ABL Obligations constitute legal, valid, binding, and non-avoidable obligations of the Debtors enforceable in accordance with the terms of the applicable Prepetition

ABL Documents; (d) no offsets, recoupments, challenges, objections, defenses, claims, or counterclaims of any kind or nature to any of the Prepetition ABL Liens or Prepetition ABL Obligations exist, and no portion of the Prepetition ABL Liens or Prepetition ABL Obligations is subject to any challenge or defense including, without limitation, avoidance, disallowance, disgorgement, recharacterization, or subordination (equitable or otherwise) pursuant to the Bankruptcy Code or applicable nonbankruptcy law; (e) the Debtors and their estates have no claims, objections, challenges, causes of action, and/or choses in action, including, without limitation, avoidance claims under Chapter 5 of the Bankruptcy Code or applicable state law equivalents or actions for recovery or disgorgement, against any of the Prepetition ABL Parties or any of their respective affiliates, agents, attorneys, advisors, professionals, officers, directors, and employees arising out of, based upon or related to the Prepetition ABL Facility; (f) the Debtors have waived, discharged, and released any right to challenge any of the Prepetition ABL Obligations, the priority of the Debtors' obligations thereunder, and the validity, extent, and priority of the liens securing the Prepetition ABL Obligations; and (g) the aggregate value of the Prepetition ABL Collateral exceeds the amount of the Prepetition ABL Obligations and the claims of the Prepetition ABL Parties arising under, or secured by, the Prepetition ABL Documents constitute allowed, secured claims within the meaning of sections 502 and 506 of the Bankruptcy Code.

(ix) *Validity, Perfection, and Priority of Prepetition Term Loan Liens and Prepetition Term Loan Obligations.* The Debtors acknowledge and agree that as of the Petition Date (a) the Prepetition Term Loan Liens on the Prepetition Collateral were valid, binding, enforceable, non-avoidable, and properly perfected second priority liens and were granted to, or for the benefit of, the Prepetition Term Loan Parties for fair consideration and reasonably

equivalent value; (b) the Prepetition Term Loan Liens are subject only to (1) the Prepetition ABL Liens, and (2) liens senior by operation of law or permitted by the Prepetition Term Loan Documents (solely to the extent any such liens were valid, properly perfected, nonavoidable, and senior in priority to the Prepetition Term Loan Liens as of the Petition Date, the “Prepetition Term Loan Permitted Prior Liens,” and, together with the Prepetition ABL Permitted Prior Liens, the “Permitted Prior Liens”); (c) the Prepetition Term Loan Obligations constitute legal, valid, binding, and non-avoidable obligations of the Debtors enforceable in accordance with the terms of the applicable Prepetition Term Loan Documents; (d) no offsets, recoupments, challenges, objections, defenses, claims, or counterclaims of any kind or nature to any of the Prepetition Term Loan Liens or Prepetition Term Loan Obligations exist, and no portion of the Prepetition Term Loan Liens or Prepetition Term Loan Obligations is subject to any challenge or defense including, without limitation, avoidance, disallowance, disgorgement, recharacterization, or subordination (equitable or otherwise) pursuant to the Bankruptcy Code or applicable non-bankruptcy law; (e) the Debtors and their estates have no claims, objections, challenges, causes of action, and/or choses in action, including, without limitation, avoidance claims under Chapter 5 of the Bankruptcy Code or applicable state law equivalents or actions for recovery or disgorgement, against any of the Prepetition Term Loan Parties or any of their respective affiliates, agents, attorneys, advisors, professionals, officers, directors, and employees arising out of, based upon or related to the Prepetition Term Loan Facility; (f) the Debtors have waived, discharged, and released any right to challenge any of the Prepetition Term Loan Obligations, the priority of the Debtors’ obligations thereunder, and the validity, extent, and priority of the liens securing the Prepetition Term Loan Obligations; and (g) the Prepetition Term Loan Obligations

constitute allowed, secured claims within the meaning of section 502 and 506 of the Bankruptcy Code.

(x) *No Control.* None of the DIP Secured Parties or the Prepetition Secured Parties controls the Debtors or their properties or operations, has authority to determine the manner in which any of the Debtors' operations are conducted or is a control person or insider of the Debtors or any of their affiliates by virtue of any of the actions taken with respect to, in connection with, related to, or arising from the DIP Financing and Cash Collateral Orders, the DIP Facility, the DIP Documents, the Prepetition Secured Facilities, and/or the Prepetition Documents.

(xi) *Cash Collateral.* All of the Debtors' cash, including any cash in deposit accounts of the Debtors, wherever located, constitutes Cash Collateral of the Prepetition Secured Parties.

(xii) *Default by the Debtors.* The Debtors acknowledge and stipulate that the Debtors have been and are in default of their obligations under the Prepetition Documents and that as of the Petition Date interest was accruing on the Prepetition Secured Obligations at the default rate.

G. **Permitted Prior Liens.** Nothing herein shall constitute a finding or ruling by this Court that any alleged Permitted Prior Lien is valid, senior, enforceable, prior, perfected, or non-avoidable. Moreover, nothing shall prejudice the rights of any party-in-interest, including, but not limited to the Debtors, the DIP Agent, the Prepetition Secured Parties, or the Committee to challenge the validity, priority, enforceability, seniority, avoidability, perfection, or extent of any alleged Permitted Prior Lien and/or security interests.

H. **[Reserved]**

I. **Intercreditor Agreement.** Pursuant to section 510 of the Bankruptcy Code, the Intercreditor Agreement and any other applicable intercreditor or subordination provisions contained in any of the Prepetition Documents (i) shall remain in full force and effect, (ii) shall continue to govern the relative priorities, rights, and remedies of the Prepetition Secured Parties (including the relative priorities, rights and remedies of such parties with respect to the replacement liens and administrative expense claims and superpriority administrative expense claims granted, or amounts payable, by the Debtors under the DIP Financing and Cash Collateral Orders or otherwise and the modification of the automatic stay), and (iii) shall not be deemed to be amended, altered, or modified by the terms of the DIP Financing and Cash Collateral Orders or the DIP Documents, unless expressly set forth herein or therein. The DIP Agreement is a “replacement” of the Senior Loan Agreement as that term is used in the Intercreditor Agreement, and any repayment of the Prepetition ABL Obligations pursuant to the DIP Financing and Cash Collateral Orders shall not be deemed to constitute a “discharge” of Senior Liabilities as that term is used in the Intercreditor Agreement.

J. **Findings Regarding Postpetition Financing**

(i) *Request for Postpetition Financing.* The Debtors sought authority to (a) enter into the DIP Facility on the terms described herein and in the DIP Documents, and (b) use Cash Collateral on the terms described herein to administer their Chapter 11 Cases and fund their operations. At the Final Hearing, the Debtors sought final approval of the proposed postpetition financing and use of Cash Collateral arrangements pursuant to this Final Order.

(ii) *Priming of the Prepetition Liens.* The priming of the Prepetition Liens on the Prepetition Collateral under section 364(d) of the Bankruptcy Code, as contemplated by the DIP Facility and as further described below, enabled the Debtors to obtain the DIP Facility and

to operate their businesses to the benefit of their estates and creditors. The Prepetition Term Loan Parties are deemed to have consented to the priming pursuant to Section 4.5 of the Intercreditor Agreement. The Prepetition Secured Parties are each entitled to receive adequate protection as set forth in the DIP Financing and Cash Collateral Orders pursuant to sections 361, 363, and 364 of the Bankruptcy Code, for any diminution in value (“Diminution in Value”) of each of their respective interests in the Prepetition Collateral (including Cash Collateral).

(iii) *Need for Postpetition Financing.* Based on the record made at the Hearings regarding the Debtors’ need for the DIP Facility from the Petition Date and through the date all DIP Obligations are indefeasibly repaid in full in cash (“Paid in Full”) (such date, the “DIP Financing Period Termination Date” and such period, the “DIP Financing Period”), including the testimony of the Debtors’ CRO, Dalton Edgecomb, and for the reasons given by the Court on the record at the Hearings, the Court finds it appropriate to approve, on a final basis, the Debtors’ obtainment and payoff of credit on an final basis pursuant to the DIP Facility in order to, among other things, enable the orderly liquidation of their operations and to administer and preserve the value of their estates.

(iv) *No Credit Available on More Favorable Terms.* Given their financial condition, financing arrangements, and capital structure during the DIP Financing Period, the Debtors were unable to obtain financing from sources other than the DIP Lenders on terms more favorable than the DIP Facility. The Debtors were unable to obtain unsecured credit allowable under Bankruptcy Code section 503(b)(1) as an administrative expense. The Debtors were also unable to obtain: (a) unsecured credit having priority over that of administrative expenses of the kind specified in sections 503(b), 507(a) and 507(b) of the Bankruptcy Code; (b) credit secured solely by a lien on property of the Debtors and their estates that is not otherwise subject to a lien;

or (c) credit secured solely by a junior lien on property of the Debtors and their estates that is subject to a lien. Financing on a postpetition basis was not otherwise available without granting the DIP Agent, for the benefit of the DIP Secured Parties: (1) perfected security interests in and liens on (each as provided herein) all of the Debtors' existing and after-acquired assets, (2) superpriority claims and liens, and (3) the other protections set forth in the DIP Financing and Cash Collateral Orders.

(v) *Use of proceeds of the DIP Facility.* As a condition to entry into the DIP Agreement, the extension of credit under the DIP Facility and the authorization to use Cash Collateral, the DIP Secured Parties, the Prepetition ABL Parties and the Prepetition Term Loan Parties require, and the Debtors have agreed, that proceeds of the DIP Facility were to be used, in each case in a manner consistent with the terms and conditions of the DIP Financing and Cash Collateral Orders and the DIP Documents and in accordance with the budget (as the same may be modified from time to time consistent with the terms of the DIP Documents and subject to such variances as permitted in the DIP Agreement, and as set forth in paragraph 19 hereof, the "Approved Budget" and, such variances, the "Permitted Variances")⁴ solely to pay: (a) expenses and fees required to be paid to the office of the clerk of the Court or the office of the U.S. Trustee; (b) professional fees subject to any limitations in the DIP Financing and Cash Collateral Orders and the Approved Budget; (c) any of the DIP Obligations; (d) the Prepetition ABL Obligations to the extent authorized by the Court; (e) with respect to the Prepetition Term Obligation, fees in accordance with the Approved Budget; and (f) other expenses that are incurred during the pendency of the Chapter 11 Cases and described in the Approved Budget not to exceed the Permitted Variances or that are authorized by the Court in orders entered in the

⁴ A copy of the Approved Budget is attached hereto as Exhibit 1. This Approved Budget has been revised since entry of the Bridge Orders.

Chapter 11 Cases that are acceptable to the DIP Agent and, following the conclusion of the DIP Financing Period, the Prepetition Term Loan Parties, but excluding payment of any Prepetition Term Loan Obligations.

(vi) *Application of Proceeds of Collateral.* As a condition to entry into the DIP Agreement, the extension of credit under the DIP Facility and authorization to use Cash Collateral during the DIP Financing Period, the Debtors, the DIP Secured Parties, and the Prepetition ABL Parties agreed that as of and commencing on the date of the Interim Hearing, the Debtors shall apply the proceeds of DIP Collateral and Cash Collateral in accordance with the Interim Order and Bridge Orders, as applicable. From and after the DIP Financing Period Termination Date, the Debtors and the Prepetition Term Loan Parties agreed that as of and commencing on the date of the Final Hearing, the Debtors shall apply the proceeds of DIP Collateral and Cash Collateral in accordance with this Final Order and the Approved Budget.

(vii) *Roll-up Obligations.* Cash Collateral has been used to effectuate a “creeping roll up” of Prepetition ABL Obligations outstanding under the Prepetition ABL Agreement pursuant to the procedures set forth in Paragraph 11 of the Interim Order.

(viii) *Need for Continued Use of Cash Collateral.* From and after the DIP Financing Period Termination Date, the Debtors have a continuing need to use the Cash Collateral of the Prepetition Term Loan Parties in order to, among other things, administer and preserve the value of their estates. The ability of the Debtors to pay their employees and related taxes, and otherwise to finance their operations requires the use of Cash Collateral, the absence of which would immediately and irreparably harm the Debtors, their estates and all parties in interest. The Debtors do not have sufficient available sources of working capital to operate

their businesses or maintain their properties to liquidate their assets without the continued authorized use of Cash Collateral.

K. **Adequate Protection.** Until all Prepetition Term Loan Obligations are Paid in Full, the Prepetition Term Loan Agent, for the benefit of itself and the Prepetition Term Loan Parties, are each entitled to receive adequate protection to the extent of any Diminution in Value of such Prepetition Term Loan Parties' respective interests in the Prepetition Collateral as set forth in the DIP Financing and Cash Collateral Orders.

L. **Sections 506(c) and 552(b).** No expenses of administration of the Chapter 11 Cases or any future proceeding that may result therefrom, including liquidation in bankruptcy or other proceedings under the Bankruptcy Code, shall be charged against or recovered from the DIP Collateral or Cash Collateral, or the Prepetition Secured Parties pursuant to sections 105(a) or 506(c) of the Bankruptcy Code or any similar principle of law or equity, without the prior written consent of the DIP Agent and Prepetition Term Loan Agent and no such consent shall be implied from any other action, inaction, or acquiescence by any of the Prepetition Secured Parties. The Prepetition Secured Parties shall each be entitled to all of the rights and benefits of section 552(b) of the Bankruptcy Code, provided that the "equities of the case" exception under section 552(b) of the Bankruptcy Code shall not apply to the Prepetition Secured Parties with respect to the proceeds, products, offspring, or profits of any of the DIP Collateral or the Cash Collateral.

M. **Good Faith of the Prepetition Secured Parties.**

(i) *Willingness to Provide Financing.* The DIP Lenders indicated a willingness to provide financing to the Debtors subject to: (a) entry of the DIP Financing and Cash Collateral Orders; (b) approval of the terms and conditions of the DIP Facility and the DIP

Documents; (c) satisfaction of the closing conditions set forth in the DIP Documents; and (d) findings by this Court that the DIP Facility was essential to the Debtors' estates, that the DIP Lenders were extending credit to the Debtors pursuant to the DIP Documents in good faith, and that the DIP Secured Parties' claims, superpriority claims, security interests and liens and other protections granted pursuant to the DIP Financing and Cash Collateral Orders and the DIP Documents will have the protections provided by section 364(e) of the Bankruptcy Code.

(ii) *Business Judgment and Good Faith.* The terms and conditions of the DIP Facility and the DIP Documents, and the fees paid and to be paid thereunder, are fair, reasonable, and the best available to the Debtors under the circumstances, are ordinary and appropriate for secured financing to debtors in possession, reflect the Debtors' exercise of prudent business judgment consistent with their fiduciary duties, and are supported by reasonably equivalent value and consideration. The terms and conditions of the DIP Facility and the use of Cash Collateral were negotiated in good faith and at arms' length among the Debtors, DIP Secured Parties and Prepetition ABL Parties, and the Prepetition Term Loan Parties, with the assistance and counsel of their respective advisors. Use of Cash Collateral during the DIP Facility Period and thereafter and credit to be extended under the DIP Facility shall be deemed to have been allowed, advanced, made, or extended in good faith by the DIP Secured Parties, Prepetition ABL Parties, and the Prepetition Term Loan Lenders and within the meaning of section 364(e) of the Bankruptcy Code, as applicable.

N. [Reserved]

O. **Final Hearing.** The notice of the Final Hearing described in Finding E is sufficient under the circumstances, and no further notice is required in connection with the relief set forth in this Final Order under the circumstances.

Based upon the foregoing findings and conclusions, the Motion and the record before the Court with respect to the Motion, and after due consideration and good and sufficient cause appearing therefor,

IT IS HEREBY ORDERED that:

1. DIP Financing Approved. The Motion is GRANTED on a final basis, subject to the terms and conditions set forth in the DIP Documents and the DIP Financing and Cash Collateral Orders. All objections to this Final Order, including the Committee Objections, to the extent not withdrawn, waived, settled, or resolved are hereby denied and overruled.

2. Authorization of the DIP Facility. All relief requested in the Motion and granted on an interim basis under the Interim Order with respect to the DIP Facility is hereby granted on a final basis. Notwithstanding the foregoing, the Debtors are authorized to pay to the DIP Agent, for the benefit of the DIP Lenders, a closing fee in the amount of One Hundred Thousand Dollars (\$100,000) (the “Approved Closing Fee”). The DIP Financing Period Termination Date shall be deemed to occur upon the later of (i) entry of this Final Order and (ii) payment of the Closing Fee and any other outstanding fees (including attorneys’ fees) owed to the DIP Secured Parties.

3. [Reserved].

4. [Reserved].

5. [Reserved].

6. [Reserved].

7. [Reserved].

8. [Reserved].

9. [Reserved].

10. [Reserved].

Authorization to Use Cash Collateral

11. Authorization to Use Cash Collateral. Following the DIP Financing Period Termination Date and until the date on which the Prepetition Term Loan Obligations are Paid in Full, all Cash Collateral received by the Debtors in excess of the Cash Collateral Reserve⁵ shall be turned over to the Prepetition Term Loan Agent on the first business day of each week following entry of this Final Order to be applied against, and thereby reduce, the Prepetition Term Loan Obligations; *provided, however*, that the Debtors are authorized to use Cash Collateral in accordance with the Approved Budget and this Final Order until September 30, 2019 (the “Cash Collateral Termination Date”); *provided further, however* that during the Default Notice Period, the Debtors may use Cash Collateral solely to meet payroll obligations and pay expenses critical the administration of the Debtors’ estates in accordance with the Approved Budget, and as otherwise agreed by the Prepetition Term Loan Agent in its sole discretion. Nothing in this Final Order shall authorize the disposition of any assets of the Debtors or their estates outside the ordinary course of business, or any Debtor’s use of any Cash Collateral or other proceeds resulting therefrom, except as permitted in this Final Order, and in accordance with the Approved Budget.

12. Prepetition Term Loan Adequate Protection Liens. Pursuant to sections 361, 363(e), and 364(d) of the Bankruptcy Code, as adequate protection of the interests of the Prepetition Term Loan Parties in the Prepetition Collateral against any Diminution in Value of such interests in the Prepetition Collateral, the Debtors hereby grant to the Prepetition Term Loan Agent, for the benefit of itself and the Prepetition Term Loan Parties, continuing, valid, binding, enforceable, non-avoidable, and automatically and properly perfected postpetition

⁵ For purposes of this Final Order, the term “Cash Collateral Reserve” shall mean the amount needed to satisfy the remaining disbursements set forth in the Approved Budget to be held by the Debtors in their operating account.

security interests in and liens (collectively, the “Prepetition Term Loan Adequate Protection Liens”) upon (a) all of the Debtors’ rights in property of the Debtors’ estates as of the Petition Date, and all of the Debtors’ rights in property acquired postpetition, whether now existing or hereafter acquired or arising, (b) actions brought under section 549 of the Bankruptcy Code to recover any post-petition transfer of Adequate Protection Collateral (defined below), (c) the proceeds of any avoidance actions brought pursuant to chapter 5 of the Bankruptcy Code or applicable state law equivalents (other than actions brought pursuant to section 549 of the Bankruptcy Code), (d) the Debtors’ rights under section 506(c) and 550 of the Bankruptcy Code and the proceeds thereof, and (e) all property of the Debtors that was not otherwise subject to valid, perfected, enforceable, and unavoidable liens on the Petition Date (collectively, the “Adequate Protection Collateral”)⁶. To the extent any unencumbered assets or recovered assets are located, such assets shall constitute Adequate Protection Collateral.

13. Priority of Adequate Protection Liens.

(a) The Prepetition Term Loan Adequate Protection Liens shall be subject to the Carve Out and shall otherwise be junior only to Prepetition Term Loan Permitted Prior Liens. The Prepetition Term Loan Adequate Protection Liens shall otherwise be senior to all other security interests in or liens on any of the Debtors’ assets.

(b) Except as provided herein, the Prepetition Term Loan Adequate Protection Liens shall not be made subject to or *pari passu* with any lien or security interest heretofore or hereinafter in the Chapter 11 Cases or any Successor Cases, and shall be valid and enforceable against any trustee appointed in any of the Chapter 11 Cases or any Successor Cases, or upon the dismissal of any of the Chapter 11 Cases or Successor Cases. The Prepetition Term Loan

⁶ The term “Adequate Protection Collateral” shall include, without limitation, the “DIP Collateral” as defined in the Interim Order.

Adequate Protection Liens shall not be subject to sections 510, 549, or 550 of the Bankruptcy Code. No lien or interest avoided and preserved for the benefit of the estate pursuant to section 551 of the Bankruptcy Code shall be *pari passu* with or senior to the Prepetition Term Loan Liens or the Prepetition Term Loan Adequate Protection Liens.

14. Prepetition Term Loan Adequate Protection Superpriority Claims. As further adequate protection of the interests of the Prepetition Term Loan Parties in the Prepetition Collateral against any Diminution in Value of such interests in the Prepetition Collateral, the Prepetition Term Loan Agent (on behalf of the Prepetition Term Loan Parties) is hereby granted as and to the extent provided by section 507(b) of the Bankruptcy Code an allowed superpriority administrative expense claim in each of the Chapter 11 Cases and any Successor Cases⁷ (the “Prepetition Term Loan Adequate Protection Superpriority Claim”). For all purposes in this Final Order, Diminution in Value shall include, but not be limited to, amounts specifically designated as diminution claims in other orders of this Court. The Prepetition Term Loan Parties’ right to assert that any fees and expenses paid to any Case Professional(s), as well as any other costs and expenses of the administration of these Chapter 11 Cases, should be included as Diminution in Value is expressly preserved and reserved.

15. Priority of the Prepetition Term Loan Adequate Protection Superpriority Claims. Except as set forth herein, the Prepetition Term Loan Adequate Protection Superpriority Claims shall have priority over all administrative expense claims and unsecured claims against the Debtors or their estates, now existing or hereafter arising, of any kind or nature whatsoever, including, without limitation, administrative expenses of the kinds specified in or ordered

⁷ “Successor Cases” shall mean any successors to the Debtors or their estates, including, without limitation, any trustee appointed in the Chapter 11 Cases, or in any case under chapter 7 of the Bankruptcy Code upon the conversion of any of the Chapter 11 Cases, or in any other proceedings superseding or related to any of the foregoing.

pursuant to sections 105, 326, 328, 330, 331, 503(a), 503(b), 507(a), 506(c), 507(b), 546(c), 546(d), 726, 1113, and 1114 of the Bankruptcy Code; *provided, however*, that the Prepetition Term Loan Adequate Protection Superpriority Claims shall be subject to the Carve Out in all respects.

16. Adequate Protection Payments and Protections for Prepetition Term Loan Parties.

Subject to the Carve Out in all respects, as further adequate protection (the “Prepetition Adequate Protection Payments”), the Debtors are authorized and directed to provide adequate protection to the applicable Prepetition Term Loan Parties in the form of payment in cash (and as to fees and expenses, without the need for the filing of a formal fee application) of, subject to Paragraph 40 hereof, to the Prepetition Term Loan Parties, payment of the reasonable and documented fees, out-of-pocket expenses, and disbursements (including, without limitation, the reasonable and documented fees, out-of-pocket expenses, and disbursements of counsel, financial advisors, auditors, third-party consultants, and other vendors) incurred by the Prepetition Term Loan Parties, whether arising prior to or after the Petition Date.

17. Adequate Protection Reservation. Subject to the Carve Out in all respects, nothing herein shall impair or modify the application of section 507(b) of the Bankruptcy Code in the event that the adequate protection provided to the Prepetition Term Loan Parties hereunder is insufficient to compensate for any Diminution in Value of their interests in the Prepetition Collateral during the Chapter 11 Cases or any Successor Cases. The receipt by the Prepetition Secured Parties of the adequate protection provided herein shall not be deemed an admission that the interests of the Prepetition Secured Parties are adequately protected. Further, this Final Order shall not prejudice or limit the rights of the Prepetition Term Loan Parties to seek additional relief with respect to the continued use of Cash Collateral or for additional adequate protection.

Provisions Common to DIP Financing and use of Cash Collateral

18. Amendment of the DIP Documents. Until the DIP Financing Period Termination Date, the DIP Document may be amended as provided under the Interim Order. From and after the DIP Financing Period Termination Date, the DIP Documents may not be amended, modified, or supplemented by the parties.

19. Budget Maintenance. The use of Cash Collateral shall be in accordance with the Approved Budget, subject to the variances set forth in paragraph 20 hereof, depicting on a weekly and line by line basis, (a) projected cash receipts, (b) projected disbursements (including ordinary course operating expenses, bankruptcy-related expenses (including professional fees of the Debtors' professionals and advisors), and fees related to asset sales), (c) projected net cash flow, (d) projected inventory receipts and levels, and (e) professional fees. From and after entry of this Final Order, the Approved Budget shall be in form and substance acceptable to Prepetition Term Loan Agent in its sole discretion. The budget shall be updated by the Debtors (with the consent and/or at the reasonable request of the Prepetition Term Loan Agent) from time to time (provided that such updated budget shall be in form and substance satisfactory to, and approved by, the Prepetition Term Loan Agent in its sole discretion), and actuals and variances shall be reported on a weekly basis. No such updated, modified or supplemented budget shall be effective until so approved and once approved shall be deemed the "Approved Budget"; *provided, however,* that in the event that the Prepetition Term Loan Agent and the Debtors cannot agree as to an updated, modified or supplemented budget, the prior Approved Budget shall continue in effect, with weekly details for any periods after the initial 13-week period to be derived in a manner reasonably satisfactory to the Prepetition Term Loan Agent from the monthly budget prepared by the Debtors (and approved by the Prepetition Term Loan Agent in its sole discretion) for these Chapter 11 Cases, and such disagreement shall give rise to an Event

of Default under this Final Order once the period covered by the prior Approved Budget has terminated. A copy of any updated Approved Budget shall be filed with the Court and delivered at least two (2) business days prior to its effective date to counsel for the Committee and the U.S. Trustee after (or if) it has been approved by the Prepetition Term Loan Agent.

20. Budget Compliance. The Debtors shall not permit unfavorable variance from the Approved Budget exceeding (a) 7.5% for total disbursements and (b) 7.5% with respect to cumulative net cash flow of the Debtors, in each case for the period from the Petition Date through the measurement date at the end of each week. All variances shall be tested weekly on the Friday of such week, beginning with the two-week period ending on June 21, 2019, followed by the three-week period ending on June 28, 2019, and measured on a rolling four-week basis thereafter.

21. Modification of Automatic Stay. The automatic stay imposed under section 362(a)(2) of the Bankruptcy Code is hereby modified as necessary to effectuate all of the terms and provisions of this Final Order, including, without limitation, to: (a) permit the Debtors to grant the Prepetition Term Loan Adequate Protection Liens and Prepetition Term Loan Adequate Protection Superpriority Claims; (b) permit the Debtors to make periodic payments of cash in excess of the Cash Collateral Reserve to the Prepetition Term Loan Agents; (c) perform such acts as the Prepetition Term Loan Agent each may reasonably request to assure the perfection and priority of the liens granted herein; and (c) authorize the Debtors to pay, and the DIP Secured Parties and the Prepetition Secured Parties to retain and apply, payments made in accordance with the terms of this Final Order.

22. Perfection of Adequate Protection Liens. This Final Order shall be sufficient and conclusive evidence of the creation, validity, perfection, and priority of all liens granted herein,

including the Prepetition Term Loan Adequate Protection Liens, without the necessity of filing or recording any financing statement, mortgage, notice, or other instrument or document which may otherwise be required under the law or regulation of any jurisdiction or the taking of any other action (including, for the avoidance of doubt, entering into any deposit account control agreement) to validate or perfect (in accordance with applicable non-bankruptcy law) the Prepetition Term Loan Adequate Protection Liens, or to entitle the Prepetition Term Loan Parties to the priorities granted herein. Notwithstanding the foregoing, the Prepetition Term Loan Agent is authorized to file, as it in its sole discretion deems necessary or advisable, such financing statements, security agreements, mortgages, notices of liens, and other similar documents to perfect in accordance with applicable non-bankruptcy law or to otherwise evidence the Adequate Protection Term Loan Liens, and all such financing statements, mortgages, notices, and other documents shall be deemed to have been filed or recorded as of the Petition Date; *provided, however*, that no such filing or recordation shall be necessary or required in order to create or perfect the Prepetition Term Loan Adequate Protection Liens. The Debtors are authorized and directed to execute and deliver promptly upon demand to the Prepetition Term Loan Agent all such financing statements, mortgages, notices, and other documents as the Prepetition Term Loan Agent may reasonably request. The Prepetition Term Loan Agent, in its discretion, may file a photocopy of this Final Order as a financing statement with any filing or recording office or with any registry of deeds or similar office, in addition to or in lieu of such financing statements, notices of lien, or similar instrument. To the extent that the Prepetition ABL Agent or the DIP Agent are the secured party under any security agreement, mortgage, leasehold mortgage, landlord waiver, credit card processor notices or agreements, bailee letters, custom broker agreements, financing statement, account control agreements, or any other Prepetition

Documents or is listed as loss payee, lender's loss payee, mortgagee or additional insured under any of the Debtors' insurance policies, the Prepetition Term Loan Agent shall also be deemed to be the secured party under such documents or to be the loss payee, lender's loss payee, mortgagee or additional insured, as applicable. The Prepetition ABL Agent and/or the DIP Agent shall serve as agents for the Prepetition Term Loan Agent for purposes of perfecting the Prepetition Term Loan Adequate Protection Liens on all Prepetition Collateral, DIP Collateral, and/or Adequate Protection Collateral that, without giving effect to the Bankruptcy Code and this Final Order, is of a type such that perfection of a lien therein may be accomplished only by possession or control by a secured party.

23. [Reserved].

24. Protections of Rights of Prepetition Term Loan Parties.

(a) Unless the Prepetition Term Loan Agent shall have provided its prior written consent, or all Prepetition Term Loan Obligations have been Paid in Full, there shall not be entered in any of these Chapter 11 Cases or any Successor Cases any order (including any order confirming any plan of reorganization or liquidation) that authorizes any of the following: (i) the obtaining of credit or the incurring of indebtedness that is secured by a security, mortgage, or collateral interest or other lien on all or any portion of the Adequate Protection Collateral or the Prepetition Collateral and/or that is entitled to administrative priority status, in each case that is superior to or *pari passu* with the Prepetition Term Loan Liens, the Prepetition Term Loan Adequate Protection Liens, and/or the Prepetition Term Loan Adequate Protection Superpriority Claims except as expressly set forth in this Final Order; (ii) the use of Cash Collateral for any purpose other than as permitted in this Final Order; (iii) the return of goods pursuant to section 546(h) of the Bankruptcy Code (or other return of goods on account of any prepetition

indebtedness) to any creditor of any Debtor or any creditor's taking any setoff against any of its prepetition indebtedness based upon any such return of goods pursuant to section 553 of the Bankruptcy Code; or (iv) any modification of any of the DIP Secured Parties', the Prepetition ABL Parties', or the Prepetition Term Loan Parties' rights under this Final Order, the DIP Documents or the Prepetition Documents with respect any DIP Obligations, Prepetition ABL Obligations, or the Prepetition Term Loan Obligations.

(b) The Debtors (and/or their legal and financial advisors in the case of clauses (ii) through (iv) below) will, whether or not all DIP Obligations have been Paid in Full, (i) maintain books, records, and accounts to the extent and as required by the DIP Documents; (ii) reasonably cooperate with, consult with, and provide to the Prepetition Term Loan Agent and the Prepetition Term Loan Lenders all such information and documents that any or all of the Debtors are obligated (including upon reasonable request by any of the Prepetition Term Loan Agent and the Prepetition Term Loan Lenders) to provide under the provisions of this Final Order; (iii) upon reasonable advance notice, permit consultants, advisors, and other representatives (including third party representatives) of the Prepetition Term Loan Agent to visit and inspect any of the Debtors' respective properties, to examine and make abstracts or copies from any of their respective books and records, to tour the Debtors' business premises and other properties, and to discuss, and provide advice with respect to, their respective affairs, finances, properties, business operations, and accounts with their respective officers, employees, independent public accountants, and other professional advisors (other than legal counsel) as and to the extent required by the Prepetition Term Loan Documents; (iv) permit the Prepetition Term Loan Agent, and its consultants, advisors, and other representatives to consult with the Debtors' management and advisors on matters concerning the Debtors' businesses, financial condition,

operations, and assets; and (v) upon reasonable advance notice, permit the Prepetition Term Loan Agent to conduct, at its discretion and at the Debtors' cost and expense, field audits, collateral examinations, liquidation valuations, and inventory appraisals at reasonable times in respect of any or all of the Adequate Protection Collateral and Prepetition Collateral.

(c) No Debtor shall object to any Prepetition Term Loan Parties credit bidding up to the full amount of the applicable outstanding Prepetition Term Loan Obligations, in each case including any accrued interest and expenses, in any sale of any Adequate Protection Collateral or Prepetition Collateral, as applicable, whether such sale is effectuated through section 363 or section 1129 of the Bankruptcy Code, by a Chapter 7 trustee under section 725 of the Bankruptcy Code, or otherwise.

25. Proceeds of Subsequent Financing. If the Debtors, any trustee, any examiner with expanded powers, or any responsible officer subsequently appointed in these Chapter 11 Cases or any Successor Cases, shall obtain credit or incur debt pursuant to Bankruptcy Code sections 364(b), 364(c), or 364(d) or in violation of this Final Order at any time prior to the Full Payment of all Prepetition Term Loan Obligations, including subsequent to the confirmation of any plan with respect to any or all of the Debtors and the Debtors' estates, and such facilities are secured by any Prepetition Collateral, then all the cash proceeds derived from such credit or debt shall immediately be turned over to the Prepetition Term Loan Agent to be applied in accordance with this Final Order.

26. Cash Collection. From and after the date of the entry of this Final Order, all collections and proceeds of any Prepetition Collateral or services provided by any Debtor and all Cash Collateral, that shall at any time come into the possession, custody, or control of any Debtor, or to which any Debtor is now or shall become entitled at any time, except for the Cash

Collateral Reserve, shall be promptly deposited in the same lock-box and/or deposit accounts as is designated by the Prepetition Term Loan Agent from time to time) (collectively, the “Cash Collection Accounts”), which accounts shall be subject to the sole dominion and control of the Prepetition Term Loan Agent. The Debtors shall cooperate and execute all documents necessary for the Prepetition Loan Agent to obtain account control agreements with respect to any account of the Debtors. All proceeds and other amounts in the Cash Collection Accounts, except for the Cash Collateral Reserve, shall be remitted to the Prepetition Term Loan Agent for application against the Prepetition Term Loan Obligations in accordance with the terms of the Prepetition Term Loan Documents, until all Prepetition Term Loan Obligations are Paid in Full. Unless otherwise agreed to in writing by the Prepetition Term Loan Agent, or otherwise provided for herein, the Debtors shall maintain no accounts except those identified in the *Final Order Authorizing the Debtors to Continue Using Existing Bank Accounts, Business Forms, and Cash Management System* [Docket No. 155] (the “Cash Management Order”). The Debtors and the financial institutions where the Debtors’ Cash Collection Accounts are maintained (including those accounts identified in any Cash Management Order), are authorized and directed to remit, without offset or deduction, funds in such Cash Collection Accounts upon receipt of any direction to that effect from the Prepetition Term Loan Agent.

27. Maintenance of Prepetition Collateral. Until the Full Payment of all Prepetition Term Loan Obligations, the Debtors shall: (a) insure the Prepetition Collateral as required under the Prepetition Term Loan Documents; and (b) maintain the cash management system in effect as of the Petition Date, as modified by any Cash Management Order that has first been agreed to by the Prepetition Term Loan Agent or as otherwise required by this Final Order.

28. Disposition of Prepetition Collateral. The Debtors shall not sell, transfer, lease, encumber or otherwise dispose of any portion of the Prepetition Collateral other than in the ordinary course of business without the prior written consent of the Prepetition Term Loan Agent (and no such consent shall be implied, from any other action, inaction or acquiescence by the Prepetition Term Loan Parties or from any order of this Court), except as otherwise ordered by the Court. To the extent any Prepetition Collateral, DIP Collateral, or Adequate Protection Collateral is sold, the proceeds shall be paid to the Prepetition Term Loan Agent for application to the Prepetition Term Loan Obligations.

29. [Reserved].

30. Events of Default. The occurrence of any of the following events, unless waived by the Prepetition Term Loan Agent in writing and in accordance with the terms of the Prepetition Term Loan Documents and this Final Order, shall constitute an event of default (collectively, the “Events of Default”):

- (a) the Debtor’s continued use of Cash Collateral after the Cash Collateral Termination Date without the consent of the Prepetition Term Loan Agent;
- (b) the Debtors’ failure to (i) comply with the Approved Budget, subject in each case to any Permitted Variances permitted herein, or (ii) perform, in any material respect, any of its obligations under this Final Order, including but not limited to the Debtors’ failure to make any payments required under Paragraph 11 hereof;
- (c) the Debtors obtaining credit or incurring indebtedness without the consent of the Prepetition Term Loan Agent that is (i) secured by a security

interest, mortgage or other lien on all or any portion of the Adequate Protection Collateral which is equal or senior to any security interest, mortgage or lien of the Prepetition Term Loan Agent Parties, or (ii) entitled to priority administrative status which is equal to or senior to that granted to the Prepetition Term Loan Parties;

- (d) any lien or security interest purported to be created under the Prepetition Term Loan Documents shall cease to be, shall be asserted by the Debtors not to be, or shall otherwise be determined by the Bankruptcy Court not to be, a valid and perfected lien on or security interest in any Prepetition Collateral, with the priority required by the Prepetition Term Loan Documents or herein;
- (e) dismissal of the Chapter 11 Cases, conversion of the Chapter 11 Cases to chapter 7, or the appointment of a chapter 11 trustee or examiner with expanded powers in the Chapter 11 Cases;
- (f) an order shall be entered staying, reversing, vacating, amending, or rescinding any of the terms of the Interim Order or this Final Order without the consent of the Prepetition Term Loan Parties;
- (g) the Debtors shall have failed to file a chapter 11 plan acceptable to the Prepetition Term Loan Parties on or before August 12, 2019 (unless extended in writing by the Prepetition Term Loan Agent);
- (h) the Debtors shall have failed to confirm a Chapter 11 plan acceptable to the Prepetition Term Loan Parties on or before September 30, 2019 at a

combined hearing for approval of the disclosure statement and confirmation of the Chapter 11 plan;

- (i) the Debtors shall have filed with this Court a Chapter 11 plan or materially modified any previously filed Chapter 11 plan, in each case without the prior written approval of the Prepetition Term Loan Parties;
- (j) the entry of an order or judgment by this Court or any other court: (i) modifying, limiting, subordinating, or avoiding the priority of the obligations of the Debtors under the Interim Order or this Final Order, the obligations of the Debtors under the Prepetition Term Loan Agreement and the other Prepetition Term Loan Documents, or the perfection, priority, or validity of the Prepetition Term Loan Liens, or the Prepetition Term Loan Adequate Protection Liens; (ii) imposing, surcharging, or assessing against the Prepetition Term Loan Parties' claims, the Prepetition Collateral, the DIP Collateral or the Adequate Protection Collateral any costs or expenses, whether pursuant to section 506(c) of the Bankruptcy Code or otherwise; (iii) impairing the Prepetition Term Loan Agent's right to credit bid; or (iv) authorizing the obtaining of credit or the incurrence of indebtedness that is secured by a security interest, mortgage, or other lien on all or any portion of the Prepetition Collateral, the DIP Collateral, or the Adequate Protection Collateral which is equal or senior to any security interest, mortgage, or other lien of the Prepetition Term Loan Agent, for the benefit of the Prepetition Term Loan Parties, or

entitled to administrative expense priority status which is equal or senior to that granted to the Prepetition Term Loan Parties herein;

- (k) any Cash Collateral or the Carve Out is used, whether or not pursuant to Court order, in a manner inconsistent with the Approved Budget or this Final Order; or
- (l) a Challenge (as defined below) is brought by any party.

31. Rights and Remedies Upon Event of Default. Upon or at any time after the occurrence of an Event of Default and for so long as such Event of Default shall exist, subject to giving four (4) business days' written notice to Debtors and any other applicable notice parties under the DIP Financing and Cash Collateral Orders (in either event, the "Default Notice Period"), the Prepetition Term Loan Agent may in its discretion (and, upon receipt of written instructions to do so from the Prepetition Term Loan Lenders, shall) exercise from time to time the following rights and remedies in accordance with applicable non bankruptcy law: (i) all of the rights and remedies of a secured party under the UCC or under other applicable law, and all other legal and equitable rights to which the Prepetition Term Loan Agent may be entitled under any of the Prepetition Term Loan Documents, all of which rights and remedies shall be cumulative and shall be in addition to any other rights or remedies contained in the Prepetition Term Loan Agreement or any of the other Prepetition Term Loan Documents, and none of which shall be exclusive; (ii) the right to collect all amounts at any time payable to a Debtor from any account of a person at any time indebted to a Debtor; (iii) the right to take immediate possession of any of the Prepetition Collateral, DIP Collateral, or Adequate Protection Collateral; (iv) the right to sell or otherwise dispose of all or any Prepetition Collateral, DIP Collateral, or Adequate Protection Collateral in its then condition, or after any further manufacturing or processing

thereof, at public or private sale or sales, with such notice as may be required by applicable law, in lots or in bulk, for cash or on credit, all as the Prepetition Term Loan Agent, in its sole discretion, may deem advisable; and (v) appointment of a receiver, to take possession of all or any portion of the Prepetition Collateral, DIP Collateral or Adequate Protection Collateral and to exercise such rights and powers as the court appointing such receiver shall confer upon such receiver. The Debtor's right to use, and the Prepetition Term Loan Parties' consent to the Debtor's use of, Cash Collateral shall cease as of the expiration of the Default Notice Period absent further order of the Court.

32. Reversal, Modification, Vacatur, or Stay. The Prepetition Term Loan Parties have acted in good faith in connection with this Final Order and are entitled to rely upon the protections granted herein and by section 363(m) and 364(e) of the Bankruptcy Code, as applicable. Based on the findings set forth in this Final Order and the record made during the Hearings, and in accordance with section 363(m) and 364(e) of the Bankruptcy Code, in the event any or all of the provisions of this Final Order are hereafter modified, amended, or vacated by a subsequent order of this Court or any other court, the Prepetition Term Loan Parties are entitled to the protections provided in section 363(m) and 364(e) of the Bankruptcy Code. Any such modification, amendment or vacatur shall not affect the validity and enforceability of any extensions of credit previously made or made hereunder, or lien, claim, or priority authorized or created hereby.

33. Expenses. Subject to paragraph 40 hereof, the Debtors are authorized and directed to pay all reasonable and documented prepetition and postpetition fees, including attorneys' fees, monitoring and appraisal fees, financial advisory fees, fees and expenses of other consultants, and indemnification and reimbursement of fees and expenses. Payment of all such

fees and expenses shall not be subject to allowance by the Court. Professionals for the Prepetition Term Loan Parties shall not be required to comply with the U.S. Trustee fee guidelines, *provided, however*, any time that such professionals seek payment of fees and expenses from the Debtors, each professional shall provide reasonably detailed invoice summaries of its fee and expenses (which may be redacted or modified to the extent necessary to delete any information subject to the attorney-client privilege, any information constituting attorney work product, or any other confidential information, and the provision of such invoices shall not constitute any waiver of the attorney client privilege or of any benefits of the attorney work product doctrine) to the U.S. Trustee and counsel for the Committee contemporaneously with the delivery of such fee and expense statements to the Debtors. Any objections raised by the Debtors, the U.S. Trustee or the Committee with respect to such invoices within ten (10) days of the receipt thereof will be subject to resolution by the Court. Pending such resolution, the undisputed portion of any such invoice will be paid promptly by the Debtors. Notwithstanding the foregoing, the Debtors are authorized and directed to pay upon entry of this Final Order all undisputed reasonable and documented fees, costs, and out-of-pocket expenses of the Prepetition Term Loan Parties incurred on or prior to such date without the need for any professional engaged by the DIP Secured Parties or the Prepetition Secured Parties to first deliver a copy of its invoice as provided for herein. No attorney or advisor to the Prepetition Term Loan Parties shall be required to file an application seeking compensation for services or reimbursement of expenses with the Court.

34. Indemnification. The Debtors shall indemnify and hold harmless the DIP Secured Parties in accordance with the terms and conditions of the DIP Agreement.

35. Proofs of Claim. The Prepetition Term Loan Parties will not be required to file proofs of claim in any of the Chapter 11 Cases or Successor Cases for any claim allowed herein, including any Prepetition Term Loan Adequate Protection Claim or Prepetition Adequate Protection Term Loan Lien. Notwithstanding any order entered by the Court in relation to the establishment of a bar date in any of the Chapter 11 Cases or Successor Cases to the contrary, each of (a) the Prepetition Term Loan Agent (on behalf of the Prepetition Term Loan Parties) is hereby authorized and entitled, in its sole discretion, but not required, to file (and amend and/or supplement, as it sees fit) a proof of claim and/or aggregate proofs of claim in each of the Chapter 11 Cases or Successor Cases for any claim allowed herein. Any order entered by the Court in relation to the establishment of a bar date in any of the Chapter 11 Cases or Successor Cases shall not apply to any claim of the Prepetition Term Loan Parties.

36. Rights of Access and Information. Without limiting the rights of access and information afforded the Prepetition Term Loan Parties under the Prepetition Term Loan Documents, the Debtors shall be, and hereby are, required to afford representatives, agents and/or employees of the Prepetition Term Loan Parties reasonable access to the Debtors' premises and their books and records in accordance with the Prepetition Term Loan Documents, as applicable, and shall reasonably cooperate, consult with, and provide to such persons all such information as may be reasonably requested. In addition, the Debtors authorize their independent certified public accountants, financial advisors, investment bankers and consultants to cooperate, consult with, and provide to the DIP Agent and the Prepetition Term Loan Agent all such information as may be reasonably requested with respect to the business, results of operations and financial condition of any of the Debtors.

37. Carve Out.

(a) Subject to the terms, conditions and limitations contained in this paragraph 37 hereof, but only to the extent and subject to the express exclusions set forth herein, the Prepetition Term Loan Liens, the Prepetition Term Loan Adequate Protection Liens and the Prepetition Term Loan Adequate Protection Superpriority Claims are all subordinate to the following (collectively, the “Carve Out”):

(i) Allowed administrative expenses pursuant to 28 U.S.C. § 1930 for fees payable to the Office of the United States Trustee, as determined by agreement of the U.S. Trustee or by final order of this Court and 28 U.S.C. § 156(c) for fees required to be paid to the Clerk of this Court;

(ii) All reasonable fees and expenses up to \$50,000 incurred by a trustee under section 726(b) of the Bankruptcy Code (the “Chapter 7 Trustee Carve Out”);

(iii) All accrued and unpaid fees (other than any “success,” “restructuring,” “transaction” or similar fees), disbursements, costs and expenses, allowed at any time by this Court and incurred by professionals retained by the Debtors or the Committee (the “Case Professionals”), at any time prior to the delivery of the Carve Out Trigger Notice, but solely to the extent the same are in amounts incurred in accordance with the Approved Budget, which estimated professional fees and disbursements shall in no event be more than the amounts set forth in the Approved Budget for such Case Professionals (the aggregate amount of which shall not be increased absent consent of each of the Prepetition Agents), less the amount of any prepetition retainers received by such Case Professionals and not previously returned or applied to fees and expenses; and

(iv) All accrued and unpaid fees, disbursements and expenses incurred by the Case Professionals from and after the date of service of a Carve Out Trigger Notice, to the

extent allowed at any time, in an aggregate amount not to exceed \$300,000 (the “Wind-Down Carve Out Amount”) less the amount of any prepetition retainers received by such Case Professionals and not applied to the fees, disbursements, costs and expenses set forth in clause (iii) above.

(b) So long as no Carve Out Trigger Notice has been issued by the Prepetition Term Loan Agent, until all Prepetition Term Loan Obligations are Paid in Full, the Debtors shall be permitted to pay compensation and reimbursement of expenses allowed and payable under sections 330 and 331 of the Bankruptcy Code but solely to the extent the same are incurred in accordance with the Approved Budget and are reflected as estimates in, and maintained as a reserve under, the most recent borrowing base certificate delivered to the Prepetition Term Loan Agent by the Debtors prior to the delivery of the Carve Out Trigger Notice, as the same may be due and payable and otherwise allowed and payable by order of the Court, and the same shall not reduce the Wind-Down Carve Out Amount. A reserve may be kept by the Debtors for accruing Case Professional fees under the Approved Budget, which funds shall constitute Cash Collateral. The Carve Out shall not be deemed increased if actual fees are higher in fact than the Approved Budget. “Carve Out Trigger Notice” shall mean a written notice delivered by the Prepetition Term Loan Agent to the Debtors and their counsel, the U.S. Trustee, and lead counsel to the Committee, which notice may be delivered at any time by the Prepetition Term Loan Agent (i) at the time all Prepetition Term Loan Obligations are to be Paid in Full or (ii) following the occurrence and continuance of any Event of Default and, in any case, shall specify that it is a “Carve Out Trigger Notice.” Any payment or reimbursement made on or after the delivery of the Carve Out Trigger Notice in respect of any fees or expenses of the Case Professionals shall permanently reduce the Wind-Down Carve Out Amount on a dollar-for-dollar basis. Any fees

paid from Cash Collateral may be reimbursed to the Prepetition Term Loan Agent from the proceeds of any unencumbered assets. Any funding of the Carve Out shall be added to and made a part of the Prepetition Term Loan Obligations and secured by the Adequate Protection Collateral and otherwise entitled to the protections granted under this Final Order, the Prepetition Term Loan Documents, the Bankruptcy Code and applicable law.

(c) Nothing herein, including the inclusion of line items in the Approved Budget for Case Professionals, shall be construed as consent to the allowance of any particular professional fees or expense of the Debtors, of the Committee, or of any other person or shall affect the right of the Prepetition Term Loan Agents or the Prepetition Term Loan Parties to object to the allowance and payment of such fees and expenses. The Prepetition Term Loan Parties shall not be responsible for the direct payment or reimbursement of any fees or disbursements of any Case Professionals incurred in connection with the Chapter 11 Cases or any Successor Cases under any chapter of the Bankruptcy Code. Nothing in this Final Order or otherwise shall be construed to obligate the Prepetition Term Loan Parties in any way to pay compensation to or to reimburse expenses of any Case Professional, or to guarantee that the Debtors have sufficient funds to pay such compensation or reimbursement.

(d) The above Carve Out for Case Professionals is a Carve Out cap and the Case Professionals cannot seek any fees or expenses in excess thereof to be paid as any administrative expense claim in connection with confirmation of a Chapter 11 plan.

(e) The Debtors shall maintain an escrow or segregated account for the payment of allowed fees and expenses (the “Allowed Professional Fees”) of Case Professionals (the “Carve Out Reserve Account”) which account shall be funded by or on behalf of the Debtors in accordance with the Approved Budget on a weekly basis at the end of the subject week until

the occurrence of the Cash Collateral Termination Date provided the Debtors are in compliance with the Approved Budget. From funds in the Carve Out Reserve Account, the Debtors shall pay the Case Professionals for which a reserve was established in any given month the applicable allowed Case Professional fees and expenses for such month in connection with the Carve Out compensation and reimbursement. To the extent the allowed Case Professional fees and expenses that have accrued from the Petition Date through and including the Cash Collateral Termination Date are less than the amounts funded into the Carve Out Reserve Account, any excess shall be remitted to the Debtor for further disposition in accordance with this Final Order. Funds held in the Carve Out Reserve Account shall be applied to the allowed Case Professional fees and expenses that have been incurred following the Petition Date in accordance with the compensation procedures established in the Chapter 11 Cases with the excess, if any, to be remitted as set forth in the preceding sentence.

(f) Any payment made into the Carve Out Reserve Account or payments of fees and expenses made directly to the Case Professionals shall permanently reduce the Carve Out on a dollar-for-dollar basis; provided further that payment of any amounts of the Carve Out, whether by or on behalf of the Prepetition Term Loan Agent, shall not be deemed to reduce the Prepetition Term Loan Obligations; *provided further*, that the Prepetition Term Loan Agent and Prepetition Term Loan Lenders shall not under any circumstances, be responsible for the direct payment or reimbursement of any fees or disbursements of any Case Professional incurred in connection with the Chapter 11 Cases; and *provided further, however*, that notwithstanding anything to the contrary in this Final Order, if the Carve Out is used at any time to pay the Case Professional fees and expenses and if subsequently unencumbered assets or recovered assets become available, then the Prepetition Term Loan Agent shall be reimbursed from such

unencumbered or recovered assets or proceeds thereof until the Prepetition Term Loan Obligations are Paid in Full.

38. Limitations on Use of Cash Collateral and Carve Out. The Prepetition Collateral, the Cash Collateral and the Carve Out may not be used in connection with: (a) preventing, hindering, or delaying any of the Prepetition Term Loan Parties' enforcement or realization upon any of the Prepetition Collateral, DIP Collateral, or Adequate Protection Collateral; (b) using or seeking to use Cash Collateral or selling or otherwise disposing of Prepetition Collateral, DIP Collateral or Adequate Protection Collateral without the consent of the Prepetition Term Loan Agent; (c) using or seeking to use any insurance proceeds constituting Prepetition Collateral, DIP Collateral, or Adequate Protection Collateral without the consent of the Prepetition Term Loan Agent; (d) incurring debt without the prior consent of the Prepetition Term Loan Agent, except to the extent permitted under the Prepetition Term Loan Agreement; (e) seeking to amend or modify any of the rights granted to the DIP Secured Parties or the Prepetition Secured Parties under this Final Order, the DIP Documents, or the Prepetition Documents, including seeking to use Cash Collateral, DIP Collateral and/or Adequate Protection Collateral on a contested basis; (f) objecting to or challenging in any way the DIP Liens, DIP Obligations, Prepetition Liens, Prepetition Obligations, Adequate Protection Collateral, DIP Collateral, Cash Collateral or, as the case may be, Prepetition Collateral, or any other claims or liens, held by or on behalf of any of the DIP Secured Parties or the Prepetition Secured Parties, respectively; (g) asserting, commencing, or prosecuting any claims or causes of action whatsoever, including, without limitation, any actions under Chapter 5 of the Bankruptcy Code or applicable state law equivalents or actions to recover or disgorge payments, against any of the DIP Secured Parties, the Prepetition Secured Parties, or any of their respective affiliates, agents, attorneys, advisors,

professionals, officers, directors, and employees; (h) litigating, objecting to, challenging, or contesting in any manner, or raising any defenses to, the validity, extent, amount, perfection, priority, or enforceability of any of the DIP Obligations, the DIP Liens, the Prepetition Liens, Prepetition Secured Obligations or any other rights or interests of any of the DIP Secured Parties or the Prepetition Secured Parties; or (i) seeking to subordinate, recharacterize, disallow or avoid the DIP Obligations or the Prepetition Obligations; provided that the Committee may use up to \$50,000 (in the aggregate) in connection with the investigation (including discovery proceedings), but not the initiation or prosecution, of any claims, causes of action, adversary proceedings, or other litigation against the Prepetition Secured Parties.

39. Payment of Compensation. Nothing herein shall be construed as a consent to the allowance of any professional fees or expenses of any Case Professionals or shall affect the right of the Prepetition Term Loan Parties to object to the allowance and payment of such fees and expenses. So long as an unwaived Event of Default has not occurred, the Debtors shall be permitted to pay fees and expenses allowed and payable by final order (that has not been vacated or stayed, unless the stay has been vacated) under sections 328, 330, 331, and 363 of the Bankruptcy Code, as the same may be due and payable, as reflected in the most recent Approved Budget provided by the Debtors to the Prepetition Term Loan Agent.

40. Effect of Stipulations on Third Parties.

(a) *Prepetition ABL Parties.* The admissions, stipulations, agreements, releases, and waivers set forth in this Final Order with respect to the Prepetition ABL Parties and DIP Secured Parties are and shall be binding on the Debtors, each of the Debtors' estates, any subsequent trustee, responsible person, examiner with expanded powers, any other estate representative, and all creditors and parties in interest and all of their successors

in interest and assigns, including, without limitation, the Committee, upon entry of this Final Order.

(b) *Prepetition Term Loan Secured Parties.* The admissions, stipulations, agreements, releases, and waivers set forth in this Final Order with respect to the Prepetition Term Loan Parties (collectively, the “Prepetition Term Lien and Claim Matters”) are and shall be binding on the Debtors, each of the Debtors’ estates, any subsequent trustee, responsible person, examiner with expanded powers, any other estate representative, and all creditors and parties in interest and all of their successors in interest and assigns, including, without limitation, the Committee, unless, and solely to the extent that, a party in interest with standing and requisite authority (other than the Debtors, as to which any Challenge is irrevocably waived and relinquished) (i) has timely filed the appropriate pleadings required under the Bankruptcy Code and Bankruptcy Rules (in each case subject to the limitations set forth in this paragraph 40 hereof) challenging the Prepetition Term Lien and Claim Matters (each such proceeding or appropriate pleading commencing a proceeding or other contested matter, a “Challenge”) by no later than (a) 60 days from the date of formation of a Committee (if appointed), or (b) August 27, 2019 for any other party with requisite standing (the deadline established by clauses (a) and (b), the “Challenge Deadline”), and (ii) this Court enters judgment in favor of the plaintiff or movant in any such timely and properly commenced Challenge proceeding and any such judgment has become a final judgment that is not subject to any further review or appeal. Notwithstanding the foregoing, if a chapter 11 trustee is appointed or the Cases are converted to chapter 7 prior to the expiration of the Challenge Deadline, (1) the chapter 11 trustee or chapter 7 trustee, as applicable, shall have until the later of the Challenge Deadline or the thirtieth (30th) day after the appointment of the chapter 11 trustee or the

conversion of the Case to chapter 7, as applicable to commence a Challenge. Notwithstanding the foregoing the Debtors, for themselves and their estates, and the Committee each hereby (a) forever and irrevocably waive any right to bring a Challenge and agree that the Challenge Deadline is terminated as to each of them; and (b) covenant that in the event any party makes a Challenge, (i) any amounts budgeted to the Committee pursuant to the Budget will terminate on a pro rata basis effective as of the date of any Challenge such that the Committee shall, subject to the Carve-Out, only have the right to such budgeted amount prior to the date of such Challenge; and (ii) the Debtors and the Committee will support resolution of the Challenge such that the settlement would result in a condition consistent with the terms of this Order and the Budget. Notwithstanding the foregoing in Paragraph 40(b)(i), the Committee's reasonable attorneys fees and expenses in connection with supporting the resolution of any Challenge shall be paid by the Debtors and deemed to be added to the amounts allocated to the Committee in the Budget.

(c) *Binding Effect.* To the extent no Challenge is timely and properly commenced by the Challenge Deadline, or to the extent such proceeding does not result in a final and non-appealable judgment or order of this Court that is inconsistent with the Prepetition Term Lien and Claim Matters, then, without further notice, motion, or application to, order of, or hearing before, this Court and without the need or requirement to file any proof of claim, the Prepetition Term Lien and Claim Matters shall become binding, conclusive, and final on any person, entity, or party in interest in the Chapter 11 Cases, and their successors and assigns, and in any Successor Case for all purposes and shall not be subject to challenge or objection by any party in interest, including, without limitation, a trustee, responsible individual, examiner with expanded powers, or other representative of the Debtors' estates. Notwithstanding anything to the contrary herein, if any such proceeding is properly and timely commenced, the Prepetition

Term Lien and Claim Matters shall nonetheless remain binding on all other parties in interest and preclusive as provided in subparagraph (a) above except to the extent that any of such Prepetition Term Lien and Claim Matters is expressly the subject of a timely and properly filed Challenge, which Challenge is successful as set forth in a final judgment as provided in subparagraph (a) above, and only as to plaintiffs or movants that have complied with the terms hereof. Upon entry of this Final Order, to the extent any such Challenge proceeding is timely and properly commenced, the Prepetition Secured Parties shall be entitled to payment of the related costs and expenses, including, but not limited to, reasonable attorneys' fees, incurred under the Prepetition Documents in defending themselves in any such proceeding as adequate protection. Upon a successful Challenge brought pursuant to this paragraph 40 hereof, the Court may fashion any appropriate remedy, including without limitation claw back of Prepetition Obligations repaid pursuant to the DIP Financing and Cash Collateral Orders.

41. No Third Party Rights. Except as explicitly provided for herein, this Final Order does not create any rights for the benefit of any third party, creditor, equity holder or any direct, indirect, or incidental beneficiary.

42. Section 506(c) Claims. No costs or expenses of administration which have been or may be incurred in the Chapter 11 Cases at any time shall be charged against the DIP Secured Parties, the Prepetition ABL Parties, the Prepetition Term Loan Parties, or any of their respective claims, the DIP Collateral, the Adequate Protection Collateral or the Prepetition Collateral pursuant to sections 105 or 506(c) of the Bankruptcy Code, or otherwise, without the prior written consent of the DIP Secured Parties, the Prepetition ABL Parties, and the Prepetition Term Loan Parties, as applicable, and no such consent shall be implied from any other action, inaction, or acquiescence by any such agents or lenders.

43. No Marshaling/Applications of Proceeds. The DIP Secured Parties and Prepetition Secured Parties shall not be subject to the equitable doctrine of “marshaling” or any other similar doctrine with respect to any of the DIP Collateral, the Adequate Protection Collateral or the Prepetition Collateral, as the case may be, and proceeds shall be received and applied pursuant to the DIP Financing and Cash Collateral Orders and the DIP Documents notwithstanding any other agreement or provision to the contrary.

44. Section 552(b). The Prepetition Secured Parties shall each be entitled to all of the rights and benefits of section 552(b) of the Bankruptcy Code, and the “equities of the case” exception under section 552(b) of the Bankruptcy Code shall not apply to the Prepetition Secured Parties, with respect to proceeds, product, offspring or profits of any of the Prepetition Collateral, the Adequate Protection Collateral, or the DIP Collateral.

45. Access to Collateral. Notwithstanding anything contained herein to the contrary and without limiting any other rights or remedies of the Prepetition Term Loan Agent exercisable on behalf of the Prepetition Term Loan Parties contained in this Final Order, or otherwise available at law or in equity, and subject to the terms of the Prepetition Term Loan Documents, upon written notice to the landlord of any leased premises that an Event of Default has occurred and is continuing, the Prepetition Term Loan Agent, may, subject to the applicable notice provisions, if any, in this Final Order and any separate applicable agreement by and between such landlord and the Prepetition Term Loan Agent, enter upon any leased premises of the Debtors for the purpose of exercising any remedy with respect to the Prepetition Collateral, the DIP Collateral or the Adequate Protection Collateral located thereon and shall be entitled to all of the Debtors’ rights and privileges as lessee under such lease without interference from the landlords thereunder, *provided* that the Prepetition Term Loan Agent shall be obligated only to

pay rent of the Debtors that first accrues after the written notice referenced above and that is payable during the period of such occupancy by the Prepetition Term Loan Agent calculated on a daily per diem basis. Nothing herein shall require the Prepetition Term Loan Agent to assume any lease as a condition to the rights afforded in this paragraph 45 hereof. For the avoidance of doubt, subject to (and without waiver of) the rights of the Prepetition Term Loan Parties under applicable nonbankruptcy law, the Prepetition Term Loan Parties can only enter upon a leased premises after an Event of Default in accordance with (i) a separate agreement with the landlord at the applicable leased premises, or (ii) upon entry of an order of this Court obtained by motion of the Prepetition Term Loan Agent on such notice to the landlord as shall be required by this Court.

46. Limits on Lender Liability. Nothing in the DIP Financing and Cash Collateral Orders, or any other documents related thereto shall in any way be construed or interpreted to impose or allow the imposition upon the Prepetition Term Loan Parties of any liability for any claims arising from any activities by the Debtors in the operation of their businesses or in connection with the administration of these Chapter 11 Cases. The Prepetition Term Loan Parties shall not, solely by reason of permitting the Debtors to use Cash Collateral, be deemed in control of the operations of the Debtors or to be acting as a “responsible person” or “owner or operator” with respect to the operation or management of the Debtors (as such terms, or any similar terms, are used in the United States Comprehensive Environmental Response, Compensation and Liability Act, 29 U.S.C. §§ 9601 et seq., as amended, or any similar federal or state statute). Nothing in this Final Order, shall in any way be construed or interpreted to impose or allow the imposition upon the Prepetition Term Loan Parties of any liability for any claims arising from the prepetition or postpetition activities of any of the Debtors.

47. Insurance Proceeds and Policies. Upon entry of this Final Order and to the fullest extent provided by applicable law, the Prepetition Term Loan Agent (on behalf of the Prepetition Term Loan Parties) shall be, and shall be deemed to be, without any further action or notice, named as loss payee, lender's loss payee, mortgagee or additional insured, as applicable, on each insurance policy maintained by the Debtors that in any way relates to the Prepetition Collateral, the Adequate Protection Collateral or the DIP Collateral.

48. Joint and Several Liability. Nothing in this Final Order shall be construed to constitute a substantive consolidation of any of the Debtors' estates, it being understood, however, that the Debtors shall be jointly and severally liable for the obligations hereunder and all Prepetition Term Loan Obligations in accordance with the terms hereof or of the Prepetition Term Loan Documents.

49. No Superior Rights of Reclamation. Based on the findings and rulings herein regarding the integrated nature of the Prepetition Documents and the relation back of the Prepetition Term Loan Adequate Protection Liens, any alleged right of a seller of goods to reclaim such goods under section 546(c) of the Bankruptcy Code is not a Permitted Prior Lien; rather, any such alleged claims arising or asserted as a right of reclamation (whether asserted under section 546(c) of the Bankruptcy Code or otherwise) shall have the same rights and priority with respect to the Prepetition Term Loan Adequate Protection Liens as such claim had with the Prepetition Liens.

50. Rights Preserved. Notwithstanding anything herein to the contrary, the entry of this Final Order is without prejudice to, and does not constitute a waiver of, expressly or implicitly: (a) the Prepetition Term Loan Parties' right to seek any other or supplemental relief in respect of the Debtors; (b) any of the rights of any of the Prepetition Term Loan Parties under the

Bankruptcy Code or under non-bankruptcy law, including, without limitation, the right to (i) request modification of the automatic stay of section 362 of the Bankruptcy Code, (ii) request dismissal of any of the Chapter 11 Cases or Successor Cases, conversion of any of the Chapter 11 Cases to cases under chapter 7, or appointment of a chapter 11 trustee or examiner with expanded powers, or (iii) propose, subject to the provisions of section 1121 of the Bankruptcy Code, a Chapter 11 plan or plans; or (c) subject to the Intercreditor Agreement, any other rights, claims or privileges (whether legal, equitable or otherwise) of any of Prepetition Term Loan Parties. Notwithstanding anything herein to the contrary, the entry of this Final Order is without prejudice to, and does not constitute a waiver of, expressly or implicitly, the Debtors', the Committee's, or any party in interest's right to oppose any of the relief requested in accordance with the immediately preceding sentence except as expressly set forth in this Final Order. Entry of this Final Order is without prejudice to any and all rights of any party in interest with respect to any other position which any party in interest deems appropriate to raise in the Debtors' Chapter 11 Cases.

51. No Waiver by Failure to Seek Relief. The failure of the Prepetition Term Loan Parties to seek relief or otherwise exercise their rights and remedies under this Final Order, the Prepetition Term Loan Documents, or applicable law, as the case may be, shall not constitute a waiver of any of the rights hereunder, thereunder, or otherwise of the Prepetition Term Loan Parties, the Committee, or any party in interest.

52. Binding Effect of Final Order. Immediately upon execution by this Court, the terms and provisions of this Final Order shall become valid and binding upon and inure to the benefit of the Debtors, DIP Parties, Prepetition Secured Parties, all other creditors of any of the Debtors, the Committee (or any other court appointed committee), and all other parties-in-

interest and their respective successors and assigns, including any trustee or other fiduciary hereafter appointed in any of the Chapter 11 Cases, any Successor Cases, or upon dismissal of any Chapter 11 Case or Successor Case.

53. No Modification of Final Order. Until and unless all Prepetition Term Loan Obligations have been Paid in Full, the Debtors irrevocably waive the right to seek and shall not seek or consent to, directly or indirectly: (a) without the prior written consent of the Prepetition Term Loan Agent, (i) any modification, stay, vacatur or amendment to this Final Order; or (ii) a priority claim for any administrative expense or unsecured claim against the Debtors (now existing or hereafter arising of any kind or nature whatsoever, including, without limitation, any administrative expense of the kind specified in sections 503(b), 506(c), 507(a) or 507(b) of the Bankruptcy Code) in any of the Chapter 11 Cases or Successor Cases, equal or superior to the Prepetition Term Loan Adequate Protection Superpriority Claims, other than the Carve Out; (b) without the prior written consent of the Prepetition Term Loan Agent for any order allowing use of Cash Collateral (other than as permitted during the Default Notice Period) resulting from Adequate Protection Collateral; or (c) without the prior written consent of the Prepetition Term Loan Agent, any lien on any of the Adequate Protection Collateral, the DIP Collateral, or the Prepetition Collateral with priority equal or superior to the Prepetition Term Loan Liens or Prepetition Term Loan Adequate Protection Liens. The Debtors irrevocably waive any right to seek any amendment, modification or extension of this Final Order without the prior written consent, as provided in the foregoing, of the DIP Agent or the Prepetition Agents, and no such consent shall be implied by any other action, inaction or acquiescence of the DIP Agent or the Prepetition Agents.

54. Continuing Effect of Intercreditor Agreement. The Debtors, the DIP Secured Parties, and the Prepetition Secured Parties each shall be bound by, and in all respects of the DIP Facility shall be governed by, and be subject to all the terms, provisions and restrictions of the Intercreditor Agreement, to the extent such agreement remains in effect in accordance with its terms as of the date in question.

55. Final Order Controls. In the event of any inconsistency between the terms and conditions of the Prepetition Term Loan Documents or the other DIP Financing and Cash Collateral Orders and of this Final Order, the provisions of this Final Order shall govern and control.

56. Discharge. The obligations of the Debtors with respect to the adequate protection provided herein shall not be discharged by the entry of an order confirming any plan of reorganization in any of the Chapter 11 Cases, notwithstanding the provisions of section 1141(d) of the Bankruptcy Code, unless such obligations have been Paid in Full, on or before the effective date of such confirmed plan of reorganization, or the Prepetition Term Loan Agent has otherwise agreed in writing. None of the Debtors shall propose or support any plan of reorganization or sale of all or substantially all of the Debtors' assets, or order confirming such plan or approving such sale, that is not conditioned upon the payment of the Debtors' obligations with respect to the adequate protection provided for herein, in full in cash within a commercially reasonable period of time (and in no event later than the effective date of such plan of reorganization or sale) (a "Prohibited Plan or Sale") without the written consent of the Prepetition Term Loan Agent. For the avoidance of doubt, (i) the Debtors' proposal or support of a Prohibited Plan or Sale, or the entry of an order with respect thereto, shall constitute an Event of Default hereunder; and (ii) in no event may the adequate protection provided herein to

the Prepetition Term Loan Lenders be discharged under a reorganization plan in these Chapter 11 Cases or otherwise absent consent of the Prepetition Term Loan Agent or indefeasible payment in full of the Prepetition Term Loan Obligations.

57. Survival. The provisions of this Final Order and any actions taken pursuant hereto shall survive entry of any order which may be entered: (a) confirming any plan of reorganization in any of the Chapter 11 Cases; (b) converting any of the Chapter 11 Cases to a case under chapter 7 of the Bankruptcy Code; (c) dismissing any of the Chapter 11 Cases or any Successor Cases; or (d) pursuant to which this Court abstains from hearing any of the Chapter 11 Cases or Successor Cases. The terms and provisions of this Final Order, including the claims, liens, security interests, and other protections granted to the Prepetition Term Loan Parties granted pursuant to this Final Order, notwithstanding the entry of any such order, shall continue in the Chapter 11 Cases, in any Successor Cases, or following dismissal of the Chapter 11 Cases or any Successor Cases, and shall maintain their priority as provided by this Final Order until: in respect of the Prepetition Term Loan Facility, all Prepetition Term Loan Obligations pursuant to the Prepetition Term Loan Documents and this Final Order, have been paid in full. The terms and provisions concerning the indemnification of the DIP Secured Parties shall continue in the Chapter 11 Cases, in any Successor Cases, following dismissal of the Chapter 11 Cases or any Successor Cases, following termination of the DIP Documents and/or the indefeasible repayment of the DIP Obligations.

58. Subject to the expiration of the Challenge Period in the case of the Prepetition Term Loan Parties and effective upon entry of this Final Order in the case of the Prepetition ABL Parties and the DIP Secured Parties, the Debtors have agreed as a condition to obtaining financing under the DIP Facility, that in consideration of the Prepetition Term Loan Parties,

Prepetition ABL Parties, the DIP Agent, and the DIP Lenders permitting the Debtors to use the prepetition collateral (including Cash Collateral) and providing other credit and financial accommodations to the Debtors pursuant to the provisions of the Prepetition Term Loan Documents, the Prepetition ABL Documents, the DIP Documents, and the DIP Financing and Cash Collateral Order, each Debtor, on behalf of itself its estates and its successors and assigns, (collectively, the “Prepetition Secured Parties and DIP Releasors”), do hereby forever release, discharge and acquit each Prepetition Term Loan Party (solely in its capacity as such), Prepetition ABL Party, the DIP Agent, and each DIP Lender, and each of their respective successors and assigns, and their present and former shareholders, affiliates, subsidiaries, divisions, predecessors, directors, officers, attorneys, employees and other representatives in their respective capacities as such (collectively, the “Releasees”) of and from any and all claims, demands, liabilities, responsibilities, disputes, remedies, causes of action, indebtedness and obligations, of every kind, nature and description, with respect to the Prepetition Term Loan Obligations, Prepetition ABL Obligations, the Prepetition ABL Documents, the DIP Obligations, and the DIP Documents, and any loans, advances, letters of credit, bank products, or other financial accommodations made by any of the Prepetition Term Loan Parties (solely in their capacities as such) or the Prepetition ABL Parties to the Debtors (or any of them) pursuant to the Prepetition Term Loan Documents or the Prepetition ABL Documents, respectively, including, without limitation, any so-called “lender liability” claims or defenses, that the Prepetition Secured Parties and DIP Releasors had, have or hereafter can or may have against the Releasees as of the date hereof, in respect of events that occurred on or prior to the date hereof. In addition, upon the July 12, 2019 repayment in full of all Prepetition ABL Obligations owed to the Prepetition ABL Parties and the DIP Obligations owed to the DIP Agent and the DIP Lenders by

the Debtors and the termination of the rights and obligations arising under the Prepetition ABL Documents and the DIP Documents (which payment and termination were on terms and conditions acceptable to the Prepetition ABL Agent and DIP Agent, respectively), the Prepetition ABL Parties, the DIP Agent and the DIP Lenders, were released from any and all obligations, liabilities, actions, duties, responsibilities and causes of action arising or occurring in connection with or related to the Prepetition ABL Documents, the DIP Documents, the DIP Financing and Cash Collateral Orders (including without limitation any obligation or responsibility (whether direct or indirect, absolute or contingent, due or not due, primary or secondary, liquidated or unliquidated) to pay or otherwise fund the Carve Out (or any portion thereof), on terms and conditions acceptable to the Prepetition ABL Agent and DIP Agent, but for the avoidance of doubt, excluding any claims or causes of action for gross negligence or willful misconduct).

59. [Reserved].

60. [Reserved].

61. Retention of Jurisdiction. The Court has and will retain jurisdiction to enforce the terms of, any and all matters arising from or related to the DIP Facility, the Debtors' use of Cash Collateral, and/or this Final Order.

Dated: August 7th, 2019
Wilmington, Delaware



LAURIE SELBER SILVERSTEIN
UNITED STATES BANKRUPTCY JUDGE

Exhibit 1

Approved Budget

United Sporting Companies, Inc.
In-Court Liquidation Scenario - Weekly Cash Flow Projections

\$ 000's	Liquidation										Actual	8/2 - 10/4	Liq. Trust	Total	
	Actual	1	2	3	4	5	6	7	8	9	10	Case to Date	Forecast	Liquidating	Act + Fcst
Week Ending	7/26/19	8/2/19	8/9/19	8/16/19	8/23/19	8/30/19	9/6/19	9/13/19	9/20/19	9/27/19	10/4/19	6/14 - 7/26	8/2 - 10/4	Trust	6/14 +
Sales:	\$ 3,270	\$ 4,609	\$ 717	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 40,766	\$ 5,326	\$ -	\$ 46,092
Receipts:															
Total Trade A/R Receipts	5,355	3,326	5,504	3,285	3,272	4,462	764	-	-	-	-	40,411	20,613	-	61,024
Disposition of Non-Merchandise Assets	-	-	-	-	170	-	-	-	-	-	7,395	-	7,565	2,972	10,537
Total Receipts	\$ 5,355	\$ 3,326	\$ 5,504	\$ 3,285	\$ 3,442	\$ 4,462	\$ 764	\$ -	\$ -	\$ -	\$ 7,395	\$ 40,411	\$ 28,178	\$ 2,972	\$ 71,560
Disbursements:															
Operating Disbursements															
Miscellaneous SG&A	69	125	125	125	125	75	75	75	75	75	75	606	950	-	1,556
Gross Payroll - Salary & Hourly	-	351	-	186	-	119	-	64	50	-	-	1,319	769	-	2,089
Gross Commissions	-	948	-	757	-	442	-	410	-	-	-	1,148	2,557	-	3,705
Payroll Taxes (ER) / Fringes/Benefits	-	50	-	26	195	17	-	9	171	-	99	592	568	-	1,160
Freight Out	157	316	49	-	-	-	-	-	-	-	-	751	365	-	1,115
Rent & Utilities	63	157	-	-	-	31	157	-	-	31	109	262	485	-	746
Property/Liability/Other Insurance	-	73	-	-	-	73	-	-	-	-	73	74	220	-	293
Taxes - Property & Other	-	-	-	30	-	-	-	30	-	-	13	-	72	-	72
Total Operating Disbursements	289	2,019	174	1,123	320	757	232	588	296	179	297	4,751	5,986	-	10,737
Operating Cash Flow	5,066	1,307	5,330	2,162	3,122	3,705	532	(588)	(296)	7,216	(297)	35,659	22,193	2,972	60,823
Non-Operating Disbursements															
Professional Fees	74	2,125	222	329	204	204	188	188	188	263	90	421	4,001	-	4,422
US Trustee Fees	-	15	-	-	-	-	-	-	-	-	163	-	178	-	178
Severance - 507(a)(4) Wages	-	168	-	548	-	233	-	209	-	216	-	-	1,374	-	1,374
PTO	-	61	-	77	-	17	-	19	-	64	-	-	238	-	238
Funding to Liquidating Trust	-	-	-	-	-	-	-	-	-	-	-	-	-	500	500
KEIP/KEPF	-	-	-	89	-	109	-	129	-	182	-	-	509	-	509
Interest Payments	-	97	-	-	-	-	-	-	-	-	-	108	97	-	205
Brokerage Fees (PP&E)	-	-	-	-	-	-	-	-	-	444	-	-	444	119	563
Bank Fees	-	30	100	-	-	-	-	-	-	-	-	83	130	-	213
Total Non-Operating Disbursements	74	2,496	322	1,043	204	563	188	545	188	1,169	253	612	6,970	619	8,201
Total Disbursements	\$ 363	\$ 4,515	\$ 496	\$ 2,166	\$ 524	\$ 1,320	\$ 420	\$ 1,133	\$ 484	\$ 1,348	\$ 550	\$ 5,363	\$ 12,956	\$ 619	\$ 18,938
Net Cash Flow	\$ 4,993	\$ (1,188)	\$ 5,008	\$ 1,118	\$ 2,918	\$ 3,141	\$ 344	\$ (1,133)	\$ (484)	\$ 6,047	\$ (550)	\$ 35,047	\$ 15,222	\$ 2,353	\$ 52,623
Cash Collateral Balance															
Beginning balance	\$ 12,832	\$ 9,060	\$ 8,564	\$ 6,398	\$ 5,874	\$ 4,553	\$ 4,133	\$ 3,000	\$ 2,516	\$ 1,168			\$ 12,832	\$ 619	\$ 12,832
Plus/Minus: Excess Net Cash Flow	(1,188)	5,008	1,118	2,918	3,141	344	(1,133)	(484)	6,047	(550)			15,222	2,353	17,575
Cash Balance Pre-Distribution to Term Loan Lenders	11,643	14,068	9,683	9,315	9,015	4,898	3,000	2,516	8,563	619			28,054	2,972	30,407
Future Disbursements	(9,060)	(8,564)	(6,398)	(5,874)	(4,553)	(4,133)	(3,000)	(2,516)	(1,168)	(619)					
Excess/(Shortfall) Cash	2,583	5,504	3,285	3,442	4,462	764	-	-	7,395	-					
Minus: Distributions to Term Loan Lenders	(2,583)	(5,504)	(3,285)	(3,442)	(4,462)	(764)	-	-	(7,395)	-			(27,435)	(2,972)	(30,407)
Ending balance	\$ 12,832	\$ 9,060	\$ 8,564	\$ 6,398	\$ 5,874	\$ 4,553	\$ 4,133	\$ 3,000	\$ 2,516	\$ 1,168	\$ 619		\$ 619	\$ 0	\$ -
Excess Cash Calculation															
Cash Balance Pre-Distribution to Term Loan Lenders	\$ 11,643	\$ 14,068	\$ 9,683	\$ 9,315	\$ 9,015	\$ 4,898	\$ 3,000	\$ 2,516	\$ 8,563	\$ 619					
Minus: Future Disbursements	(9,060)	(8,564)	(6,398)	(5,874)	(4,553)	(4,133)	(3,000)	(2,516)	(1,168)	(619)					
Excess/(Shortfall) Cash	\$ 2,583	\$ 5,504	\$ 3,285	\$ 3,442	\$ 4,462	\$ 764	\$ -	\$ -	\$ 7,395	\$ -					
A/R Rollover															
Beginning balance	\$ 23,376	\$ 24,659	\$ 19,872	\$ 16,587	\$ 13,315	\$ 8,854	\$ 8,089	\$ 8,089	\$ 8,089	\$ 8,089	\$ 8,089		\$ 23,376	\$ 8,089	\$ 23,376
Plus: Sales	4,609	717	-	-	-	-	-	-	-	-	-		5,326	-	5,326
Minus: A/R Receipts	(3,326)	(5,504)	(3,285)	(3,272)	(4,462)	(764)	-	-	-	-	-		(20,613)	-	(20,613)
Ending balance	\$ 23,376	\$ 24,659	\$ 19,872	\$ 16,587	\$ 13,315	\$ 8,854	\$ 8,089	\$ 8,089	\$ 8,089	\$ 8,089	\$ 8,089		\$ 8,089	\$ 8,089	\$ 8,089
Inventory Rollover															
Beginning balance (On Hand)	\$ 12,006	\$ 1,616	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -		\$ 12,006	\$ -	\$ 12,006
Plus: Inventory Receipts	-	-	-	-	-	-	-	-	-	-	-		-	-	-
Minus: Inventory COGS	(10,389)	(1,616)	-	-	-	-	-	-	-	-	-		(12,006)	-	(12,006)
Ending balance (On Hand)	\$ 12,006	\$ 1,616	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -		\$ -	\$ -	\$ -

United Sporting Companies, Inc.
Weekly Professional Fees Summary

Professional Fees														Total
(\$000s)	Week Ending:	7/19/19	7/26/19	8/2/19	8/9/19	8/16/19	8/23/19	8/30/19	9/6/19	9/13/19	9/20/19	9/27/19	10/4/19	7/19 - 10/4
Debtor														
Counsel to Debtor		\$0	\$0	\$800	\$65	\$65	\$65	\$65	\$55	\$55	\$55	\$55	\$10	\$1,290
CRO and FA to the Debtor		348	74	80	80	63	63	63	63	63	63	63	13	1,031
Audit and Tax Services		0	0	0	0	125	0	0	0	0	0	75	0	200
Senior Lenders														
Counsel to Senior		0	0	200	0	0	0	0	0	0	0	0	0	200
FA to Senior		0	0	80	0	0	0	0	0	0	0	0	0	80
Second Lien														
Counsel to Second		0	0	165	10	10	10	10	4	4	4	4	1	221
UCC														
UCC		0	0	800	67	67	67	67	67	67	67	67	67	1,400
Total		\$348	\$74	\$2,125	\$222	\$329	\$204	\$204	\$188	\$188	\$188	\$263	\$90	\$4,422

RONALD FRIEDMAN, as trustee for
the SportCo Creditors' Liquidation
Trust,

Plaintiff,

v.

WELLSPRING CAPITAL
MANAGEMENT LLC, WELLSPRING
CAPITAL PARTNERS IV, L.P., WCM
GENPAR IV, L.P., WCM GENPAR IV
GP, LLC, ALEXANDER E. CARLES,
BRADLEY JOHNSON, F. HEWITT
GRANT, CHARLES E. WALKER, JR.,
TODD BOEHLI, BERNARD
ZIOMEK, and ANDREW KUPCHIK,

Defendants.

THIS MATTER is before the Court on the motion pursuant to Fed. R. Civ. P. 12(b)(6) and Fed. R. Bankr. P. 7012 to dismiss the First Amended Complaint (the “Complaint”) with prejudice (the “Motion”) filed by Defendants Wellspring Capital Management LLC, Wellspring Capital Partners IV, L.P., WCM GenPar IV, L.P., WCM GenPar IV GP, LLC, and Alexander E. Carles on February 19, 2020. It appearing that the relief requested in the Motion is just and warranted:

IT IS HEREBY ORDERED that the Motion is granted and the Complaint is dismissed with prejudice.

AND IT IS SO ORDERED.