

UNITIL CORP
Form 10-Q
July 27, 2017
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

QUARTERLY REPORT UNDER SECTION 13 OR 15(d)

OF THE SECURITIES EXCHANGE ACT OF 1934

For Quarter Ended June 30, 2017

Commission File Number 1-8858

UNITIL CORPORATION

(Exact name of registrant as specified in its charter)

New Hampshire
(State or other jurisdiction of

02-0381573
(I.R.S. Employer

incorporation or organization)

Identification No.)

6 Liberty Lane West, Hampton, New Hampshire
(Address of principal executive office)

03842-1720
(Zip Code)

Registrant's telephone number, including area code: (603) 772-0775

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 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 (Do not check if a smaller reporting company)

Smaller reporting company

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Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act

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

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

Class	Outstanding at July 24, 2017
Common Stock, No par value	14,115,550 Shares

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UNITIL CORPORATION AND SUBSIDIARY COMPANIES

FORM 10-Q

For the Quarter Ended June 30, 2017

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CAUTIONARY STATEMENT

This report and the documents incorporated by reference into this report contain statements that constitute forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, Section 21E of the Securities Exchange Act of 1934, as amended, and the Private Securities Litigation Reform Act of 1995. All statements, other than statements of historical fact, included or incorporated by reference into this report, including, without limitation, statements regarding the financial position, business strategy and other plans and objectives for the Company's future operations, are forward-looking statements.

These statements include declarations regarding the Company's beliefs and current expectations. In some cases, forward-looking statements can be identified by terminology such as may, will, should, expects, plans, anticipates, believes, estimates, predicts, potential or negative of such terms or other comparable terminology. These forward-looking statements are subject to inherent risks and uncertainties in predicting future results and conditions that could cause the actual results to differ materially from those projected in these forward-looking statements. Some, but not all, of the risks and uncertainties include those described in Item 1A (Risk Factors) and the following:

the Company's regulatory environment (including regulations relating to climate change, greenhouse gas emissions and other environmental matters), which could affect the rates the Company is able to charge, the Company's authorized rate of return and the Company's ability to recover costs in its rates;

fluctuations in the supply of, demand for, and the prices of energy commodities and transmission capacity and the Company's ability to recover energy commodity costs in its rates;

customers' preferred energy sources;

severe storms and the Company's ability to recover storm costs in its rates;

the Company's stranded electric generation and generation-related supply costs and the Company's ability to recover stranded costs in its rates;

declines in the valuation of capital markets, which could require the Company to make substantial cash contributions to cover its pension obligations, and the Company's ability to recover pension obligation costs in its rates;

general economic conditions, which could adversely affect (i) the Company's customers and, consequently, the demand for the Company's distribution services, (ii) the availability of credit and liquidity resources and (iii) certain of the Company's counterparties obligations (including those of its insurers and lenders);

the Company's ability to obtain debt or equity financing on acceptable terms;

increases in interest rates, which could increase the Company's interest expense;

restrictive covenants contained in the terms of the Company's and its subsidiaries' indebtedness, which restrict certain aspects of the Company's business operations;

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variations in weather, which could decrease demand for the Company's distribution services;

long-term global climate change, which could adversely affect customer demand or cause extreme weather events that could disrupt the Company's electric and natural gas distribution services;

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numerous hazards and operating risks relating to the Company's electric and natural gas distribution activities, which could result in accidents and other operating risks and costs;

catastrophic events;

the Company's ability to retain its existing customers and attract new customers;

the Company's energy brokering customers' performance under multi-year energy brokering contracts; and

increased competition.

Many of these risks are beyond the Company's control. Any forward-looking statements speak only as of the date of this report, and the Company undertakes no obligation to update any forward-looking statements to reflect events or circumstances after the date on which such statements are made or to reflect the occurrence of unanticipated events. New factors emerge from time to time, and it is not possible for the Company to predict all of these factors, nor can the Company assess the impact of any such factor on its business or the extent to which any factor, or combination of factors, may cause results to differ materially from those contained in any forward-looking statements.

PART I. FINANCIAL INFORMATION

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

Unitil Corporation (Unitil or the Company) is a public utility holding company headquartered in Hampton, New Hampshire. Unitil is subject to regulation as a holding company system by the Federal Energy Regulatory Commission (FERC) under the Energy Policy Act of 2005.

Unitil's principal business is the local distribution of electricity and natural gas throughout its service areas in the states of New Hampshire, Massachusetts and Maine. Unitil is the parent company of three wholly-owned distribution utilities:

- i) Unitil Energy Systems, Inc. (Unitil Energy), which provides electric service in the southeastern seacoast and state capital regions of New Hampshire, including the capital city of Concord, New Hampshire;
- ii) Fitchburg Gas and Electric Light Company (Fitchburg), which provides both electric and natural gas service in the greater Fitchburg area of north central Massachusetts; and
- iii) Northern Utilities, Inc. (Northern Utilities), which provides natural gas service in southeastern New Hampshire and portions of southern and central Maine, including the city of Portland, which is the largest city in northern New England.

Unitil Energy, Fitchburg and Northern Utilities are collectively referred to as the distribution utilities. Together, the distribution utilities serve approximately 104,300 electric customers and 79,900 natural gas customers in their service territory.

In addition, Unitil is the parent company of Granite State Gas Transmission, Inc. (Granite State) an interstate natural gas transmission pipeline company, operating 86 miles of underground gas transmission pipeline primarily located in Maine and New Hampshire. Granite State provides Northern Utilities with interconnection to major natural gas pipelines and access to domestic natural gas supplies in the south and Canadian natural gas supplies in the north.

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Unitil had an investment in Net Utility Plant of \$912.7 million at June 30, 2017. Unitil's total operating revenue includes revenue to recover the approved cost of purchased electricity and natural gas in rates on a fully reconciling basis. As a result of this reconciling rate structure, the Company's earnings are not directly affected by changes in the cost of purchased electricity and natural gas. Earnings from Unitil's utility operations are primarily derived from the return on investment in the utility assets of the three distribution utilities and Granite State.

Unitil also conducts non-regulated operations principally through Usource Inc. and Usource L.L.C. (collectively, Usource), which is wholly-owned by Unitil Resources Inc., a wholly-owned subsidiary of Unitil. Usource provides energy brokering and advisory services to large commercial and industrial customers primarily in the northeastern United States. The Company's other subsidiaries include Unitil Service Corp., which provides, at cost, a variety of administrative and professional services to Unitil's affiliated companies, Unitil Realty Corp. (Unitil Realty), which owns and manages Unitil's corporate office building and property located in Hampton, New Hampshire and Unitil Power Corp., which formerly functioned as the full requirements wholesale power supply provider for Unitil Energy. Unitil's consolidated net income includes the earnings of the holding company and these subsidiaries.

RATES AND REGULATION

Regulation

Unitil is subject to comprehensive regulation by federal and state regulatory authorities. Unitil and its subsidiaries are subject to regulation as a holding company system by the FERC under the Energy Policy Act of 2005 with regard to certain bookkeeping, accounting and reporting requirements. Unitil's utility operations related to wholesale and interstate energy business activities are also regulated by the FERC. Unitil's distribution utilities are subject to regulation by the applicable state public utility commissions, with regard to their rates, issuance of securities and other accounting and operational matters: Unitil Energy is subject to regulation by the New Hampshire Public Utilities Commission (NHPUC); Fitchburg is subject to regulation by the Massachusetts Department of Public Utilities (MDPU); and Northern Utilities is regulated by the NHPUC and the Maine Public Utilities Commission (MPUC). Granite State, Unitil's interstate natural gas transmission pipeline, is subject to regulation by the FERC with regard to its rates and operations. Because Unitil's primary operations are subject to rate regulation, the regulatory treatment of various matters could significantly affect the Company's operations and financial position.

Unitil's distribution utilities deliver electricity and/or natural gas to all customers in their service territory, at rates established under cost of service regulation. Under this regulatory structure, Unitil's distribution utilities recover the cost of providing distribution service to their customers based on a historical test year, and earn a return on their capital investment in utility assets. In addition, the Company's distribution utilities and its natural gas transmission pipeline company may also recover certain base rate costs, including capital project spending and enhanced reliability and vegetation management programs, through annual step adjustments and cost tracker rate mechanisms.

Fitchburg is subject to revenue decoupling. Revenue decoupling is the term given to the elimination of the dependency of a utility's distribution revenue on the volume of electricity or natural gas sales. The difference between distribution revenue amounts billed to customers and the targeted revenue decoupling amounts is recognized as an increase or a decrease in Accrued Revenue which forms the basis for resetting rates for future cash recoveries from, or credits to, customers. These revenue decoupling targets may be adjusted as a result of rate cases and other authorized adjustments that the Company files with the MDPU. The Company estimates that revenue decoupling applies to approximately 27% and 11% of Unitil's total annual electric and natural gas sales volumes, respectively.

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Rate Case Activity

Unitil Energy Base Rates On April 20, 2017 the NHPUC issued its final order approving a settlement between Unitil Energy, Commission Staff and the Office of Consumer Advocate providing for a permanent increase of \$4.1 million, and a three year rate plan with an additional rate step adjustment in May 2017 of \$0.9 million, followed by two rate step adjustments in May of 2018 and 2019 to recover the revenue requirements associated with annual capital expenditures as defined under the rate plan.

Fitchburg Base Rates Electric On April 29, 2016 the MDPU issued an order approving a \$2.1 million increase in Fitchburg's electric base revenue decoupling target, effective May 1, 2016. As part of its order, the MDPU approved, with modifications, Fitchburg's request for an annual capital cost recovery mechanism, which allows for increases to target revenues to recover the revenue requirement associated with annual capital additions as defined under the mechanism. In 2016, Fitchburg made its first capital cost adjustment filing for calendar year 2015 capital investments, and received MDPU approval to increase revenues by approximately \$0.5 million, subject to further investigation and reconciliation. On June 29, 2017, Fitchburg filed its compliance report on capital investments for calendar year 2016, which forms the basis for the next filing to adjust target revenues to be made with the MDPU in November 2017. These matters remain pending.

Fitchburg Base Rates Gas On April 29, 2016, the MDPU issued an order approving a \$1.6 million increase in Fitchburg's gas base revenue decoupling target, effective May 1, 2016.

Fitchburg Gas Operations On October 31, 2016, Fitchburg submitted its annual filing under its gas system enhancement program to recover the revenue requirements associated with capital additions in 2017 as defined under the program. The filing sought approval to collect an additional \$0.9 million of annual revenues. On April 28, 2017, the MDPU approved recovery of 2017 costs, subject to a revenue cap of 1.5%, resulting in an additional \$0.5 million of annual revenues effective May 1, 2017. The remaining \$0.4 million of annual revenues the Company sought approval to collect has been deferred for recovery in future periods under the program. The Company has requested that the MDPU waive the 1.5% revenue requirement cap on deferred amounts. This matter remains pending.

Northern Utilities Base Rates Maine On May 31, 2017, Northern Utilities filed a base rate case with the MPUC seeking to increase annual revenues by \$6.0 million. Following an extensive regulatory review and investigation process, a final order from the MPUC on Northern Utilities' request is expected by the end of February 2018.

In addition to the distribution base rate increase, Northern Utilities is requesting to extend its Targeted Infrastructure Replacement Adjustment mechanism (TIRA). The TIRA is a capital cost recovery mechanism designed to recover the annual revenue requirements associated with targeted investments in gas distribution system infrastructure replacement and upgrade projects, including the Company's Cast Iron Replacement Program (CIRP). This matter remains pending.

Northern Utilities Targeted Infrastructure Replacement Adjustment The settlement in Northern Utilities' Maine division's last rate case allowed the Company to implement a TIRA rate mechanism to adjust base distribution rates annually to recover the revenue requirements associated with targeted investments in gas distribution system infrastructure replacement and upgrade projects. The TIRA had an initial term of four years and covers targeted capital expenditures in 2013 through 2016 as defined under the mechanism. The 2017 TIRA, for 2016 expenditures, approved by the MPUC on April 25, 2017, provided for an annual increase in distribution base revenue of \$1.1 million, effective May 1, 2017.

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Northern Utilities Targeted Area Build-out Program Maine On December 22, 2015, the MPUC approved a Targeted Area Build-out (TAB) program and associated rate surcharge mechanism. This program is designed to allow the economic extension of natural gas mains to new, targeted service areas in Maine. It allows customers in the targeted area the ability to pay a rate surcharge, instead of a large upfront payment or capital contribution to connect to the natural gas delivery system. The initial pilot of the TAB program was approved for the City of Saco, and is being built out over a period of three years, with the potential to add 1,000 new customers and approximately \$1 million in annual distribution revenue in the Saco area. The second TAB program was approved for the Town of Sanford, and has the potential to add 2,000 new customers and approximately \$2 million in annual distribution revenue in the Sanford area.

Northern Utilities Base Rates New Hampshire On June 5, 2017, Northern Utilities filed for a base rate increase with the NHPUC seeking to increase annual revenues by \$4.7 million. On June 15, 2017, the Commission suspended the Company's proposed permanent rates tariffs while the filing is under extensive regulatory review and investigation over the next several months. A final order from the NHPUC on Northern Utilities' request is expected by the end of April 2018.

Northern Utilities has reached a settlement agreement on temporary rates to produce an increase in annual revenues of approximately \$1.6 million, effective with service rendered on and after August 1, 2017, and until a final, non-appealable order on permanent rates is issued. Once a final decision on permanent rates is issued, it will be reconciled back to the date that temporary rates were implemented. The settlement agreement will be filed for Commission approval.

In its initial petition, Northern Utilities is also requesting approval to implement a multi-year rate plan, including a capital cost recovery mechanism, which will allow for recovery of the revenue requirements associated with future annual capital expenditures as defined under the plan through changes, or step adjustments, to Northern Utilities' distribution rates without the need to file a general rate case prior to January 2021. This matter remains pending.

Northern Utilities Pipeline Refund On February 19, 2015, the FERC issued Opinion No. 524-A, the final order in Portland Natural Gas Transmission's (PNGTS) Section 4 rate case, requiring PNGTS to issue refunds to shippers. Northern Utilities received a pipeline refund of \$22.0 million on April 15, 2015. As a gas supply-related refund, the entire amount refunded will be credited to Northern Utilities' customers and marketers over three years as directed by the NHPUC and MPUC. The Company has recorded current Regulatory Liabilities related to these refunds of \$3.5 million on its Consolidated Balance Sheets as of June 30, 2017.

Granite State Base Rates Granite State has in place a FERC-approved second amended settlement agreement under which it is permitted to file annually, each June, for a rate adjustment to recover the revenue requirements associated with specified capital investments in gas transmission projects up to a specific cap on expenditures. On June 21, 2017 Granite State filed for an annual revenue increase under this provision of \$0.2 million, effective August 1, 2017. This filing remains pending before the FERC.

RESULTS OF OPERATIONS

The following section of MD&A compares the results of operations for each of the two fiscal periods ended June 30, 2017 and June 30, 2016 and should be read in conjunction with the accompanying unaudited Consolidated Financial Statements and the accompanying Notes to unaudited Consolidated Financial Statements included in Part I, Item 1 of this report, which are prepared in accordance with accounting principles generally accepted in the United States of America (GAAP).

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The Company's results of operations reflect the seasonal nature of the natural gas business. Annual gas revenues are substantially realized during the heating season as a result of higher sales of natural gas due to cold weather. Accordingly, the results of operations are historically most favorable in the first and fourth quarters. Fluctuations in seasonal weather conditions may have a significant effect on the result of operations. Sales of electricity are generally less sensitive to weather than natural gas sales, but may also be affected by the weather conditions in both the winter and summer seasons. Also, as a result of recent rate cases, the Company's natural gas sales margins are derived from a higher percentage of fixed billing components, including customer charges. Therefore, natural gas revenues and margin will be less affected by the seasonal nature of the natural gas business. In addition, as discussed above, approximately 27% and 11% of the Company's total annual electric and natural gas sales volumes, respectively, are decoupled and changes in sales to existing customers do not affect sales margin.

Earnings Overview

The Company's Net Income was \$3.1 million, or \$0.23 per share, for the second quarter of 2017, an increase of \$0.6 million, or \$0.05 per share, compared to the second quarter of 2016. For the six months ended June 30, 2017, the Company reported Net Income of \$15.5 million, or \$1.11 per share, an increase of \$2.1 million, or \$0.15 per share, compared to the same six month period in 2016. The increases in earnings for the second quarter and six month periods of 2017 were driven by higher natural gas and electric sales margins and customer growth.

Natural gas sales margins were \$20.5 million and \$58.5 million in the three and six months ended June 30, 2017, respectively, resulting in increases of \$0.7 million and \$2.8 million, respectively, compared to the same periods in 2016. Gas sales margin in the second quarter was positively affected by \$0.6 million from customer growth and \$0.6 million in higher natural gas distribution rates, partially offset by the negative impact of \$0.5 million from warmer early spring weather. For the six month period, gas sales margin was positively affected by higher natural gas distribution rates of \$1.7 million and customer growth of \$1.1 million.

Natural gas therm sales increased 6.4% and 4.6% in the three and six month periods ended June 30, 2017, respectively, compared to the same periods in 2016. The increase in gas therm sales in the Company's service areas was driven by customer growth and, for the six month period, colder winter weather in 2017 compared to 2016. Based on weather data collected in the Company's natural gas service areas, there were 1% more HDD in the first six months of 2017 compared to the same period in 2016. As of June 30, 2017, the number of total natural gas customers served has increased by 822 in the last twelve months.

Electric sales margin in the second quarter was positively affected by higher electric distribution rates of \$2.8 million and Residential sales growth, partially offset by lower usage of electricity by Commercial and Industrial (C&I) customers. For the six month period, electric sales margin was positively affected by higher electric distribution rates of \$4.4 million and Residential sales growth. Total electric kilowatt-hour (kWh) sales decreased 0.4% and 0.8%, respectively in the three and six month periods ended June 30, 2017 compared to the same periods in 2016, reflecting lower average usage by C&I customers during those periods, offset by the growth in Residential kWh sales. As of June 30, 2017, the number of total electric customers served has increased by 1,091 in the twelve months.

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Operation and Maintenance (O&M) expenses increased \$1.9 million and \$2.1 million, for the three and six months ended June 30, 2017, respectively, compared to the same periods in 2016. The increase in the three month period reflects higher utility operating costs of \$1.9 million, including \$0.7 million of higher vegetation management costs which are recovered in electric rates and reflected in electric sales margin, higher regulatory costs of \$0.6 million and higher all other utility operating costs of \$0.6 million. The increase in O&M expenses of \$2.1 million in the six month period reflects higher utility operating costs of \$1.7 million, including \$0.8 million of higher vegetation management costs which are recovered in electric rates and reflected in electric sales margin, higher regulatory costs of \$0.6 million and higher all other utility operating costs of \$0.3 million, and higher compensation and benefit costs of \$0.4 million.

Depreciation and Amortization expense increased \$0.2 million and \$0.9 million in the three and six months ended June 30, 2017, respectively, compared to the same periods in 2016. The increase in the three month period reflects higher depreciation of \$0.5 million on normal utility plant assets in service, partially offset by lower amortization of \$0.3 million. The increase in the six month period reflects higher depreciation of \$1.3 million on normal utility plant assets in service, partially offset by lower amortization of \$0.4 million.

Taxes Other Than Income Taxes increased \$0.4 million and \$0.9 million in the three and six months ended June 30, 2017, respectively, compared to the same periods in 2016, primarily reflecting higher local property tax rates on higher levels of utility plant assets in service.

Interest Expense, net decreased \$0.4 million and increased \$0.1 million in the three and six months ended June 30, 2017, respectively, compared to the same periods in 2016. The decrease in the three month period reflects higher net interest income on net regulatory assets/liabilities and repayment of higher cost long-term debt, partially offset by an increase in interest expense on short-term debt. The increase in the six month period reflects an increase in interest expense on short-term debt, partially offset by higher net interest income on net regulatory assets/liabilities and repayment of higher cost long-term debt.

Revenues for Usource, the Company's non-regulated energy brokering business, decreased \$0.1 million in the three months ended June 30, 2017, compared to the same period in 2016. Usource's revenues were on par for the six month period ended June 30, 2017 compared to the same period in 2016.

At its January 2017, April 2017 and July 2017 meetings, Unitil's Board of Directors declared quarterly dividends on the Company's common stock of \$0.36 per share. These quarterly dividends result in a current effective dividend rate of \$1.44 per share, representing an unbroken record of quarterly dividend payments since trading began in Unitil's common stock.

A more detailed discussion of the Company's results of operations for the three and six months ended June 30, 2017 is presented below.

Gas Sales, Revenues and Margin

Therm Sales Unitil's total therm sales of natural gas increased 6.4% and 4.6% in the three and six month periods ended June 30, 2017, respectively, compared to the same periods in 2016. In the second quarter of 2017, sales to Residential and C&I customers increased 19.8% and 3.4%, respectively, compared to the same period in 2016, reflecting customer growth. For the six months ended June 30, 2017, sales to Residential and C&I customers increased 10.0% and 3.0%, respectively, compared to the same period in 2016. The increase in gas therm sales in the Company's service areas in the six month period was driven by customer growth and colder winter weather in 2017 compared to 2016. Based on weather data collected in the Company's natural gas service areas, there were 1% more HDD in the first six months of 2017 compared to the same period in 2016. As of June 30, 2017, the number of total natural gas customers served has increased by 822 in the last twelve months. As previously discussed, sales margins derived from decoupled unit sales (representing approximately 11% of total annual therm sales volume) are not sensitive to changes in gas therm sales.

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The following table details total firm therm sales for the three and six months ended June 30, 2017 and 2016, by major customer class:

Therm Sales (millions)

	Three Months Ended June 30,				Six Months Ended June 30,			
	2017	2016	Change	% Change	2017	2016	Change	% Change
Residential	9.7	8.1	1.6	19.8%	30.7	27.9	2.8	10.0%
Commercial / Industrial	36.7	35.5	1.2	3.4%	101.6	98.6	3.0	3.0%
Total	46.4	43.6	2.8	6.4%	132.3	126.5	5.8	4.6%

Gas Operating Revenues and Sales Margin The following table details total Gas Operating Revenues and Sales Margin for the three and six months ended June 30, 2017 and 2016:

Gas Operating Revenues and Sales Margin (millions)

	Three Months Ended June 30,				Six Months Ended June 30,			
	2017	2016	\$ Change	% Change	2017	2016	\$ Change	% Change
Gas Operating Revenue:								
Residential	\$ 13.2	\$ 11.4	\$ 1.8	15.8%	\$ 44.3	\$ 40.8	\$ 3.5	8.6%
Commercial / Industrial	18.8	17.5	1.3	7.4%	62.5	61.2	1.3	2.1%
Total Gas Operating Revenue	\$ 32.0	\$ 28.9	\$ 3.1	10.7%	\$ 106.8	\$ 102.0	\$ 4.8	4.7%
Cost of Gas Sales	\$ 11.5	\$ 9.1	\$ 2.4	26.4%	\$ 48.3	\$ 46.3	\$ 2.0	4.3%
Gas Sales Margin	\$ 20.5	\$ 19.8	\$ 0.7	3.5%	\$ 58.5	\$ 55.7	\$ 2.8	5.0%

The Company analyzes operating results using Gas Sales Margin, a non-GAAP measure. Gas Sales Margin is calculated as Total Gas Operating Revenue less Cost of Gas Sales. The Company believes Gas Sales Margin is an important measure to analyze profitability because the approved cost of sales are tracked and reconciled costs that are passed through directly to the customer, resulting in an equal and offsetting amount reflected in Total Gas Operating Revenue. Sales margin can be reconciled to Operating Income, a GAAP measure, by including Operation and Maintenance, Depreciation and Amortization and Taxes Other Than Income Taxes for each segment in the analysis.

Natural gas sales margins were \$20.5 million and \$58.5 million in the three and six months ended June 30, 2017, respectively, resulting in increases of \$0.7 million and \$2.8 million, respectively, compared to the same periods in 2016. Gas sales margin in the second quarter was positively affected by \$0.6 million from customer growth and \$0.6 million in higher natural gas distribution rates, partially offset by the negative impact of \$0.5 million from warmer early spring weather. For the six month period, gas sales margin was positively affected by higher natural gas distribution rates of \$1.7 million and customer growth of \$1.1 million.

The increases in Total Gas Operating Revenues of \$3.1 million and \$4.8 million in the three and six months ended June 30, 2017, compared to the same periods in 2016, reflect higher natural gas distribution rates, customer growth and higher cost of gas sales, which are tracked and reconciled costs that are passed through directly to customers.

Table of Contents**Electric Sales, Revenues and Margin**

Kilowatt-hour Sales Unitil's total electric kWh sales decreased 0.4% and 0.8%, respectively in the three and six month periods ended June 30, 2017 compared to the same periods in 2016. Sales to Residential customers increased 2.1% and 1.2%, respectively, in the three and six month periods ended June 30, 2017 compared to the same periods in 2016, reflecting customer growth and warmer early summer weather in 2017. Sales to C&I customers decreased 1.9% and 2.1%, respectively, in the three and six month periods ended June 30, 2017 compared to the same periods in 2016, reflecting lower average, partially offset by customer growth. As of June 30, 2017, the number of total electric customers served has increased by 1,091 in the last twelve months. As previously discussed, sales margins derived from decoupled unit sales (representing approximately 27% of total annual kWh sales volume) are not sensitive to changes in electric kWh sales.

The following table details total kWh sales for the three and six months ended June 30, 2017 and 2016 by major customer class:

kWh Sales (millions)

	Three Months Ended June 30,				Six Months Ended June 30,			
	2017	2016	Change	% Change	2017	2016	Change	% Change
Residential	141.7	138.8	2.9	2.1%	317.9	314.2	3.7	1.2%
Commercial / Industrial	230.2	234.6	(4.4)	(1.9%)	466.4	476.5	(10.1)	(2.1%)
Total	371.9	373.4	(1.5)	(0.4%)	784.3	790.7	(6.4)	(0.8%)

Electric Operating Revenues and Sales Margin The following table details total Electric Operating Revenues and Sales Margin for the three and six month periods ended June 30, 2017 and 2016:

Electric Operating Revenues and Sales Margin (millions)

	Three Months Ended June 30,				Six Months Ended June 30,			
	2017	2016	\$ Change	% Change	2017	2016	\$ Change	% Change
Electric Operating Revenue:								
Residential	\$ 25.8	\$ 24.3	\$ 1.5	6.2%	\$ 54.7	\$ 54.4	\$ 0.3	0.6%
Commercial / Industrial	21.6	19.8	1.8	9.1%	42.2	40.8	1.4	3.4%
Total Electric Operating Revenue	\$ 47.4	\$ 44.1	\$ 3.3	7.5%	\$ 96.9	\$ 95.2	\$ 1.7	1.8%
Cost of Electric Sales	\$ 24.1	\$ 23.7	\$ 0.4	1.7%	\$ 51.6	\$ 54.7	\$ (3.1)	(5.7%)
Electric Sales Margin	\$ 23.3	\$ 20.4	\$ 2.9	14.2%	\$ 45.3	\$ 40.5	\$ 4.8	11.9%

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The Company analyzes operating results using Electric Sales Margin, a non-GAAP measure. Electric Sales Margin is calculated as Total Electric Operating Revenues less Cost of Electric Sales. The Company believes Electric Sales Margin is an important measure to analyze profitability because the approved cost of sales are tracked and reconciled costs that are passed through directly to the customer resulting in an equal and offsetting amount reflected in Total Electric Operating Revenues. Sales margin can be reconciled to Operating Income, a GAAP measure, by including Operation and Maintenance, Depreciation and Amortization and Taxes Other Than Income Taxes for each segment in the analysis.

Electric sales margins were \$23.3 million and \$45.3 million in the three and six months ended June 30, 2017, respectively, resulting in increases of \$2.9 million and \$4.8 million, respectively, compared to the same periods in 2016. Electric sales margin in the second quarter was positively affected by higher electric distribution rates of \$2.8 million and Residential sales growth, partially offset by lower usage of electricity by C&I customers. For the six month period, electric sales margin was positively affected by higher electric distribution rates of \$4.4 million and Residential sales growth. The higher electric distribution rates in the three and six month periods include \$1.4 million in higher electric sales margin reflecting the reconciliation of permanent rates to temporary rates, which were previously provided in Unitil Energy's distribution base rate case.

The increase in Total Electric Operating Revenues of \$3.3 million in the second quarter of 2017 reflects higher electric distribution rates and higher cost of electric sales, which are tracked and reconciled to costs that are passed through directly to customers.

The increase in Total Electric Operating Revenues of \$1.7 million in the first six months of 2017 reflects higher electric distribution rates, partially offset by lower cost of electric sales, which are tracked and reconciled to costs that are passed through directly to customers.

Operating Revenue - Other

The following table details total Other Revenue for the three and six months ended June 30, 2017 and 2016:

Other Revenue (000 \$)

	Three Months Ended June 30,				Six Months Ended June 30,			
	2017	2016	\$ Change	% Change	2017	2016	\$ Change	% Change
Other	\$ 1.4	\$ 1.5	\$ (0.1)	(6.7%)	\$ 3.1	\$ 3.1	\$	
Total Other Revenue	\$ 1.4	\$ 1.5	\$ (0.1)	(6.7%)	\$ 3.1	\$ 3.1	\$	

Total Other Operating Revenue is comprised of revenues from the Company's non-regulated energy brokering business, Usource. Usource's revenues decreased \$0.1 million, or 6.7%, in the three months ended June 30, 2017, compared to the same period in 2016. Usource's revenues were on par for the six month period ended June 30, 2017 compared to the same period in 2016. Usource's revenues are primarily derived from fees and charges billed to suppliers as customers take delivery of energy from these suppliers under term contracts brokered by Usource.

Table of Contents**Operating Expenses**

Cost of Gas Sales Cost of Gas Sales includes the cost of natural gas purchased and manufactured to supply the Company's total gas supply requirements and spending on energy efficiency programs. Cost of Gas Sales increased \$2.4 million, or 26.4%, and \$2.0 million, or 4.3%, in the three and six months ended June 30, 2017, respectively, compared to the same periods in 2016. The increase in the three month period primarily reflects higher sales of natural gas, higher wholesale natural gas prices and a decrease in the amount of natural gas purchased by customers directly from third-party suppliers. The increase in the six month period reflects higher sales of natural gas, partially offset by lower wholesale natural gas prices and a decrease in the amount of natural gas purchased by customers directly from third-party suppliers. The Company reconciles and recovers the approved Cost of Gas Sales in its rates at cost on a pass through basis and therefore changes in approved expenses do not affect earnings.

Cost of Electric Sales Cost of Electric Sales includes the cost of electric supply as well as other energy supply related restructuring costs, including power supply buyout costs, and spending on energy efficiency programs. Cost of Electric Sales increased \$0.4 million, or 1.7%, and decreased \$3.1 million, or 5.7%, in the three and six months ended June 30, 2017, respectively, compared to the same periods in 2016. The increase in the three month period reflects a decrease in the amount of electricity purchased by customers directly from third-party suppliers, partially offset by lower electric sales. The decrease in the six month period reflects lower wholesale electricity prices and lower electric sales, partially offset by a decrease in the amount of electricity purchased by customers directly from third-party suppliers. The Company reconciles and recovers the approved Cost of Electric Sales in its rates at cost and therefore changes in approved expenses do not affect earnings.

Operation and Maintenance (O&M) O&M expense includes gas and electric utility operating costs, and the operating cost of the Company's corporate and other business activities. Total O&M expenses increased \$1.9 million, or 12.1%, and \$2.1 million, or 6.3%, for the three and six months ended June 30, 2017, respectively, compared to the same periods in 2016. The increase in the three month period reflects higher utility operating costs of \$1.9 million, including \$0.7 million of higher vegetation management costs which are recovered in electric rates and reflected in electric sales margin, higher regulatory costs of \$0.6 million and higher all other utility operating costs of \$0.6 million. The increase in O&M expenses of \$2.1 million in the six month period reflects higher utility operating costs of \$1.7 million, including \$0.8 million of higher vegetation management costs which are recovered in electric rates and reflected in electric sales margin, higher regulatory costs of \$0.6 million and higher all other utility operating costs of \$0.3 million, and higher compensation and benefit costs of \$0.4 million.

Depreciation and Amortization Depreciation and Amortization expense increased \$0.2 million, or 1.7%, and \$0.9 million, or 3.8%, in the three and six months ended June 30, 2017, respectively, compared to the same periods in 2016. The increase in the three month period reflects higher depreciation of \$0.5 million on normal utility plant assets in service, partially offset by lower amortization of \$0.3 million. The increase in the six month period reflects higher depreciation of \$1.3 million on normal utility plant assets in service, partially offset by lower amortization of \$0.4 million.

Taxes Other Than Income Taxes Taxes Other Than Income Taxes increased \$0.4 million, or 8.3%, and \$0.9 million, or 9.2%, in the three and six months ended June 30, 2017, respectively, compared to the same periods in 2016, primarily reflecting higher local property tax rates on higher levels of utility plant assets in service.

Other Expense, net Other Expense, net was relatively unchanged in the three and six months ended June 30, 2017 compared to the same periods in 2016.

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Income Taxes Federal and State Income Taxes increased by \$0.8 million and \$1.5 million for the three and six months ended June 30, 2017 compared to the same periods in 2016, reflecting higher pre-tax earnings in the current periods.

Interest Expense, net Interest expense is presented in the Consolidated Financial Statements net of interest income. Interest expense is mainly comprised of interest on long-term debt and short-term borrowings. In addition, certain reconciling rate mechanisms used by the Company's distribution operating utilities give rise to regulatory assets and regulatory liabilities on which interest is calculated.

Unitil's utility subsidiaries operate a number of reconciling rate mechanisms to recover specifically identified costs on a pass through basis. These reconciling rate mechanisms track costs and revenue on a monthly basis. In any given month, this tracking and reconciling process will produce either an under-collected or an over-collected balance of costs. In accordance with the distribution utilities' rate tariffs, interest is accrued on these balances and will produce either interest income or interest expense. Consistent with regulatory precedent, interest income is recorded on an under-collection of costs which creates a regulatory asset to be recovered in future periods when rates are reset. Interest expense is recorded on an over-collection of costs, which creates a regulatory liability to be refunded in future periods when rates are reset.

Interest Expense, net (Millions)	Three Months Ended			Six Months Ended		
	2017	June 30, 2016	Change	2017	June 30, 2016	Change
Interest Expense						
Long-term Debt	\$ 5.3	\$ 5.4	\$ (0.1)	\$ 10.7	\$ 10.8	\$ (0.1)
Short-term Debt	0.5	0.3	0.2	1.1	0.6	0.5
Regulatory Liabilities		0.2	(0.2)	0.4	0.3	0.1
Subtotal Interest Expense	5.8	5.9	(0.1)	12.2	11.7	0.5
Interest (Income)						
Regulatory Assets	(0.1)		(0.1)	(0.3)	(0.2)	(0.1)
AFUDC ⁽¹⁾ and Other	(0.4)	(0.2)	(0.2)	(0.6)	(0.3)	(0.3)
Subtotal Interest (Income)	(0.5)	(0.2)	(0.3)	(0.9)	(0.5)	(0.4)
Total Interest Expense, net	\$ 5.3	\$ 5.7	\$ (0.4)	\$ 11.3	\$ 11.2	\$ 0.1

⁽¹⁾ AFUDC Allowance for Funds Used During Construction.

Interest Expense, net decreased \$0.4 million and increased \$0.1 million in the three and six months ended June 30, 2017, respectively, compared to the same periods in 2016. The decrease in the three month period reflects higher net interest income on net regulatory assets/liabilities and repayment of higher cost long-term debt, partially offset by an increase in interest expense on short-term debt. The increase in the six month period reflects an increase in interest expense on short-term debt, partially offset by higher net interest income on net regulatory assets/liabilities and repayment of higher cost long-term debt.

CAPITAL REQUIREMENTS**Sources of Capital**

Unitil requires capital to fund utility plant additions, working capital and other utility expenditures recovered in subsequent periods through regulated rates. The capital necessary to meet these requirements is derived primarily from internally-generated funds, which consist of cash flows

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from operating activities. The Company initially supplements internally-generated funds through short-term bank borrowings, as needed, under its unsecured revolving Credit Facility. Periodically, the Company replaces portions of its short-term debt with long-term financings more closely matched to the long-term nature of its utility assets. Additionally, from time to time, the Company has accessed the public capital markets through public offerings of equity securities. The Company's utility operations are seasonal in nature and are therefore subject to seasonal fluctuations in cash flows. The amount, type and timing of any future financing will vary from year to year based on capital needs and maturity or redemptions of securities.

The Company and its subsidiaries are individually and collectively members of the Unitil Cash Pool (the Cash Pool). The Cash Pool is the financing vehicle for day-to-day cash borrowing and investing. The Cash Pool allows for an efficient exchange of cash among the Company and its subsidiaries. The interest rates charged to the subsidiaries for borrowing from the Cash Pool are based on actual interest costs from lenders under the Company's revolving Credit Facility. At June 30, 2017, June 30, 2016 and December 31, 2016, the Company and all of its subsidiaries were in compliance with the regulatory requirements to participate in the Cash Pool.

On October 4, 2013, the Company entered into an Amended and Restated Credit Agreement (as further amended, restated, amended and restated, modified or supplemented from time to time, the Credit Facility). The Credit Facility terminates October 4, 2020 and provides for a borrowing limit of \$120 million which includes a \$25 million sublimit for the issuance of standby letters of credit. The Credit Facility provides Unitil with the ability to elect that borrowings under the Credit Facility bear interest under several options, including at a daily fluctuating rate of interest per annum equal to one-month London Interbank Offered Rate (LIBOR) plus 1.25%. Provided there is no event of default under the Credit Facility, the Company may on a one-time basis request an increase in the aggregate commitments under the Credit Facility by an aggregate additional amount of up to \$30 million.

The Company utilizes the Credit Facility for cash management purposes related to its short-term operating activities. Total gross borrowings were \$107.9 million for the six months ended June 30, 2017. Total gross repayments were \$110.6 million for the six months ended June 30, 2017. The following table details the borrowing limits, amounts outstanding and amounts available under the revolving Credit Facility as of June 30, 2017, June 30, 2016 and December 31, 2016:

	Revolving Credit Facility (\$ millions)		
	June 30, 2017	June 30, 2016	December 31, 2016
Limit	\$ 120.0	\$ 120.0	\$ 120.0
Short-Term Borrowings Outstanding	\$ 79.2	\$ 54.2	\$ 81.9
Letters of Credit Outstanding	\$ 1.1	\$	\$ 1.1
Available	\$ 39.7	\$ 65.8	\$ 37.0

The Credit Facility contains customary terms and conditions for credit facilities of this type, including affirmative and negative covenants. There are restrictions on, among other things, Unitil's and its subsidiaries' ability to permit liens or incur indebtedness, and restrictions on Unitil's ability to merge or consolidate with another entity or change its line of business. The affirmative and negative covenants under the Credit Facility shall apply to Unitil until the Credit Facility terminates and all amounts borrowed under the Credit Facility are paid in full (or with respect to

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letters of credit, they are cash collateralized). The only financial covenant in the Credit Facility provides that Unitil's Funded Debt to Capitalization (as each term is defined in the Credit Facility) cannot exceed 65%, tested on a quarterly basis. At June 30, 2017, June 30, 2016 and December 31, 2016, the Company was in compliance with the covenants contained in the Credit Facility in effect on that date. (See also Credit Arrangements in Note 4.)

Unitil Corporation and its utility subsidiaries, Fitchburg, Unitil Energy, Northern Utilities, and Granite State are currently rated BBB+ by Standard & Poor's Ratings Services.

On July 14, 2017, Northern Utilities, Fitchburg and Granite State, entered into agreements to issue and sell \$90 million collectively of Senior Unsecured Notes (Notes) through a private placement marketing process to institutional investors. These financings are expected to close and fund on November 1, 2017. (See also Subsequent Events in Note 1.)

In April 2014, Unitil Service Corp. entered into a financing arrangement, structured as a capital lease obligation, for various information systems and technology equipment. Final funding under this capital lease occurred on October 30, 2015, resulting in total funding of \$13.4 million. The capital lease matures on September 30, 2020. As of June 30, 2017, there are \$2.7 million of current and \$6.4 million of noncurrent obligations under this capital lease on the Company's Consolidated Balance Sheets.

The continued availability of various methods of financing, as well as the choice of a specific form of security for such financing, will depend on many factors, including, but not limited to: security market conditions; general economic climate; regulatory approvals; the ability to meet covenant issuance restrictions; the level of earnings, cash flows and financial position; and the competitive pricing offered by financing sources.

The Company provides limited guarantees on certain energy and natural gas storage management contracts entered into by the distribution utilities. The Company's policy is to limit the duration of these guarantees. As of June 30, 2017, there were approximately \$23.9 million of guarantees outstanding and the longest term guarantee extends through April 2018.

Northern Utilities enters into asset management agreements under which Northern Utilities releases certain natural gas pipeline and storage assets, resells the natural gas storage inventory to an asset manager and subsequently repurchases the inventory over the course of the natural gas heating season at the same price at which it sold the natural gas inventory to the asset manager. There was \$5.6 million, \$7.6 million and \$9.9 million of natural gas storage inventory at June 30, 2017, June 30, 2016 and December 31, 2016, respectively, related to these asset management agreements. The amount of natural gas inventory released in June 2017 and payable in July 2017 is \$0.1 million and is recorded in Accounts Payable at June 30, 2017. The amount of natural gas inventory released in June 2016 and payable in July 2016 was less than \$0.1 million and is recorded in Accounts Payable at June 30, 2016. The amount of natural gas inventory released in December 2016 and payable in January 2017 was \$2.1 million and was recorded in Accounts Payable at December 31, 2016.

The Company also guarantees the payment of principal, interest and other amounts payable on the notes issued by Granite State and Unitil Realty. As of June 30, 2017, the principal amount outstanding for the 7.15% Granite State notes was \$6.7 million and was less than \$0.1 million for the 8% Unitil Realty notes. The 8% Unitil Realty notes will be fully paid in August 2017 and the guarantee associated with those notes will terminate.

Table of Contents**Off-Balance Sheet Arrangements**

The Company and its subsidiaries do not currently use, and are not dependent on the use of, off-balance sheet financing arrangements such as securitization of receivables or obtaining access to assets or cash through special purpose entities or variable interest entities. Unitil's subsidiaries conduct a portion of their operations in leased facilities and also lease some of their vehicles, machinery and office equipment under both capital and operating lease arrangements. Additionally, as of June 30, 2017, there were approximately \$23.9 million of guarantees on certain energy and natural gas storage management contracts entered into by the distribution utilities outstanding and the longest term guarantee extends through April 2018. See Note 4 (Debt and Financing Arrangements) to the accompanying Consolidated Financial Statements.

CRITICAL ACCOUNTING POLICIES

The preparation of the Company's financial statements in conformity with generally accepted accounting principles in the United States of America requires the Company to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. In making those estimates and assumptions, the Company is sometimes required to make difficult, subjective and/or complex judgments about the impact of matters that are inherently uncertain and for which different estimates that could reasonably have been used could have resulted in material differences in its financial statements. If actual results were to differ significantly from those estimates, assumptions and judgment, the financial position of the Company could be materially affected and the results of operations of the Company could be materially different than reported. For a complete discussion of the Company's significant accounting policies, refer to the Note 1 to the Consolidated Financial Statements in the Company's Annual Report on Form 10-K, as filed with the Securities and Exchange Commission on February 2, 2017.

LABOR RELATIONS

As of June 30, 2017, the Company and its subsidiaries had 503 employees. The Company considers its relationship with employees to be good and has not experienced any major labor disruptions.

As of June 30, 2017, a total of 159 employees of certain of the Company's subsidiaries were represented by labor unions. The following table details by subsidiary the employees covered by a collective bargaining agreement (CBA) as of June 30, 2017:

	Employees Covered	CBA Expiration
Fitchburg	47	05/31/2019
Northern Utilities NH Division	34	06/05/2020
Northern Utilities ME Division	33	03/31/2021
Granite State	3	03/31/2021
Unitil Energy	37	05/31/2018
Unitil Service	5	05/31/2018

The CBAs provide discrete salary adjustments, established work practices and uniform benefit packages. The Company expects to negotiate new agreements prior to their expiration dates.

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INTEREST RATE RISK

As discussed above, Unitil meets its external financing needs by issuing short-term and long-term debt. The majority of debt outstanding represents long-term notes bearing fixed rates of interest. Changes in market interest rates do not affect interest expense resulting from these outstanding long-term debt securities. However, the Company periodically repays its short-term debt borrowings through the issuance of new long-term debt securities. Changes in market interest rates may affect the interest rate and corresponding interest expense on any new issuances of long-term debt securities. In addition, short-term debt borrowings bear a variable rate of interest. As a result, changes in short-term interest rates will increase or decrease interest expense in future periods. For example, if the average amount of short-term debt outstanding was \$25 million for the period of one year, a change in interest rates of 1% would result in a change in annual interest expense of approximately \$250,000. The average interest rates on the Company's short-term borrowings and intercompany money pool transactions for the three months ended June 30, 2017 and June 30, 2016 were 2.3% and 1.7%, respectively. The average interest rates on the Company's short-term borrowings for the six months ended June 30, 2017 and June 30, 2016 were 2.2% and 1.7%, respectively. The average interest rate on the Company's short-term borrowings for the twelve months ended December 31, 2016 was 1.8%.

COMMODITY PRICE RISK

Although Unitil's three distribution utilities are subject to commodity price risk as part of their traditional operations, the current regulatory framework within which these companies operate allows for full collection of electric power and natural gas supply costs in rates on a pass-through basis. Consequently, there is limited commodity price risk after consideration of the related rate-making.

REGULATORY MATTERS

Please refer to Note 6 to the Consolidated Financial Statements in Part I, Item 1 of this report for a discussion of Regulatory Matters.

ENVIRONMENTAL MATTERS

Please refer to Note 7 to the Consolidated Financial Statements in Part I, Item 1 of this report for a discussion of Environmental Matters.

Table of Contents**UNITIL CORPORATION AND SUBSIDIARY COMPANIES****CONSOLIDATED STATEMENTS OF EARNINGS***(Millions except per share data)***(UNAUDITED)**

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Operating Revenues				
Gas	\$ 32.0	\$ 28.9	\$ 106.8	\$ 102.0
Electric	47.4	44.1	96.9	95.2
Other	1.4	1.5	3.1	3.1
Total Operating Revenues	80.8	74.5	206.8	200.3
Operating Expenses				
Cost of Gas Sales	11.5	9.1	48.3	46.3
Cost of Electric Sales	24.1	23.7	51.6	54.7
Operation and Maintenance	17.6	15.7	35.2	33.1
Depreciation and Amortization	11.9	11.7	24.4	23.5
Taxes Other Than Income Taxes	5.2	4.8	10.7	9.8
Total Operating Expenses	70.3	65.0	170.2	167.4
Operating Income	10.5	9.5	36.6	32.9
Interest Expense, net	5.3	5.7	11.3	11.2
Other Expense, net	0.1	0.1	0.1	0.1
Income Before Income Taxes	5.1	3.7	25.2	21.6
Income Tax Expense	2.0	1.2	9.7	8.2
Net Income	\$ 3.1	\$ 2.5	\$ 15.5	\$ 13.4
Net Income Per Common Share (Basic and Diluted)	\$ 0.23	\$ 0.18	\$ 1.11	\$ 0.96
Weighted Average Common Shares Outstanding (Basic and Diluted)	14.1	14.0	14.1	14.0
Dividends Declared Per Share of Common Stock	\$ 0.36	\$ 0.355	\$ 0.72	\$ 0.71

(The accompanying notes are an integral part of these consolidated unaudited financial statements.)

Table of Contents**UNITIL CORPORATION AND SUBSIDIARY COMPANIES****CONSOLIDATED BALANCE SHEETS***(Millions)*

(UNAUDITED)

	June 30, 2017	2016	December 31, 2016
ASSETS:			
Current Assets:			
Cash and Cash Equivalents	\$ 7.8	\$ 7.9	\$ 5.8
Accounts Receivable, net	41.1	42.9	52.9
Accrued Revenue	36.6	31.9	49.5
Exchange Gas Receivable	5.9	8.0	8.3
Refundable Taxes	0.9		1.7
Gas Inventory	0.5	0.4	0.6
Prepayments and Other	15.2	14.6	12.8
Total Current Assets	108.0	105.7	131.6
Utility Plant:			
Gas	643.2	589.1	629.5
Electric	442.0	421.2	437.9
Common	35.4	35.6	35.8
Construction Work in Progress	92.7	69.6	70.2
Total Utility Plant	1,213.3	1,115.5	1,173.4
Less: Accumulated Depreciation	300.6	280.9	290.0
Net Utility Plant	912.7	834.6	883.4
Other Noncurrent Assets:			
Regulatory Assets	102.9	98.1	104.1
Other Assets	14.1	13.3	9.1
Total Other Noncurrent Assets	117.0	111.4	113.2
TOTAL ASSETS	\$ 1,137.7	\$ 1,051.7	\$ 1,128.2

(The accompanying notes are an integral part of these consolidated unaudited financial statements.)

Table of Contents**UNITIL CORPORATION AND SUBSIDIARY COMPANIES****CONSOLIDATED BALANCE SHEETS (Cont.)***(Millions, except number of shares)*

(UNAUDITED)

	June 30, 2017	2016	December 31, 2016
LIABILITIES AND CAPITALIZATION:			
Current Liabilities:			
Accounts Payable	\$ 23.0	\$ 21.4	\$ 32.4
Short-Term Debt	79.2	54.2	81.9
Long-Term Debt, Current Portion	29.9	17.2	16.8
Regulatory Liabilities	16.6	15.9	10.4
Energy Supply Obligations	10.3	12.8	12.0
Environmental Obligations	0.5	0.3	0.4
Capital Lease Obligations	3.0	3.1	3.0
Interest Payable	3.9	3.5	3.9
Other Current Liabilities	11.5	10.6	16.1
Total Current Liabilities	177.9	139.0	176.9
Noncurrent Liabilities:			
Retirement Benefit Obligations	153.3	128.3	149.0
Deferred Income Taxes, net	106.8	95.6	97.9
Cost of Removal Obligations	82.3	74.9	77.0
Regulatory Liabilities		3.7	2.6
Capital Lease Obligations	6.9	9.7	8.3
Environmental Obligations	1.7	2.7	1.5
Other Noncurrent Liabilities	4.9	4.5	5.1
Total Noncurrent Liabilities	355.9	319.4	341.4
Capitalization:			
Long-Term Debt, Less Current Portion	303.5	305.2	316.8
Stockholders' Equity:			
Common Equity (Authorized: 25,000,000 and Outstanding: 14,114,551, 14,052,096 and 14,065,230 Shares)	242.7	239.4	240.7
Retained Earnings	57.5	48.5	52.2
Total Common Stock Equity	300.2	287.9	292.9
Preferred Stock	0.2	0.2	0.2
Total Stockholders' Equity	300.4	288.1	293.1
Total Capitalization	603.9	593.3	609.9
Commitments and Contingencies (Notes 6 & 7)			
TOTAL LIABILITIES AND CAPITALIZATION	\$ 1,137.7	\$ 1,051.7	\$ 1,128.2

(The accompanying notes are an integral part of these consolidated unaudited financial statements.)

Table of Contents**UNITIL CORPORATION AND SUBSIDIARY COMPANIES****CONSOLIDATED STATEMENTS OF CASH FLOWS***(Millions)*

(UNAUDITED)

	Six Months Ended June 30,	
	2017	2016
Operating Activities:		
Net Income	\$ 15.5	\$ 13.4
Adjustments to Reconcile Net Income to Cash Provided by Operating Activities:		
Depreciation and Amortization	24.4	23.5
Deferred Tax Provision	8.7	8.9
Changes in Working Capital Items:		
Accounts Receivable	11.8	6.9
Accrued Revenue	12.9	6.5
Exchange Gas Receivable	2.4	3.1
Regulatory Liabilities	6.2	0.3
Accounts Payable	(9.4)	(11.9)
Other Changes in Working Capital Items	(5.4)	(5.8)
Deferred Regulatory and Other Charges	(9.5)	(7.7)
Other, net	5.6	3.0
Cash Provided by Operating Activities	63.2	40.2
Investing Activities:		
Property, Plant and Equipment Additions	(44.9)	(39.6)
Cash (Used in) Investing Activities	(44.9)	(39.6)
Financing Activities:		
(Repayment of) Proceeds from Short-Term Debt, net	(2.7)	12.2
Repayment of Long-Term Debt	(0.4)	(0.3)
Decrease in Capital Lease Obligations	(1.4)	(1.3)
Net Decrease in Exchange Gas Financing	(2.3)	(2.7)
Dividends Paid	(10.2)	(10.0)
Proceeds from Issuance of Common Stock, net	0.7	0.7
Cash (Used in) Financing Activities	(16.3)	(1.4)
Net Increase (Decrease) in Cash and Cash Equivalents	2.0	(0.8)
Cash and Cash Equivalents at Beginning of Period	5.8	8.7
Cash and Cash Equivalents at End of Period	\$ 7.8	\$ 7.9
Supplemental Cash Flow Information:		
Interest Paid	\$ 11.4	\$ 11.4
Income Taxes Paid	\$	\$ 1.6
Payments on Capital Leases	\$ 1.7	\$ 1.7
Non-cash Investing Activity:		

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Capital Expenditures Included in Accounts Payable	\$ 0.9	\$ 1.9
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(The accompanying notes are an integral part of these consolidated unaudited financial statements.)

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UNITIL CORPORATION AND SUBSIDIARY COMPANIES
CONSOLIDATED STATEMENTS OF CHANGES IN COMMON STOCK EQUITY

(Millions, except number of shares)

(UNAUDITED)

	Common Equity	Retained Earnings	Total
Balance at January 1, 2017	\$ 240.7	\$ 52.2	\$ 292.9
Net Income		15.5	15.5
Dividends on Common Shares		(10.2)	(10.2)
Stock Compensation Plans	1.3		1.3
Issuance of 14,391 Common Shares	0.7		0.7
Balance at June 30, 2017	\$ 242.7	\$ 57.5	\$ 300.2
Balance at January 1, 2016	\$ 237.5	\$ 45.1	\$ 282.6
Net Income		13.4	13.4
Dividends on Common Shares		(10.0)	(10.0)
Stock Compensation Plans	1.2		1.2
Issuance of 16,646 Common Shares	0.7		0.7
Balance at June 30, 2016	\$ 239.4	\$ 48.5	\$ 287.9

(The accompanying notes are an integral part of these consolidated unaudited financial statements.)

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UNITIL CORPORATION AND SUBSIDIARY COMPANIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations Unitil Corporation (Unitil or the Company) is a public utility holding company. Unitil and its subsidiaries are subject to regulation as a holding company system by the Federal Energy Regulatory Commission (FERC) under the Energy Policy Act of 2005. The following companies are wholly-owned subsidiaries of Unitil: Unitil Energy Systems, Inc. (Unitil Energy), Fitchburg Gas and Electric Light Company (Fitchburg), Northern Utilities, Inc. (Northern Utilities), Granite State Gas Transmission, Inc. (Granite State), Unitil Power Corp. (Unitil Power), Unitil Realty Corp. (Unitil Realty), Unitil Service Corp. (Unitil Service) and its non-regulated business unit Unitil Resources, Inc. (Unitil Resources). Usource Inc. and Usource L.L.C. are subsidiaries of Unitil Resources.

The Company's earnings are seasonal and are typically higher in the first and fourth quarters when customers use natural gas for heating purposes.

Unitil's principal business is the local distribution of electricity in the southeastern seacoast and state capital regions of New Hampshire and the greater Fitchburg area of north central Massachusetts, and the local distribution of natural gas in southeastern New Hampshire, portions of southern and central Maine and in the greater Fitchburg area of north central Massachusetts. Unitil has three distribution utility subsidiaries, Unitil Energy, which operates in New Hampshire, Fitchburg, which operates in Massachusetts and Northern Utilities, which operates in New Hampshire and Maine (collectively referred to as the distribution utilities).

Granite State is a natural gas transportation pipeline, operating 86 miles of underground gas transmission pipeline primarily located in Maine and New Hampshire. Granite State provides Northern Utilities with interconnection to three major natural gas pipelines and access to domestic natural gas supplies in the south and Canadian natural gas supplies in the north. Granite State derives its revenues principally from the transportation services provided to Northern Utilities and, to a lesser extent, third-party marketers.

A fifth utility subsidiary, Unitil Power, formerly functioned as the full requirements wholesale power supply provider for Unitil Energy. In connection with the implementation of electric industry restructuring in New Hampshire, Unitil Power ceased being the wholesale supplier of Unitil Energy on May 1, 2003 and divested of its long-term power supply contracts through the sale of the entitlements to the electricity associated with various electric power supply contracts it had acquired to serve Unitil Energy's customers.

Unitil also has three other wholly-owned subsidiaries: Unitil Service; Unitil Realty; and Unitil Resources. Unitil Service provides, at cost, a variety of administrative and professional services, including regulatory, financial, accounting, human resources, engineering, operations, technology, energy management and management services on a centralized basis to its affiliated Unitil companies. Unitil Realty owns and manages the Company's corporate office in Hampton, New Hampshire and leases this facility to Unitil Service under a long-term lease arrangement. Unitil Resources is the Company's wholly-owned non-regulated subsidiary. Usource, Inc. and Usource L.L.C. (collectively, Usource) are wholly-owned subsidiaries of Unitil Resources. Usource provides brokering and advisory services to large commercial and industrial customers in the northeastern United States.

Basis of Presentation The accompanying unaudited Consolidated Financial Statements of Unitil have been prepared in accordance with the instructions to Form 10-Q and include all of the information and footnotes required by generally accepted accounting principles. In the opinion of

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management, all adjustments considered necessary for a fair presentation have been included and are of a normal and recurring nature. The results of operations for the three and six months ended June 30, 2017 are not necessarily indicative of results to be expected for the year ending December 31, 2017. For further information, please refer to Note 1 of Part II to the Consolidated Financial Statements – Summary of Significant Accounting Policies of the Company’s Form 10-K for the year ended December 31, 2016, as filed with the Securities and Exchange Commission (SEC) on February 2, 2017, for a description of the Company’s Basis of Presentation.

Income Taxes The Company is subject to Federal and State income taxes as well as various other business taxes. This process involves estimating the Company’s current tax liabilities as well as assessing temporary and permanent differences resulting from the timing of the deductions of expenses and recognition of taxable income for tax and book accounting purposes. These temporary differences result in deferred tax assets and liabilities, which are included in the Company’s Consolidated Balance Sheets. The Company accounts for income tax assets, liabilities and expenses in accordance with the Financial Accounting Standards Board (FASB) Codification guidance on Income Taxes. The Company classifies penalty and interest expense related to income tax liabilities as income tax expense and interest expense, respectively, in the Consolidated Statements of Earnings.

Provisions for income taxes are calculated in each of the jurisdictions in which the Company operates for each period for which a statement of earnings is presented. The Company accounts for income taxes in accordance with the FASB Codification guidance on Income Taxes, which requires an asset and liability approach for the financial accounting and reporting of income taxes. Significant judgments and estimates are required in determining the current and deferred tax assets and liabilities. The Company’s current and deferred tax assets and liabilities reflect its best assessment of estimated future taxes to be paid. In accordance with the FASB Codification, the Company periodically assesses the realization of its deferred tax assets and liabilities and adjusts the income tax provision, the current tax liability and deferred taxes in the period in which the facts and circumstances which gave rise to the revision become known.

Cash and Cash Equivalents Cash and Cash Equivalents includes all cash and cash equivalents to which the Company has legal title. Cash equivalents include short-term investments with original maturities of three months or less and interest bearing deposits. The Company’s cash and cash equivalents are held at financial institutions and at times may exceed federally insured limits. The Company has not experienced any losses in such accounts. Under the Independent System Operator – New England (ISO-NE) Financial Assurance Policy (Policy), Unitil’s subsidiaries Unitil Energy, Fitchburg and Unitil Power are required to provide assurance of their ability to satisfy their obligations to ISO-NE. Under this Policy, Unitil’s subsidiaries provide cash deposits covering approximately 2-1/2 months of outstanding obligations, less credit amounts that are based on the Company’s credit rating. As of June 30, 2017, June 30, 2016 and December 31, 2016, the Unitil subsidiaries had deposited \$2.0 million, \$1.7 million and \$2.8 million, respectively to satisfy their ISO-NE obligations. In addition, Northern Utilities has cash margin deposits to satisfy requirements for its natural gas hedging program. There were no cash margin deposits at Northern Utilities as of June 30, 2017, June 30, 2016 and December 31, 2016.

Allowance for Doubtful Accounts The Company recognizes a provision for doubtful accounts each month based upon the Company’s experience in collecting electric and gas utility service accounts receivable in prior years. At the end of each month, an analysis of the delinquent receivables is performed which takes into account an assumption about the cash recovery of delinquent receivables. The analysis also calculates the amount of written-off receivables that are recoverable through regulatory rate reconciling mechanisms. The Company’s distribution utilities are authorized by regulators to recover the costs of their energy commodity portion of bad debts through rate mechanisms. Also, the electric and gas divisions of Fitchburg are authorized to

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recover through rates past due amounts associated with hardship accounts that are protected from shut-off. Evaluating the adequacy of the Allowance for Doubtful Accounts requires judgment about the assumptions used in the analysis, including the level of customers enrolling in payment plans with the Company. It has been the Company's experience that the assumptions it has used in evaluating the adequacy of the Allowance for Doubtful Accounts have proven to be reasonably accurate.

The Allowance for Doubtful Accounts as of June 30, 2017, June 30, 2016 and December 31, 2016, which is included in Accounts Receivable, net on the accompanying unaudited consolidated balance sheets, was as follows:

(\$ millions)

	June 30,		December 31,
	2017	2016	2016
Allowance for Doubtful Accounts	\$ 1.4	\$ 1.5	\$ 1.1

Accrued Revenue Accrued Revenue includes the current portion of Regulatory Assets and unbilled revenues. The following table shows the components of Accrued Revenue as of June 30, 2017, June 30, 2016 and December 31, 2016.

Accrued Revenue (\$ millions)		June 30,		December 31,
		2017	2016	2016
Regulatory Assets	Current	\$ 29.1	\$ 25.2	\$ 37.9
Unbilled Revenues		7.5	6.7	11.6
Total Accrued Revenue		\$ 36.6	\$ 31.9	\$ 49.5

Exchange Gas Receivable Northern Utilities and Fitchburg have gas exchange and storage agreements whereby natural gas purchases during the months of April through October are delivered to a third party. The third party delivers natural gas back to the Company during the months of November through March. The exchange and storage gas volumes are recorded at weighted average cost. The following table shows the components of Exchange Gas Receivable as of June 30, 2017, June 30, 2016 and December 31, 2016.

Exchange Gas Receivable (\$ millions)		June 30,		December 31,
		2017	2016	2016
Northern Utilities		\$ 5.5	\$ 7.6	\$ 7.8
Fitchburg		0.4	0.4	0.5
Total Exchange Gas Receivable		\$ 5.9	\$ 8.0	\$ 8.3

Gas Inventory The Company uses the weighted average cost methodology to value natural gas inventory. The following table shows the components of Gas Inventory as of June 30, 2017, June 30, 2016 and December 31, 2016.

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Gas Inventory (\$ millions)	June 30,		December 31,
	2017	2016	2016
Natural Gas	\$ 0.2	\$ 0.1	\$ 0.3
Propane	0.2	0.2	0.2
Liquefied Natural Gas & Other	0.1	0.1	0.1
Total Gas Inventory	\$ 0.5	\$ 0.4	\$ 0.6

Utility Plant The cost of additions to Utility Plant and the cost of renewals and betterments are capitalized. Cost consists of labor, materials, services and certain indirect construction costs, including an allowance for funds used during construction (AFUDC). The costs of current repairs and minor replacements are charged to appropriate operating expense accounts. The original cost of utility plant retired or otherwise disposed of is charged to the accumulated provision for depreciation. The Company includes in its mass asset depreciation rates, which are periodically reviewed as part of its ratemaking proceedings, cost of removal amounts to provide for future negative salvage value. At June 30, 2017, June 30, 2016 and December 31, 2016, the Company estimates that the cost of removal amounts, which are recorded on the Consolidated Balance Sheets in Cost of Removal Obligations are \$82.3 million, \$74.9 million, and \$77.0 million, respectively.

Regulatory Accounting The Company's principal business is the distribution of electricity and natural gas by the three distribution utilities: Unitil Energy, Fitchburg and Northern Utilities. Unitil Energy and Fitchburg are subject to regulation by the FERC. Fitchburg is also regulated by the Massachusetts Department of Public Utilities (MDPU), Unitil Energy is regulated by the New Hampshire Public Utilities Commission (NHPUC) and Northern Utilities is regulated by the Maine Public Utilities Commission (MPUC) and NHPUC. Granite State, the Company's natural gas transmission pipeline, is regulated by the FERC. Accordingly, the Company uses the Regulated Operations guidance as set forth in the FASB Codification. The Company has recorded Regulatory Assets and Regulatory Liabilities which will be recovered from customers, or applied for customer benefit, in accordance with rate provisions approved by the applicable public utility regulatory commission.

Regulatory Assets consist of the following (\$ millions)	June 30,		December 31,
	2017	2016	2016
Retirement Benefits	\$ 75.9	\$ 64.5	\$ 75.9
Energy Supply & Other Regulatory Tracker Mechanisms	25.4	19.7	32.7
Deferred Storm Charges	7.7	12.5	9.6
Environmental	10.2	12.3	10.8
Income Taxes	7.0	7.9	7.3
Other	5.8	6.4	5.7
Total Regulatory Assets	\$ 132.0	\$ 123.3	\$ 142.0
Less: Current Portion of Regulatory Assets ⁽¹⁾	29.1	25.2	37.9
Regulatory Assets noncurrent	\$ 102.9	\$ 98.1	\$ 104.1

⁽¹⁾ Reflects amounts included in Accrued Revenue, discussed above, on the Company's Consolidated Balance Sheets.

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Regulatory Liabilities consist of the following (\$ millions)	June 30,		December 31,
	2017	2016	2016
Regulatory Tracker Mechanisms	\$ 13.1	\$ 11.0	\$ 6.2
Gas Pipeline Refund (Note 6)	3.5	8.6	6.8
Total Regulatory Liabilities	16.6	19.6	13.0
Less: Current Portion of Regulatory Liabilities	16.6	15.9	10.4
Regulatory Liabilities noncurrent	\$	\$ 3.7	\$ 2.6

Generally, the Company receives a return on investment on its regulated assets for which a cash outflow has been made. Included in Regulatory Assets as of June 30, 2017 are \$1.8 million of deferred storm charges to be recovered over the next year and \$7.9 million of environmental costs, rate case costs and other expenditures to be recovered over varying periods in the next seven years. Regulators have authorized recovery of these expenditures, but without a return. Regulatory commissions can reach different conclusions about the recovery of costs, which can have a material impact on the Company's Consolidated Financial Statements. The Company believes it is probable that its regulated distribution and transmission utilities will recover their investments in long-lived assets, including regulatory assets. If the Company, or a portion of its assets or operations, were to cease meeting the criteria for application of these accounting rules, accounting standards for businesses in general would become applicable and immediate recognition of any previously deferred costs, or a portion of deferred costs, would be required in the year in which the criteria are no longer met, if such deferred costs were not recoverable in the portion of the business that continues to meet the criteria for application of the FASB Codification topic on Regulated Operations. If unable to continue to apply the FASB Codification provisions for Regulated Operations, the Company would be required to apply the provisions for the Discontinuation of Rate-Regulated Accounting included in the FASB Codification. In the Company's opinion, its regulated operations will be subject to the FASB Codification provisions for Regulated Operations for the foreseeable future.

Derivatives The Company's regulated energy subsidiaries enter into energy supply contracts to serve their electric and gas customers. The Company follows a procedure for determining whether each contract qualifies as a derivative instrument under the guidance provided by the FASB Codification on Derivatives and Hedging. For each contract, the Company reviews and documents the key terms of the contract. Based on those terms and any additional relevant components of the contract, the Company determines and documents whether the contract qualifies as a derivative instrument as defined in the FASB Codification. The Company has determined that none of its energy supply contracts, other than the regulatory approved hedging program, described below, qualifies as a derivative instrument under the guidance set forth in the FASB Codification.

The Company has a regulatory approved hedging program for Northern Utilities designed to fix or cap a portion of its gas supply costs for the coming years of service. The Company purchases call option contracts on NYMEX natural gas futures contracts for future winter period months.

Any gains or losses resulting from the change in the fair value of these derivatives are passed through to ratepayers directly through Northern Utilities' Cost of Gas Clause. The fair value of these derivatives is determined using Level 2 inputs (valuations based on quoted prices in markets that are not active or for which all significant inputs are observable, either directly or indirectly), specifically based on the NYMEX closing prices for outstanding contracts as of the balance sheet date. As a result of the ratemaking process, the Company records gains and losses resulting from the change in fair value of the derivatives as regulatory liabilities or assets, then reclassifies these gains or losses into Cost of Gas Sales when the gains and losses are passed through to customers through the Cost of Gas Clause.

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As of June 30, 2017, June 30, 2016 and December 31, 2016 the Company had 1.2 billion, 2.4 billion and 2.0 billion cubic feet (BCF), respectively, outstanding in natural gas futures and options contracts under its hedging program.

As of June 30, 2017, June 30, 2016 and December 31, 2016, the Company's derivatives that are not designated as hedging instruments under FASB ASC 815-20 have a fair value of \$0.1 million, \$0.2 million and \$0.4 million, respectively.

Investments in Marketable Securities In 2015, the Company established a trust through which it invests in a variety of equity and fixed income mutual funds. These funds are intended to satisfy obligations under the Company's Supplemental Executive Retirement Plan (SERP) (See further discussion of the SERP in Note 9.

At June 30, 2017, June 30, 2016 and December 31, 2016, the fair value of the Company's investments in these trading securities, which are recorded on the Consolidated Balance Sheets in Other Assets, were \$3.4 million, \$1.9 million and \$1.9 million, respectively, as shown in the table below. These investments are valued based on quoted prices from active markets and are categorized in Level 1 as they are actively traded and no valuation adjustments have been applied. Changes in the fair value of these investments are recorded in Other Expense, net.

Fair Value of Marketable Securities (\$ millions)	June 30,		December 31,
	2017	2016	2016
Equity Funds	\$ 1.9	\$ 1.1	\$ 1.1
Fixed Income Funds	1.5	0.8	0.8
Total Marketable Securities	\$ 3.4	\$ 1.9	\$ 1.9

Energy Supply Obligations The following discussion and table summarize the nature and amounts of the items recorded as current and noncurrent Energy Supply Obligations on the Company's Consolidated Balance Sheets.

Energy Supply Obligations (\$ millions)	June 30,		December 31,
	2017	2016	2016
Current:			
Exchange Gas Obligation	\$ 5.5	\$ 7.6	\$ 7.8
Renewable Energy Portfolio Standards	4.5	4.9	3.9
Power Supply Contract Divestitures	0.3	0.3	0.3
Total Energy Supply Obligations - Current	10.3	12.8	12.0
Noncurrent:			
Power Supply Contract Divestitures	1.1	1.4	1.3
Total Energy Supply Obligations	\$ 11.4	\$ 14.2	\$ 13.3

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Exchange Gas Obligation Northern Utilities enters into gas exchange agreements under which Northern Utilities releases certain natural gas pipeline and storage assets, resells the natural gas storage inventory to an asset manager and subsequently repurchases the inventory over the course of the natural gas heating season at the same price at which it sold the natural gas inventory to the asset manager. The gas inventory related to these agreements is recorded in Exchange Gas Receivable on the Company's Consolidated Balance Sheets while the corresponding obligations are recorded in Energy Supply Obligations.

Renewable Energy Portfolio Standards Renewable Energy Portfolio Standards (RPS) require retail electricity suppliers, including public utilities, to demonstrate that required percentages of their sales are met with power generated from certain types of resources or technologies. Compliance is demonstrated by purchasing and retiring Renewable Energy Certificates (REC) generated by facilities approved by the state as qualifying for REC treatment. Unitil Energy and Fitchburg purchase RECs in compliance with RPS legislation in New Hampshire and Massachusetts for supply provided to default service customers. RPS compliance costs are a supply cost that is recovered in customer default service rates. Unitil Energy and Fitchburg collect RPS compliance costs from customers throughout the year and demonstrate compliance for each calendar year on the following July 1. Due to timing differences between collection of revenue from customers and payment of REC costs to suppliers, Unitil Energy and Fitchburg typically maintain accrued revenue for RPS compliance which is recorded in Accrued Revenue with a corresponding liability in Energy Supply Obligations on the Company's Consolidated Balance Sheets.

Fitchburg has entered into long-term renewable contracts for electric energy and/or renewable energy credits pursuant to Massachusetts legislation, specifically, the Act Relative to Green Communities of 2008 and the Act Relative to Competitively Priced Electricity (2012) in the Commonwealth, and the MDPU's regulations implementing the legislation. The generating facilities associated with three of these contracts have been constructed and are operating. A recent round of long-term renewable energy procurements was conducted during 2016 and several contracts are expected to be finalized and submitted to MDPU for approval in 2017. Additional procurements are expected in compliance with the Act to Promote Energy Diversity (2016). Fitchburg recovers the costs associated with long-term renewable contracts on a fully reconciling basis through a MDPU-approved cost recovery mechanism.

Power Supply Contract Divestitures As a result of the restructuring of the utility industry in New Hampshire and Massachusetts, Unitil Energy's and Fitchburg's customers have the opportunity to purchase their electric or natural gas supplies from third-party suppliers. In connection with the implementation of retail choice, Unitil Power, which formerly functioned as the wholesale power supply provider for Unitil Energy, and Fitchburg divested their long-term power supply contracts through the sale of the entitlements to the electricity sold under those contracts. Unitil Energy and Fitchburg recover in their rates all the costs associated with the divestiture of their power supply portfolios and have secured regulatory approval from the NHPUC and MDPU, respectively, for the recovery of power supply-related stranded costs. The obligations related to these divestitures are recorded in Energy Supply Obligations on the Company's Consolidated Balance Sheets with corresponding regulatory assets recorded in Accrued Revenue (current portion) and Regulatory Assets (long-term portion).

Recently Issued Pronouncements In May 2017, the FASB issued Accounting Standards Update (ASU) No. 2017-09, Compensation - Stock Compensation (Topic 718) - Scope of Modification Accounting, to clarify when to account for a change to the terms or conditions of a share-based payment award as a modification. Under the new standard, modification is required only if the fair value, the vesting conditions, or the classification of an award as equity or liability changes as a result of the change in terms or conditions. The amendments are effective for all entities for annual periods beginning after December 15, 2017, including interim periods within those annual periods, and will be applied prospectively. Early adoption is permitted. The Company adopted this new guidance and it did not have a material impact on the Company's Consolidated Financial Statements.

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In March 2017, the FASB issued ASU No. 2017-07, Compensation – Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost. The ASU requires an employer to report the service cost component in the same line item or items as other compensation costs arising from services rendered by the pertinent employees during the period. The other components of net benefit cost are required to be presented in the income statement separately from the service cost component and outside a subtotal of income from operations, if one is presented. If a separate line item or items are used to present the other components of net benefit cost, that line item or items must be appropriately described. If a separate line item or items are not used, the line item or items used in the income statement to present the other components of net benefit cost must be disclosed. The amendments also allow only the service cost component to be eligible for capitalization when applicable. The amendments are effective for public business entities for annual periods beginning after December 15, 2017, including interim periods within those annual periods. The Company is evaluating the impact that this new guidance will have on the Company's Consolidated Financial Statements.

In May 2014, the FASB issued ASU No. 2014-09, Revenue from Contracts with Customers, Topic 606, which provides a new framework for the recognition of revenue. The Company expects its adoption will result in increased disclosures regarding revenue and obligations related to arrangements with customers, as well as separate presentation of alternative revenue programs. The Company has not yet fully determined the impacts of adoption for several aspects of the standard, including a determination whether and how much an evaluation of the collectability of regulated electric and gas revenues will impact the amounts of revenue recognized upon delivery. The Company currently expects to implement the standard on a full retrospective basis, which requires restatement of all prior periods presented to conform to the new standard.

In March 2016, the FASB issued ASU 2016-09, which provides for improvements to employee share-based payment accounting. ASU 2016-09 is effective for fiscal years, and interim periods within those years, beginning after December 15, 2016. ASU 2016-09 simplifies several aspects of the accounting for employee share-based payment transactions, including the accounting for income taxes, forfeitures, and statutory tax withholding requirements, as well as classification in the statement of cash flows. The Company adopted this new guidance in the first quarter of 2017 and it did not have an impact on the Company's Consolidated Financial Statements.

In February 2016, the FASB issued ASU 2016-02, Leases, Topic 842, which for lessees requires balance sheet recognition of right-of-use assets and lease liabilities for most leases. This guidance will be effective for interim and annual reporting periods beginning after Dec. 15, 2018. The Company has not yet fully determined the impacts of implementation. However, adoption is expected to occur on Jan. 1, 2019 utilizing the practical expedients provided by the standard. As such, agreements entered into prior to Jan. 1, 2017 that are currently considered leases are expected to be recognized on the consolidated balance sheet, including contracts for use of office space and equipment. The Company expects that similar agreements entered into after December 31, 2016 will generally qualify as leases under the new standard, but has not yet completed its evaluation of certain other contracts, including arrangements for the secondary use of assets, such as land easements.

In January 2016, the FASB issued Accounting Standards Update (ASU) 2016-01 which addresses certain aspects of recognition, measurement, presentation and disclosure of financial instruments. A financial instrument is defined as cash, evidence of ownership interest in a company or other entity, or a contract that both: (i) imposes on one entity a contractual obligation either to deliver cash or another financial instrument to a second entity or to exchange other

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financial instruments on potentially unfavorable terms with the second entity and (ii) conveys to that second entity a contractual right either to receive cash or another financial instruments from the first entity or to exchange other financial instruments on potentially favorable terms with the first entity. This pronouncement is effective for financial statements issued for annual periods beginning after December 15, 2017 and interim periods within those annual periods with earlier application permitted as of the beginning of the fiscal year of adoption. The Company is evaluating the impact that this new guidance will have on the Company's Consolidated Financial Statements.

Other than the pronouncements discussed above, there are no recently issued pronouncements that the Company has not already adopted or that have a material impact on the Company.

Subsequent Events The Company has evaluated all events or transactions through the date of this filing. During this period the Company did not have any material subsequent events, other than entering into debt agreements, as discussed below, that impacted its unaudited consolidated financial statements.

On July 14, 2017, Northern Utilities, Fitchburg and Granite State, entered into agreements to issue and sell \$90 million collectively of Senior Unsecured Notes (Notes) through a private placement marketing process to institutional investors. These financings are expected to close and fund on November 1, 2017.

Northern Utilities priced \$20 million of Notes due 2027 at 3.52% and \$30 million of Notes due 2047 at 4.32%. Fitchburg priced \$10 million of Notes due 2027 at 3.52% and \$15 million of Notes due 2047 at 4.32%. Granite State priced \$15 million of Notes due 2027 at 3.72%.

Northern Utilities, Fitchburg and Granite State plan to use the net proceeds from the offering to repay short-term debt and for general corporate purposes. Northern Utilities, Fitchburg and Granite State anticipate closing and funding this long-term financing on November 1, 2017. However, the issuance of the Notes is subject to customary closing conditions for a transaction of this type.

The Notes offered have not been and will not be registered under the Securities Act of 1933 (Act), or any state securities laws, and may not be offered or sold in the United States absent registration or an applicable exemption from the registration requirements of the Act and applicable state securities laws.

NOTE 2 DIVIDENDS DECLARED PER SHARE

Declaration		Shareholder		Dividend Amount
Date	Date Paid (Payable)	Record Date		
07/25/17	08/29/17	08/15/17		\$ 0.360
04/26/17	05/30/17	05/16/17		\$ 0.360
01/25/17	02/28/17	02/14/17		\$ 0.360
10/19/16	11/28/16	11/14/16		\$0.355
07/20/16	08/26/16	08/12/16		\$0.355
04/20/16	05/27/16	05/13/16		\$ 0.355
01/27/16	02/26/16	02/12/16		\$ 0.355

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The following table provides significant segment financial data for the three and six months ended June 30, 2017 and June 30, 2016 and as of December 31, 2016 (millions):

	Gas	Electric	Non-Regulated	Other	Total
Three Months Ended June 30, 2017					
Revenues	\$ 32.0	\$ 47.4	\$ 1.4	\$	\$ 80.8
Segment Profit (Loss)	0.1	3.1	0.1	(0.2)	3.1
Capital Expenditures	17.0	5.5		4.9	27.4
Three Months Ended June 30, 2016					
Revenues	\$ 28.9	\$ 44.1	\$ 1.5	\$	\$ 74.5
Segment Profit (Loss)		2.1	0.3	0.1	2.5
Capital Expenditures	18.8	7.3		2.2	28.3
Six Months Ended June 30, 2017					
Revenues	\$ 106.8	\$ 96.9	\$ 3.1	\$	\$ 206.8
Segment Profit	10.0	5.2	0.5	(0.2)	15.5
Capital Expenditures	22.7	13.8		8.4	44.9
Segment Assets	637.0	446.4	7.1	47.2	1,137.7
Six Months Ended June 30, 2016					
Revenues	\$ 102.0	\$ 95.2	\$ 3.1	\$	\$ 200.3
Segment Profit	9.4	3.4	0.6		13.4
Capital Expenditures	21.9	13.0		4.7	39.6
Segment Assets	593.8	419.4	7.0	31.5	1,051.7
As of December 31, 2016					
Segment Assets	\$ 645.2	\$ 441.1	\$ 6.8	\$ 35.1	\$ 1,128.2

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Details on long-term debt at June 30, 2017, June 30, 2016 and December 31, 2016 are shown below:

(\$ millions)	2017	June 30, 2016	December 31, 2016
Unitil Corporation Senior Notes:			
6.33% Notes, Due May 1, 2022	\$ 20.0	\$ 20.0	\$ 20.0
3.70% Notes, Due August 1, 2026	30.0		30.0
Unitil Energy Systems, Inc.:			
First Mortgage Bonds:			
5.24% Series, Due March 2, 2020	15.0	15.0	15.0
8.49% Series, Due October 14, 2024	9.0	12.0	9.0
6.96% Series, Due September 1, 2028	20.0	20.0	20.0
8.00% Series, Due May 1, 2031	15.0	15.0	15.0
6.32% Series, Due September 15, 2036	15.0	15.0	15.0
Fitchburg Gas and Electric Light Company:			
Long-Term Notes:			
6.75% Notes, Due November 30, 2023	9.5	11.4	9.5
6.79% Notes, Due October 15, 2025	10.0	10.0	10.0
7.37% Notes, Due January 15, 2029	12.0	12.0	12.0
5.90% Notes, Due December 15, 2030	15.0	15.0	15.0
7.98% Notes, Due June 1, 2031	14.0	14.0	14.0
Northern Utilities Senior Notes:			
6.95% Senior Notes, Series A, Due December 3, 2018	20.0	30.0	20.0
5.29% Senior Notes, Due March 2, 2020	25.0	25.0	25.0
7.72% Senior Notes, Series B, Due December 3, 2038	50.0	50.0	50.0
4.42% Senior Notes, Due October 15, 2044	50.0	50.0	50.0
Granite State Senior Notes:			
7.15% Senior Notes, Due December 15, 2018	6.7	10.0	6.7
Unitil Realty Corp.:			
Senior Secured Notes:			
8.00% Notes, Due Through August 1, 2017		0.8	0.4
Total Long-Term Debt	336.2	325.2	336.6
Less: Unamortized Debt Issuance Costs	2.8	2.8	3.0
Total Long-Term Debt, net of Unamortized Debt Issuance Costs	333.4	322.4	333.6
Less: Current Portion	29.9	17.2	16.8
Total Long-term Debt, Less Current Portion	\$ 303.5	\$ 305.2	\$ 316.8

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Fair Value of Long-Term Debt Currently, the Company believes that there is no active market in the Company's debt securities, which have all been sold through private placements. If there were an active market for the Company's debt securities, the fair value of the Company's long-term debt would be estimated based on the quoted market prices for the same or similar issues, or on the current rates offered to the Company for debt of the same remaining maturities. The fair value of the Company's long-term debt is estimated using Level 2 inputs (valuations based on quoted prices available in active markets for similar assets or liabilities, quoted prices for identical or similar assets or liabilities in inactive markets, inputs other than quoted prices that are directly observable, and inputs derived principally from market data.) In estimating the fair value of the Company's long-term debt, the assumed market yield reflects the Moody's Baa Utility Bond Average Yield. Costs, including prepayment costs, associated with the early settlement of long-term debt are not taken into consideration in determining fair value.

(\$ millions)	June 30,		December 31,
	2017	2016	2016
Estimated Fair Value of Long-Term Debt	\$ 381.5	\$ 372.8	\$ 370.3
Credit Arrangements			

On October 4, 2013, the Company entered into an Amended and Restated Credit Agreement (as further amended, restated, amended and restated, modified or supplemented from time to time, the "Credit Facility"). The Credit Facility terminates October 4, 2020 and provides for a borrowing limit of \$120 million which includes a \$25 million sublimit for the issuance of standby letters of credit. The Credit Facility provides Unitil with the ability to elect that borrowings under the Credit Facility bear interest under several options, including at a daily fluctuating rate of interest per annum equal to one-month London Interbank Offered Rate (LIBOR) plus 1.25%. Provided there is no event of default under the Credit Facility, the Company may on a one-time basis request an increase in the aggregate commitments under the Credit Facility by an aggregate additional amount of up to \$30 million.

The Company utilizes the Credit Facility for cash management purposes related to its short-term operating activities. Total gross borrowings were \$107.9 million for the six months ended June 30, 2017. Total gross repayments were \$110.6 million for the six months ended June 30, 2017. The following table details the borrowing limits, amounts outstanding and amounts available under the revolving Credit Facility as of June 30, 2017, June 30, 2016 and December 31, 2016:

	Revolving Credit Facility (\$ millions)		
	June 30,		December 31,
	2017	2016	2016
Limit	\$ 120.0	\$ 120.0	\$ 120.0
Short-Term Borrowings Outstanding	\$ 79.2	\$ 54.2	\$ 81.9
Letters of Credit Outstanding	\$ 1.1	\$	\$ 1.1
Available	\$ 39.7	\$ 65.8	\$ 37.0

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The Credit Facility contains customary terms and conditions for credit facilities of this type, including affirmative and negative covenants. There are restrictions on, among other things, Unitil's and its subsidiaries' ability to permit liens or incur indebtedness, and restrictions on Unitil's ability to merge or consolidate with another entity or change its line of business. The affirmative and negative covenants under the Credit Facility shall apply to Unitil until the Credit Facility terminates and all amounts borrowed under the Credit Facility are paid in full (or with respect to letters of credit, they are cash collateralized). The only financial covenant in the Credit Facility provides that Unitil's Funded Debt to Capitalization (as each term is defined in the Credit Facility) cannot exceed 65%, tested on a quarterly basis. At June 30, 2017, June 30, 2016 and December 31, 2016, the Company was in compliance with the covenants contained in the Credit Facility in effect on that date.

The weighted average interest rates on all short-term borrowings and intercompany money pool transactions were 2.2% and 1.7% for the six months ended June 30, 2017 and June 30, 2016, respectively. The weighted average interest rate on all short-term borrowings for the twelve months ended December 31, 2016 was 1.8%.

Unitil Corporation and its utility subsidiaries, Fitchburg, Unitil Energy, Northern Utilities, and Granite State are currently rated BBB+ by Standard & Poor's Ratings Services.

On July 14, 2017, Northern Utilities, Fitchburg and Granite State, entered into agreements to issue and sell \$90 million collectively of Senior Unsecured Notes (Notes) through a private placement marketing process to institutional investors. These financings are expected to close and fund on November 1, 2017. (See also "Subsequent Events" in Note 1.)

In April 2014, Unitil Service Corp. entered into a financing arrangement, structured as a capital lease obligation, for various information systems and technology equipment. Final funding under this capital lease occurred on October 30, 2015, resulting in total funding of \$13.4 million. The capital lease matures on September 30, 2020. As of June 30, 2017, there are \$2.7 million of current and \$6.4 million of noncurrent obligations under this capital lease on the Company's Consolidated Balance Sheets.

Northern Utilities enters into asset management agreements under which Northern Utilities releases certain natural gas pipeline and storage assets, resells the natural gas storage inventory to an asset manager and subsequently repurchases the inventory over the course of the natural gas heating season at the same price at which it sold the natural gas inventory to the asset manager. There was \$5.6 million, \$7.6 million and \$9.9 million of natural gas storage inventory at June 30, 2017, June 30, 2016 and December 31, 2016, respectively, related to these asset management agreements. The amount of natural gas inventory released in June 2017 and payable in July 2017 is \$0.1 million and is recorded in Accounts Payable at June 30, 2017. The amount of natural gas inventory released in June 2016 and payable in July 2016 was less than \$0.1 million and is recorded in Accounts Payable at June 30, 2016. The amount of natural gas inventory released in December 2016 and payable in January 2017 was \$2.1 million and was recorded in Accounts Payable at December 31, 2016.

Guarantees

The Company provides limited guarantees on certain energy and natural gas storage management contracts entered into by the distribution utilities. The Company's policy is to limit the duration of these guarantees. As of June 30, 2017, there were approximately \$23.9 million of guarantees outstanding and the longest term guarantee extends through April 2018.

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The Company also guarantees the payment of principal, interest and other amounts payable on the notes issued by Granite State and Unitil Realty. As of June 30, 2017, the principal amount outstanding for the 7.15% Granite State notes was \$6.7 million and was less than \$0.1 million for the 8% Unitil Realty notes. The 8% Unitil Realty notes will be fully paid in August 2017 and the guarantee associated with those notes will terminate.

NOTE 5 COMMON STOCK AND PREFERRED STOCK

Common Stock

The Company's common stock trades on the New York Stock Exchange under the symbol, UTL.

The Company had 14,052,096, 14,065,230 and 14,114,551 shares of common stock outstanding at June 30, 2016, December 31, 2016 and June 30, 2017, respectively.

Dividend Reinvestment and Stock Purchase Plan During the first six months of 2017, the Company sold 14,391 shares of its common stock, at an average price of \$45.87 per share, in connection with its Dividend Reinvestment and Stock Purchase Plan (DRP) and its 401(k) plans resulting in net proceeds of approximately \$660,200. The DRP provides participants in the plan a method for investing cash dividends on the Company's common stock and cash payments in additional shares of the Company's common stock.

Stock Plan The Company maintains the Unitil Corporation Second Amended and Restated 2003 Stock Plan (the Stock Plan). Participants in the Stock Plan are selected by the Compensation Committee of the Board of Directors to receive awards under the Stock Plan, including awards of restricted shares (Restricted Shares), or of restricted stock units (Restricted Stock Units). The Compensation Committee has the authority to determine the sizes of awards; determine the terms and conditions of awards in a manner consistent with the Stock Plan; construe and interpret the Stock Plan and any agreement or instrument entered into under the Stock Plan as they apply to participants; establish, amend, or waive rules and regulations for the Stock Plan's administration as they apply to participants; and, subject to the provisions of the Stock Plan, amend the terms and conditions of any outstanding award to the extent such terms and conditions are within the discretion of the Compensation Committee as provided for in the Stock Plan. On April 19, 2012, the Company's shareholders approved an amendment to the Stock Plan to, among other things, increase the maximum number of shares of common stock available for awards to plan participants.

The maximum number of shares available for awards to participants under the Stock Plan is 677,500. The maximum number of shares that may be awarded in any one calendar year to any one participant is 20,000. In the event of any change in capitalization of the Company, the Compensation Committee is authorized to make an equitable adjustment to the number and kind of shares of common stock that may be delivered under the Stock Plan and, in addition, may authorize and make an equitable adjustment to the Stock Plan's annual individual award limit.

Restricted Shares

Outstanding awards of Restricted Shares fully vest over a period of four years at a rate of 25% each year. During the vesting period, dividends on Restricted Shares underlying the award may be credited to a participant's account. The Company may deduct or withhold, or require a participant to remit to the Company, an amount sufficient to satisfy any taxes required by federal, state, or local law or regulation to be withheld with respect to any taxable event arising in connection with an Award. For purposes of compensation expense, Restricted Shares vest immediately upon a participant becoming eligible for retirement, as defined in the Stock Plan. Prior to the end of the vesting period, the restricted shares are subject to forfeiture if the participant ceases to be employed by the Company other than due to the participant's death.

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On January 30, 2017, 34,930 Restricted Shares were issued in conjunction with the Stock Plan with an aggregate market value at the date of issuance of approximately \$1.6 million. There were 89,705 and 95,506 non-vested shares under the Stock Plan as of June 30, 2017 and 2016, respectively. The weighted average grant date fair value of these shares was \$39.55 and \$35.30, respectively. The compensation expense associated with the issuance of shares under the Stock Plan is being recognized over the vesting period and was \$2.0 million and \$1.8 million for the six months ended June 30, 2017 and 2016, respectively. At June 30, 2017, there was approximately \$1.6 million of total unrecognized compensation cost under the Stock Plan which is expected to be recognized over approximately 2.6 years. There were no forfeitures or cancellations under the Stock Plan during the six months ended June 30, 2017.

Restricted Stock Units

Non-management members of the Company's Board of Directors (Directors) may elect to receive the equity portion of their annual retainer in the form of Restricted Stock Units. Restricted Stock Units earn dividend equivalents and will generally be settled by payment to each Director as soon as practicable following the Director's separation from service to the Company. The Restricted Stock Units will be paid such that the Director will receive (i) 70% of the shares of the Company's common stock underlying the restricted stock units and (ii) cash in an amount equal to the fair market value of 30% of the shares of the Company's common stock underlying the Restricted Stock Units. The equity portion of Restricted Stock Units activity during the six months ended June 30, 2016 in conjunction with the Stock Plan are presented in the following table:

Restricted Stock Units (Equity Portion)		
	Units	Weighted Average Stock Price
Restricted Stock Units as of December 31, 2016	43,345	\$ 33.40
Restricted Stock Units Granted		
Dividend Equivalents Earned	683	\$ 45.92
Restricted Stock Units Settled		
Restricted Stock Units as of June 30, 2017	44,028	\$ 33.60

There were 34,192 Restricted Stock Units outstanding as of June 30, 2016 with a weighted average stock price of \$31.97. Included in Other Noncurrent Liabilities on the Company's Consolidated Balance Sheets as of June 30, 2017, June 30, 2016 and December 31, 2016 is \$0.9 million, \$0.6 million and \$0.8 million, respectively, representing the fair value of liabilities associated with the portion of fully vested RSUs that will be settled in cash.

Preferred Stock

There was \$0.2 million, or 1,893 shares, of Unitil Energy's 6.00% Series Preferred Stock outstanding as of June 30, 2017 and December 31, 2016. There was \$0.2 million, or 1,898 shares, of Unitil Energy's 6.00% Series Preferred Stock outstanding as of June 30, 2016. There were less than \$0.1 million of total dividends declared on Preferred Stock in each of the three and six month periods ended June 30, 2017 and June 30, 2016, respectively.

NOTE 6 REGULATORY MATTERS

UNITIL'S REGULATORY MATTERS ARE DESCRIBED IN NOTE 8 TO THE FINANCIAL STATEMENTS IN ITEM 8 OF PART II OF UNITIL CORPORATION'S FORM 10-K FOR DECEMBER 31, 2016 AS FILED WITH THE SECURITIES AND EXCHANGE COMMISSION ON FEBRUARY 2, 2017.

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Rate Case Activity

Unitil Energy Base Rates On April 20, 2017 the NHPUC issued its final order approving a settlement between Unitil Energy, Commission Staff and the Office of Consumer Advocate providing for a permanent increase of \$4.1 million, and a three year rate plan with an additional rate step adjustment in May 2017 of \$0.9 million, followed by two rate step adjustments in May of 2018 and 2019 to recover the revenue requirements associated with annual capital expenditures as defined under the rate plan.

Fitchburg Base Rates Electric On April 29, 2016 the MDPU issued an order approving a \$2.1 million increase in Fitchburg's electric base revenue decoupling target, effective May 1, 2016. As part of its order, the MDPU approved, with modifications, Fitchburg's request for an annual capital cost recovery mechanism, which allows for increases to target revenues to recover the revenue requirement associated with annual capital additions as defined under the mechanism. In 2016, Fitchburg made its first capital cost adjustment filing for calendar year 2015 capital investments, and received MDPU approval to increase revenues by approximately \$0.5 million, subject to further investigation and reconciliation. On June 29, 2017, Fitchburg filed its compliance report on capital investments for calendar year 2016, which forms the basis for the next filing to adjust target revenues to be made with the MDPU in November 2017. These matters remain pending.

Fitchburg Base Rates Gas On April 29, 2016, the MDPU issued an order approving a \$1.6 million increase in Fitchburg's gas base revenue decoupling target, effective May 1, 2016.

Fitchburg Gas Operations On October 31, 2016, Fitchburg submitted its annual filing under its gas system enhancement program to recover the revenue requirements associated with capital additions in 2017 as defined under the program. The filing sought approval to collect an additional \$0.9 million of annual revenues. On April 28, 2017, the MDPU approved recovery of 2017 costs, subject to a revenue cap of 1.5%, resulting in an additional \$0.5 million of annual revenues effective May 1, 2017. The remaining \$0.4 million of annual revenues the Company sought approval to collect has been deferred for recovery in future periods under the program. The Company has requested that the MDPU waive the 1.5% revenue requirement cap on deferred amounts. This matter remains pending.

Northern Utilities Base Rates Maine On May 31, 2017, Northern Utilities filed a base rate case with the MPUC seeking to increase annual revenues by \$6.0 million. Following an extensive regulatory review and investigation process, a final order from the MPUC on Northern Utilities' request is expected by the end of February 2018.

In addition to the distribution base rate increase, Northern Utilities is requesting to extend its Targeted Infrastructure Replacement Adjustment mechanism (TIRA). The TIRA is a capital cost recovery mechanism designed to recover the annual revenue requirements associated with targeted investments in gas distribution system infrastructure replacement and upgrade projects, including the Company's Cast Iron Replacement Program (CIRP). This matter remains pending.

Northern Utilities Targeted Infrastructure Replacement Adjustment The settlement in Northern Utilities' Maine division's last rate case allowed the Company to implement a Targeted Infrastructure Replacement Adjustment (TIRA) rate mechanism to adjust base distribution rates annually to recover the revenue requirements associated with targeted investments in gas distribution system infrastructure replacement and upgrade projects. The TIRA had an initial term of four years and covers targeted capital expenditures in 2013 through 2016 as defined under the mechanism. The 2017 TIRA, for 2016 expenditures, approved by the MPUC on April 25, 2017, provided for an annual increase in distribution base revenue of \$1.1 million, effective May 1, 2017.

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Northern Utilities Targeted Area Build-out Program Maine On December 22, 2015, the MPUC approved a Targeted Area Build-out (TAB) program and associated rate surcharge mechanism. This program is designed to allow the economic extension of natural gas mains to new, targeted service areas in Maine. It allows customers in the targeted area the ability to pay a rate surcharge, instead of a large upfront payment or capital contribution to connect to the natural gas delivery system. The initial pilot of the TAB program was approved for the City of Saco, and is being built out over a period of three years, with the potential to add 1,000 new customers and approximately \$1 million in annual distribution revenue in the Saco area. The second TAB program was approved for the Town of Sanford, and has the potential to add 2,000 new customers and approximately \$2 million in annual distribution revenue in the Sanford area.

Northern Utilities Base Rates New Hampshire On June 5, 2017, Northern Utilities filed for a base rate increase with the NHPUC seeking to increase annual revenues by \$4.7 million. On June 15, 2017, the Commission suspended the Company's proposed permanent rates tariffs while the filing is under extensive regulatory review and investigation over the next several months. A final order from the NHPUC on Northern Utilities' request is expected by the end of April 2018.

Northern Utilities has reached a settlement agreement on temporary rates to produce an increase in annual revenues of approximately \$1.6 million, effective with service rendered on and after August 1, 2017, and until a final, non-appealable order on permanent rates is issued. Once a final decision on permanent rates is issued, it will be reconciled back to the date that temporary rates were implemented. The settlement agreement will be filed for Commission approval.

In its initial petition, Northern Utilities is also requesting approval to implement a multi-year rate plan, including a capital cost recovery mechanism, which will allow for recovery of the revenue requirements associated with future annual capital expenditures as defined under the plan through changes, or step adjustments, to Northern Utilities' distribution rates without the need to file a general rate case prior to January 2021. This matter remains pending.

Northern Utilities Pipeline Refund On February 19, 2015, the FERC issued Opinion No. 524-A, the final order in Portland Natural Gas Transmission's (PNGTS) Section 4 rate case, requiring PNGTS to issue refunds to shippers. Northern Utilities received a pipeline refund of \$22.0 million on April 15, 2015. As a gas supply-related refund, the entire amount refunded will be credited to Northern Utilities' customers and marketers over three years as directed by the NHPUC and MPUC. The Company has recorded current Regulatory Liabilities related to these refunds of \$3.5 million on its Consolidated Balance Sheets as of June 30, 2017.

Granite State Base Rates Granite State has in place a FERC-approved second amended settlement agreement under which it is permitted to file annually, each June, for a rate adjustment to recover the revenue requirements associated with specified capital investments in gas transmission projects up to a specific cap on expenditures. On June 21, 2017 Granite State filed for an annual revenue increase under this provision of \$0.2 million, effective August 1, 2017. This filing remains pending before the FERC.

Other Matters

NHPUC Energy Efficiency Resource Standard Proceeding In May 2015, the NHPUC opened a proceeding to establish an Energy Efficiency Resource Standard (EERS), an energy efficiency policy with specific targets or goals for energy savings that New Hampshire electric and

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gas utilities must meet. On April 27, 2016, a comprehensive settlement agreement was filed by the parties, including Unitil Energy and Northern Utilities, which was approved by the NHPUC on August 2, 2016. The settlement provides for: extending the 2014-2016 Core program an additional year (through 2017); establishing an EERS; establishing a recovery mechanism to compensate the utilities for lost-revenue related to the EERS programs; and approving the performance incentives and processes for stakeholder involvement, evaluation, measurement and verification, and oversight of the EERS programs.

Unitil Energy Electric Grid Modernization In July 2015, the NHPUC opened an investigation into Grid Modernization to address a variety of issues related to Distribution System Planning, Customer Engagement with Distributed Energy Resources, and Utility Cost Recovery and Financial Incentives. The NHPUC engaged a consultant to direct a Working Group to investigate these issues and to prepare a final report with recommendations for the Commission. The final report was filed on March 20, 2017. This matter remains pending.

Unitil Energy Net Metering Pursuant to legislation that became effective in May 2016, the NHPUC opened a proceeding to consider alternatives to the net metering tariffs currently in place. The NHPUC issued an Order on June 23, 2017. The Order removes the cap on the total amount of generation capacity which may be owned or operated by customer-generators eligible for net metering. The order also adopts an alternative net metering tariff for small customer-generators (those with renewable energy systems of 100 kW or less) which will remain in effect for a period of years while further data is collected and analyzed, time-of-use and other pilot programs are implemented, and a distributed energy resource valuation study is conducted. Systems that are installed or queued during this period will have their net metering rate structure grandfathered until December 31, 2040. The Company does not believe that this proceeding will have a material adverse impact on the Company's financial condition.

Fitchburg Electric Operations On November 17, 2016, Fitchburg submitted its 2016 annual reconciliation of costs and revenues for transition and transmission under its restructuring plan, including the reconciliation of costs and revenues for a number of other surcharges and cost factors, for review and approval by the MDPU. All of the rates were given final approval by the MDPU on December 29, 2016, effective January 1, 2017.

Fitchburg Service Quality On February 28, 2017, Fitchburg submitted its 2016 Service Quality Reports for both its gas and electric divisions in accordance with new Service Quality Guidelines issued by the MDPU in December 2015. Fitchburg reported that it met or exceeded its benchmarks for service quality performance in all metrics for both its gas and electric divisions. This matter remains pending.

Fitchburg Solar Generation On August 19, 2016, Fitchburg filed a petition with the MDPU seeking approval to develop a 1.3 MW solar generation facility located on Company property in Fitchburg, Massachusetts, including a cost recovery mechanism to share the costs and benefits of the project among all Fitchburg customers. On November 9, 2016, the MDPU approved a Settlement Agreement supporting the proposal, which was reached among the Company, the Attorney General of Massachusetts, and the Low-Income Weatherization and Fuel Assistance Program Network. Construction of the solar generating facility is expected to be completed by the end of November 2017.

Fitchburg Energy Diversity Governor Baker signed into law H4568 An Act to Promote Energy Diversity on August 8, 2016. Among many sections in the bill, the primary provision adds new sections 83c and 83d to the 2008 Green Communities Act. Section 83c requires every electric distribution company (EDC) to jointly and competitively solicit proposals for at least 400 MW's of offshore wind energy generation by June 30, 2017, as part of a total of 1,600 MW of offshore wind the EDCs are directed to procure by June 30, 2027. The procurement requirement

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is subject to a determination by the MDPU that the proposed long-term contracts are cost-effective. Section 83d further requires the EDCs to jointly seek proposals for cost effective clean energy (hydro and other) long-term contracts via one or more staggered solicitations, the first of which shall be issued not later than April 1, 2017, for a total of 9,450,000 megawatt-hours by December 31, 2022. Emergency regulations implementing these new provisions, 220 C.M.R. § 23.00 et seq. and 220 C.M.R. § 24.00 et seq. were adopted by the MDPU on December 29, 2016, and adopted as final regulations on March 8, 2017. On February 2, 2017, the EDCs filed for approval of the RFP process pursuant to Section 83d, which was approved by the MDPU on March 27, 2017. On March 31, 2017, the EDCs issued the RFP for Long-Term Contracts for Clean Energy Projects, pursuant to Section 83d. On June 29, 2017, the EDCs issued the RFP pursuant to Section 83c.

Fitchburg Clean Energy RFP Pursuant to Section 83a of the Green Communities Act in Massachusetts and similar clean energy directives established in Connecticut and Rhode Island, state agencies and the electric distribution companies in the three states, including Fitchburg, issued an RFP for clean energy resources (including Class I renewable generation and large hydroelectric generation) in November 2015. The RFP sought proposals for clean energy and transmission projects that can deliver new renewable energy to the three states. Project proposals were received in January 2016. Selection of contracts concluded during the fourth quarter of 2016 and contract negotiations concluded during the second quarter of 2017. The electric distribution companies are working to finalize the regulatory approval filing. Fitchburg's final contracts will be subject to review and approval of the MDPU.

Fitchburg Other On June 5, 2017, the Massachusetts Department of Energy Resources (DOER) filed an emergency regulation with the Secretary of the Commonwealth's office to implement the Solar Massachusetts Renewable Target (SMART) Program. This regulation is promulgated pursuant to Chapter 75 of the Acts of 2016, which requires the DOER to establish a new solar incentive program. The regulation is designed to support the continued development of an additional 1,600 MW of solar renewable energy generating sources via a declining block compensation mechanism, and is the product of an extensive stakeholder process that began last spring and involved over 40 public meetings and two written public comment periods. While the emergency regulation takes effect immediately, it can only remain in effect for three months pending a full rulemaking proceeding conducted by the DOER, at which time final rules will be promulgated. Additionally, the full implementation of the SMART Program will also require approval from the MDPU of tariffs filed by the Massachusetts Electric Distribution Companies. As such, the SMART program will not be in effect until this occurs, and no MDPU proceeding can commence prior to the conclusion of the DOER's rulemaking process. In the interim, the current program for solar renewable energy credits, known as SREC-II, remains in effect for all eligible solar facilities.

On May 11, 2016, the MDPU issued an Order commencing a rulemaking proceeding to adopt emergency regulations amending 220 C.M.R. § 18.00 et seq. (Net Metering Regulations). Specifically, the MDPU amended its Net Metering Regulations to implement the net metering provisions of An Act Relative to Solar Energy, St. 2016, c. 75, §§ 3-9, and to make additional clerical changes to the Net Metering Regulations. On July 15, 2016, the MDPU issued an order approving Final Net Metering Regulations. Fitchburg's tariff, filed in compliance with the new regulations, was approved on February 7, 2017.

In December 2013, the MDPU opened an investigation into Modernization of the Electric Grid. The stated objective of the Grid Modernization proceeding is to ensure that the electric distribution companies adopt grid modernization policies and practices. In June 2014, the MDPU issued its first Grid Modernization order, setting forth a requirement that each electric distribution company submit a ten-year strategic Grid Modernization Plan (GMP). As part of the GMP, each company must include a five-year Short-Term Investment Plan (STIP), which must

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include an approach to achieving advanced metering functionality within five years of the Department's approval of the GMP. The filing of a GMP is a recurring obligation and must be updated as part of subsequent base distribution rate cases, which by statute must occur no less often than every five years. Capital investments contained in the STIP are eligible for pre-authorization, meaning that the MDPU will not revisit in later filings whether the Company should have proceeded with these investments. Fitchburg and the Commonwealth's three other electric distribution companies filed their initial GMPs on August 19, 2015. These filings are currently under MDPU review and remain pending.

On January 28, 2016 the MDPU approved Fitchburg's Three-Year Energy Efficiency Plan for 2016-2018, subject to limited modifications and directives in the Order. The Department found that the savings goals included in each Three-Year Plan are reasonable and are consistent with the achievement of all available cost-effective energy efficiency; approved each Program Administrator's program implementation cost budget for the Three-Year Plans; approved the performance incentive pool, mechanism, and payout rates; found that all proposed energy efficiency programs are cost-effective; found that funding sources are reasonable and that each Program Administrator may recover the funds to implement its energy efficiency plan through its Energy Efficiency Surcharge; and found that each Program Administrator's Three-Year Plan is consistent with the Green Communities Act, the Guidelines, and Department precedent.

FERC Transmission Formula Rate Proceedings Pursuant to Section 206 of the Federal Power Act, there are several pending proceedings before the FERC concerning the justness and reasonableness of the Return on Equity (ROE) component of the ISO-New England, Inc. Participating Transmission Owners' Regional Network Service and Local Network Service formula rates. On April 14, 2017, the U.S. Court of Appeals for the D.C. Circuit issued an opinion vacating a decision of the FERC with respect to these formula rates, and remanded it for further proceedings. The FERC had found that the Transmission Owners' existing ROE was unlawful, and had set a new ROE. The Court found that the FERC had failed to articulate a satisfactory explanation for its orders. It is not certain at this time whether the remand of the decision by the Court will result in the setting by FERC of a new ROE at a level higher, lower or equal to the existing ROE. Fitchburg and Unitil Energy are Participating Transmission Owners, although Unitil Energy does not own transmission plant. To the extent that these proceedings result in any changes to the rates being charged, a retroactive reconciliation may be required. The Company does not believe that these proceedings will have a material adverse impact on the Company's financial condition or results of operations.

Legal Proceedings

The Company is involved in legal and administrative proceedings and claims of various types, which arise in the ordinary course of business. The Company believes, based upon information furnished by counsel and others, that the ultimate resolution of these claims will not have a material impact on its financial position, operating results or cash flows.

In early 2009, a putative class action complaint was filed against Unitil's Massachusetts based utility, Fitchburg, in Massachusetts' Worcester Superior Court (the Court), (captioned Bellermand et al v. Fitchburg Gas and Electric Light Company). The Complaint seeks an unspecified amount of damages, including the cost of temporary housing and alternative fuel sources, emotional and physical pain and suffering and property damages allegedly incurred by customers in connection with the loss of electric service during the ice storm in Fitchburg's service territory in December 2008. The Massachusetts Supreme Judicial Court issued an order denying class certification status in July 2016, though the plaintiffs' individual claims remain pending. The Company continues to believe that this suit is without merit and will continue to defend itself vigorously. The Town of Lunenburg filed a separate action in the Court arising out of the December 2008 ice storm. The Court granted the Company's Motion for Summary Judgment.

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on all counts in December 2016 and dismissed the Town's complaint. The Court's decision remains subject to a potential motion for reconsideration and appeal. The Company believes, based upon information furnished by counsel and others, that the ultimate resolution of these suits will not have a material impact on its financial position, operating results or cash flows.

NOTE 7 ENVIRONMENTAL MATTERS

UNITIL'S ENVIRONMENTAL MATTERS ARE DESCRIBED IN NOTE 8 TO THE FINANCIAL STATEMENTS IN ITEM 8 OF PART II OF UNITIL CORPORATION'S FORM 10-K FOR DECEMBER 31, 2016 AS FILED WITH THE SECURITIES AND EXCHANGE COMMISSION ON FEBRUARY 2, 2017.

The Company's past and present operations include activities that are generally subject to extensive and complex federal and state environmental laws and regulations. The Company is in material compliance with applicable environmental and safety laws and regulations and, as of June 30, 2017, has not identified any material losses reasonably likely to be incurred in excess of recorded amounts. However, we cannot assure that significant costs and liabilities will not be incurred in the future. It is possible that other developments, such as increasingly stringent federal, state or local environmental laws and regulations could result in increased environmental compliance costs. Based on the Company's current assessment of its environmental responsibilities, existing legal requirements and regulatory policies, the Company does not believe that these environmental costs will have a material adverse effect on the Company's consolidated financial position or results of operations.

Northern Utilities Manufactured Gas Plant Sites Northern Utilities has an extensive program to identify, investigate and remediate former manufactured gas plant (MGP) sites, which were operated from the mid-1800s through the mid-1900s. In New Hampshire, MGP sites were identified in Dover, Exeter, Portsmouth, Rochester and Somersworth. In Maine, Northern Utilities has documented the presence of MGP sites in Lewiston and Portland, and a former MGP disposal site in Scarborough.

Northern Utilities has worked with the Maine Department of Environmental Protection (ME DEP) and New Hampshire Department of Environmental Services (NH DES) to address environmental concerns with these sites. Northern Utilities or others have substantially completed remediation of the Exeter, Rochester, Dover, Somersworth, Portsmouth, Lewiston, Portland and Scarborough sites, though on site monitoring continues and it is possible that future activities may be required.

The NHPUC and MPUC have approved regulatory mechanisms for the recovery of MGP environmental costs. For Northern Utilities' New Hampshire division, the NHPUC has approved the recovery of MGP environmental costs over succeeding seven-year periods. For Northern Utilities' Maine division, the MPUC has authorized the recovery of environmental remediation costs over succeeding five-year periods.

The Environmental Obligations table below shows the amounts accrued for Northern Utilities related to estimated future cleanup costs associated with Northern Utilities' environmental remediation obligations for former MGP sites. Corresponding Regulatory Assets were recorded to reflect that the future recovery of these environmental remediation costs is expected based on regulatory precedent and established practices.

Fitchburg's Manufactured Gas Plant Site Fitchburg has worked with the Massachusetts Department of Environmental Protection (MA DEP) to address environmental concerns with the former MGP site at Sawyer Passway, and has substantially completed remediation activities, though on site monitoring will continue and it is possible that future activities may be required.

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The Environmental Obligations table below shows the amounts accrued for Fitchburg related to estimated future cleanup costs for permanent remediation of the Sawyer Passway site with a corresponding Regulatory Asset recorded to reflect that the recovery of these environmental remediation costs are probable through the regulatory process. The amounts recorded do not assume any amounts are recoverable from insurance companies or other third parties. Fitchburg recovers the environmental response costs incurred at this former MGP site in gas rates pursuant to the terms of a cost recovery agreement approved by the MDPU. Pursuant to this agreement, Fitchburg is authorized to amortize and recover environmental response costs from gas customers over succeeding seven-year periods.

The following table sets forth a summary of changes in the Company's liability for Environmental Obligations for the six months ended June 30, 2017 and 2016.

Environmental Obligations

	(\$ millions)					
	Fitchburg		Northern Utilities		Total	
	Six months ended June 30,					
	2017	2016	2017	2016	2017	2016
Total Balance at Beginning of Period	\$ 0.1	\$ 1.2	\$ 1.9	\$ 1.6	\$ 2.0	\$ 2.8
Additions			0.3	0.9	0.3	0.9
Less: Payments / Reductions		0.1	0.1	0.6	0.1	0.7
Total Balance at End of Period	0.1	1.1	2.1	1.9	2.2	3.0
Less: Current Portion	0.1	0.1	0.4	0.2	0.5	0.3
Noncurrent Balance at End of Period	\$	\$ 1.0	\$ 1.7	\$ 1.7	\$ 1.7	\$ 2.7

NOTE 8: INCOME TAXES

The Company filed its tax returns for the year ended December 31, 2015 with the Internal Revenue Service in September 2016 and generated additional federal net operating loss (NOL) carryforward assets principally due to current tax repair deductions, tax depreciation and research and development deductions. As of December 31, 2016, the Company had recorded cumulative federal and state NOL carryforward assets of \$23.9 million to offset against taxes payable in future periods. If unused, the Company's NOL carryforward assets will begin to expire in 2029. In addition, at December 31, 2016, the Company had \$3.4 million of cumulative alternative minimum tax credits, general business tax credit and other state tax credit carryforwards to offset future income taxes payable.

The Company evaluated its tax positions at June 30, 2017 in accordance with the FASB Codification, and has concluded that no adjustment for recognition, derecognition, settlement and foreseeable future events to any tax liabilities or assets as defined by the FASB Codification is required. The Company remains subject to examination by Federal, Maine, Massachusetts, and New Hampshire tax authorities for the tax periods ended December 31, 2013; December 31, 2014; and December 31, 2015.

The Company bills its customers for sales tax in Massachusetts and Maine and consumption tax in New Hampshire. These taxes are remitted to the appropriate departments of revenue in each state and are excluded from revenues on the Company's unaudited Consolidated Statements of Earnings.

Table of Contents**NOTE 9: RETIREMENT BENEFIT OBLIGATIONS**

The Company co-sponsors the Unitil Corporation Retirement Plan (Pension Plan), the Unitil Retiree Health and Welfare Benefits Plan (PBOP Plan), and the Unitil Corporation Supplemental Executive Retirement Plan (SERP) to provide certain pension and postretirement benefits for its retirees and current employees. Please see Note 10 to the Consolidated Financial Statements in the Company's Form 10-K for the year ended December 31, 2016 as filed with the SEC on February 2, 2017 for additional information regarding these plans.

The following table includes the key weighted average assumptions used in determining the Company's benefit plan costs and obligations:

	2017	2016
Used to Determine Plan Costs		
Discount Rate	4.10%	4.30%
Rate of Compensation Increase	3.00%	3.00%
Expected Long-term rate of return on plan assets	7.75%	8.00%
Health Care Cost Trend Rate Assumed for Next Year	8.00%	7.00%
Ultimate Health Care Cost Trend Rate	4.00%	4.00%
Year that Ultimate Health Care Cost Trend Rate is reached	2025	2022

The following tables provide the components of the Company's Retirement plan costs (\$000's):

Three Months Ended June 30,	Pension Plan		PBOP Plan		SERP	
	2017	2016	2017	2016	2017	2016
Service Cost	\$ 823	\$ 851	\$ 743	\$ 652	\$ 115	\$ 41
Interest Cost	1,515	1,486	979	808	98	96
Expected Return on Plan Assets	(1,834)	(1,814)	(336)	(301)		
Prior Service Cost Amortization	65	66	349	372	47	47
Actuarial Loss Amortization	1,155	1,099	525	262	74	94
Sub-total	1,724	1,688	2,260	1,793	334	278
Amounts Capitalized and Deferred	(808)	(797)	(1,154)	(867)		
Net Periodic Benefit Cost Recognized	\$ 916	\$ 891	\$ 1,106	\$ 926	\$ 334	\$ 278

Six Months Ended June 30,	Pension Plan		PBOP Plan		SERP	
	2017	2016	2017	2016	2017	2016
Service Cost	\$ 1,647	\$ 1,702	\$ 1,487	\$ 1,304	\$ 230	\$ 82
Interest Cost	3,029	2,972	1,957	1,616	196	192
Expected Return on Plan Assets	(3,653)	(3,628)	(673)	(602)		
Prior Service Cost Amortization	131	132	699	744	94	94
Actuarial Loss Amortization	2,331	2,198	1,049	524	148	188
Sub-total	3,485	3,376	4,519	3,586	668	556
Amounts Capitalized and Deferred	(1,470)	(1,407)	(2,191)	(1,604)		
Net Periodic Benefit Cost Recognized	\$ 2,015	\$ 1,969	\$ 2,328	\$ 1,982	\$ 668	\$ 556

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Employer Contributions

As of June 30, 2017, the Company had made \$2.7 million and \$1.6 million of contributions to its Pension Plan and PBOP Plan, respectively, in 2017. The Company, along with its subsidiaries, expects to continue to make contributions to its Pension and PBOP Plans in 2017 and future years at minimum required and discretionary funding levels consistent with the amounts recovered in the distribution utilities' rates for these Pension and PBOP Plan costs.

As of June 30, 2017, the Company had made \$17,100 of benefit payments under the SERP Plan in 2017. The Company presently anticipates making an additional \$17,000 of benefit payments under the SERP Plan in 2017.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Reference is made to the "Interest Rate Risk" and "Market Risk" sections of Item 2. "Management's Discussion and Analysis of Financial Condition and Results of Operations" (above).

Item 4. Controls and Procedures

Management of the Company, under the supervision and with the participation of the Company's Chief Executive Officer, Chief Financial Officer and Chief Accounting Officer, carried out an evaluation of the effectiveness of the design and operation of the Company's disclosure controls and procedures as of June 30, 2017. Based upon this evaluation, the Company's Chief Executive Officer, Chief Financial Officer and Chief Accounting Officer concluded as of June 30, 2017 that the Company's disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15(d)-15(e)) are effective.

There have been no changes in the Company's internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15(d)-15(f)) during the fiscal quarter covered by this Form 10-Q that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting. The Company is in the process of implementing a new customer information system; the project is subject to the completion of user testing and system acceptance.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

The Company is involved in legal and administrative proceedings and claims of various types, which arise in the ordinary course of business. Certain specific matters are discussed in Notes 6 and 7 to the Consolidated Financial Statements. In the opinion of Management, based upon information furnished by counsel and others, the ultimate resolution of these claims will not have a material impact on the Company's financial position.

Item 1A. Risk Factors

There have been no material changes to the risk factors disclosed in the Company's Form 10-K for the year-ended December 31, 2016 as filed with the SEC on February 2, 2017.

Table of Contents**Item 2. Unregistered Sales of Equity Securities and Use of Proceeds**
Recent Sales of Unregistered Securities

There were no sales of unregistered equity securities by the Company during the fiscal quarter ended June 30, 2017.

Issuer Purchases of Equity Securities

Pursuant to the written trading plan under Rule 10b5-1 under the Securities Exchange Act of 1934, as amended (the Exchange Act), adopted by the Company on May 1, 2017, the Company will periodically repurchase shares of its Common Stock on the open market related to Employee Length of Service Awards and the stock portion of the Directors' annual retainer for those Directors who elected to receive common stock. There is no pool or maximum number of shares related to these purchases; however, the trading plan will terminate when \$85,000 in value of shares have been purchased or, if sooner, on May 1, 2018.

The Company may suspend or terminate this trading plan at any time, so long as the suspension or termination is made in good faith and not as part of a plan or scheme to evade the prohibitions of Rule 10b-5 under the Exchange Act, or other applicable securities laws.

The following table shows information regarding repurchases by the Company of shares of its common stock pursuant to the trading plan for each month in the quarter ended June 30, 2017.

		Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs
4/1/17	4/30/17				\$ 1,569
5/1/17	5/31/17				\$ 85,000
6/1/17	6/30/17	104	\$ 47.88	104	\$ 80,021
Total		104	\$ 47.88	104	

Item 5. Other Information

On July 27, 2017, the Company issued a press release announcing its results of operations for the three- and six-month periods ended June 30, 2017. The press release is furnished with this Quarterly Report on Form 10-Q as Exhibit 99.1.

Table of Contents**Item 6. Exhibits**

(a) Exhibits

Exhibit No.	Description of Exhibit	Reference
11	<u>Computation in Support of Earnings Per Weighted Average Common Share</u>	Filed herewith
31.1	<u>Certification of Chief Executive Officer Pursuant to Rule 13a-14 of the Exchange Act, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002</u>	Filed herewith
31.2	<u>Certification of Chief Financial Officer Pursuant to Rule 13a-14 of the Exchange Act, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002</u>	Filed herewith
31.3	<u>Certification of Chief Accounting Officer Pursuant to Rule 13a-14 of the Exchange Act, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002</u>	Filed herewith
32.1	<u>Certifications of Chief Executive Officer, Chief Financial Officer and Chief Accounting Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002</u>	Filed herewith
99.1	<u>Unitil Corporation Press Release Dated July 27, 2017 Announcing Earnings For the Quarter Ended June 30, 2017.</u>	Filed herewith
101.INS	XBRL Instance Document.	Filed herewith
101.SCH	XBRL Taxonomy Extension Schema Document.	Filed herewith
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document.	Filed herewith
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document	Filed herewith
101.LAB	XBRL Taxonomy Extension Label Linkbase Document.	Filed herewith
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document.	Filed herewith

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SIGNATURES

Pursuant to the requirements 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.

UNITIL CORPORATION
(Registrant)

Date: July 27, 2017

/s/ Mark H. Collin
Mark H. Collin
Chief Financial Officer

Date: July 27, 2017

/s/ Laurence M. Brock
Laurence M. Brock
Chief Accounting Officer

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101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document.	Filed herewith

50

v>

27,382

\$

23,220

\$

58,436

1.7

%

Fair Value % of Net Assets

—

%

0.2

%

—

%

0.8

%

0.7
%
1.7
%

Non-Control/Non-Affiliate Investments

Auto Components

\$
—

\$
12,887

\$
—

\$
—

\$
—

\$
12,887

0.4
%

Building Products

—

10,000

—

—

—

10,000

0.3
%

Capital Markets

—

20,000

—

—

—

20,000

0.6

%

Commercial Services & Supplies

89,658

164,236

—

—

917

254,811

7.5

%

Communications Equipment

—

40,000

—

—

—

40,000

1.2

%

Consumer Finance

33,438

—

—

—

—

33,438

1.0

%

Distributors

343,659

58,806

—

—

—

402,465

11.8

%

Diversified Consumer Services

9,647

118,289

—

—

—

127,936

3.8

%

Electronic Equipment, Instruments & Components

12,335

14,873

—

—

—

27,208

0.8

%
Energy Equipment & Services
32,070

—

—

—

—

32,070

0.9
%
Food Products

—

9,886

—

—

—

9,886

0.3
%
Health Care Equipment & Supplies
35,815

7,464

—

—

—

43,279

1.3
%
Health Care Providers & Services
144,130

61,933

—

—

446

206,509

6.0

%

Hotels, Restaurants & Leisure

29,813

7,482

—

—

—

37,295

1.1

%

Household & Personal Products

24,938

—

—

—

—

24,938

0.7

%

Household Durables

15,728

25,895

—

—

—

41,623

1.2

%

Insurance

—

2,986

—

—

—

2,986

0.1

%

Internet & Direct Marketing Retail

4,813

35,000

—

—

—

39,813

1.2

%

Internet Software & Services

215,791

14,000

—

—

—

229,791

6.7

%

IT Services

160,588

21,990

—

—

—

182,578

5.4

%

Leisure Products

34,626

11,000

—

—

—

45,626

1.3

%

Media

118,655

2,975

—

—

—

121,630

3.6

%

Online Lending

—

—

—

17

—

17

—

%

Paper & Forest Products

—

11,226

—

—

—

11,226

0.3

%

Pharmaceuticals

—

12,000

—

—

—

12,000

0.3

%

Professional Services

9,608

67,383

—

—

—

76,991

2.3

%
Real Estate Management & Development
41,860

—

—

—

—

41,860

1.2
%
Software

—

67,265

—

—

—

67,265

2.0
%

See notes to consolidated financial statements.
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PROSPECT CAPITAL CORPORATION AND SUBSIDIARIES
CONSOLIDATED SCHEDULES OF INVESTMENTS – (CONTINUED)
(in thousands, except share data)

Endnote Explanations as of June 30, 2018 and June 30, 2017 (Continued)

Industry	1st Lien Term Loan	2nd Lien Term Loan	CLO (C)	Unsecured Debt	Equity (B)	Fair Value Total	Fair Value % of Net Assets
Technology Hardware, Storage & Peripherals	—	12,500	—	—	—	12,500	0.4 %
Textiles, Apparel & Luxury Goods	—	37,000	—	—	—	37,000	1.1 %
Tobacco	—	14,392	—	—	—	14,392	0.4 %
Trading Companies & Distributors	56,199	—	—	—	—	56,199	1.6 %
Transportation Infrastructure	—	28,104	—	—	—	28,104	0.8 %
Structured Finance (A)	—	—	960,194	—	—	960,194	28.2 %
Total Non-Control/ Non-Affiliate	\$1,413,371	\$889,572	\$960,194	\$17	\$1,363	\$3,264,517	95.8 %
Fair Value % of Net Assets	41.5	%26.1	%28.2	%—	%—	%95.8	%
Total Portfolio	\$2,512,078	\$1,268,359	\$960,194	\$32,962	\$953,686	\$5,727,279	168.1 %
Fair Value % of Net Assets	73.7	%37.2	%28.2	%1.0	%28.0	%168.1	%

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

(B) Equity, unless specifically stated otherwise, includes our investments in preferred stock, common stock, membership interests, net profits interests, net operating income interests, net revenue interests, overriding royalty interests, escrows receivable, and warrants.

(C) We hold one CLO debt investment in the Class F Subordinated Notes of Galaxy XXVIII CLO, Ltd. As of June 30, 2018 the cost and fair value are \$6,159 and \$6,159, respectively, and makes up 0.2% of our net assets. Our remaining CLO investments are held in CLO equity tranches which earn residual interest. As of June 30, 2018 the cost and fair value of our investment in the equity tranches are \$1,096,768 and \$954,035, respectively, and make up 28.0% of our net assets.

(45) The following shows the composition of our investment portfolio at cost by control designation, investment type, and by industry as of June 30, 2017:

Industry	1st Lien	2nd Lien	CLO Residual Interest	Unsecured Debt	Equity (C)	Cost Total
Control Investments						
Aerospace & Defense	\$47,099	\$—	\$	—\$—	\$22,738	\$69,837
Commercial Services & Supplies	114,864	—	—	7,200	6,849	128,913
Construction & Engineering	36,054	—	—	—	26,204	62,258
Consumer Finance	—	323,188	—	—	110,395	433,583
Diversified Consumer Services	—	7,834	—	30,734	6,577	45,145
Electronic Equipment, Instruments & Components	21,182	—	—	—	6,759	27,941
Energy Equipment & Services	—	—	—	—	223,787	223,787
Equity Real Estate Investment Trusts (REITs)	291,315	—	—	—	83,065	374,380
Machinery	—	28,622	—	—	6,866	35,488
Media	10,614	—	—	—	12,869	23,483

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Online Lending	269,166	—	—	—	146,750	415,916
Total Control Investments	\$790,294	\$359,644	\$	-\$37,934	\$652,859	\$1,840,731
Affiliate Investments						
Textiles, Apparel & Luxury Goods	\$19,478	\$—	\$	-\$—	\$3,479	\$22,957
Total Affiliate Investments	\$19,478	\$—	\$	-\$—	\$3,479	\$22,957
Non-Control/Non-Affiliate Investments						
Air Freight & Logistics	\$51,952	\$—	\$	-\$—	\$—	\$51,952
Auto Components	—	30,222	—	—	—	30,222
Capital Markets	—	14,796	—	—	—	14,796
Chemicals	—	17,489	—	—	—	17,489
Commercial Services & Supplies	83,884	141,388	—	—	—	225,272
Consumer Finance	9,831	26,455	—	—	—	36,286
Distributors	—	140,847	—	—	—	140,847
Diversified Consumer Services	—	143,767	—	—	—	143,767
Diversified Telecommunication Services	—	4,395	—	—	—	4,395

See notes to consolidated financial statements.

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

Endnote Explanations as of June 30, 2018 and June 30, 2017 (Continued)

Industry	1st Lien	2nd Lien	CLO Residual Interest	Unsecured Debt	Equity (C)	Cost Total
Electronic Equipment, Instruments & Components	9,755	—	—	—	—	9,755
Energy Equipment & Services	27,232	—	—	—	—	27,232
Health Care Providers & Services	356,468	65,199	—	—	1,252	422,919
Hotels, Restaurants & Leisure	127,638	—	—	—	—	127,638
Household Durables	126,319	19,712	—	—	—	146,031
Internet Software & Services	205,441	13,907	—	—	—	219,348
IT Services	—	19,531	—	—	—	19,531
Leisure Products	33,204	10,880	—	—	1	44,085
Marine	—	8,919	—	—	—	8,919
Media	442,654	2,971	—	—	—	445,625
Metals & Mining	9,953	—	—	—	—	9,953
Online Lending	—	—	—	8,434	—	8,434
Paper & Forest Products	—	11,295	—	—	—	11,295
Personal Products	209,225	13,473	—	—	—	222,698
Pharmaceuticals	117,989	—	—	—	—	117,989
Professional Services	48,131	16,111	—	—	—	64,242
Software	—	56,041	—	—	—	56,041
Textiles, Apparel & Luxury Goods	225,777	36,446	—	—	—	262,223
Tobacco	—	14,365	—	—	—	14,365
Trading Companies & Distributors	64,513	—	—	—	—	64,513
Structured Finance (B)	—	—	1,150,006	—	—	1,150,006
Total Non-Control/ Non-Affiliate	\$2,149,966	\$808,209	\$1,150,006	\$8,434	\$1,253	\$4,117,868
Total Portfolio Investment Cost	\$2,959,738	\$1,167,853	\$1,150,006	\$46,368	\$657,591	\$5,981,556

The following shows the composition of our investment portfolio at fair value by control designation, investment type, and by industry as of June 30, 2017:

Industry	1st Lien Term Loan	2nd Lien Term Loan	CLO Residual Interest	Unsecured Debt	Equity (C)	Fair Value Total	Fair Value % of Net Assets
Control Investments							
Aerospace & Defense	\$47,099	\$—	\$ —	\$—	\$24,219	\$71,318	2.1 %
Commercial Services & Supplies	63,209	—	—	5,659	20,161	89,029	2.7 %
Construction & Engineering	32,509	—	—	—	—	32,509	1.0 %
Consumer Finance	—	329,788	—	—	137,180	466,968	13.9 %
Diversified Consumer Services	—	7,834	—	38,775	286	46,895	1.4 %
Electronic Equipment, Instruments & Components	21,182	—	—	—	21,870	43,052	1.3 %
Energy Equipment & Services	—	—	—	—	121,197	121,197	3.6 %
	291,315	—	—	—	333,022	624,337	18.6 %

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Equity Real Estate Investment Trusts
(REITs)

Machinery	—	28,622	—	—	4,056	32,678	1.0 %
Media	10,614	—	—	—	10,211	20,825	0.6 %
Online Lending	269,166	—	—	—	93,801	362,967	10.8 %
Total Control Investments	\$735,094	\$366,244	\$ —	\$44,434	\$766,003	\$1,911,775	57.0 %
Fair Value % of Net Assets	21.9	%10.9	%—	%	1.3	%22.8	%57.0
Affiliate Investments							
Textiles, Apparel & Luxury Goods	\$6,128	\$—	\$ —	\$—	\$5,301	\$11,429	0.3 %
Total Affiliate Investments	\$6,128	\$—	\$ —	\$—	\$5,301	\$11,429	0.3 %
Fair Value % of Net Assets	0.2	%—	%—	%	—	%0.2	%0.3
Non-Control/Non-Affiliate Investments							

See notes to consolidated financial statements.

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

Endnote Explanations as of June 30, 2018 and June 30, 2017 (Continued)

Industry	1st Lien Term Loan	2nd Lien Term Loan	CLO Residual Interest	Unsecured Debt	Equity (C)	Fair Value Total	Fair Value % of Net Assets
Air Freight & Logistics	\$51,952	\$—	\$—	\$—	\$—	\$51,952	1.5 %
Auto Components	—	30,460	—	—	—	30,460	0.9 %
Capital Markets	—	15,000	—	—	—	15,000	0.4 %
Chemicals	—	16,699	—	—	—	16,699	0.5 %
Commercial Services & Supplies	83,884	138,857	—	—	864	223,605	6.7 %
Consumer Finance	10,000	25,973	—	—	—	35,973	1.1 %
Distributors	—	83,225	—	—	—	83,225	2.5 %
Diversified Consumer Services	—	143,767	—	—	—	143,767	4.3 %
Diversified Telecommunication Services	—	4,410	—	—	—	4,410	0.1 %
Electronic Equipment, Instruments & Components	8,794	—	—	—	—	8,794	0.3 %
Energy Equipment & Services	10,463	—	—	—	—	10,463	0.3 %
Health Care Providers & Services	355,200	65,407	—	—	782	421,389	12.6 %
Hotels, Restaurants & Leisure	103,897	—	—	—	—	103,897	3.1 %
Household Durables	126,191	19,992	—	—	—	146,183	4.4 %
Internet Software & Services	205,441	13,907	—	—	—	219,348	6.5 %
IT Services	—	20,000	—	—	—	20,000	0.6 %
Leisure Products	33,204	11,000	—	—	—	44,204	1.3 %
Marine (A)	—	8,800	—	—	—	8,800	0.3 %
Media	442,704	2,971	—	—	—	445,675	13.3 %
Metals & Mining	10,000	—	—	—	—	10,000	0.3 %
Online Lending	—	—	—	7,964	—	7,964	0.2 %
Paper & Forest Products	—	11,500	—	—	—	11,500	0.3 %
Personal Products	179,009	13,739	—	—	—	192,748	5.7 %
Pharmaceuticals	117,989	—	—	—	—	117,989	3.5 %
Professional Services	48,131	16,342	—	—	—	64,473	1.9 %
Software	—	55,150	—	—	—	55,150	1.6 %
Textiles, Apparel & Luxury Goods	225,777	37,000	—	—	—	262,777	7.8 %
Tobacco	—	14,431	—	—	—	14,431	0.4 %
Trading Companies & Distributors	64,513	—	—	—	—	64,513	1.9 %
Structured Finance (B)	—	—	1,079,712	—	—	1,079,712	32.2 %
Total Non-Control/ Non-Affiliate	\$2,077,149	\$748,630	\$1,079,712	\$7,964	\$1,646	\$3,915,101	116.7%
Fair Value % of Net Assets	61.9	%22.3	%32.2	%0.2	%—	%116.7	%

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Total Portfolio	\$2,818,371	\$1,114,874	\$1,079,712	\$52,398	\$772,950	\$5,838,305	174	%
Fair Value % of Net Assets	84.0	%33.2	%32.2	%1.6	%23.0	%174.0		%

(A) Industry includes exposure to the energy markets through our investments in Harley Marine Services, Inc. Including this investment, our overall fair value exposure to the broader energy industry, including energy equipment and services as noted above, as of June 30, 2017 is \$140,460.

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

(C) Equity, unless specifically stated otherwise, includes our investments in preferred stock, common stock, membership interests, net profits interests, net operating income interests, net revenue interests, overriding royalty interests, escrows receivable, and warrants.

See notes to consolidated financial statements.

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

Endnote Explanations as of June 30, 2018 and June 30, 2017 (Continued)

(46) The interest rate on these investments, excluding those on non-accrual, contains a paid in kind (“PIK”) provision, whereby the issuer has either the option or the obligation to make interest payments with the issuance of additional securities. The interest rate in the schedule represents the current interest rate in effect for these investments.

The following table provides additional details on these PIK investments, including the maximum annual PIK interest rate allowed under the existing credit agreements, as of and for three months ended June 30, 2018:

Security Name	PIK Rate - Capitalized	PIK Rate - Paid as cash	Maximum Current PIK Rate	
CCPI Inc.	—%	7.00%	7.00%	
Cinedigm DC Holdings, LLC	—%	2.50%	2.5%	
Credit Central Loan Company	—%	10.00%	10.00%	
Echelon Transportation, LLC (f/k/a Echelon Aviation LLC)	N/A	N/A	2.25%	(A)
Echelon Transportation, LLC (f/k/a Echelon Aviation LLC)	N/A	N/A	1.00%	(A)
Edmentum Ultimate Holdings, LLC - Unsecured Senior PIK Note	8.5%	—%	8.50%	
First Tower Finance Company LLC	1.45%	8.55%	10.00%	
InterDent, Inc. - Senior Secured Team Loan B	4.25%	—%	4.25%	
InterDent, Inc. - Senior Secured Team Loan C	18.00%	—%	18.00%	
MITY, Inc.	—%	10.00%	10.00%	
National Property REIT Corp. - Senior Secured Term Loan A	—%	10.50%	10.50%	
National Property REIT Corp. - Senior Secured Term Loan E	—%	1.50%	1.50%	
Nationwide Loan Company LLC	—%	10.00%	10.00%	
Spartan Energy Services, Inc.	13.98%	—%	13.98%	
Valley Electric Co. of Mt. Vernon, Inc.	—%	2.50%	2.50%	
Valley Electric Company, Inc.	7.17%	2.83%	10.00%	
Venio LLC	10.00%	—%	10.00%	

(A) Next PIK payment/capitalization date is July 31, 2018.

See notes to consolidated financial statements.

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

Endnote Explanations as of June 30, 2018 and June 30, 2017 (Continued)

The following table provides additional details on these PIK investments, including the maximum annual PIK interest rate allowed under the existing credit agreements, as of and for three months ended June 30, 2017:

Security Name	PIK Rate - Capitalized	PIK Rate - Paid as cash	Maximum Current PIK Rate	
CCPI Inc.	—%	7.00%	7.00%	
Cinedigm DC Holdings, LLC	—%	2.50%	2.50%	
Credit Central Loan Company	—%	10.00%	10.00%	
Echelon Aviation LLC	N/A	N/A	2.25%	(C)
Echelon Aviation LLC	N/A	N/A	1.00%	(D)
Edmentum Ultimate Holdings, LLC - Unsecured Senior PIK Note	8.50%	—%	8.50%	
First Tower Finance Company LLC	3.92%	3.08%	7.00%	
MITY, Inc.	—%	10.00%	10.00%	
National Property REIT Corp. - Senior Secured Term Loan A	—%	5.50%	5.50%	
National Property REIT Corp. - Senior Secured Term Loan E	—%	5.00%	5.00%	
National Property REIT Corp. - Senior Secured Term Loan C to ACL Loan Holdings, Inc.	—%	5.00%	5.00%	
National Property REIT Corp. - Senior Secured Term Loan C to American Consumer Lending Limited	—%	5.00%	5.00%	
Nationwide Loan Company LLC	—%	10.00%	10.00%	
Targus International, LLC - Senior Secured Term Loan A	15.00%	—%	15.00%	
Targus International, LLC - Senior Secured Term Loan B	15.00%	—%	15.00%	
Valley Electric Co. of Mt. Vernon, Inc.	—%	2.50%	2.50%	
Valley Electric Company, Inc.	8.50%	—%	8.50%	

(C) The previous PIK payment/capitalization date was July 31, 2017. The company paid 2.25% PIK in cash.

(D) The previous PIK payment/capitalization date was July 31, 2017. The company paid 1.00% PIK in cash.

See notes to consolidated financial statements.

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

Endnote Explanations as of June 30, 2018 and June 30, 2017 (Continued)

As defined in the 1940 Act, we are deemed to “Control” these portfolio companies because we own more than 25% (47) of the portfolio company’s outstanding voting securities. Transactions during the year ended June 30, 2018 with these controlled investments were as follows:

Portfolio Company	Fair Value at June 30, 2017	Gross Additions (Cost)*	Gross Reductions (Cost)**	Net change in unrealized gains (losses)	Fair Value at June 30, 2018	Interest income	Dividend income	Other income	Net realized gains (losses)
Arctic Energy Services, LLC ***	\$17,370	\$—	\$(60,876)	\$43,506	\$—	\$—	\$—	\$—	\$—
CCPI Inc.	43,052	—	(482)	(6,814)	35,756	3,704	—	—	—
CP Energy Services Inc. ***	72,216	65,976	—	(14,931)	123,261	3,394	—	228	—
Credit Central Loan Company, LLC	64,435	2,240	—	10,002	76,677	12,755	—	903	—
Echelon Transportation, LLC (f/k/a Echelon Aviation LLC)	71,318	—	—	10,960	82,278	6,360	—	—	—
Edmentum Ultimate Holdings, LLC *****	46,895	5,394	(39,196)	(13,093)	—	572	—	—	—
First Tower Finance Company LLC	365,588	21,352	(6,735)	62,805	443,010	47,422	—	2,664	—
Freedom Marine Solutions, LLC	23,994	982	—	(11,939)	13,037	—	—	—	—
Interdent, Inc. *****	—	209,120	—	(11,499)	197,621	4,775	—	—	—
MITY, Inc.	76,512	—	—	(17,618)	58,894	8,206	—	1,093	13
National Property REIT Corp.	987,304	160,769	(124,078)	30,981	1,054,976	90,582	11,279	8,834	—
Nationwide Loan Company LLC	36,945	4,370	—	(7,462)	33,853	3,485	—	—	—
NMMB, Inc.	20,825	—	(1,999)	(91)	18,735	1,455	—	—	—
Pacific World Corporation *****	—	198,149	(250)	(32,879)	165,020	3,742	—	—	—
R-V Industries, Inc.	32,678	—	—	(792)	31,886	3,064	—	—	—
SB Forging Company II, Inc. (f/k/a Gulf Coast Machine & Supply Company)	1,940	—	—	254	2,194	—	—	—	—
USES Corp.	12,517	3,000	(3)	805	16,319	—	—	—	—
Valley Electric Company, Inc.	32,509	2,157	—	16,131	50,797	5,971	—	138	—
Wolf Energy, LLC	5,677	—	(3,009)	(2,656)	12	—	—	1,220	—
Total	\$1,911,775	\$673,509	\$(236,628)	\$55,670	\$2,404,326	\$195,487	\$11,279	\$15,080	\$13

* Gross additions include increases in the cost basis of the investments resulting from new portfolio investments, OID accretion, PIK interest, and any transfer of investments.

** Gross reductions include decreases in the cost basis of investments resulting from principal collections related to investments repayments or sales, impairments and any transfer of investments.

*** Arctic Energy Services, LLC cost basis was transferred to CP Energy Services Inc. on April 6, 2018 as a result of the merger between these controlled portfolio companies. There were no realized gain or loss recognized by us since this was a merger amongst two portfolio companies under our control. Refer to endnote #37.

**** The investment was transferred to affiliate investment classification at \$31,362, the fair market value of the investment at the beginning of the three month period ended March 31, 2018. Refer to endnote #22.

***** The investment was transferred to control investment classification at \$208,549, the fair market value of the investment at the beginning of the three month period ended June 30, 2018. Refer to endnote #52.

***** The investment was transferred from non-control/ non-affiliate to control investment classification at \$183,151, the fair market value of the investment at the beginning of the three month period ended June 30, 2018. Refer to endnote #40.

See notes to consolidated financial statements.

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

Endnote Explanations as of June 30, 2018 and June 30, 2017 (Continued)

As defined in the 1940 Act, we are deemed to be an “Affiliated company” of these portfolio companies because we (48) own more than 5% of the portfolio company’s outstanding voting securities. Transactions during the year ended June 30, 2018 with these affiliated investments were as follows:

Portfolio Company	Fair Value at June 30, 2017	Gross Additions (Cost)*	Gross Reductions (Cost)**	Net unrealized gains (losses)	Fair Value at June 30, 2018	Interest income	Dividend income	Other income	Net realized gains (losses)
Edmentum Ultimate Holdings, LLC ***	\$—	\$ 34,416	\$—	\$ 800	\$35,216	\$ 348	\$—	\$—	\$—
Nixon, Inc.	—	—	(14,197)	14,197	—	—	—	—	(14,197)
Targus International, LLC	11,429	1,117	—	10,674	23,220	205	—	—	846
Total	\$11,429	\$35,533	\$(14,197)	\$25,671	\$58,436	\$553	\$—	\$—	\$(13,351)

* Gross additions include increases in the cost basis of the investments resulting from new portfolio investments, PIK interest, and any transfer of investments.

** Gross reductions include decreases in the cost basis of investments resulting from principal collections related to investments repayments or sales, impairments, and any transfer of investments.

*** The investment was transferred from controlled investment classification at \$31,362, the fair market value of the investment at the beginning of the three month period ended March 31, 2018. Refer to endnote #22.

As defined in the 1940 Act, we are deemed to “Control” these portfolio companies because we own more than 25% (49) of the portfolio company’s outstanding voting securities. Transactions during the year ended June 30, 2017 with these controlled investments were as follows:

Portfolio Company	Fair Value at June 30, 2016	Gross Additions (Cost)*	Gross Reductions (Cost)**	Net unrealized gains (losses)	Fair Value at June 30, 2017	Interest income	Dividend income	Other income	Net realized gains (losses)
Arctic Energy Services, LLC	\$38,340	\$—	\$—	\$(20,970)	\$17,370	\$—	\$—	\$—	\$—
CCPI Inc.	41,356	—	(327)	2,023	43,052	2,992	123	153	—
CP Energy Services Inc.	76,002	—	—	(3,786)	72,216	—	—	—	—
Credit Central Loan Company, LLC	52,254	10,826	(403)	1,758	64,435	10,873	—	—	—
Echelon Aviation LLC	60,821	18,875	(6,800)	(1,578)	71,318	5,734	200	1,121	—
Edmentum Ultimate Holdings, LLC	44,346	9,892	(6,424)	(919)	46,895	1,726	—	—	—
First Tower Finance Company LLC	352,666	15,577	(2,220)	(435)	365,588	51,116	—	—	—
Freedom Marine Solutions, LLC	26,618	1,801	—	(4,425)	23,994	—	—	—	—
MITY, Inc.	54,049	16,000	—	6,463	76,512	6,848	468	886	16
National Property REIT Corp.	843,933	237,851	(174,931)	80,451	987,304	84,777	—	9,186	—

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Nationwide Loan Company LLC	35,813	2,104	—	(972)36,945	3,406	4,310	—	—
NMMB, Inc.	10,007	—	(100)10,918	20,825	1,518	—	—	—
R-V Industries, Inc.	36,877	—	96	(4,295	)32,678	2,877	149	124	172
SB Forging II United States Environmental Services, LLC	7,312	8,750	(69,125	)55,003	1,940	—	—	—	(66,103)
Valley Electric Company, Inc.	40,286	2,599	(154	)30,214	)12,517	—	—	—	—
Wolf Energy, LLC	31,091	1,821	—	(403	)32,509	5,629	—	—	—
Total	678	22,145	(15,344	)1,802	)5,677	—	—	—	—
	\$1,752,449	\$348,241	\$(275,732)	\$86,817	\$1,911,775	\$177,496	\$5,250	\$11,470	\$(65,915)

* Gross additions include increases in the cost basis of the investments resulting from new portfolio investments, PIK interest and any transfers of investments.

** Gross reductions include decreases in the cost basis of investments resulting from principal collections related to investments repayments or sales, impairments and any transfer of investments.

See notes to consolidated financial statements.

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

Endnote Explanations as of June 30, 2018 and June 30, 2017 (Continued)

As defined in the 1940 Act, we are deemed to be an “Affiliated company” of these portfolio companies because we (50) own more than 5% of the portfolio company’s outstanding voting securities. Transactions during the year ended June 30, 2017 with these affiliated investments were as follows:

Portfolio Company	Fair Value at June 30, 2016	Gross Additions (Cost)*	Gross Reductions (Cost)**	Net unrealized gains (losses)	Fair Value at June 30, 2017	Interest income	Dividend income	Other income	Net realized gains (losses)
BNN Holdings Corp.	\$2,842	\$ —	\$ (2,227)	\$ (615)	\$ —	\$ —	\$ —	\$ —	-\$ 137
Nixon, Inc.***	—	1,552	—	(1,552)	—	—	—	—	—
Targus International LLC	8,478	231	—	2,720	11,429	297	—	—	—
Total	\$11,320	\$ 1,783	\$ (2,227)	\$ 553	\$11,429	\$ 297	\$ —	-\$ —	-\$ 137

* Gross additions include increases in the cost basis of the investments resulting from new portfolio investments, OID accretion and PIK interest and any transfer of investments.

** Gross reductions include decreases in the cost basis of investments resulting from principal collections related to investments repayments or sales and impairments, and any transfer of investments.

*** Investment was transferred at fair market value at the beginning of the three month period ended June 30, 2017. (51) BAART Programs, Inc. and MedMark Services, Inc. are joint borrowers of the second lien term loan.

Prospect exercised its rights and remedies under its loan documents to exercise the shareholder voting rights in (52) respect of the stock of InterDent, Inc. (“InterDent”) and to appoint a new Board of Directors of InterDent. As a result, Prospect’s investment in InterDent is classified as a control investment as of June 30, 2018.

(53) This investment is in the debt class of a CLO security. The all-in interest rate has not been determined as the investment is unsettled as of June 30, 2018.

See notes to consolidated financial statements.

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

Note 1. Organization

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

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

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

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

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

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

Note 2. Significant Accounting Policies
Basis of Presentation and Consolidation

The accompanying consolidated financial statements have been prepared in accordance with United States generally accepted accounting principles (“GAAP”) pursuant to the requirements for reporting on Form 10-K, ASC 946, Financial Services—Investment Companies (“ASC 946”), and Articles 3, 6 and 12 of Regulation S-X. Under the 1940 Act, ASC 946, and the regulations pursuant to Article 6 of Regulation S-X, we are precluded from consolidating any entity other than another investment company or an operating company which provides substantially all of its services to benefit us. Our consolidated financial statements include the accounts of Prospect, PCF, PSBL, PYC, and the Consolidated Holding Companies. All intercompany balances and transactions have been eliminated in consolidation. The financial results of our non-substantially wholly-owned holding companies and operating portfolio company investments are not consolidated in the financial statements. Any operating companies owned by the Consolidated Holding Companies are not consolidated.

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Reclassifications

Certain reclassifications have been made in the presentation of prior consolidated financial statements and accompanying notes to conform to the presentation as of and for the year ended June 30, 2018.

Use of Estimates

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

Investment Classification

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

As a BDC, we must not acquire any assets other than “qualifying assets” specified in the 1940 Act unless, at the time the acquisition is made, at least 70% of our total assets are qualifying assets (with certain limited exceptions). As of June 30, 2018 and June 30, 2017, our qualifying assets as a percentage of total assets, stood at 73.20% and 71.75%, respectively.

Investment Transactions

Investments are recognized when we assume an obligation to acquire a financial instrument and assume the risks for gains or losses related to that instrument. Specifically, we record all security transactions on a trade date basis. Investments are derecognized when we assume an obligation to sell a financial instrument and forego the risks for gains or losses related to that instrument. In accordance with ASC 325-40, Beneficial Interest in Securitized Financial Assets, investments in CLOs are periodically assessed for other-than-temporary impairment (“OTTI”). When the Company determines that a CLO has OTTI, the amortized cost basis of the CLO is written down to its fair value as of the date of the determination based on events and information evaluated and that write-down is recognized as a realized loss. Amounts for investments traded but not yet settled are reported in Due to Broker or Due from Broker, in the Consolidated Statements of Assets and Liabilities.

Foreign Currency

Foreign currency amounts are translated into US Dollars (USD) on the following basis:

- i. fair value of investment securities, other assets and liabilities—at the spot exchange rate on the last business day of the period; and
- ii. purchases and sales of investment securities, income and expenses—at the rates of exchange prevailing on the respective dates of such investment transactions, income or expenses.

We do not isolate that portion of the results of operations resulting from changes in foreign exchange rates on investments from the fluctuations arising from changes in fair values of investments held or disposed of during the period. Such fluctuations are included within the net realized and net change in unrealized gains or losses from investments in the Consolidated Statements of Operations.

Investment Risks

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

Market Risk

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

Credit Risk

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

Liquidity Risk

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

Interest Rate Risk

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

Prepayment Risk

Many of our debt investments allow for prepayment of principal without penalty. Downward changes in interest rates may cause prepayments to occur at a faster than expected rate, thereby effectively shortening the maturity of the security and making us less likely to fully earn all of the expected income of that security and reinvesting in a lower yielding instrument.

Structured Credit Related Risk

CLO investments may be riskier and less transparent to us than direct investments in underlying companies. CLOs typically will have no significant assets other than their underlying senior secured loans. Therefore, payments on CLO investments are and will be payable solely from the cash flows from such senior secured loans.

Online Small-and-Medium-Sized Business Lending Risk

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

Foreign Currency

Investments denominated in foreign currencies and foreign currency transactions may involve certain considerations and risks not typically associated with those of domestic origin. These risks include, but are not limited to, currency fluctuations and revaluations and future adverse political, social and economic developments, which could cause investments in foreign markets to be less liquid and prices more volatile than those of comparable U.S. companies or U.S. government securities.

Investment Valuation

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

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

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

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

Level 3: Unobservable inputs for the asset or liability.

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

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

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

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

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

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

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

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

hold, as those portfolios are managed by non-affiliated third party CLO collateral managers. The main risk factors are default risk, prepayment risk, interest rate risk, downgrade risk, and credit spread risk.

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Valuation of Other Financial Assets and Financial Liabilities

ASC 825, Financial Instruments, specifically ASC 825-10-25, permits an entity to choose, at specified election dates, to measure eligible items at fair value (the “Fair Value Option”). We have not elected the Fair Value Option to report selected financial assets and financial liabilities. See Note 8 for the disclosure of the fair value of our outstanding debt and the market observable inputs used in determining fair value.

Convertible Notes

We have recorded the Convertible Notes at their contractual amounts. We have determined that the embedded conversion options in the Convertible Unsecured Notes are not required to be separately accounted for as a derivative under ASC 815, Derivatives and Hedging. See Note 5 for further discussion.

Revenue Recognition

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

Interest income, adjusted for amortization of premium and accretion of discount, is recorded on an accrual basis. Loan origination fees, original issue discount, and market discounts are capitalized and accreted into interest income over the respective terms of the applicable loans using the effective interest method or straight-line, as applicable, and adjusted only for material amendments or prepayments. Upon a prepayment of a loan, prepayment premiums, original issue discount, or market discounts are recorded as interest income.

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

Unpaid accrued interest is generally reversed when a loan is placed on non-accrual status. Interest payments received on non-accrual loans are either applied to the cost basis or interest income, depending upon management’s judgment of the collectibility of the loan receivable. Non-accrual loans are restored to accrual status when past due principal and interest is paid and in management’s judgment, is likely to remain current and future principal and interest collections when due are probable. Interest received and applied against cost while a loan is on non-accrual, and PIK interest capitalized but not recognized while on non-accrual, is recognized prospectively on the effective yield basis through maturity of the loan when placed back on accrual status, to the extent deemed collectible by management. As of June 30, 2018, approximately 2.5% of our total assets at fair value are in non-accrual status.

Some of our loans and other investments may have contractual payment-in-kind (“PIK”) interest or dividends. PIK income computed at the contractual rate is accrued into income and reflected as receivable up to the capitalization date. PIK investments offer issuers the option at each payment date of making payments in cash or in additional securities. When additional securities are received, they typically have the same terms, including maturity dates and interest rates as the original securities issued. On these payment dates, we capitalize the accrued interest (reflecting such amounts in the basis as additional securities received). PIK generally becomes due at maturity of the investment or upon the investment being called by the issuer. At the point that we believe PIK is not fully expected to be realized, the PIK investment will be placed on non-accrual status. When a PIK investment is placed on non-accrual status, the accrued, uncapitalized interest or dividends are reversed from the related receivable through interest or dividend income, respectively. We do not reverse previously capitalized PIK interest or dividends. Upon capitalization, PIK is subject to the fair value estimates associated with their related investments. PIK investments on non-accrual status are restored to accrual status if we believe that PIK is expected to be realized.

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

Other income generally includes amendment fees, commitment fees, administrative agent fees and structuring fees which are recorded when earned. Excess deal deposits, net profits interests and overriding royalty interests are included in other income. See Note 10 for further discussion.

Federal and State Income Taxes

We have elected to be treated as a RIC and intend to continue to comply with the requirements of the Code applicable to regulated investment companies. We are required to distribute at least 90% of our investment company taxable

income and intend to distribute

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(or retain through a deemed distribution) all of our investment company taxable income and net capital gains to stockholders; therefore, we have made no provision for income taxes. The character of income and gains that we will distribute is determined in accordance with income tax regulations that may differ from GAAP. Book and tax basis differences relating to stockholder dividends and distributions and other permanent book and tax differences are reclassified to paid-in capital.

If we do not distribute (or are not deemed to have distributed) at least 98% of our annual ordinary income and 98.2% of our capital gains in the calendar year earned, we will generally be required to pay an excise tax equal to 4% of the amount by which 98% of our annual ordinary income and 98.2% of our capital gains exceed the distributions from such taxable income for the year. To the extent that we determine that our estimated current year annual taxable income will be in excess of estimated current year dividend distributions from such taxable income, we accrue excise taxes, if any, on estimated excess taxable income. As of June 30, 2018, we do not expect to have any excise tax due for the 2018 calendar year. Thus, we have not accrued any excise tax for this period.

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

We follow ASC 740, Income Taxes (“ASC 740”). ASC 740 provides guidance for how uncertain tax positions should be recognized, measured, presented, and disclosed in the consolidated financial statements. ASC 740 requires the evaluation of tax positions taken or expected to be taken in the course of preparing our tax returns to determine whether the tax positions are “more-likely-than-not” of being sustained by the applicable tax authority. Tax positions not deemed to meet the more-likely-than-not threshold are recorded as a tax benefit or expense in the current year. As of June 30, 2018, we did not record any unrecognized tax benefits or liabilities. Management’s determinations regarding ASC 740 may be subject to review and adjustment at a later date based upon factors including, but not limited to, an on-going analysis of tax laws, regulations and interpretations thereof. Although we file both federal and state income tax returns, our major tax jurisdiction is federal. Our federal tax returns for the tax years ended August 31, 2015 and thereafter remain subject to examination by the Internal Revenue Service.

Dividends and Distributions

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

Financing Costs

We record origination expenses related to our Revolving Credit Facility, and Convertible Notes, Public Notes and Prospect Capital InterNotes® (collectively, our “Unsecured Notes”) as deferred financing costs. These expenses are deferred and amortized as part of interest expense using the straight-line method over the stated life of the obligation for our Revolving Credit Facility. The same methodology is used to approximate the effective yield method for our Prospect Capital InterNotes® and our at-the-market offering of our existing unsecured notes that mature on June 15, 2024 (“2024 Notes Follow-on Program”). The effective interest method is used to amortize deferred financing costs for our remaining Unsecured Notes over the respective expected life or maturity. In the event that we modify or extinguish our debt before maturity, we follow the guidance in ASC 470-50, Modification and Extinguishments (“ASC

470-50”). For modifications to or exchanges of our Revolving Credit Facility, any unamortized deferred costs relating to lenders who are not part of the new lending group are expensed. For extinguishments of our Unsecured Notes, any unamortized deferred costs are deducted from the carrying amount of the debt in determining the gain or loss from the extinguishment.

Unamortized deferred financing costs are presented as a direct deduction to the respective Unsecured Notes (see Notes 5, 6, and 7).

We may record registration expenses related to shelf filings as prepaid expenses. These expenses consist principally of the Securities and Exchange Commission (“SEC”) registration fees, legal fees and accounting fees incurred. These prepaid expenses are charged

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to capital upon the receipt of proceeds from an equity offering or charged to expense if no offering is completed. As of June 30, 2018 and June 30, 2017, there are no prepaid expenses related to registration expenses and all amounts incurred have been expensed.

Guarantees and Indemnification Agreements

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

Per Share Information

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

Recent Accounting Pronouncements

In June 2016, the FASB issued ASU 2016-13, Financial Instruments-Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments (“ASU 2016-13”), which amends the financial instruments impairment guidance so that an entity is required to measure expected credit losses for financial assets based on historical experience, current conditions and reasonable and supportable forecasts. As such, an entity will use forward-looking information to estimate credit losses. ASU 2016-13 also amends the guidance in FASB ASC Subtopic No. 325-40, Investments-Other, Beneficial Interests in Securitized Financial Assets, related to the subsequent measurement of accretible yield recognized as interest income over the life of a beneficial interest in securitized financial assets under the effective yield method. ASU 2016-13 is effective for financial statements issued for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. Early adoption is permitted as of the fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. We are currently evaluating the impact, if any, of adopting this ASU on our consolidated financial statements.

In August 2016, the FASB issued ASU 2016-15, Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments (“ASU 2016-15”), which addresses certain aspects of cash flow statement classification. One such amendment requires cash payments for debt prepayment or debt extinguishment costs to be classified as cash outflows for financing activities. ASU 2016-15 is effective for financial statements issued for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years. Early adoption is permitted, including adoption in an interim period. If an entity early adopts the amendments in an interim period, any adjustments should be reflected as of the beginning of the fiscal year that includes that interim period. An entity that elects early adoption must adopt all of the amendments in the same period. The adoption of the amended guidance in ASU 2016-15 is not expected to have a significant effect on our consolidated financial statements and disclosures. In May 2014, the FASB issued ASU No. 2014-09, Revenue from Contracts with Customers (Topic 606), which amends accounting guidance for revenue recognition arising from contracts with customers. Under the new guidance, an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration the entity expects to be entitled to in exchange for those goods or services. In August 2015, the FASB also issued ASU 2015-14, Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date, which deferred the effective date of the standard for one year. As a result, the guidance is effective for financial statements issued for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years. Early adoption is permitted as of fiscal years beginning after December 15, 2016, including interim periods within those fiscal years. The application of this guidance is not expected to have a material impact on our financial statements.

Tax Cuts and Jobs Act

On December 22, 2017, the President signed into law the Tax Cuts and Jobs Act (The “Tax Act”), which significantly changed the Code, including, a reduction in the corporate income tax rate, a new limitation on the deductibility of interest expense, and significant changes to the taxation of income earned from foreign sources and foreign subsidiaries. The Tax Act also authorizes the IRS to issue regulations with respect to the new provisions. We cannot predict how the changes in the Tax and Jobs Act, or regulations or other guidance issued under it, might affect us, our

business or the business of our portfolio companies. However, our portfolio companies may or may not make certain elections under the Tax Act that could materially increase their taxable earnings and profits. Any such increase in the earnings and profits of a portfolio company may result in the characterization of certain distributions sourced from sale proceeds as dividend income, which may increase our distributable taxable income. During the year ended June 30, 2018, we received \$11,270 of such dividends from NPRC related to the sale of NPRC's St. Marin and Central Park properties.

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Note 3. Portfolio Investments

At June 30, 2018, we had investments in 135 long-term portfolio investments, which had an amortized cost of \$5,831,458 and a fair value of \$5,727,279. At June 30, 2017, we had investments in 121 long-term portfolio investments, which had an amortized cost of \$5,981,556 and a fair value of \$5,838,305.

The original cost basis of debt placement and equity securities acquired, including follow-on investments for existing portfolio companies, payment-in-kind interest, and structuring fees, totaled \$1,730,657 and \$1,489,470 during the years ended June 30, 2018 and June 30, 2017, respectively. Debt repayments and considerations from sales of equity securities of approximately \$1,831,286 and \$1,413,882 were received during the years ended June 30, 2018 and June 30, 2017, respectively.

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

	June 30, 2018		June 30, 2017	
	Cost	Fair Value	Cost	Fair Value
Revolving Line of Credit	\$38,659	\$38,559	\$27,409	\$27,409
Senior Secured Debt	2,602,018	2,481,353	2,940,163	2,798,796
Subordinated Secured Debt	1,318,028	1,260,525	1,160,019	1,107,040
Subordinated Unsecured Debt	38,548	32,945	37,934	44,434
Small Business Loans	30	17	8,434	7,964
CLO Debt	6,159	6,159	—	—
CLO Residual Interest	1,096,768	954,035	1,150,006	1,079,712
Equity	731,248	953,686	657,591	772,950
Total Investments	\$5,831,458	\$5,727,279	\$5,981,556	\$5,838,305

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In the previous table and throughout the remainder of this footnote, we aggregate our portfolio investments by type of investment, which may differ slightly from the nomenclature used by the constituent instruments defining the rights of holders of the investment, as disclosed on our Consolidated Schedules of Investments (“SOI”). The following investments are included in each category:

• **Revolving Line of Credit** includes our investments in delayed draw term loans.

• **Senior Secured Debt** includes investments listed on the SOI such as senior secured term loans, senior term loans, secured promissory notes, senior demand notes, and first lien term loans.

• **Subordinated Secured Debt** includes investments listed on the SOI such as subordinated secured term loans, subordinated term loans, senior subordinated notes, and second lien term loans.

• **Subordinated Unsecured Debt** includes investments listed on the SOI such as subordinated unsecured notes and senior unsecured notes.

• **Small Business Loans** includes our investments in SME whole loans purchased from OnDeck.

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

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

• **Equity**, unless specifically stated otherwise, includes our investments in preferred stock, common stock, membership interests, net profits interests, net operating income interests, net revenue interests, overriding royalty interests, escrows receivable, and warrants.

The following table shows the fair value of our investments disaggregated into the three levels of the ASC 820 valuation hierarchy as of June 30, 2018:

	Level 1	Level 2	Level 3	Total
Revolving Line of Credit	\$	—	—\$38,559	\$38,559
Senior Secured Debt	—	—	2,481,353	2,481,353
Subordinated Secured Debt	—	—	1,260,525	1,260,525
Subordinated Unsecured Debt	—	—	32,945	32,945
Small Business Loans	—	—	17	17
CLO Debt	—	—	6,159	6,159
CLO Residual Interest	—	—	954,035	954,035
Equity	—	—	953,686	953,686
Total Investments	\$	—	—\$5,727,279	\$5,727,279

The following table shows the fair value of our investments disaggregated into the three levels of the ASC 820 valuation hierarchy as of June 30, 2017:

	Level 1	Level 2	Level 3	Total
Revolving Line of Credit	\$	—	—\$27,409	\$27,409
Senior Secured Debt	—	—	2,798,796	2,798,796
Subordinated Secured Debt	—	—	1,107,040	1,107,040
Subordinated Unsecured Debt	—	—	44,434	44,434
Small Business Loans	—	—	7,964	7,964
CLO Residual Interest	—	—	1,079,712	1,079,712
Equity	—	—	772,950	772,950
Total Investments	\$	—	—\$5,838,305	\$5,838,305

The following tables show the aggregate changes in the fair value of our Level 3 investments during the year ended June 30, 2018:

	Fair Value Measurements Using Unobservable Inputs (Level 3)								
	Control Investments	Affiliate Investments	Non-Control/Non-Affiliate Investments	Total					
Fair value as of June 30, 2017	\$ 1,911,775	\$ 11,429	\$ 3,915,101	\$ 5,838,305					
Net realized gains (losses) on investments	13	(13,351)	(6,036)	(19,374)					
Net change in unrealized gains (losses)	55,670	25,671	(42,270)	39,071					
Net realized and unrealized gains (losses)	55,683	12,320	(48,306)	19,697					
Purchases of portfolio investments	212,531	3,588	1,505,134	1,721,253					
Payment-in-kind interest	6,164	583	2,657	9,404					
Accretion (amortization) of discounts and premiums, net	2,240	—	(33,245)	(31,005)					
Repayments and sales of portfolio investments	(144,405)	(846)	(1,685,124)	(1,830,375)					
Transfers within Level 3(1)	360,338	31,362	(391,700)	—					
Transfers in (out) of Level 3(1)	—	—	—	—					
Fair value as of June 30, 2018	\$ 2,404,326	\$ 58,436	\$ 3,264,517	\$ 5,727,279					
	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, 2017	\$27,409	\$2,798,796	\$1,107,040	\$44,434	\$7,964	\$—	\$1,079,712	\$772,950	\$5,838,305
Net realized (losses) gains on investments	—	(16,795)	—	13	(357)	—	(2,275)	40	(19,374)
Net change in unrealized gains (losses)	(100)	20,701	(4,524)	(12,103)	456	—	(72,439)	107,080	39,071
Net realized and unrealized (losses) gains	(100)	3,906	(4,524)	(12,090)	99	—	(74,714)	107,120	19,697
Purchases of portfolio investments	19,308	1,138,304	365,845	—	7,552	6,159	48,187	135,898	1,721,253
Payment-in-kind interest	—	5,360	3,429	615	—	—	—	—	9,404
Accretion (amortization) of discounts and premiums	—	3,307	5,756	—	—	—	(40,068)	—	(31,005)
Repayments and sales of portfolio investments	(8,058)	(1,511,024)	(217,021)	(14)	(15,598)	—	(59,082)	(19,578)	(1,830,375)
Transfers within Level 3(1)	—	42,704	—	—	—	—	—	(42,704)	—
Transfers in (out) of Level 3(1)	—	—	—	—	—	—	—	—	—

Fair value as of June 30, 2018 \$38,559 \$2,481,353 \$1,260,525 \$32,945 \$17 \$6,159 \$954,035 \$953,686 \$5,727,279

(1) Transfers are assumed to have occurred at the beginning of the quarter during which the asset was transferred. The following tables show the aggregate changes in the fair value of our Level 3 investments during the year ended June 30, 2017:

	Fair Value Measurements Using Unobservable Inputs (Level 3)			
	Control Investments	Affiliate Investments	Non-Control/Non-Affiliate Investments	Total
Fair value as of June 30, 2016	\$ 1,752,449	\$ 11,320	\$ 4,133,939	\$ 5,897,708
Net realized (losses) gains on investments	(65,915	) 137	(32,625	) (98,403
Net change in unrealized gains (losses)	86,817	553	(37,229	) 50,141
Net realized and unrealized gains (losses)	20,902	690	(69,854	) (48,262
Purchases of portfolio investments	310,922	—	1,160,740	1,471,662
Payment-in-kind interest	14,252	231	3,325	17,808
Accretion (amortization) of discounts and premiums, net	922	—	(89,749	) (88,827
Repayments and sales of portfolio investments	(209,817	) (2,364	) (1,199,603	) (1,411,784
Transfers within Level 3(1)	22,145	1,552	(23,697) —
Transfers in (out) of Level 3(1)	—	—	—	—
Fair value as of June 30, 2017	\$ 1,911,775	\$ 11,429	\$ 3,915,101	\$ 5,838,305

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	Revolving Line of Credit	Senior Secured Debt	Subordinated Secured Debt	Subordinated Unsecured Debt	Small Business Loans	CLO Debt	CLO Residual Interest	Equity	Total
Fair value as of June 30, 2016	\$ 13,274	\$ 2,941,722	\$ 1,209,604	\$ 68,358	\$ 14,215	\$ —	\$ 1,009,696	\$ 640,839	\$ 5,897,708
Net realized (losses) gains on investments	—	(59,730)	(382)	6	(3,013)	—	(17,239)	(18,045)	(98,403)
Net change in unrealized (losses) gains	—	(10,245)	(33,990)	14,020	(83)	—	3,550	76,889	50,141
Net realized and unrealized (losses) gains	—	(69,975)	(34,372)	14,026	(3,096)	—	(13,689)	58,844	(48,262)
Purchases of portfolio investments	21,559	762,505	378,793	—	51,802	—	178,452	78,551	1,471,662
Payment-in-kind interest	—	5,127	10,624	2,057	—	—	—	—	17,808
Accretion (amortization) of discounts and premiums	—	531	5,389	—	—	—	(94,747)	—	(88,827)
Repayments and sales of portfolio investments	(7,424)	(763,969)	(462,998)	(40,007)	(54,957)	—	—	(82,429)	(1,411,784)
Transfers within Level 3(1)	—	(77,145)	—	—	—	—	—	77,145	—
Transfers in (out) of Level 3(1)	—	—	—	—	—	—	—	—	—
Fair value as of June 30, 2017	\$ 27,409	\$ 2,798,796	\$ 1,107,040	\$ 44,434	\$ 7,964	\$ —	\$ 1,079,712	\$ 772,950	\$ 5,838,305

(1) Transfers are assumed to have occurred at the beginning of the quarter during which the asset was transferred. The net change in unrealized gains on the investments that use Level 3 inputs was \$12,075 and \$10,082 for investments still held as of June 30, 2018 and June 30, 2017, respectively.

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The ranges of unobservable inputs used in the fair value measurement of our Level 3 investments as of June 30, 2018 were as follows:

Asset Category	Fair Value	Primary Valuation Approach or Technique	Unobservable Input		Weighted Average
			Input	Range	
Senior Secured Debt	\$1,409,584	Discounted Cash Flow (Yield analysis)	Market yield	7.0% - 21.2%	11.3%
Senior Secured Debt	361,720	Enterprise Value Waterfall (Market approach)	EBITDA multiple	4.0x - 10.3x	8.3x
Senior Secured Debt	181,339	Enterprise Value Waterfall (Market approach)	Revenue multiple	0.3x - 1.6x	1.4x
Senior Secured Debt	47,099	Enterprise Value Waterfall (Discounted cash flow)	Discount rate	7.5% - 16.1%	10.7%
Senior Secured Debt	787	Liquidation Analysis	N/A	N/A	N/A
Senior Secured Debt (1)	226,180	Enterprise Value Waterfall	Loss-adjusted discount rate	3.0% - 14.2%	11.0%
Senior Secured Debt (2)	293,203	Enterprise Value Waterfall (NAV Analysis)	Capitalization Rate	3.3% - 8.7%	6.0%
Senior Secured Debt (2)	—	Discounted Cash Flow	Discount rate	6.5% - 7.5%	7.0%
Subordinated Secured Debt	830,766	Discounted Cash Flow (Yield analysis)	Market yield	7.6% - 22.5%	11.7%
Subordinated Secured Debt	28,622	Enterprise Value Waterfall (Market approach)	EBITDA multiple	6.5x - 7.5x	7.0x
Subordinated Secured Debt	58,806	Enterprise Value Waterfall (Market approach)	Revenue multiple	0.3x - 0.4x	0.4x
Subordinated Secured Debt (3)	342,331	Enterprise Value Waterfall (Market approach)	Book value multiple	0.8x - 3.1x	2.5x
Subordinated Secured Debt (3)	—	Enterprise Value Waterfall (Market approach)	Earnings multiple	7.5x - 13.0x	11.9x
Subordinated Unsecured Debt	32,945	Enterprise Value Waterfall (Market approach)	EBITDA multiple	5.8x - 11.5x	9.7%
Small Business Loans (4)	17	Discounted Cash Flow	Loss-adjusted discount rate	13.0% - 24.3%	15.5%
CLO Interests	960,194	Discounted Cash Flow	Discount rate (6)	2.33% - 24.28%	17.24%
Preferred Equity	73,792	Enterprise Value Waterfall (Market approach)	EBITDA multiple	4.0x - 9.0x	7.9x
Preferred Equity	2,194	Liquidation Analysis	N/A	N/A	N/A
Common Equity/Interests/Warrants	81,753	Enterprise value waterfall (Market approach)	EBITDA multiple	5.0x - 9.0x	6.8x
Common Equity/Interests/Warrants (1)	16,881	Enterprise value waterfall	Loss-adjusted discount rate	3.0% - 14.2%	11.0%
Common Equity/Interests/Warrants (2)	419,224	Enterprise value waterfall (NAV analysis)	Capitalization Rate	3.3% - 8.7%	6.0%
Common Equity/Interests/Warrants (2)	—	Discounted cash flow	Discount rate	6.5% - 7.5%	7.0%
Common Equity/Interests/Warrants (3)	209,583	Enterprise value waterfall (Market approach)	Book value multiple	0.8x - 3.1x	2.4x
	—				11.9x

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Common Equity/Interests/Warrants (3)		Enterprise value waterfall (Market approach)	Earnings multiple	7.5x - 13.0x	
Common Equity/Interests/Warrants (5)	99,488	Discounted cash flow	Discount rate	6.5% - 7.5%	7.0%
Common Equity/Interests/Warrants	36,805	Discounted cash flow	Discount rate	7.5% - 15.5%	8.8%
Common Equity/Interests/Warrants	13,049	Liquidation analysis	N/A	N/A	N/A
Escrow Receivable	917	Discounted cash flow	Discount rate	7.3% - 8.4%	7.9%
Total Level 3 Investments	\$5,727,279				

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- Represents an investment in a Real Estate Investment subsidiary. The Enterprise Value analysis includes the fair value of our investments in such indirect subsidiary's consumer loans purchased from online consumer lending
- (1) platforms, which are valued using a discounted cash flow valuation technique. The key unobservable input to the discounted cash flow analysis is noted above. In addition, the valuation also used projected loss rates as an unobservable input ranging from 0.0%-20.7%, with a weighted average of 4.2%.
 - (2) Represents our REIT investments. EV waterfall methodology uses both the net asset value analysis and discounted cash flow technique, which are weighted equally (50%).
Represents investments in consumer finance subsidiaries. The enterprise value waterfall methodology utilizes book value and earnings multiples, as noted above. In addition, the valuation of certain consumer finance companies
 - (3) utilizes the discounted cash flow technique whereby the significant unobservable input is the discount rate. For these companies each valuation technique (book value multiple, earnings multiple and discount rate) is weighted equally. For these companies the discount rate ranged from 13.5% to 15.5% with a weighted average of 14.2%.
 - (4) Includes our investments in small business whole loans purchased from OnDeck. Valuation also used projected loss rates as an unobservable input ranging from 0.00%-0.06%, with a weighted average of 0.01%.
 - (5) Represents net operating income interests in our REIT investments.
 - (6) Represents the implied discount rate based on our internally generated single-cash flows that is derived from the fair value estimated by the corresponding multi-path cash flow model utilized by the independent valuation firm.

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The ranges of unobservable inputs used in the fair value measurement of our Level 3 investments as of June 30, 2017 were as follows:

Asset Category	Fair Value	Primary Valuation Approach or Technique	Unobservable Input		Weighted Average
			Input	Range	
Senior Secured Debt	\$1,977,660	Discounted Cash Flow (Yield analysis)	Market Yield	5.1%-27.0%	10.7%
Senior Secured Debt	211,856	Enterprise Value Waterfall (Market approach)	EBITDA Multiple	4.0x-9.0x	6.7x
Senior Secured Debt	27,479	Enterprise Value Waterfall (Market approach)	Revenue Multiple	0.3x-0.6x	0.4x
Senior Secured Debt	47,099	Enterprise Value Waterfall (Discounted cash flow)	Discount Rate	7.3%-15.9%	11.6%
Senior Secured Debt	1,630	Liquidation Analysis	N/A	N/A	N/A
Senior Secured Debt (1)	269,166	Enterprise Value Waterfall	Loss-adjusted discount rate	3.0%-14.2%	10.6%
Senior Secured Debt (2)	291,315	Enterprise Value Waterfall (NAV Analysis)	Capitalization Rate	3.4%-8.0%	6.1%
Senior Secured Debt (2)		Discounted Cash Flow	Discount Rate	6.5%-7.5%	7.0%
Subordinated Secured Debt	665,405	Discounted Cash Flow (Yield analysis)	Market Yield	5.9%-27.0%	11.4%
Subordinated Secured Debt	111,847	Enterprise Value Waterfall (Market approach)	EBITDA Multiple	6.3x-8.0x	7.3x
Subordinated Secured Debt (3)	329,788	Enterprise Value Waterfall (Market approach)	Book Value Multiple	1.2x-2.8x	2.4x
Subordinated Secured Debt (3)		Enterprise Value Waterfall (Market approach)	Earnings Multiple	7.5x-12.0x	11.0x
Subordinated Unsecured Debt	44,434	Enterprise Value Waterfall (Market approach)	EBITDA Multiple	5.8x-8.5x	7.7x
Small Business Loans (4)	7,964	Discounted Cash Flow	Loss-adjusted Discount Rate	3.0%-25.9%	25.9%
CLO Residual Interest	1,079,712	Discounted Cash Flow	Discount Rate	12.0%-21.9%	15.7%
Preferred Equity	10,992	Enterprise Value Waterfall (Market approach)	EBITDA Multiple	4.0x-9.0x	4.8x
Preferred Equity	72,216	Enterprise Value Waterfall (Market approach)	Revenue Multiple	2.3x-2.8x	2.6x
Common Equity/Interests/Warrants	46,373	Enterprise Value Waterfall (Market approach)	EBITDA Multiple	4.0x-8.5x	6.0x
Common Equity/Interests/Warrants	22,671	Enterprise Value Waterfall (Market approach)	Revenue Multiple	0.3x-2.8x	1.2x
Common Equity/Interests/Warrants (1)	93,801	Enterprise Value Waterfall	Loss-adjusted discount rate	3.0%-14.2%	10.6%
Common Equity/Interests/Warrants (2)	244,245	Enterprise Value Waterfall (NAV analysis)	Capitalization Rate	3.4%-8.0%	6.1%
Common Equity/Interests/Warrants (2)		Discounted Cash Flow	Discount Rate	6.5%-7.5%	0.07
	134,481			1.2x-2.8x	2.3x

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Common Equity/Interests/Warrants (2)		Enterprise Value Waterfall (Market approach)	Book Value Multiple		
Common Equity/Interests/Warrants (2)		Enterprise Value Waterfall (Market approach)	Earnings Multiple	7.5x-12.0x	10.8x
Common Equity/Interests/Warrants (5)	88,777	Discounted Cash Flow	Discount Rate	6.5%-7.5%	7.0%
Common Equity/Interests/Warrants	28,858	Discounted Cash Flow	Discount Rate	6.4%-18.0%	11.8%
Common Equity/Interests/Warrants	29,672	Liquidation Analysis	N/A	N/A	N/A
Escrow Receivable	864	Discounted Cash Flow	Discount Rate	6.4%-7.5%	7.0%
Total Level 3 Investments	\$5,838,305				

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Represents an investment in a subsidiary of our controlled investment NPRC. The Enterprise Value Waterfall analysis of NPRC includes the fair value of the investments in such indirect subsidiary's consumer loans purchased (1) from online consumer lending platforms, which are valued using a discounted cash flow valuation technique. The key unobservable input to the discounted cash flow analysis is noted in the table. In addition, the valuation also used projected loss rates as an unobservable input ranging from 0.16-18.46%, with a weighted average of 8.57%.

(2) Represents our REIT investments. EV waterfall methodology uses both the net asset value analysis and discounted cash flow analysis, which are weighted equally (50%).

Represents investments in consumer finance subsidiaries. The enterprise value waterfall methodology utilizes book value and earnings multiples, as noted above. In addition, the valuation of certain consumer finance companies (3) utilizes the discounted cash flow technique whereby the significant unobservable input is the discount rate. For these companies each valuation technique (book value multiple, earnings multiple and discount rate) is weighted equally. For these companies the discount rate ranged from 13.5% to 18.0% with a weighted average of 14.7%.

(4) Includes our investments in small business whole loans purchased from OnDeck. Valuation also used projected loss rates as an unobservable input ranging from 0.01%-1.16%, with a weighted average of 0.88%.

(5) Represents net operating income interests in our REIT investments.

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

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

Our portfolio consists of residual interests in CLOs, which involve a number of significant risks. CLOs are typically very highly levered (10 - 14 times), and therefore the residual interest tranches that we invest in are subject to a higher degree of risk of total loss. In particular, investors in CLO residual interests indirectly bear risks of the underlying loan investments held by such CLOs. We generally have the right to receive payments only from the CLOs, and generally do not have direct rights against the underlying borrowers or the entity that sponsored the CLOs. While the CLOs we target generally enable the investor to acquire interests in a pool of senior loans without the expenses associated with directly holding the same investments, the prices of indices and securities underlying our CLOs will rise or fall. These prices (and, therefore, the prices of the CLOs) will be influenced by the same types of political and economic events that affect issuers of securities and capital markets generally. The failure by a CLO investment in which we invest to satisfy financial covenants, including with respect to adequate collateralization and/or interest coverage tests, could lead to a reduction in its payments to us. In the event that a CLO fails certain tests, holders of debt senior to us would be entitled to additional payments that would, in turn, reduce the payments we would otherwise be entitled to receive. Separately, we may incur expenses to the extent necessary to seek recovery upon default or to negotiate new terms with a defaulting CLO or any other investment we may make. If any of these occur, it could materially and adversely affect our operating results and cash flows.

The interests we have acquired in CLOs are generally thinly traded or have only a limited trading market. CLOs are typically privately offered and sold, even in the secondary market. As a result, investments in CLOs may be characterized as illiquid securities. In addition to the general risks associated with investing in debt securities, CLO residual interests carry additional risks, including, but not limited to: (i) the possibility that distributions from collateral securities will not be adequate to make interest or other payments; (ii) the quality of the collateral may decline in value or default; (iii) our investments in CLO tranches will likely be subordinate to other senior classes of note tranches thereof; and (iv) the complex structure of the security may not be fully understood at the time of investment and may produce disputes with the CLO investment or unexpected investment results. Our net asset value may also decline over time if our principal recovery with respect to CLO residual interests is less than the cost of those

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investments. Our CLO investments and/or the CLOs' underlying senior secured loans may prepay more quickly than expected, which could have an adverse impact on our value.

An increase in LIBOR would materially increase the CLO's financing costs. Since most of the collateral positions within the CLOs have LIBOR floors, there may not be corresponding increases in investment income (if LIBOR increases but stays below the LIBOR floor rate of such investments) resulting in materially smaller distribution payments to the residual interest investors.

On July 27, 2017, the Financial Conduct Authority ("FCA") announced that it will no longer persuade or compel banks to submit rates for the calculation of the LIBOR rates after 2021 (the "FCA Announcement"). Furthermore, in the United States, efforts to identify a set of alternative U.S. dollar reference interest rates include proposals by the Alternative Reference Rates Committee of the Federal Reserve Board and the Federal Reserve Bank of New York. On August 24, 2017, the Federal Reserve Board requested public comment on a proposal by the Federal Reserve Bank of New York, in cooperation with the Office of Financial Research, to produce three new reference rates intended to serve as alternatives to LIBOR. These alternative rates are based on overnight repurchase agreement transactions secured by U.S. Treasury Securities. On December 12, 2017, following consideration of public comments, the Federal Reserve Board concluded that the public would benefit if the Federal Reserve Bank of New York published the three proposed reference rates as alternatives to LIBOR (the "Federal Reserve Board Notice"). The Federal Reserve Bank of New York said that the publication of these alternative rates is targeted to commence by mid-2018.

At this time, it is not possible to predict the effect of the FCA Announcement, the Federal Reserve Board Notice, or other regulatory changes or announcements, any establishment of alternative reference rates or any other reforms to LIBOR that may be enacted in the United Kingdom, the United States or elsewhere. As such, the potential effect of any such event on our net investment income cannot yet be determined. The CLOs in which the Company is invested generally contemplate a scenario where LIBOR is no longer available by requiring the CLO administrator to calculate a replacement rate primarily through dealer polling on the applicable measurement date. However, there is uncertainty regarding the effectiveness of the dealer polling processes, including the willingness of banks to provide such quotations, which could adversely impact our net investment income. In addition, the effect of a phase out of LIBOR on U.S. senior secured loans, the underlying assets of the CLOs in which we invest, is currently unclear. To the extent that any replacement rate utilized for senior secured loans differs from that utilized for a CLO that holds those loans, the CLO would experience an interest rate mismatch between its assets and liabilities which could have an adverse impact on the Company's net investment income and portfolio returns.

We hold more than a 10% interest in certain foreign corporations that are treated as controlled foreign corporations ("CFC") for U.S. federal income tax purposes (including our residual interest tranche investments in CLOs). Therefore, we are treated as receiving a deemed distribution (taxable as ordinary income) each year from such foreign corporations in an amount equal to our pro rata share of the corporation's income for that tax year (including both ordinary earnings and capital gains). We are required to include such deemed distributions from a CFC in our taxable income and we are required to distribute at least 90% of such income to maintain our RIC status, regardless of whether or not the CFC makes an actual distribution during such year.

If we acquire shares in "passive foreign investment companies" ("PFICs") (including residual interest tranche investments in CLOs that are PFICs), we may be subject to federal income tax on a portion of any "excess distribution" or gain from the disposition of such shares even if such income is distributed as a taxable dividend to our stockholders. Certain elections may be available to mitigate or eliminate such tax on excess distributions, but such elections (if available) will generally require us to recognize our share of the PFIC's income for each year regardless of whether we receive any distributions from such PFICs. We must nonetheless distribute such income to maintain our status as a RIC.

Legislation enacted in 2010 imposes a withholding tax of 30% on payments of U.S. source interest and dividends paid after December 31, 2013, or gross proceeds from the disposition of an instrument that produces U.S. source interest or

dividends paid after December 31, 2016, to certain non-U.S. entities, including certain non-U.S. financial institutions and investment funds, unless such non-U.S. entity complies with certain reporting requirements regarding its United States account holders and its United States owners. Most CLOs in which we invest will be treated as non-U.S. financial entities for this purpose, and therefore will be required to comply with these reporting requirements to avoid the 30% withholding. If a CLO in which we invest fails to properly comply with these reporting requirements, it could reduce the amounts available to distribute to residual interest and junior debt holders in such CLO vehicle, which could materially and adversely affect our operating results and cash flows.

If we are required to include amounts in income prior to receiving distributions representing such income, we may have to sell some of our investments at times and/or at prices management would not consider advantageous, raise additional debt or equity capital or forgo new investment opportunities for this purpose.

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The significant unobservable input used to value our investments based on the yield technique and discounted cash flow technique is the market yield (or applicable discount rate) used to discount the estimated future cash flows expected to be received from the underlying investment, which includes both future principal and interest/dividend payments. Increases or decreases in the market yield (or applicable discount rate) would result in a decrease or increase, respectively, in the fair value measurement. Management and the independent valuation firms consider the following factors when selecting market yields or discount rates: risk of default, rating of the investment and comparable company investments, and call provisions.

The significant unobservable inputs used to value our investments based on the EV analysis may include market multiples of specified financial measures such as EBITDA, net income, or book value of identified guideline public companies, implied valuation multiples from precedent M&A transactions, and/or discount rates applied in a discounted cash flow technique. The independent valuation firm identifies a population of publicly traded companies with similar operations and key attributes to that of the portfolio company. Using valuation and operating metrics of these guideline public companies and/or as implied by relevant precedent transactions, a range of multiples of the latest twelve months EBITDA, or other measure such as net income or book value, is typically calculated. The independent valuation firm utilizes the determined multiples to estimate the portfolio company's EV generally based on the latest twelve months EBITDA of the portfolio company (or other meaningful measure). Increases or decreases in the multiple would result in an increase or decrease, respectively, in EV which would result in an increase or decrease in the fair value measurement of the debt of controlled companies and/or equity investment, as applicable. In certain instances, a discounted cash flow analysis may be considered in estimating EV, in which case, discount rates based on a weighted average cost of capital and application of the capital asset pricing model may be utilized.

The significant unobservable input used to value our private REIT investments based on the net asset value analysis is the capitalization rate applied to the earnings measure of the underlying property. Increases or decreases in the capitalization rate would result in a decrease or increase, respectively, in the fair value measurement.

Changes in market yields, discount rates, capitalization rates or EBITDA multiples, each in isolation, may change the fair value measurement of certain of our investments. Generally, an increase in market yields, discount rates or capitalization rates, or a decrease in EBITDA (or other) multiples may result in a decrease in the fair value measurement of certain of our investments.

Due to the inherent uncertainty of determining the fair value of investments that do not have a readily available market value, the fair value of our investments may fluctuate from period to period. Additionally, the fair value of our investments may differ significantly from the values that would have been used had a ready market existed for such investments and may differ materially from the values that we may ultimately realize. Further, such investments are generally subject to legal and other restrictions on resale or otherwise are less liquid than publicly traded securities. If we were required to liquidate a portfolio investment in a forced or liquidation sale, we could realize significantly less than the value at which we have recorded it.

In addition, changes in the market environment and other events that may occur over the life of the investments may cause the gains or losses ultimately realized on these investments to be different than the unrealized gains or losses reflected in the currently assigned valuations.

During the year ended June 30, 2018, the valuation methodology for Spartan Energy Services, Inc. ("Spartan") changed to remove the waterfall and liquidation analysis and incorporated an income method approach. As a result of the company's improved performance and current market conditions, the fair value of our investment in Spartan increased to \$31,283 as of June 30, 2018, a premium of \$1,917 from its amortized cost, compared to the \$16,769 unrealized depreciation recorded at June 30, 2017.

As of June 30, 2018, Prospect's investment in InterDent is classified as a control investment. As a result, the valuation methodology changed to remove the income method approach and incorporate the waterfall approach. The fair value of our investment in InterDent decreased to \$197,621 as of June 30, 2018, a discount of \$15,080 to its amortized cost, compared to a discount of \$1,268 to its amortized cost as of June 30, 2017. The decline in fair value was due to lower projected future earnings as a result of customer attrition.

As of June 30, 2018, Prospect's investment in Pacific World is classified as a control investment. As a result, the valuation methodology for the TLA changed to remove the income method approach and incorporate the waterfall

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

During the year ended June 30, 2018, one of our CLO investments was deemed to have an other-than-temporary loss. In accordance with ASC 325-40, we recorded a total loss of \$2,495 related to these investments for the amount our amortized cost exceeded fair value as of the respective determination dates. During the year ended June 30, 2017, four of our CLO investments were deemed to have an other-than-temporary loss. In accordance with ASC 325-40, we recorded a total loss of \$17,239 related to these

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investments for the amount our amortized cost exceeded fair value as of the respective determination dates. During the year ended June 30, 2018, we provided \$96,199 of equity financing to NPRC for the acquisition of real estate properties and \$1,112 of debt and \$27,391 of equity financing to NPRC to fund capital expenditures for existing properties.

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

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

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

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

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

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

No.	Property Name	City	Acquisition Date	Purchase Price	Mortgage Outstanding
1	Filet of Chicken	Forest Park, GA	10/24/2012	\$ 7,400	\$ —
2	5100 Live Oaks Blvd, LLC	Tampa, FL	1/17/2013	63,400	46,426
3	Lofton Place, LLC	Tampa, FL	4/30/2013	26,000	20,273
4	Arlington Park Marietta, LLC	Marietta, GA	5/8/2013	14,850	9,650
5	NPRC Carroll Resort, LLC	Pembroke Pines, FL	6/24/2013	225,000	175,885
6	Cordova Regency, LLC	Pensacola, FL	11/15/2013	13,750	11,375
7	Crestview at Oakleigh, LLC	Pensacola, FL	11/15/2013	17,500	13,845
8	Inverness Lakes, LLC	Mobile, AL	11/15/2013	29,600	24,700
9	Kings Mill Pensacola, LLC	Pensacola, FL	11/15/2013	20,750	17,550
10	Plantations at Pine Lake, LLC	Tallahassee, FL	11/15/2013	18,000	14,092
11	Verandas at Rocky Ridge, LLC	Birmingham, AL	11/15/2013	15,600	10,205
12	Matthews Reserve II, LLC	Matthews, NC	11/19/2013	22,063	19,765

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13	City West Apartments II, LLC	Orlando, FL	11/19/2013	23,562	23,084
14	Vinings Corner II, LLC	Smyrna, GA	11/19/2013	35,691	32,649
15	Atlanta Eastwood Village LLC	Stockbridge, GA	12/12/2013	25,957	22,546

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No.	Property Name	City	Acquisition Date	Purchase Price	Mortgage Outstanding
16	Atlanta Monterey Village LLC	Jonesboro, GA	12/12/2013	11,501	10,969
17	Atlanta Hidden Creek LLC	Morrow, GA	12/12/2013	5,098	4,696
18	Atlanta Meadow Springs LLC	College Park, GA	12/12/2013	13,116	12,914
19	Atlanta Meadow View LLC	College Park, GA	12/12/2013	14,354	12,968
20	Atlanta Peachtree Landing LLC	Fairburn, GA	12/12/2013	17,224	15,361
21	APH Carroll Bartram Park, LLC	Jacksonville, FL	12/31/2013	38,000	27,157
22	Crestview at Cordova, LLC	Pensacola, FL	1/17/2014	8,500	7,785
23	APH Carroll Atlantic Beach, LLC	Atlantic Beach, FL	1/31/2014	13,025	8,443
24	Taco Bell, OK	Yukon, OK	6/4/2014	1,719	—
25	Taco Bell, MO	Marshall, MO	6/4/2014	1,405	—
26	23 Mile Road Self Storage, LLC	Chesterfield, MI	8/19/2014	5,804	4,350
27	36th Street Self Storage, LLC	Wyoming, MI	8/19/2014	4,800	3,600
28	Ball Avenue Self Storage, LLC	Grand Rapids, MI	8/19/2014	7,281	5,460
29	Ford Road Self Storage, LLC	Westland, MI	8/29/2014	4,642	3,480
30	Ann Arbor Kalamazoo Self Storage, LLC	Ann Arbor, MI	8/29/2014	4,458	3,345
31	Ann Arbor Kalamazoo Self Storage, LLC	Ann Arbor, MI	8/29/2014	8,927	6,695
32	Ann Arbor Kalamazoo Self Storage, LLC	Kalamazoo, MI	8/29/2014	2,363	1,775
33	Canterbury Green Apartments Holdings LLC	Fort Wayne, IN	9/29/2014	85,500	74,046
34	Abbie Lakes OH Partners, LLC	Canal Winchester, OH	9/30/2014	12,600	13,055
35	Kengary Way OH Partners, LLC	Reynoldsburg, OH	9/30/2014	11,500	13,502
36	Lakeview Trail OH Partners, LLC	Canal Winchester, OH	9/30/2014	26,500	23,256
37	Lakepoint OH Partners, LLC	Pickerington, OH	9/30/2014	11,000	14,480
38	Sunbury OH Partners, LLC	Columbus, OH	9/30/2014	13,000	14,115
39	Heatherbridge OH Partners, LLC	Blacklick, OH	9/30/2014	18,416	18,328
40	Jefferson Chase OH Partners, LLC	Blacklick, OH	9/30/2014	13,551	17,200
41	Goldenstrand OH Partners, LLC	Hilliard, OH	10/29/2014	7,810	9,600
42	Jolly Road Self Storage, LLC	Okemos, MI	1/16/2015	7,492	5,620
43	Eaton Rapids Road Self Storage, LLC	Lansing West, MI	1/16/2015	1,741	1,305
44	Haggerty Road Self Storage, LLC	Novi, MI	1/16/2015	6,700	5,025
45	Waldon Road Self Storage, LLC	Lake Orion, MI	1/16/2015	6,965	5,225
46	Tyler Road Self Storage, LLC	Ypsilanti, MI	1/16/2015	3,507	2,630
47	SSIL I, LLC	Aurora, IL	11/5/2015	34,500	26,450
48	Vesper Tuscaloosa, LLC	Tuscaloosa, AL	9/28/2016	54,500	43,120
49	Vesper Iowa City, LLC	Iowa City, IA	9/28/2016	32,750	24,825
50	Vesper Corpus Christi, LLC	Corpus Christi, TX	9/28/2016	14,250	10,800
51	Vesper Campus Quarters, LLC	Corpus Christi, TX	9/28/2016	18,350	14,175
52	Vesper College Station, LLC	College Station, TX	9/28/2016	41,500	32,057
53	Vesper Kennesaw, LLC	Kennesaw, GA	9/28/2016	57,900	48,668
54	Vesper Statesboro, LLC	Statesboro, GA	9/28/2016	7,500	6,076
55	Vesper Manhattan KS, LLC	Manhattan, KS	9/28/2016	23,250	15,145
56	JSIP Union Place, LLC	Franklin, MA	12/7/2016	64,750	51,800
57	9220 Old Lantern Way, LLC	Laurel, MD	1/30/2017	187,250	153,580
58	7915 Baymeadows Circle Owner, LLC	Jacksonville, FL	10/31/2017	95,700	76,560
59	8025 Baymeadows Circle Owner, LLC	Jacksonville, FL	10/31/2017	15,300	12,240
60	23275 Riverside Drive Owner, LLC	Southfield, MI	11/8/2017	52,000	44,044

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No.	Property Name	City	Acquisition Date	Purchase Price	Mortgage Outstanding
61	23741 Pond Road Owner, LLC	Southfield, MI	11/8/2017	16,500	14,185
62	150 Steeplechase Way Owner, LLC	Largo, MD	1/10/2018	44,500	36,668
63	Laurel Pointe Holdings, LLC	Forest Park, GA	5/9/2018	33,005	26,400
64	Bradford Ridge Holdings, LLC	Forest Park, GA	5/9/2018	12,500	10,000
65	Olentangy Commons Owner LLC	Columbus, OH	6/1/2018	113,000	92,876
				\$1,866,627	\$1,528,099

On July 1, 2016, BNN Holdings Corp. was sold. The sale provided net proceeds for our minority position of \$2,365, resulting in a realized gain of \$137. During the three months ended December 31, 2016 we received remaining escrow proceeds, realizing an additional gain of \$50.

On August 17, 2016, we made a \$5,000 investment in BCD Acquisition, Inc. (“Big Tex”). On August 18, 2016, we sold our \$5,000 investment in Big Tex and realized a gain of \$138 on the sale.

On August 19, 2016, we sold our investment in Nathan’s Famous, Inc. for net proceeds of \$3,240 and realized a gain of \$240 on the sale.

On September 27, 2016, we received additional bankruptcy proceeds for our previously impaired investment in New Century Transportation, Inc., and recorded a realized gain of \$936, offsetting the previously recognized loss.

On October 18, 2016, we received additional proceeds of \$434 related to the May 31, 2016 sale of Harbortouch Payments, LLC. We realized a gain for the same amount.

On December 27, 2016, we exercised our warrants in R-V Industries, Inc. (“R-V”) to purchase additional common stock in R-V. As a result, we realized a gain of \$172 on this transaction.

On March 14, 2017, assets previously held by Ark-La-Tex Wireline Services, LLC (“Ark-La-Tex”) were assigned to Wolf Energy Services, a new wholly-owned subsidiary of Wolf Energy Holdings, in exchange for a full reduction of Ark-La-Tex’s Senior Secured Term Loan A and a partial reduction of the Senior Secured Term Loan B cost basis, in total equal to \$22,145. The cost basis of the transferred assets is equal to the appraised fair value of assets at the time of transfer.

On April 3, 2017, AFI Shareholder, LLC was sold. The sale provided net proceeds for our minority position of \$965, resulting in a realized gain of \$693.

On June 3, 2017, SB Forging Company II, Inc. (f/k/a Gulf Coast Machine & Supply Company) (“Gulfco”) sold all of its assets to a third party, for total consideration of \$10,250, including escrowed amounts. The proceeds from the sale were primarily used to repay a \$6,115 third party revolving credit facility, and the remainder was used to pay other legal and administrative costs incurred by Gulfco. As no proceeds were allocated to Prospect, our debt and equity investment in Gulfco was written-off for tax purposes and we recorded a realized loss of \$66,103. In June 2018, Gulfco received escrow proceeds of \$2,050 related to the sale.

On June 30, 2017, Mineral Fusion Natural Brands was sold. The sale provided net proceeds for our minority position of \$490, resulting in a realized gain of the same amount.

On June 30, 2017, we received \$169 of escrow proceeds related to SB Forging, realizing a gain of the same amount. During the three months ended June 30, 2017, Ark-La-Tex Term Loan B was partially written-off for tax purposes and a loss of \$19,818 was realized.

During the year ended June 30, 2017, we received additional proceeds of \$6,287 related to the May 31, 2016 sale of Harbortouch, \$4,286 of which are from an escrow release. We realized a gain for the same amount.

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

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

On February 26, 2018, we entered into a debt forgiveness agreement with Nixon, Inc., which terminated the \$17,472 Senior Secured Term Loan receivable due to us. We recorded a realized loss of \$14,197 as a result of this transaction. On April 17 and April 18, 2018, we sold 49.71% of the outstanding principal balance of the senior secured term loan investment in RGIS Services, LLC, for a total of \$15,000 at 93.5% of par. We realized a \$423 loss on the sale.

As of June 30, 2018, \$3,323,420 of our loans to portfolio companies, at fair value, bear interest at floating rates and have LIBOR floors ranging from 0.0% to 3.0%. As of June 30, 2018, \$489,962 of our loans to portfolio companies, at fair value, bear interest at fixed rates ranging from 5.0% to 20.0%. As of June 30, 2017, \$3,488,678 of our loans to portfolio companies, at fair value, bore interest at floating rates and have LIBOR floors ranging from 0.3% to 4.0%. As of June 30, 2017, \$489,007 of our loans to portfolio companies, at fair value, bore interest at fixed rates ranging from 5.0% to 20.0%.

At June 30, 2018, five loan investments were on non-accrual status: Ark-La-Tex, Edmentum Ultimate Holdings, LLC Unsecured Junior PIK Note, Pacific World Corporation Senior Secured Term Loan B, USC, and USES. At June 30, 2017, seven loan investments were on non-accrual status: Ark-La-Tex, Edmentum Ultimate Holdings, LLC Unsecured Junior PIK Note, Nixon, Spartan, USC, USES, and Venio. Cost balances of these loans amounted to \$315,733 and \$286,388 as of June 30, 2018 and June 30, 2017, respectively. The fair value of these loans amounted to \$143,719 and \$154,417 as of June 30, 2018 and June 30, 2017, respectively. The fair values of these investments represent approximately 2.5% and 2.5% of our total assets at fair value as of June 30, 2018 and June 30, 2017, respectively.

Undrawn committed revolvers and delayed draw term loans to our portfolio companies incur commitment and unused fees ranging from 0.00% to 5.00%. As of June 30, 2018 and June 30, 2017, we had \$29,675 and \$22,925, respectively, of undrawn revolver and delayed draw term loan commitments to our portfolio companies. The fair value of our undrawn committed revolvers and delayed draw term loans was zero as of June 30, 2018 and June 30, 2017.

Unconsolidated Significant Subsidiaries

Our investments are generally in small and mid-sized companies in a variety of industries. In accordance with Rules 3-09 and 4-08(g) of Regulation S-X, we must determine which of our unconsolidated controlled portfolio companies are considered “significant subsidiaries”, if any. In evaluating these investments, there are three tests utilized to determine if any of our controlled investments are considered significant subsidiaries: the asset test, the income test and the investment test. Rule 3-09 of Regulation S-X requires separate audited financial statements of an unconsolidated subsidiary in an annual report if any of the three tests exceed 20%. Rule 4-08(g) of Regulation S-X requires summarized financial information in an annual report if any of the three tests exceeds 10%.

The following table summarizes the results of our analysis for the three tests for the years ended June 30, 2018, 2017 and 2016:

	Asset Test		Income Test		Investment Test	
	Greater than 10% but Less than 20%	Greater than 20%	Greater than 10% but Less than 20%	Greater than 20%	Greater than 10% but Less than 20%	Greater than 20%
Year Ended June 30, 2018	-	NPRC	Arctic (1)	First Tower Finance NPRC	NPRC	-
Year Ended June 30, 2017	-	NPRC	USES	First Tower Finance NPRC	NPRC	-
Year Ended June 30, 2016	-	NPRC	First Tower Finance	NPRC	NPRC	-

(1) On April 6, 2018, our common equity investment in Arctic Equipment was exchanged for newly issued common shares of CP Energy as a result of a merger between the two companies.

Income, consisting of interest, dividends, fees, other investment income and realization of gains or losses, can fluctuate upon repayment or sale of an investment or the marking to fair value of an investment in any given year can be highly concentrated among several investments. After performing the income analysis for the year ended June 30, 2018, as currently promulgated by the SEC, we determined that two of our controlled investments individually generated more than 20% of our income. We do not believe that the calculation promulgated by the SEC correctly identifies significant subsidiaries but have included First Tower Finance Company LLC (“First Tower Finance”) and NPRC as significant subsidiaries. NPRC, an unconsolidated majority-owned portfolio company, was considered a significant subsidiary at the 20% level as of and during the years ended June 30, 2018, June

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30, 2017 and June 30, 2016. We included the audited financial statements of NPRC, and its subsidiaries, for the years ended December 31, 2017, 2016 and 2015 in this filing. First Tower Finance was considered a significant subsidiary at the 20% level for the years ended June 30, 2018 and 2017 and at the 10%-20% level for the year ended June 30, 2016; therefore, we have included the audited financial statement for the years ended December 31, 2017, 2016 and 2015 in this filing.

The following tables show summarized financial information for Arctic, which met the 10% income test for the year ended June 30, 2018:

	December 31, 2017
Balance Sheet Data	
Cash and cash equivalents	\$ 1,815
Accounts receivable, net	3,991
Property, plant and equipment, net	28,438
Intangibles, including goodwill	8,041
Other assets	576
Notes payable, due to Prospect or Affiliate	3,040
Other liabilities	2,213
Total equity	(37,608)

Year
Ended
December
31,
2017

Summary of Operations

Total revenue	\$ 23,155
Total expenses	26,179
Net (loss)	\$(3,024)

The following tables show summarized financial information for USES, which met the 10% income test for the year ended June 30, 2017:

	December 31, 2017	December 31, 2016
Balance Sheet Data		
Cash and cash equivalents	\$ 41	\$ 168
Accounts receivable, net	19,774	15,609
Property, plant and equipment, net	20,694	25,727
Intangibles, including goodwill	15,792	15,959
Other assets	3,053	1,700
Notes payable, due to Prospect or Affiliate	78,767	61,726
Other liabilities	14,888	6,469
Total equity	(34,301)	(9,032)

Year Ended December 31,
2017 2016 2015

Summary of Operations

Total revenue	\$72,355	\$68,287	\$106,248
Total expenses	97,624	92,496	130,416
Net (loss)	\$(25,269)	\$(24,209)	\$(24,168)

The SEC has requested comments on the proper mechanics of how the calculations related to Rules 3-09 and 4-08(g) of Regulation S-X should be completed. There is currently diversity in practice for the calculations. We expect that the SEC will clarify the calculation methods in the future.

Note 4. Revolving Credit Facility

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

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

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

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

The release of any assets from PCF requires the approval of the facility agent.

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

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

Note 5. Convertible Notes

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

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

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

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

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

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

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

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

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

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

(1)

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

- (2) Represents conversion rate and conversion price, as applicable, taking into account certain de minimis adjustments that will be made on the conversion date.
- (3) The conversion price will increase only if the current monthly dividends (per share) exceed the dividend threshold amount (per share).

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

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

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

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

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

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

Note 6. Public Notes

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

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

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

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

The 2023 Notes, the 5.00% 2019 Notes, the 2024 Notes, and the 2028 Notes (collectively, the “Public Notes”) are direct unsecured obligations and rank equally with all of our unsecured indebtedness from time to time outstanding. In connection with the issuance of the 2023 Notes, the 5.00% 2019 Notes, the 2024 Notes, and the 2028 Notes we recorded a discount of \$2,777 and debt issuance costs of \$15,644, which are being amortized over the term of the notes. As of June 30, 2018, \$1,664 of the original issue discount and \$9,343 of the debt issuance costs remain to be amortized and are included as a reduction within Public Notes on the Consolidated Statement of Assets and Liabilities.

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

Note 7. Prospect Capital InterNotes®

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

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

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

Tenor at Origination (in years)	Principal Amount	Interest Rate Range	Weighted Average Interest Rate	Maturity Date Range
5	\$46,893	4.00% - 5.00%	4.24 %	July 15, 2022 - June 15, 2023

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7	4,684	4.75% - 5.25%	5.06	%	July 15, 2024 - June 15, 2025
8	24,720	4.50% - 5.25%	4.65	%	August 15, 2025 - May 15, 2026
	\$ 76,297				

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

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

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

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

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

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

In connection with the issuance of Prospect Capital InterNotes®, we incurred \$24,465 of fees which are being amortized over the term of the notes, of which \$11,998 remains to be amortized and is included as a reduction within Prospect Capital InterNotes® on the Consolidated Statement of Assets and Liabilities as of June 30, 2018. During the years ended June 30, 2018, 2017 and 2016, we recorded \$46,580, \$53,560 and \$48,681, respectively, of interest costs and amortization of financing costs on the Prospect Capital InterNotes® as interest expense.

Note 8. Fair Value and Maturity of Debt Outstanding

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

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

As permitted by ASC 825-10-25, we have not elected to value our Revolving Credit Facility, Convertible Notes, (1) Public Notes and Prospect Capital InterNotes® at fair value. The fair value of these debt obligations are categorized as Level 2 under ASC 820 as of June 30, 2018.

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

(3) Net Carrying Value excludes deferred financing costs associated with the Revolving Credit Facility. See Note 2 for accounting policy details.

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

(5) The fair value of Prospect Capital InterNotes® is estimated by discounting remaining payments using current Treasury rates plus spread based on observable market inputs.

(6) Represents the rate on drawn down and outstanding balances. Deferred debt issuance costs are amortized on a straight-line method over the stated life of the obligation.

The effective interest rate is equal to the effect of the stated interest, the accretion of original issue discount and (7) amortization of debt issuance costs. For the 2024 Notes, the rate presented is a combined effective interest rate of the 2024 Notes and 2024 Notes Follow-on Program.

For the Prospect Capital InterNotes®, the rate presented is the weighted average effective interest rate. Interest (8) expense and deferred debt issuance costs, which are amortized on a straight-line method over the stated life of the obligation, are weighted against the average year-to-date principal balance.

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The following table shows our outstanding debt as of June 30, 2017.

	Principal Outstanding	Unamortized Discount & Debt Issuance Costs	Net Carrying Value	Fair Value (1)	Effective Interest Rate	
Revolving Credit Facility(2)	\$ —	\$ 4,779	\$ —	(3)\$ —	1ML+2.25%	(6)
2017 Notes	50,734	77	50,657	51,184	(4)5.91	%(7)
2018 Notes	85,419	394	85,025	87,660	(4)6.42	%(7)
2019 Notes	200,000	1,846	198,154	206,614	(4)6.51	%(7)
2020 Notes	392,000	6,458	385,542	394,689	(4)5.38	%(7)
2022 Notes	225,000	6,737	218,263	223,875	(4)5.63	%(7)
Convertible Notes	953,153		937,641	964,022		
5.00% 2019 Notes	300,000	1,705	298,295	308,439	(4)5.29	%(7)
2023 Notes	250,000	4,087	245,913	258,045	(4)6.22	%(7)
2024 Notes	199,281	5,189	194,092	207,834	(4)6.72	%(7)
Public Notes	749,281		738,300	774,318		
Prospect Capital InterNotes®	980,494	14,240	966,254	1,003,852	(5)5.55	%(8)
Total	\$ 2,682,928		\$ 2,642,195	\$ 2,742,192		

As permitted by ASC 825-10-25, we have not elected to value our Revolving Credit Facility, Convertible Notes, (1)Public Notes and Prospect Capital InterNotes® at fair value. The fair value of these debt obligations are categorized as Level 2 under ASC 820 as of June 30, 2017.

(2)The maximum draw amount of the Revolving Credit facility as of June 30, 2017 is \$885,000.

(3)Net Carrying Value excludes deferred financing costs associated with the Revolving Credit Facility. See Note 2 for accounting policy details.

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

(5)The fair value of Prospect Capital InterNotes® is estimated by discounting remaining payments using current Treasury rates plus spread based on observable market inputs.

(6)Represents the rate on drawn down and outstanding balances. Deferred debt issuance costs are amortized on a straight-line method over the stated life of the obligation.

The effective interest rate is equal to the effect of the stated interest, the accretion of original issue discount and (7)amortization of debt issuance costs. For the 2024 Notes, the rate presented is a combined effective interest rate of the 2024 Notes and 2024 Notes Follow-on Program.

For the Prospect Capital InterNotes®, the rate presented is the weighted average effective interest rate. Interest (8)expense and deferred debt issuance costs, which are amortized on a straight-line method over the stated life of the obligation, are weighted against the average year-to-date principal balance.

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

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

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

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

Note 9. Stock Repurchase Program, Equity Offerings, Offering Expenses, and Distributions

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

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

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

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

As of June 30, 2018, the approximate dollar value of shares that may yet be purchased under the plan is \$65,860. Excluding dividend reinvestments, during the years ended June 30, 2018, June 30, 2017, and June 30, 2016, we did not issue any shares of our common stock.

Our shareholders’ equity accounts as of June 30, 2018, June 30, 2017 and June 30, 2016 reflect cumulative shares issued, net of shares repurchased, as of those respective dates. Our common stock has been issued through public offerings, a registered direct offering, the exercise of over-allotment options on the part of the underwriters, our dividend reinvestment plan and in connection with the acquisition of certain controlled portfolio companies. When our common stock is issued, the related offering expenses have been charged against paid-in capital in excess of par. All underwriting fees and offering expenses were borne by us.

On August 31, 2016, we filed a registration statement on Form N-2 (File No. 333-213391) with the SEC. We subsequently filed a Pre-Effective Amendment No. 2 thereto on November 1, 2016, which the SEC declared effective on November 3, 2016. On October 26, 2017, we filed Post-Effective Amendment No. 50 to the registration statement, which the SEC declared effective on October 30, 2017. The registration statement permits us to issue, through one or more transactions, up to an aggregate of \$5,000,000 in securities, consisting of common stock, preferred stock, debt securities, subscription rights to purchase our securities, warrants representing rights to purchase our securities or separately tradeable units combining two or more of our securities. As of June 30, 2018, we have the ability to issue up to \$4,386,415 of additional debt and equity securities under the registration statement.

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During the years ended June 30, 2018 and June 30, 2017, we distributed approximately \$277,224 and \$358,987, respectively, to our stockholders. The following table summarizes our distributions declared and payable for the years ended June 30, 2017 and June 30, 2018.

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

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

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

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

During the years ended June 30, 2018 and June 30, 2017, we issued 4,333,005 and 2,969,702 shares of our common stock, respectively, in connection with the dividend reinvestment plan.

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

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

As of June 30, 2018, we have reserved 39,736,566 shares of our common stock for issuance upon conversion of the Convertible Notes (see Note 5).

Note 10. Other Income

Other income consists of structuring fees, overriding royalty interests, revenue receipts related to net profit interests, deal deposits, administrative agent fees, and other miscellaneous and sundry cash receipts. The following table shows income from such sources during the years ended June 30, 2018, 2017 and 2016.

	Year Ended June 30,		
	2018	2017	2016
Structuring and amendment fees (refer to Note 3)	\$29,658	\$20,419	\$26,207
Royalty and Net Revenue interests	7,652	5,547	6,853
Administrative agent fees	477	684	794
Total Other Income	\$37,787	\$26,650	\$33,854

Note 11. Net Increase in Net Assets per Share

The following information sets forth the computation of net increase in net assets resulting from operations per share during the years ended June 30, 2018, 2017, and 2016.

	Year Ended June 30,		
	2018	2017	2016
Net increase in net assets resulting from operations	\$299,863	\$252,906	\$103,362
Weighted average common shares outstanding	361,456,075	358,841,714	356,134,297
Net increase in net assets resulting from operations per share	\$0.83	\$0.70	\$0.29

Note 12. Income Taxes

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

For income tax purposes, dividends paid and distributions made to shareholders are reported as ordinary income, capital gains, non-taxable return of capital, or a combination thereof. The tax character of dividends paid to shareholders during the tax years ended August 31, 2017, 2016 and 2015 were as follows:

	Tax Year Ended August 31,		
	2017	2016	2015
Ordinary income	\$359,215	\$355,985	\$413,640
Capital gain	—	—	—
Return of capital	—	—	—
Total distributions paid to shareholders	\$359,215	\$355,985	\$413,640

We generate certain types of income that may be exempt from U.S. withholding tax when distributed to non-U.S. shareholders. Under IRC Section 871(k), a RIC is permitted to designate distributions of qualified interest income and short-term capital gains as exempt from U.S. withholding tax when paid to non-U.S. shareholders with proper documentation. For the 2018 calendar year, 48.33% of our distributions as of June 30, 2018 qualified as interest related dividends which are exempt from U.S. withholding tax applicable to non U.S. shareholders.

For the tax year ending August 31, 2018, the tax character of dividends paid to shareholders through June 30, 2018 is expected to be ordinary income. Because of the difference between our fiscal and tax year ends, the final determination of the tax character of dividends will not be made until we file our tax return for the tax year ending August 31, 2018.

Taxable income generally differs from net increase in net assets resulting from operations for financial reporting purposes due to temporary and permanent differences in the recognition of income and expenses, and generally excludes net unrealized gains or losses, as unrealized gains or losses are generally not included in taxable income until they are realized. The following reconciles the net increase in net assets resulting from operations to taxable income for the tax years ended August 31, 2017, 2016 and 2015:

	Tax Year Ended August 31,		
	2017	2016	2015
Net increase in net assets resulting from operations	\$254,904	\$262,831	\$360,572
Net realized loss on investments	100,765	22,666	164,230
Net unrealized (gains) losses on investments	(61,939)	73,181	(157,745)
Other temporary book-to-tax differences	(32,117)	(56,036)	98,289
Permanent differences	(772)	2,489	2,436
Taxable income before deductions for distributions	\$260,841	\$305,131	\$467,782

Capital losses in excess of capital gains earned in a tax year may generally be carried forward and used to offset capital gains, subject to certain limitations. The Regulated Investment Company Modernization Act (the “RIC Modernization Act”) was enacted on December 22, 2010. Under the RIC Modernization Act, capital losses incurred by taxpayers in taxable years beginning after the date of enactment will be allowed to be carried forward indefinitely and are allowed to retain their character as either short-term or long-term losses. As such, the capital loss carryforwards generated by us after the August 31, 2011 tax year will not be subject to expiration. Any losses incurred in post-enactment tax years will be required to be utilized prior to the losses incurred in pre-enactment tax years. As of August 31, 2017, we had capital loss carryforwards of approximately \$302,590 available for use in later tax years. Of the amount available as of August 31, 2017, \$46,156 will expire on August 31, 2018, and \$256,434 is not subject to expiration. The unused balance each year will be carried forward and utilized as gains are realized, subject to limitations. While our ability to utilize losses in the future depends upon a variety of factors that cannot be known in advance, some of our capital loss carryforwards may become permanently unavailable due to limitations by the Code. For the tax year ended August 31, 2017, we had no cumulative taxable income in excess of cumulative distributions. As of June 30, 2018, the cost basis of investments for tax purposes was \$5,871,043 resulting in estimated gross unrealized gains and losses of \$476,197 and \$619,961, respectively. As of June 30, 2017, the cost basis of investments for tax purposes was \$5,999,218 resulting in estimated gross unrealized gains and losses of \$337,903 and \$498,816, respectively. Due to the difference between our fiscal year end and tax year end, the cost basis of our investments for tax purposes as of June 30, 2018 and June 30, 2017 was calculated based on the book cost of investments as of June 30, 2018 and June 30, 2017, respectively, with cumulative book-to-tax adjustments for investments through August 31, 2017 and 2016, respectively.

In general, we may make certain adjustments to the classification of net assets as a result of permanent book-to-tax differences, which may include merger-related items, differences in the book and tax basis of certain assets and liabilities, and nondeductible federal excise taxes, among other items. During the tax year ended August 31, 2017, we increased overdistributed net investment income by \$772 and increased capital in excess of par value by \$772. During the tax year ended August 31, 2016, we decreased overdistributed net investment income by \$2,489, increased accumulated net realized loss on investments by \$1,296 and decreased capital in excess of par value by 1,193. Due to the difference between our fiscal and tax year end, the reclassifications for the taxable year ended August 31, 2017 is being recorded in the fiscal year ended June 30, 2018 and the reclassifications for the taxable year ended August 31, 2016 were recorded in the fiscal year ended June 30, 2017.

Note 13. Related Party Agreements and Transactions

Investment Advisory Agreement

We have entered into an investment advisory and management agreement with the Investment Adviser (the “Investment Advisory Agreement”) under which the Investment Adviser, subject to the overall supervision of our Board of Directors, manages the day-to-day operations of, and provides investment advisory services to, us. Under the terms of the Investment Advisory Agreement, the Investment Adviser: (i) determines the composition of our portfolio, the nature and timing of the changes to our portfolio and the manner of implementing such changes, (ii) identifies,

evaluates and negotiates the structure of the investments we make (including performing due diligence on our prospective portfolio companies), and (iii) closes and monitors investments we make.

The Investment Adviser's services under the Investment Advisory Agreement are not exclusive, and it is free to furnish similar services to other entities so long as its services to us are not impaired. For providing these services the Investment Adviser receives a fee from us, consisting of two components: a base management fee and an incentive fee. The base management fee is calculated

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at an annual rate of 2.00% on our total assets. For services currently rendered under the Investment Advisory Agreement, the base management fee is payable quarterly in arrears. The base management fee is calculated based on the average value of our gross assets at the end of the two most recently completed calendar quarters and appropriately adjusted for any share issuances or repurchases during the current calendar quarter.

The total gross base management fee incurred to the favor of the Investment Adviser was \$118,768, \$124,077 and \$128,416 during the years ended June 30, 2018, 2017, and 2016, respectively.

The Investment Adviser has entered into a servicing agreement with certain institutions that purchased loans with us, where we serve as the agent and collect a servicing fee on behalf of the Investment Adviser. During the years ended June 30, 2018, 2017 and 2016, we received payments of \$722, \$1,203 and \$1,893, respectively, from these institutions, on behalf of the Investment Adviser, for providing such services under the servicing agreement. We were given a credit for these payments, which reduced the base management fees to \$118,046, \$122,874 and \$126,523 for the years ended June 30, 2018, 2017, and 2016, respectively.

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

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

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

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

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

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

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

The total income incentive fee incurred was \$71,713, \$76,520 and \$92,782 during the years ended June 30, 2018, 2017 and 2016, respectively. No capital gains incentive fee was incurred during the years ended June 30, 2018, 2017 and 2016.

Administration Agreement

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

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

The allocation of gross overhead expense from Prospect Administration was \$20,715, \$22,882 and \$20,313 for the years ended June 30, 2018, 2017 and 2016, respectively. Prospect Administration received estimated payments of \$10,684, \$8,760 and \$7,445 directly from our portfolio companies and certain funds managed by the Investment

Adviser for legal, tax and portfolio level accounting services during the years ended June 30, 2018, 2017 and 2016, respectively. Estimated payments received by Prospect Administration during the year ended June 30, 2018 additionally included \$2,631 received from our insurance carrier. We were given a credit for these payments as a reduction of the administrative services cost payable by us to Prospect Administration. Had Prospect Administration not received these payments, Prospect Administration's charges for its administrative services would have increased by these amounts. During the year ended June 30, 2017, other operating expenses in the amount of \$876 incurred by us, which were attributable to CCPI Inc. ("CCPI"), have been reimbursed by CCPI and are reflected as an offset to our overhead allocation. No such reimbursements or expenses occurred during the years ended June 30, 2018 or June 30, 2016. During the year ended June 30, 2016, we renegotiated the managerial assistance agreement with First Tower LLC ("First Tower") and reversed \$1,200 of previously accrued managerial assistance at First Tower Delaware, \$600 of which was expensed during the three months ended June 30, 2015, as the fee was paid by First Tower, which decreased our overhead expense. During the year ended June 30,

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2016, we also incurred \$379 of overhead expense related to our consolidated entity SB Forging. Net overhead during the years ended June 30, 2018, 2017 and 2016 totaled \$10,031, \$13,246 and \$12,647, respectively.

Managerial Assistance

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

Prospect Administration, when performing a managerial assistance agreement executed with each portfolio company to which we provide managerial assistance, arranges for the provision of such managerial assistance on our behalf. When doing so, Prospect Administration utilizes personnel of our Investment Adviser. We, on behalf of Prospect Administration, invoice portfolio companies receiving and paying for managerial assistance, and we remit to Prospect Administration its cost of providing such services, including the charges deemed appropriate by our Investment Adviser for providing such managerial assistance. No income is recognized by Prospect.

During the years ended June 30, 2018, 2017 and 2016, we received payments of \$6,343, \$6,923 and \$6,102, respectively, from our portfolio companies for managerial assistance and subsequently remitted these amounts to Prospect Administration. During the year ended June 30, 2016, we reversed \$1,200 of managerial assistance expense related to our consolidated entity First Tower Delaware which was included within allocation from Prospect Administration on our Consolidated Statement of Operations for the year ended June 30, 2016. The \$1,200 was subsequently paid to Prospect Administration by First Tower LLC, the operating company. See Note 14 for further discussion.

Co-Investments

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

We reimburse CLO investment valuation services fees initially incurred by Priority Income Fund, Inc. During the years ended June 30, 2018, 2017 and 2016, we recognized expenses that were reimbursed for valuation services of \$207, \$117 and \$113, respectively. Conversely, Priority Income Fund, Inc. and Pathway Capital Opportunity Fund, Inc. reimburse us for software fees, expenses which were initially incurred by Prospect. As of June 30, 2018 and June 30, 2017, we accrued a receivable from Priority Income Fund, Inc. and Pathway Capital Opportunity Fund, Inc. for software fees of \$88 and \$14, respectively, that will be reimbursed to us. No such payable was recorded as of June 30, 2016.

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As of June 30, 2018, we had co-investments with Priority Income Fund, Inc. in the following CLO funds: Apidos CLO XXII, Barings CLO Ltd. 2018-III (f/k/a Babson CLO Ltd. 2014-III), Carlyle Global Market Strategies CLO 2016-3, Ltd., Cent CLO 21 Limited, CIFC Funding 2014-IV Investor, Ltd., CIFC Funding 2016-I, Ltd., Galaxy XXVIII CLO, Ltd. (f/k/a Galaxy XVII CLO, Ltd.), Halcyon Loan Advisors Funding 2014-2 Ltd., Halcyon Loan Advisors Funding 2015-3 Ltd., HarbourView CLO VII-R, Ltd. (f/k/a HarbourView CLO VII, Ltd.), Jefferson Mill CLO Ltd., Mountain View CLO IX Ltd., Octagon Investment Partners 18-R Ltd. (f/k/a Octagon Investment Partners XVIII, Ltd.), Symphony CLO XIV Ltd., Voya IM CLO 2014-1 Ltd., Voya CLO 2016-3, Ltd., Voya CLO 2017-3, Ltd. and Romark WM-R Ltd. (f/k/a Washington Mill CLO Ltd); however HarbourView CLO VII-R, Ltd. and Octagon Investment Partners 18-R Ltd. are not considered co-investments pursuant to the Order as they were purchased on the secondary market.

As of June 30, 2018, we had a co-investment with Pathway Capital Opportunity Fund, Inc. in Carlyle Global Market Strategies CLO 2014-4-R, Ltd. (f/k/a Carlyle Global Market Strategies CLO 2014-4, Ltd.); however, this investment is not considered a co-investment pursuant to the Order as it was purchased on the secondary market.

Note 14. Transactions with Controlled Companies

The descriptions below detail the transactions which we have entered into with each of our controlled companies. Certain of the controlled entities discussed below were consolidated effective July 1, 2014 (see Note 1). As such, transactions with these Consolidated Holding Companies are presented on a consolidated basis.

Airmall Inc.

Prospect owned 100% of the equity of AMU Holdings Inc. (“AMU”), a Consolidated Holding Company. AMU owned 98% of Airmall Inc. (f/k/a Airmall USA Holdings, Inc.) (“Airmall”). Airmall is a developer and manager of airport retail operations.

On August 1, 2014, Prospect sold its investments in Airmall. On August 2, 2016, Prospect received the remaining escrow proceeds of \$3,916, reducing the cost basis to zero.

Arctic Energy Services, LLC

Prospect owned 100% of the equity of Arctic Oilfield Equipment USA, Inc. (“Arctic Equipment”), a Consolidated Holding Company. Arctic Equipment owns 70% of the equity of Arctic Energy Services, LLC (“Arctic Energy”), with Ailport Holdings, LLC (“Ailport”) (100% owned and controlled by Arctic Energy management) owning the remaining 30% of the equity of Arctic Energy. Arctic Energy provides oilfield service personnel, well testing flowback equipment, frac support systems and other services to exploration and development companies in the Rocky Mountains. As of June 30, 2017, we reported Arctic Energy as a separate controlled company. On April 6, 2018, Arctic Equipment merged with CP Energy and our equity interest was exchanged for newly issued common shares of CP Energy. Refer to discussion on CP Energy ownership below.

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

Year Ended June 30, 2016	\$1,123
Year Ended June 30, 2017	—
Year Ended June 30, 2018	—

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

Year Ended June 30, 2016	\$50
Year Ended June 30, 2017	—
Year Ended June 30, 2018	—

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

June 30, 2017 \$150

June 30, 2018 225

CCPI Inc.

Prospect owns 100% of the equity of CCPI Holdings Inc. (“CCPI Holdings”), a Consolidated Holding Company. CCPI Holdings owns 94.59% of the equity of CCPI Inc. (“CCPI”), with CCPI management owning the remaining 5.41% of the equity. CCPI owns 100% of each of CCPI Europe Ltd. and MEFEC B.V., and 45% of Gulf Temperature Sensors W.L.L.

During the three months ended June 30, 2017, Prospect recognized \$153 in other income related to amendment fee income.

On August 1, 2017, we entered into a participation agreement with CCPI management, and sold \$144 of Prospect’s investment in the Term Loan B debt.

The following amounts were paid from CCPI to Prospect and recorded by Prospect as repayment of loan receivable:

Year Ended June 30, 2016 \$4,450

Year Ended June 30, 2017 450

Year Ended June 30, 2018 338

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

Year Ended June 30, 2016 \$1,918

Year Ended June 30, 2017 —

Year Ended June 30, 2018 —

During the year ended June 30, 2017, Prospect reclassified \$123 of return of capital received from CCPI in prior periods as dividend income.

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

Year Ended June 30, 2016 \$3,196

Year Ended June 30, 2017 123

Year Ended June 30, 2018 —

All dividends were paid from earnings and profits of CCPI.

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

Year Ended June 30, 2016 \$3,123

Year Ended June 30, 2017 2,992

Year Ended June 30, 2018 3,704

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

Year Ended June 30, 2016 \$475

Year Ended June 30, 2017 —

Year Ended June 30, 2018 —

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

June 30, 2017 \$ —

June 30, 2018 306

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

Year Ended June 30, 2016 \$240

Year Ended June 30, 2017 240

Year Ended June 30, 2018 180

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

June 30, 2017 \$60

June 30, 2018 —

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

June 30, 2017 \$ —

June 30, 2018 60

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

Year Ended June 30, 2016 \$96

Year Ended June 30, 2017 —

Year Ended June 30, 2018 45

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

June 30, 2017 \$1

June 30, 2018 7

CP Energy Services Inc.

Prospect owns 100% of the equity of CP Holdings of Delaware LLC (“CP Holdings”), a Consolidated Holding Company. CP Holdings owns 99.8%% of the equity of CP Energy, and the remaining equity is owned by CP Energy management. CP Energy owns directly or indirectly 100% of each of CP Well; Wright Foster Disposals, LLC; Foster Testing Co., Inc.; ProHaul Transports, LLC; and Wright Trucking, Inc. CP Energy provides oilfield flowback services and fluid hauling and disposal services through its subsidiaries.

On October 1, 2017 we restructured our investment in CP Energy. Concurrent with the restructuring, we exchanged \$35,048 of Series B Convertible Preferred Stock for \$35,048 of senior secured debt. We received \$228 of an advisory fee related to the above transaction, which we recognized as other income.

On January 18, 2018, CP Energy redeemed common shares belonging to senior management, which increased our ownership percentage from 82.3% to 94.2% as of March 31, 2018.

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

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

Year Ended June 30, 2016 \$(390)

Year Ended June 30, 2017 —

Year Ended June 30, 2018 3,394

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

Year Ended June 30, 2016 \$(2,819)

Year Ended June 30, 2017 —

Year Ended June 30, 2018 —

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

Year Ended June 30, 2016 \$300

Year Ended June 30, 2017 300

Year Ended June 30, 2018 425

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

June 30, 2017 \$75

June 30, 2018 150

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

Year Ended June 30, 2016 \$ —

Year Ended June 30, 2017 15

Year Ended June 30, 2018 —

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

June 30, 2017 \$ —

June 30, 2018 55

Credit Central Loan Company, LLC

Prospect owns 100% of the equity of Credit Central Holdings of Delaware, LLC (“Credit Central Delaware”), a Consolidated Holding Company. Credit Central Delaware owns 98.26% of the equity of Credit Central Loan Company, LLC (f/k/a Credit Central Holdings, LLC) (“Credit Central”), with entities owned by Credit Central management owning the remaining 1.74% of the equity. Credit Central owns 100% of each of Credit Central, LLC; Credit Central South, LLC; Credit Central of Texas, LLC; and Credit Central of Tennessee, LLC. Credit Central is a branch-based provider of installment loans.

On September 28, 2016, Prospect performed a buyout of Credit Central management’s ownership stake, purchasing additional subordinated debt of \$12,523 at a discount of \$7,521. Prospect also purchased \$2,098 of additional shares, increasing its ownership to 98.26%.

During the year ended June 30, 2018 and June 30, 2017, the following amounts of the aforementioned original issue discount of of \$7,521 accreted during the respective period, and included in interest income.

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Year Ended June 30, 2017 \$923

Year Ended June 30, 2018 2,240

The following amounts were paid from Credit Central to Prospect and recorded by Prospect as repayment of loan receivable:

Year Ended June 30, 2016 \$323

Year Ended June 30, 2017 403

Year Ended June 30, 2018 —

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

Year Ended June 30, 2016 \$7,398

Year Ended June 30, 2017 9,950

Year Ended June 30, 2018 10,515

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

Year Ended June 30, 2016 \$921

Year Ended June 30, 2017 2,804

Year Ended June 30, 2018 —

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

June 30, 2017 \$29

June 30, 2018 —

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

Year Ended June 30, 2016 \$2,067

Year Ended June 30, 2017 —

Year Ended June 30, 2018 903

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

Year Ended June 30, 2016 \$700

Year Ended June 30, 2017 700

Year Ended June 30, 2018 148

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

June 30, 2017 \$175

June 30, 2018 175

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

June 30, 2017 \$ —

June 30, 2018 33

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Echelon Transportation LLC (f/k/a Echelon Aviation LLC)

Prospect owns 100% of the membership interests of Echelon Transportation LLC (“Echelon”). Echelon owns 60.7% of the equity of AerLift Leasing Limited (“AerLift”).

On September 28, 2016, Echelon made an optional partial prepayment of \$6,800 of the Senior Secured Revolving Credit Facility outstanding.

During the three months ended September 30, 2016, Echelon issued 36,275 Class B shares to the company’s President, decreasing Prospect’s ownership to 98.56%.

On December 9, 2016, Prospect made a follow-on \$16,044 first lien senior secured debt and \$2,830 equity investment in Echelon to support an asset acquisition, increasing Prospect’s ownership to 98.71%. Prospect also recognized \$1,121 in structuring fee income as a result of the transaction.

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

Year Ended June 30, 2016 \$7,250

Year Ended June 30, 2017 200

Year Ended June 30, 2018 —

All dividends were paid from earnings and profits of Echelon.

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

Year Ended June 30, 2016 \$5,700

Year Ended June 30, 2017 5,734

Year Ended June 30, 2018 6,360

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

June 30, 2017 \$2,631

June 30, 2018 2,631

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

Year Ended June 30, 2016 \$250

Year Ended June 30, 2017 250

Year Ended June 30, 2018 188

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

June 30, 2017 \$63

June 30, 2018 —

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

June 30, 2017 \$ —

June 30, 2018 63

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

Year Ended June 30, 2016 \$120

Year Ended June 30, 2017 217

Year Ended June 30, 2018 —

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

June 30, 2017 \$0

June 30, 2018 18

Edmentum Ultimate Holdings, LLC

As of June 30, 2017, Prospect held a 37.1% membership interest in Edmentum Ultimate Holdings, LLC (“Edmentum Holdings”). Edmentum Holdings owns 100% of the equity of Edmentum, Inc. (“Edmentum”). On February 23, 2018, certain participating members of Edmentum Holdings increased their revolving credit commitment and extended additional credit to Edmentum, Inc. in exchange for additional common units of Edmentum Holdings. As a result, Prospect's equity ownership was diluted to 11.51% and the investment was transferred from a controlled to an affiliate investment classification as of March 31, 2018. Edmentum is the largest all subscription based, software as a service provider of online curriculum and assessments to the U.S. education market. Edmentum provides high-value, comprehensive online solutions that support educators to successfully transition learners from one stage to the next. During the year ended June 30, 2017, Prospect funded an additional \$7,835 in the second lien revolving credit facility. During the year ended June 30, 2018, Prospect funded an additional \$7,834 in the second lien revolving credit facility. The following amounts were paid from Edmentum to Prospect and recorded by Prospect as repayment of loan receivable:

Year Ended June 30, 2016 \$4,896

Year Ended June 30, 2017 6,424

Year Ended June 30, 2018 7,834

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

Year Ended June 30, 2016 \$3,650

Year Ended June 30, 2017 1,726

Year Ended June 30, 2018 920

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

Year Ended June 30, 2016 \$2,934

Year Ended June 30, 2017 2,057

Year Ended June 30, 2018 614

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

June 30, 2017 \$167

June 30, 2018 274

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Energy Solutions Holdings Inc.

Prospect owns 100% of the equity of Energy Solutions Holdings Inc. (f/k/a Gas Solutions Holdings Inc.) (“Energy Solutions”), a Consolidated Holding Company. Energy Solutions owns 100% of each of Change Clean Energy Company, LLC (f/k/a Change Clean Energy Holdings, LLC) (“Change Clean”); Freedom Marine Solutions, LLC (f/k/a Freedom Marine Services Holdings, LLC) (“Freedom Marine”); and Yatesville Coal Company, LLC (f/k/a Yatesville Coal Holdings, LLC) (“Yatesville”). Change Clean owns 100% of each of Change Clean Energy, LLC and Down East Power Company, LLC, and 50.1% of BioChips LLC. Freedom Marine owns 100% of each of Vessel Company, LLC (f/k/a Vessel Holdings, LLC) (“Vessel”); Vessel Company II, LLC (f/k/a Vessel Holdings II, LLC) (“Vessel II”); and Vessel Company III, LLC (f/k/a Vessel Holdings III, LLC) (“Vessel III”). Yatesville owns 100% of North Fork Collieries, LLC.

Energy Solutions owns interests in companies operating in the energy sector. These include companies operating offshore supply vessels, ownership of a non-operating biomass electrical generation plant and several coal mines.

Energy Solutions subsidiaries formerly owned interests in gathering and processing business in east Texas.

Transactions between Prospect and Freedom Marine are separately discussed below under “Freedom Marine Solutions, LLC.”

First Tower Finance Company LLC

Prospect owns 100% of the equity of First Tower Holdings of Delaware LLC (“First Tower Delaware”), a Consolidated Holding Company. First Tower Delaware owns 80.1% of First Tower Finance Company LLC (f/k/a First Tower Holdings LLC) (“First Tower Finance”). First Tower Finance owns 100% of First Tower, LLC (“First Tower”), a multiline specialty finance company.

During the three months ended December 31, 2016, Prospect made an additional \$8,005 equity investment to First Tower.

During the three months ended March 31, 2018, we made a follow-on \$16,921 subordinated debt investment in First Tower, and a \$2,664 equity investment in First Tower Finance, to support an acquisition. In connection with this transaction, we received a \$2,664 advisory fee from First Tower, which was recognized as other income.

The following amounts were paid from First Tower to Prospect and recorded by Prospect as repayment of loan receivable:

Year Ended June 30, 2016 \$ 679

Year Ended June 30, 2017 2,220

Year Ended June 30, 2018 6,735

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

Year Ended June 30, 2016 \$56,698

Year Ended June 30, 2017 51,116

Year Ended June 30, 2018 47,422

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

Year Ended June 30, 2016 \$ 861

Year Ended June 30, 2017 7,572

Year Ended June 30, 2018 1,767

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

June 30, 2017 \$ 123

June 30, 2018 4,703

During the year ended June 30, 2016, the managerial assistance agreement between First Tower Delaware and Prospect Administration was amended and \$1,200 of managerial assistance expense was reversed at Prospect. First Tower replaced First Tower Delaware in the managerial assistance agreement with Prospect Administration as of December 14, 2015.

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

Year Ended June 30, 2016 \$(600)

Year Ended June 30, 2017 —

Year Ended June 30, 2018 —

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

Year Ended June 30, 2016 \$1,200

Year Ended June 30, 2017 1,800

Year Ended June 30, 2018 1,200

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

June 30, 2017 \$600

June 30, 2018 —

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

June 30, 2017 \$ —

March 31, 2018 600

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

June 30, 2017 \$1

June 30, 2018 26

Freedom Marine Solutions, LLC

As discussed above, Prospect owns 100% of the equity of Energy Solutions, a Consolidated Holding Company. Energy Solutions owns 100% of Freedom Marine. Freedom Marine owns 100% of each of Vessel, Vessel II, and Vessel III.

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

During the year ended June 30, 2017, Prospect purchased an additional \$1,200 in membership interests in Freedom Marine to support its ongoing operations and liquidity needs.

During the year ended June 30, 2018, Prospect purchased an additional \$982 in membership interests in Freedom Marine to support its ongoing operations and liquidity needs.

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

Year Ended June 30, 2016 \$159

Year Ended June 30, 2017 —

Year Ended June 30, 2018 —

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

Year Ended June 30, 2016 \$427

Year Ended June 30, 2017 —

Year Ended June 30, 2018 —

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

Year Ended June 30, 2016 \$526

Year Ended June 30, 2017 —

Year Ended June 30, 2018 —

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

Year Ended June 30, 2016 \$75

Year Ended June 30, 2017 —

Year Ended June 30, 2018 —

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

June 30, 2017 \$525

June 30, 2018 825

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

Year Ended June 30, 2016 \$65

Year Ended June 30, 2017 —

Year Ended June 30, 2018 —

InterDent, Inc.

Following our assumption of assuming control, Prospect exercised its rights and remedies under its loan documents to exercise the shareholder voting rights in respect of the stock of InterDent, Inc. ("InterDent") and to appoint a new Board of Directors of InterDent, all the members of which are our Investment Adviser's professionals. As a result, as of June 30, 2018, Prospect's investment in InterDent is classified as a control investment.

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

Year Ended June 30, 2018 \$4,775

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

Year Ended June 30, 2018 \$582

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

June 30, 2017 \$ —

June 30, 2018 127

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MITY, Inc.

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

During the three months ended December 31, 2016, Prospect formed a separate legal entity, MITY FSC, Inc., (“MITY FSC”) in which Prospect owns 96.88% of the equity, and MITY-Lite management owns the remaining portion. MITY FSC does not have material operations. This entity earns commission payments from MITY-Lite based on its sales to foreign customers, and distribute it to its shareholders based on pro-rata ownership. During the years ended June 30, 2018 and June 30, 2017, we received \$1,093 and \$886, respectively, of such commission, which we recognized as other income.

On January 17, 2017, Prospect invested an additional \$8,000 of Senior Secured Note A and \$8,000 of Senior Secured Term Loan B debt investments in MITY to fund an acquisition. Prospect recognized structuring fee income of \$480 from this additional investment.

The following dividends were declared and paid from MITY to Prospect and recognized by Prospect as divided income:

Year Ended June 30, 2016 \$711

Year Ended June 30, 2017 468

Year Ended June 30, 2018 —

All dividends were paid from earnings and profits of MITY.

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

Year Ended June 30, 2016 \$5,196

Year Ended June 30, 2017 6,284

Year Ended June 30, 2018 7,618

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

Year Ended June 30, 2016 \$139

Year Ended June 30, 2017 —

Year Ended June 30, 2018 —

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

June 30, 2017 \$21

June 30, 2018 —

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

Year Ended June 30, 2016 \$566

Year Ended June 30, 2017 564

Year Ended June 30, 2018 588

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

June 30, 2017 \$46

June 30, 2018 —

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During the nine months ended March 31, 2017, there was a favorable fluctuation in the foreign currency exchange rate and Prospect recognized \$12 of realized gain related to its investment in Broda Canada. During the year ended June 30, 2018, there was a favorable fluctuation in the foreign currency exchange rate and Prospect recognized \$13 of realized gain related to its investment in Broda Canada.

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

Year Ended June 30, 2016 \$300

Year Ended June 30, 2017 300

Year Ended June 30, 2018 300

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

June 30, 2017 \$75

June 30, 2018 75

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

Year Ended June 30, 2016 \$60

Year Ended June 30, 2017 224

Year Ended June 30, 2018 —

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

June 30, 2017 \$ —

June 30, 2018 51

National Property REIT Corp.

Prospect owns 100% of the equity of NPH, a Consolidated Holding Company. NPH owns 100% of the common equity of NPRC. Effective May 23, 2016, in connection with the merger of APRC and UPRC with and into NPRC, APH and UPH merged with and into NPH, and were dissolved.

NPRC is a Maryland corporation and a qualified REIT for federal income tax purposes. In order to qualify as a REIT, NPRC issued 125 shares of Series A Cumulative Non-Voting Preferred Stock to 125 accredited investors. The preferred stockholders are entitled to receive cumulative dividends semi-annually at an annual rate of 12.5% and do not have the ability to participate in the management or operation of NPRC.

NPRC was formed to hold for investment, operate, finance, lease, manage, and sell a portfolio of real estate assets and engage in any and all other activities as may be necessary, incidental or convenient to carry out the foregoing. NPRC acquires real estate assets, including, but not limited to, industrial, commercial, multi-family, self-storage, and student housing properties. NPRC may acquire real estate assets directly or through joint ventures by making a majority equity investment in a property-owning entity (the "JV"). Additionally, through its wholly-owned subsidiaries, NPRC invests in online consumer loans.

On July 22, 2016 Prospect made a \$2,700 investment in NPRC used to purchase additional common equity of NPRC through NPH. The proceeds were utilized by NPRC to purchase additional ownership interest in twelve multi-family properties for \$2,698 and pay \$2 of legal services provided by attorneys at Prospect Administration. The minority interest holder also invested an additional \$49 in the JVs. The proceeds were used by the JVs to fund \$2,747 of capital expenditures.

On August 4, 2016, Prospect made a \$393 investment in NPRC used to purchase additional common equity of NPRC through NPH. The proceeds were utilized by NPRC to purchase additional ownership interest in four multi-family properties for \$392 and

pay \$1 of legal services provided by attorneys at Prospect Administration. The minority interest holder also invested an additional \$21 in the JVs. The proceeds were used by the JVs to fund \$413 of capital expenditures.

On September 1, 2016, we made an investment into American Consumer Lending Limited (“ACLL”), a wholly-owned subsidiary of NPRC, under the ACLL credit agreement, for senior secured term loans, Term Loan C, with the same terms as the existing ACL Loan Holdings, Inc. (“ACLLH”) Term Loan C due to us.

On September 28, 2016 Prospect made a \$46,381 investment in NPRC, of which \$35,295 was a Senior Term Loan and \$11,086 was used to purchase additional common equity of NPRC through NPH. The proceeds were utilized by NPRC to purchase a 64.2% ownership interest in Vesper Portfolio JV, LLC for \$46,324 and to pay \$57 for tax and legal services provided by professionals at Prospect Administration. The JV was purchased for \$250,000 which included debt financing and minority interest of \$192,382 and \$25,817, respectively. The remaining proceeds were used to pay \$1,060 of structuring fees to Prospect (which was recognized by Prospect as structuring fee income), \$2,131 of third party expenses, \$4,911 of pre-funded capex, and \$5,310 of prepaid assets, with \$1,111 retained by the JV for working capital.

On October 21, 2016 Prospect made a \$514 investment in NPRC used to purchase additional common equity of NPRC through NPH. The proceeds were utilized by NPRC to purchase additional ownership interest in four multi-family properties for \$512 and pay \$2 of legal services provided by attorneys at Prospect Administration. The minority interest holder also invested an additional \$33 in the JVs. The proceeds were used by the JVs to fund \$545 of capital expenditures.

On November 17, 2016, NPRC used sale and supplemental loan proceeds to make a partial repayment on the Senior Term Loan of \$19,149 and a return of capital on Prospects’ equity investment in NPRC of \$9,204.

On November 23, 2016, Prospect made a \$2,860 investment in NPRC used to purchase additional common equity of NPRC through NPH. The proceeds were utilized by NPRC to purchase additional ownership interest in seven multi-family properties for \$2,859 and pay \$1 of legal services provided by attorneys at Prospect Administration. The minority interest holder also invested an additional \$231 in the JVs. The proceeds were used by the JVs to fund \$3,090 of capital expenditures.

On December 7, 2016 Prospect made a \$13,046 investment in NPRC, of which \$9,653 was a Senior Term Loan and \$3,393 was used to purchase additional common equity of NPRC through NPH. The proceeds were utilized by NPRC to purchase an 85% ownership interest in JSIP Union Place, LLC for \$13,026 and to pay \$20 of legal services provided by attorneys at Prospect Administration. The JV was purchased for \$64,750 which included debt financing and minority interest of \$51,800 and \$2,299, respectively. The remaining proceeds were used to pay \$261 of structuring fees to Prospect (which was recognized by Prospect as structuring fee income), \$1,078 of third party expenses, \$5 of pre-funded capital expenditures, and \$458 of prepaid assets, with \$573 retained by the JV for working capital.

On January 30, 2017 Prospect made a \$41,365 investment in NPRC, of which \$30,644 was a Senior Term Loan and \$10,721 was used to purchase additional common equity of NPRC through NPH. The proceeds were utilized by NPRC to purchase a 92.5% ownership interest in 9220 Old Lantern Way LLC for \$41,333 and to pay \$32 of legal services provided by attorneys at Prospect Administration. The JV was purchased for \$187,250 which included debt financing and minority interest of \$153,580 and \$3,351, respectively. The remaining proceeds were used to pay \$827 of structuring fees to Prospect (which was recognized by Prospect as structuring fee income), \$4,415 of third party expenses, \$1,857 of pre-funded capital expenditures, and \$3,540 of prepaid assets, with \$375 retained by the JV for working capital.

On February 27, 2017 NPRC used sale and supplemental loan proceeds to make a partial repayment on the Senior Term Loan of \$18,000 and a return of capital on Prospects’ equity investment in NPRC of \$11,648. In connection to the partial repayment of the Senior Term Loan, NPRC paid a prepayment premium of \$180 to Prospect (which was recognized by Prospect as interest income).

On March 7, 2017, Prospect made a \$289 investment in NPRC used to purchase additional common equity of NPRC through NPH. The proceeds were utilized by NPRC to purchase additional ownership interest in SSIL I, LLC for \$288. The minority interest holder also invested an additional \$72 in the JV. The proceeds were used by the JV to fund \$360 of capital expenditures.

On March 16, 2017, Prospect made a \$4,273 investment in NPRC used to purchase additional common equity of NPRC through NPH. The proceeds were utilized by NPRC to purchase additional ownership interest in eight multi-family properties for \$4,272 and pay \$1 of legal services provided by attorneys at Prospect Administration. The proceeds were used by the JV to fund \$4,272 of capital expenditures.

On April 3, 2017, Prospect made a \$418 investment in NPRC used to purchase additional common equity of NPRC through NPH. The proceeds were utilized by NPRC to purchase additional ownership interest in three multi-family properties for \$417

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and pay \$1 of legal services provided by attorneys at Prospect Administration. The minority interest holder also invested an additional \$24 in the JV. The proceeds were used by the JV to fund \$441 of capital expenditures. On April 21, 2017, Prospect made a \$2,106 investment in NPRC used to purchase additional common equity of NPRC through NPH. The proceeds were utilized by NPRC to purchase additional ownership interest in Vesper Portfolio JV, LLC for \$2,105 and pay \$1 of legal services provided by attorneys at Prospect Administration. The proceeds were used by the JV to fund \$2,105 of capital expenditures.

On June 30, 2017 NPRC used sale proceeds to make a partial repayment on the Senior Term Loan of \$5,750 and a return of capital on Prospects' equity investment in NPRC of \$11,261. In connection to the partial repayment of the Senior Term Loan, NPRC paid a prepayment premium of \$58 to Prospect (which was recognized by Prospect as interest income).

On July 10, 2017, Prospect made a \$653 investment in NPRC, of which \$450 was a Senior Term Loan and \$202 was used to purchase additional common equity of NPRC through NPH. The proceeds were utilized by NPRC to purchase additional ownership interest in a multi-family JV for \$639 and pay \$1 of legal services provided by attorneys at Prospect Administration. The remaining proceeds were used to pay \$13 of structuring fees to Prospect (which was recognized by Prospect as structuring fee income). The minority interest holder also purchased additional ownership interest in the JV for \$163. The proceeds were used by the JV to fund \$802 of capital expenditures.

On August 24, 2017, Prospect purchased additional common equity of NPRC through NPH for \$2,401. The proceeds were utilized by NPRC to purchase additional ownership interest in a JV that owns eight student housing properties for \$2,400 and pay \$1 of legal services provided by attorneys at Prospect Administration. The proceeds were used by the JV to fund \$2,400 of capital expenditures.

On September 13, 2017, Prospect made a \$826 investment in NPRC, of which \$662 was a Senior Term Loan and \$164 was used to purchase additional common equity of NPRC through NPH. The proceeds were utilized by NPRC to purchase additional ownership interest in a JV entity that owns five multi-family properties for \$825 and pay \$2 of legal services provided by attorneys at Prospect Administration. The minority interest holder also purchased additional ownership interest in the JV for \$92. The proceeds were used by the JV to fund \$917 of capital expenditures.

On October 10, 2017, Prospect purchased additional common equity of NPRC through NPH for \$4,094. NPRC utilized \$4,091 of the proceeds as a capital contribution in multiple JV entities that own ten multi-family properties and to pay \$3 for legal services provided by attorneys at Prospect Administration. The minority interest holder also contributed \$87 of additional capital in the JV entities. The proceeds were utilized by the JV entities to fund \$4,178 of capital expenditures.

On October 31, 2017, Prospect purchased additional common equity of NPRC through NPH for \$27,004. The proceeds were utilized by NPRC to purchase a 92.5% ownership interest in Baymeadows Holdings LLC for \$26,974 and to pay \$30 for tax and legal services provided by professionals at Prospect Administration. The minority interest holder purchased ownership interest in the JV for \$2,187. The JV utilized the total proceeds, which included debt financing of \$88,800, to acquire \$111,000 of multi-family real estate assets. The remaining proceeds were used by the JV to pay \$539 of structuring fees to Prospect (which was recognized by Prospect as structuring fee income), \$802 of third party expenses, \$546 of pre-funded capital expenditures, \$3,016 of prepaid assets, and \$2,058 was retained by the JV as working capital.

On November 8, 2017, Prospect purchased additional common equity of NPRC through NPH for \$15,911. The proceeds were utilized by NPRC to purchase a 92.5% ownership interest in Southfield Holdings LLC for \$15,849, pay \$10 for tax and legal services provided by professionals at Prospect Administration, and \$52 was retained as working capital. The minority interest holder purchased ownership interest in the JV for \$1,285. The JV utilized the total proceeds, which included debt financing of \$58,229, to acquire \$68,500 of multi-family real estate assets. The remaining proceeds were used by the JV to pay \$317 of structuring fees to Prospect (which was recognized by Prospect as structuring fee income), \$263 of third party expenses, \$3,138 of pre-funded capital expenditures, \$2,860 of prepaid assets, and \$285 was retained by the JV as working capital.

On November 17, 2017, Prospect purchased additional common equity of NPRC through NPH for \$1,019. NPRC utilized \$1,018 of the proceeds as a capital contribution in multiple JV entities that own seven multi-family properties and to pay \$1 for legal services provided by attorneys at Prospect Administration. The minority interest holder also contributed \$82 of additional capital in the JV entities. The proceeds were used by the JV entities to fund \$1,100 of

capital expenditures.

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On December 29, 2017, Prospect purchased additional company equity of NPRC through NPH for \$10,000. NPRC utilized \$200 of proceeds provided to pay a structuring fee to Prospect (which was recognized by Prospect as structuring fee income). On January 10, 2018, NPRC utilized \$9,790 of proceeds provided by Prospect on December 29, 2017 to purchase a 92.5% interest in Steeplechase Holdings LLC. The remaining \$10 was retained as working capital by NPRC. The minority interest holder purchased ownership interest in the JV for \$794. The JV utilized the total proceeds, which included debt financing of \$36,668, to acquire \$44,500 of multi-family real estate assets. The remaining proceeds were used by the JV to pay \$196 of structuring fees to NPRC, \$986 of third party expenses, \$370 of pre-funded capital expenditures, \$911 of prepaid assets, and \$289 was retained by the JV as working capital. On January 26, 2018, Prospect purchased additional common equity of NPRC through NPH for \$1,586. NPRC utilized the proceeds to purchase additional ownership interest in a JV that owns eight student housing properties for \$1,585 and to pay \$1 for legal services provided by attorneys at Prospect Administration. The proceeds were utilized by the JV entity to fund \$1,585 of capital expenditures.

On March 1, 2018, Prospect exchanged \$47,000 of ACLL Senior Secured Term Loan C for \$47,000 of NPRC Senior Secured Term Loan E.

On March 19, 2018, Prospect exchanged \$50,000 of ACLL Senior Secured Term Loan C for \$50,000 of NPRC Senior Secured Term Loan E.

On March 29, 2018, Prospect purchased additional common equity of NPRC through NPH for \$3,134. NPRC utilized \$3,131 of the proceeds as a capital contribution in multiple JV entities that own nine multi-family properties and to pay \$3 for legal services provided by attorneys at Prospect Administration. The minority interest holder also contributed \$71 of additional capital in the JV entities. The proceeds were utilized by the JV entities to fund \$3,202 of capital expenditures.

On March 29, 2018 Prospect exchanged \$578 of ACLL Senior Secured Term Loan C and \$14,274 of ACLLH Senior Secured Term Loan C for \$14,852 of NPRC Senior Secured Term Loan E.

On March 30, 2018, Prospect purchased additional common equity of NPRC through NPH for \$7,997. NPRC utilized \$797 of the proceeds to fund the lender rate-lock deposit and initial deposits required under the purchase and sale agreement of a JV real estate transaction. NPRC utilized \$200 of proceeds provided to pay a structuring fee to Prospect (which was recognized by Prospect as structuring fee income). On May 9, 2018, NPRC utilized the remaining \$7,000 of proceeds and \$159 of working capital to purchase a 61.4% interest in Forest Park Holdings, LLC. The minority interest holder purchased ownership interest in the JV for \$5,000. The JV utilized the total proceeds, which included debt financing of \$36,400, to acquire \$45,505 of multi-family real estate assets. The remaining proceeds were used by the JV to pay \$192 of structuring fees to NPRC, \$1,184 of third party expenses, \$1,168 of pre-funded capital expenditures, \$1,011 of prepaid assets, and \$296 was retained by the JV as working capital.

On March 30, 2018 Prospect contributed \$48,832 to NPRC as an increase to the NPRC Senior Secured Term Loan E. On the same day, NPRC distributed \$48,832 as a return of capital to Prospect.

On April 13, 2018, Prospect purchased additional common equity of NPRC through NPH for \$8,256. NPRC utilized \$8,255 of the proceeds as a capital contribution in a JV entity that own eight multi-family properties and \$1 was retained by NPRC as working capital. The proceeds were utilized by the JV entities to fund \$8,255 of capital expenditures.

On May 11, 2018, Prospect purchased additional common equity of NPRC through NPH for \$3,343. NPRC utilized \$3,342 of the proceeds as a capital contribution in multiple JV entities that own eight multi-family properties and \$1 was retained by NPRC as working capital. The minority interest holder also contributed \$270 of additional capital in the JV entities. The proceeds were utilized by the JV entities to fund \$3,612 of capital expenditures.

On May 25, 2018, Prospect purchased additional common equity of NPRC through NPH for \$24,507. NPRC utilized \$490 of proceeds provided to pay a structuring fee to Prospect (which was recognized by Prospect as structuring fee income). On June 1, 2018, NPRC utilized \$23,271 of proceeds provided by Prospect on May 25, 2018 to purchase a 92.5% interest in Olentangy Commons Holdings, LLC. The remaining \$746 was retained as working capital by NPRC. The minority interest holder purchased ownership interest in the JV for \$1,887. The JV utilized the total proceeds, which included debt financing of \$92,876, to acquire \$113,000 of multi-family real estate assets. The remaining proceeds were used by the JV to pay \$465 of structuring fees to NPRC, \$861 of third party expenses, \$1,706 of pre-funded capital expenditures, \$798 of prepaid assets, and \$1,204 was retained by the JV as working

capital.

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On June 14, 2018, Prospect purchased additional common equity of NPRC through NPH for \$3,192. NPRC utilized \$3,190 of the proceeds as a capital contribution in multiple JV entities that own three multi-family properties and \$2 was retained by NPRC as working capital. The proceeds were utilized by the JV entities to fund \$3,190 of capital expenditures.

On June 29, 2018, Prospect purchased additional common equity of NPRC through NPH for \$10,780. NPRC utilized \$1,471 of the proceeds to fund the lender rate-lock deposit and initial deposits required under the purchase and sale agreement of a JV real estate transaction. NPRC utilized \$216 of proceeds provided to pay a structuring fee to Prospect (which was recognized by Prospect as structuring fee income). The remaining \$9,093 of proceeds were retained by NPRC to acquire a controlling interest in the JV real estate transaction.

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

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

Year Ended June 30, 2016	N/A
Year Ended June 30, 2017	—
Year Ended June 30, 2018	11,279

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

Year Ended June 30, 2016	\$40,147
Year Ended June 30, 2017	60,707
Year Ended June 30, 2018	73,907

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

Year Ended June 30, 2016	\$703
Year Ended June 30, 2017	—
Year Ended June 30, 2018	776

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

June 30, 2017	\$147
June 30, 2018	426

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

Year Ended June 30, 2016	\$22,543
Year Ended June 30, 2017	13,895
Year Ended June 30, 2018	13,505

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

June 30, 2017	\$27
June 30, 2018	—

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

Year Ended June 30, 2016	\$ —
Year Ended June 30, 2017	7,940
Year Ended June 30, 2018	3,170

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

June 30, 2017 \$39

June 30, 2018 —

The following prepayment penalty fees were paid from NPRC to Prospect and recognized by Prospect as interest income:

Year Ended June 30, 2016 \$ —

Year Ended June 30, 2017 2,235

Year Ended June 30, 2018 —

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

Year Ended June 30, 2016 \$2,712

Year Ended June 30, 2017 5,532

Year Ended June 30, 2018 6,531

The following structuring fees were paid from NPRC to Prospect and recognized by Prospect as other income:

Year Ended June 30, 2016 \$180

Year Ended June 30, 2017 2,147

Year Ended June 30, 2018 2,303

The following structuring fees were paid from ACLLH to Prospect and recognized by Prospect as other income:

Year Ended June 30, 2016 \$2,483

Year Ended June 30, 2017 1,507

Year Ended June 30, 2018 —

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

Year Ended June 30, 2016 \$593

Year Ended June 30, 2017 1,300

Year Ended June 30, 2018 1,700

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

June 30, 2017 \$325

June 30, 2018 525

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

Year Ended June 30, 2016 \$2,363

Year Ended June 30, 2017 6,241

Year Ended June 30, 2018 1,823

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

June 30, 2017 \$ 6

June 30, 2018 286

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

June 30, 2017 \$1

June 30, 2018 19

Nationwide Loan Company LLC

Prospect owns 100% of the membership interests of Nationwide Acceptance Holdings LLC (“Nationwide Holdings”), a Consolidated Holding Company. Nationwide Holdings owns 93.79% of the equity of Nationwide Loan Company LLC (f/k/a Nationwide Acceptance LLC) (“Nationwide”), with members of Nationwide management owning the remaining 6.21% of the equity.

On August 31, 2016, Prospect made an additional \$123 investment in the senior subordinated term loan to Nationwide. Prospect also made an additional equity investment totaling \$92, increasing Prospect’s ownership in Nationwide to 94.48%.

On May 31, 2017, Prospect made an additional equity investment totaling \$1,889, and Prospect’s ownership in Nationwide did not change.

On October 31, 2017, Prospect made an additional equity investment totaling \$3,779, and Prospect’s ownership in Nationwide did not change.

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

Year Ended June 30, 2016 \$3,963

Year Ended June 30, 2017 4,310

Year Ended June 30, 2018 —

All dividends were paid from earnings and profits of Nationwide.

The following amounts were paid from Nationwide to Prospect and recognized by Prospect as repayment of loan receivable:

Year Ended June 30, 2016 \$300

Year Ended June 30, 2017 —

Year Ended June 30, 2018 —

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

Year Ended June 30, 2016 \$3,212

Year Ended June 30, 2017 3,406

Year Ended June 30, 2018 3,485

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

Year Ended June 30, 2016 \$300

Year Ended June 30, 2017 —

Year Ended June 30, 2018 591

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

June 30, 2017 \$9

June 30, 2018 —

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

Year Ended June 30, 2016 \$400

Year Ended June 30, 2017 400

Year Ended June 30, 2018 400

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

June 30, 2017 \$100

June 30, 2018 100

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

Year Ended June 30, 2016 \$ —

Year Ended June 30, 2017 —

Year Ended June 30, 2018 46

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

June 30, 2017 \$ —

June 30, 2018 15

NMMB, Inc.

Prospect owns 100% of the equity of NMMB Holdings, Inc. (“NMMB Holdings”), a Consolidated Holding Company. NMMB Holdings owns 91.52% of the fully-diluted equity of NMMB, Inc. (f/k/a NMMB Acquisition, Inc.) (“NMMB”), with NMMB management owning the remaining 8.67% of the equity. NMMB owns 100% of Refuel Agency, Inc. (“Refuel Agency”). Refuel Agency owns 100% of Armed Forces Communications, Inc. (“Armed Forces”). NMMB is an advertising media buying business.

The following amounts were paid from Armed Forces to Prospect and recorded by Prospect as repayment of loan receivable:

Year Ended June 30, 2016 \$ —

Year Ended June 30, 2017 100

Year Ended June 30, 2018 1,999

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

Year Ended June 30, 2016 \$529

Year Ended June 30, 2017 527

Year Ended June 30, 2018 526

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

June 30, 2017 \$1

June 30, 2018 1

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

Year Ended June 30, 2016 \$996

Year Ended June 30, 2017 991

Year Ended June 30, 2018 929

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

June 30, 2017 \$3

June 30, 2018 2

The following managerial assistance payments were paid from NMMB to Prospect and subsequently remitted to Prospect

Administration (no income was recognized by Prospect):

Year Ended June 30, 2016 \$ —

Year Ended June 30, 2017 213

Year Ended June 30, 2018 400

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

June 30, 2017 \$100

June 30, 2018 100

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

June 30, 2017 \$1,288

June 30, 2018 1,288

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

June 30, 2017 \$—

June 30, 2018 4

Pacific World Corporation

On May 29, 2018, Prospect exercised its rights and remedies under its loan documents to exercise the shareholder voting rights in respect of the stock of Pacific World Corporation (“Pacific World”) and to appoint a new Board of Directors of Pacific World. As a result, as of June 30, 2018, Prospect’s investment in Pacific World is classified as a control investment.

On June 15, 2018, we made a \$15,000 convertible preferred equity investment in Pacific World Corporation (“Pacific World”).

The following amounts were paid from Pacific World to Prospect and recorded by Prospect as repayment of loan receivable:

Year Ended June 30, 2016 \$ —

Year Ended June 30, 2017 —

Year Ended June 30, 2018 250

Since assuming control, the following interest payments were accrued and paid from Pacific World to Prospect and recognized by Prospect as interest income:

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Year Ended June 30, 2016 \$ —

Year Ended June 30, 2017 —

Year Ended June 30, 2018 3,742

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

June 30, 2017 \$ —

June 30, 2018 270

R-V Industries, Inc.

Prospect owns 88.27% of the fully-diluted equity of R-V Industries, Inc. (“R-V”), with R-V management owning the remaining 11.73% of the equity. As of June 30, 2011, Prospect’s equity investment cost basis was \$1,682 and \$5,087 for warrants and common stock, respectively.

On December 24, 2016, Prospect exercised its warrant to purchase 200,000 common shares of R-V. Prospect recorded a realized gain of \$172 from this redemption. Prospect’s ownership remains unchanged at 88.27%.

During the three months ended December 31, 2016, Prospect provided certain financial advisory services to R-V related to a possible transaction. Prospect recognized \$124 in advisory fee income resulting from these services.

The following amounts were paid from R-V to Prospect and recorded by Prospect as repayment of loan receivable:

Year Ended June 30, 2016 \$614

Year Ended June 30, 2017 —

Year Ended June 30, 2018 —

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

Year Ended June 30, 2016 \$299

Year Ended June 30, 2017 149

Year Ended June 30, 2018 —

All dividends were paid from earnings and profits of R-V.

During the year ended June 30, 2017, cash distributions of \$76 that were declared and paid from R-V to Prospect were recognized as a return of capital by Prospect.

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

Year Ended June 30, 2016 \$2,908

Year Ended June 30, 2017 2,877

Year Ended June 30, 2018 3,064

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

June 30, 2017 \$ —

June 30, 2018 18

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

Year Ended June 30, 2016 \$180

Year Ended June 30, 2017 165

Year Ended June 30, 2018 180

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

June 30, 2017 \$45

June 30, 2018 45

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

Year Ended June 30, 2016 \$2

Year Ended June 30, 2017 29

Year Ended June 30, 2018 2

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

June 30, 2017 \$ —

June 30, 2018 11

SB Forging Company, Inc.

As of June 30, 2014, Prospect owned 79.53% of the fully-diluted common, 85.76% of the Series A Preferred and 100% of the Series B Preferred equity of ARRM Services, Inc. (f/k/a ARRM Holdings, Inc.) (“ARRM”). ARRM owned 100% of the equity of Ajax Rolled Ring & Machine, LLC (f/k/a Ajax Rolled Ring & Machine, Inc.) (“Ajax”). Ajax forges large seamless steel rings on two forging mills in the company’s York, South Carolina facility. The rings are used in a range of industrial applications, including in construction equipment and power turbines. Ajax also provides machining and other ancillary services.

On May 31, 2016, \$1,750 of the escrow proceeds were received. Prospect realized a gain of the same amount.

During the three months ended March 31, 2017, Prospect incurred \$53 of additional overhead expense related to SB Forging, which will be given to us as a credit for services payable to Prospect Administration in the June 2017 quarter.

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

Year Ended June 30, 2016 \$ —

Year Ended June 30, 2017 598

Year Ended June 30, 2018 —

SB Forging Company II, Inc. (f/k/a Gulf Coast Machine & Supply Company)

Prospect owns 100% of the preferred equity of Gulf Coast Machine & Supply Company (“Gulf Coast”). Gulf Coast is a provider of value-added forging solutions to energy and industrial end markets.

During the year ended June 30, 2017, Prospect made additional investments of \$8,750 in the first lien term loan to Gulf Coast to fund capital improvements to key forging equipment and other liquidity needs.

On June 3, 2017, Gulf Coast sold all of its assets to a third party, for total consideration of \$10,250, including escrowed amounts. The proceeds from the sale were primarily used to repay a \$6,115 third party revolving credit facility, and the remainder was used to pay other legal and administrative costs incurred by Gulfco. As no proceeds were allocated to Prospect, our debt and equity investment in Gulfco was written-off for tax purposes and we recorded a realized loss of \$66,103. In June 2018, Gulfco received escrow proceeds of \$2,050 related to the sale. On June 28, 2017, Gulf Coast was renamed to SB Forging Company II, Inc.

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The following amounts were paid from Gulf Coast to Prospect and recorded by Prospect as repayment of loan receivable:

Year Ended June 30, 2016 \$1,075
 Year Ended June 30, 2017 3,022
 Year Ended June 30, 2018 —

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

Year Ended June 30, 2016 \$ —
 Year Ended June 30, 2017 503
 Year Ended June 30, 2018 —

USES Corp.

On June 15, 2016, we provided additional \$1,300 debt financing to USES Corp. (“USES”) and its subsidiaries in the form of additional Term Loan A debt and, in connection with such Term Loan A debt financing, USES issued to us 99,900 shares of its common stock. On June 29, 2016, we provided additional \$2,200 debt financing to USES and its subsidiaries in the form of additional Term Loan A debt and, in connection with such Term Loan A debt financing, USES issued to us 169,062 shares of its common stock. As a result of such debt financing and recapitalization, as of June 29, 2016, we held 268,962 shares of USES common stock representing a 99.96% common equity ownership interest in USES. As such, USES became a controlled company on June 30, 2016.

During the year ended June 30, 2017, Prospect provided additional \$2,599 debt financing to USES and its subsidiaries in the form of additional Term Loan A debt.

During the nine months ended March 31, 2018, Prospect provided additional \$3,000 debt financing to USES and its subsidiaries in the form of additional Term Loan A debt.

During the nine months ended March 31, 2018, we entered into a participation agreement with USES management, and sold \$3 of Prospect’s investment in the Term Loan A debt.

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

June 30, 2017 \$325
 June 30, 2018 625

Valley Electric Company, Inc.

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

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

Year Ended June 30, 2016 \$4,252
 Year Ended June 30, 2017 4,518
 Year Ended June 30, 2018 4,861

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

Year Ended June 30, 2016 \$1,509

Year Ended June 30, 2017 1,822

Year Ended June 30, 2018 2,157

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

June 30, 2017 \$13

June 30, 2018 14

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

Year Ended June 30, 2016 \$1,111

Year Ended June 30, 2017 1,111

Year Ended June 30, 2018 1,110

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

Year Ended June 30, 2016 \$90

Year Ended June 30, 2017 —

Year Ended June 30, 2018 —

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

June 30, 2017 \$3

June 30, 2018 3

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

Year Ended June 30, 2016 \$300

Year Ended June 30, 2017 300

Year Ended June 30, 2018 5

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

June 30, 2017 \$ —

June 30, 2018 75

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

June 30, 2017 \$75

June 30, 2018 —

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

Year Ended June 30, 2016 \$9

Year Ended June 30, 2017 —

Year Ended June 30, 2018 —

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

June 30, 2017 \$3

June 30, 2018 3

Wolf Energy, LLC

Prospect owns 100% of the equity of Wolf Energy Holdings Inc. (“Wolf Energy Holdings”), a Consolidated Holding Company. Wolf Energy Holdings owns 100% of each of Appalachian Energy LLC (f/k/a Appalachian Energy Holdings, LLC) (“AEH”); Coalbed, LLC (“Coalbed”); and Wolf Energy, LLC (“Wolf Energy”). AEH owns 100% of C&S Operating, LLC.

Wolf Energy Holdings is a holding company formed to hold 100% of the outstanding membership interests of each of AEH and Coalbed. The membership interests and associated operating company debt of AEH and Coalbed, which were previously owned by Manx Energy, Inc. (“Manx”), were assigned to Wolf Energy Holdings effective June 30, 2012. The purpose of assignment was to remove those activities from Manx deemed non-core by the Manx convertible debt investors who were not interested in funding those operations. On June 30, 2012, AEH and Coalbed loans with a cost basis of \$7,991 were assigned by Prospect to Wolf Energy Holdings from Manx.

On March 14, 2017, \$22,145 of assets previously held by Ark-La-Tex Wireline Services, LLC (“Ark-La-Tex”) were assigned to Wolf Energy Services Company, LLC, (“Wolf Energy Services”) a wholly-owned subsidiary of Wolf Energy Holdings. During the three months ended March 31, 2017, Wolf Energy Services received \$2,768 from the partial sale of these transferred assets. During the three months ended June 30, 2017 Wolf Energy Services received \$12,576 from the sale of assets.

During the year ended June 30, 2018 Wolf Energy Services received \$3,009 from the sale of assets.

On December 29, 2017, we entered into a fee agreement with Wolf Energy Services Company, LLC (“Wolf”), for services required to locate, inventory, foreclose, and liquidate assets that were transferred from Ark-La-Tex to Wolf. Per the agreement, we will receive a fee equal to 8.0% of gross liquidation proceeds in the event aggregate liquidation gross proceeds exceed \$19,000 (currently \$18,500). During the three months ended March 31, 2018, we received \$1,220 in liquidation fees, net of third-party transaction costs, which is reflected as other income on our accompanying Consolidated Statement of Operations.

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

Year Ended June 30, 2016 \$124

Year Ended June 30, 2017 41

Year Ended June 30, 2018 14

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

June 30, 2017 \$14

June 30, 2018 —

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

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June 30, 2017 \$ —

June 30, 2018 41

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

Year Ended June 30, 2016 \$ —

Year Ended June 30, 2017 243

Year Ended June 30, 2018 —

Note 15. Litigation

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

Note 16. Financial Highlights

The following is a schedule of financial highlights for each of the five years ended in the period ended June 30, 2018:

	Year Ended June 30,				
	2018	2017	2016	2015	2014
Per Share Data					
Net asset value at beginning of year	\$9.32	\$9.62	\$10.31	\$10.56	\$10.72
Net investment income(1)	0.79	0.85	1.04	1.03	1.19
Net realized and change in unrealized (losses) gains(1)	0.04	(0.15)	(0.75)	(0.05)	(0.13)
Net increase from operations	0.83	0.70	0.29	0.98	1.06
Distributions of net investment income	(0.77)	(1.00)	(1.00)	(1.19)	(1.32)
Common stock transactions(2)	(0.03)	—	(4) 0.02	(0.04)	0.10
Net asset value at end of year	\$9.35	\$9.32	\$9.62	\$10.31	\$10.56
Per share market value at end of year	\$6.71	\$8.12	\$7.82	\$7.37	\$10.63
Total return based on market value(3)	(7.42 %)	16.80 %	21.84 %	(20.84 %)	10.88 %
Total return based on net asset value(3)	12.39 %	8.98 %	7.15 %	11.47 %	10.97 %
Shares of common stock outstanding at end of year	364,409,938	360,076,933	357,107,231	359,090,759	342,626,637
Weighted average shares of common stock outstanding	361,456,075	358,841,714	356,134,297	353,648,522	300,283,941
Ratios/Supplemental Data					
Net assets at end of year	\$3,407,047	\$3,354,952	\$3,435,917	\$3,703,049	\$3,618,182
Portfolio turnover rate	30.70 %	23.65 %	15.98 %	21.89 %	15.21 %
Ratio of operating expenses to average net assets	11.08 %	11.57 %	11.95 %	11.66 %	11.11 %
Ratio of net investment income to average net assets	8.57 %	8.96 %	10.54 %	9.87 %	11.18 %

(1) Per share data amount is based on the weighted average number of common shares outstanding for the year presented (except for dividends to shareholders which is based on actual rate per share).

Common stock transactions include the effect of our issuance of common stock in public offerings (net of (2)underwriting and offering costs), shares issued in connection with our dividend reinvestment plan, shares issued to acquire investments and shares repurchased below net asset value pursuant to our Repurchase Program.

Total return based on market value is based on the change in market price per share between the opening and ending market prices per share in each period and assumes that dividends are reinvested in accordance with our (3)dividend reinvestment plan. Total return based on net asset value is based upon the change in net asset value per share between the opening and ending net asset values per share in each period and assumes that dividends are reinvested in accordance with our dividend reinvestment plan.

(4) Amount is less than \$0.01.

Note 17. Selected Quarterly Financial Data (Unaudited)

The following table sets forth selected financial data for each quarter within the three years ended June 30, 2018.

Quarter Ended	Investment Income		Net Investment Income		Net Realized and Unrealized (Losses) Gains		Net Increase (Decrease) in Net Assets from Operations	
	Total	Per Share(1)	Total	Per Share(1)	Total	Per Share(1)	Total	Per Share(1)
September 30, 2015	\$200,251	\$ 0.56	\$91,242	\$ 0.26	\$(63,425)	\$(0.18)	\$27,817	\$ 0.08
December 31, 2015	209,191	0.59	100,893	0.28	(196,013)	(0.55)	(95,120)	(0.27)
March 31, 2016	189,493	0.53	87,626	0.25	(12,118)	(0.03)	75,508	0.21
June 30, 2016	193,038	0.54	91,367	0.26	3,790	0.01	95,157	0.27
September 30, 2016	\$179,832	\$ 0.50	\$78,919	\$ 0.22	\$2,447	\$ 0.01	\$81,366	\$ 0.23
December 31, 2016	183,480	0.51	84,405	0.24	16,475	0.04	100,880	0.28
March 31, 2017	171,032	0.48	73,080	0.20	(53,588)	(0.15)	19,492	0.05
June 30, 2017	166,702	0.46	69,678	0.19	(18,510)	(0.05)	51,168	0.14
September 30, 2017	\$158,579	\$ 0.44	\$63,732	\$ 0.18	\$(51,759)	\$(0.15)	\$11,973	\$ 0.03
December 31, 2017	162,400	0.45	73,192	0.20	48,535	0.14	121,727	0.34
March 31, 2018	162,835	0.45	70,446	0.19	(18,587)	(0.04)	51,859	0.14
June 30, 2018	174,031	0.48	79,480	0.22	34,823	0.09	114,304	0.31

Per share amounts are calculated using the weighted average number of common shares outstanding for the period (1)presented. As such, the sum of the quarterly per share amounts above will not necessarily equal the per share amounts for the fiscal year.

Note 18. Subsequent Events

On July 2, 2018, we entered into debt distribution agreements with each of B. Riley FBR, Inc. and BB&T Capital Markets, a division of BB&T Securities, LLC (together, the "Agents") pursuant to which we may sell, by means of at-the-market offerings, up to \$100,000 in aggregate principal amount of our 2024 Notes and up to \$100,000 in aggregate principal amount of the 2028 Notes. As of August 28, 2018, we have issued an additional \$10,131 in aggregate principal amount of our 2024 Notes for net proceeds of \$10,070 and have issued an additional \$6,917 in aggregate principal amount of our 2028 Notes for net proceeds of \$6,838.

During the period from July 13, 2018 to July 16, 2018, we made follow-on first lien term loan investments of \$105,000 in Town & Country Holdings, Inc., to support acquisitions.

On August 1, 2018, we completed an extension of the Revolving Credit Facility (the "New Facility") for PCF, extending the term 5.7 years from such date and reducing the interest rate on drawn amounts to one-month Libor plus 2.20%. The New Facility, for which \$770 million of commitments have been closed to date, includes an accordion feature that allows the Facility, at Prospect's discretion, to accept up to a total of \$1.5 billion of commitments. The New Facility matures on March 27, 2024. It includes a revolving period that extends through March 27, 2022, followed by an additional two-year amortization period, with distributions allowed to Prospect after the completion of the revolving period. Pricing for amounts drawn under the Facility is one-month Libor plus 2.20%, which achieves a 5 basis point reduction in the interest rate from the previous facility rate of Libor plus 2.25%. Additionally, the lenders

charge a fee on the unused portion of the credit facility equal to either 50 basis points if more than 60% of the credit facility is drawn, or 100 basis points if more than 35% and an amount less than or equal to 60% of the credit facility is drawn, or 150 basis points if an amount less than or equal to 35% of the credit facility is drawn.

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On August 1, 2018, we purchased from a third party \$14,000 of First Lien Senior Secured Term Loan A and Term Loan B Notes issued by InterDent, Inc. at par.

On August 6, 2018, we made a \$17,500 senior secured investment in Halyard MD OPCO, LLC, a healthcare IT and advertising technology business that enables targeted advertising campaigns to healthcare providers and patients. Our investment is comprised of a \$12,000 first lien term loan, a \$2,000 unfunded revolving credit facility, and a \$3,500 unfunded delayed draw investment.

During the period from July 1, 2018 through August 28, 2018 we issued \$25,330 aggregate principal amount of Prospect Capital InterNotes® for net proceeds of \$24,919. In addition, we sold \$2,215 aggregate principal amount of Prospect Capital InterNotes® for net proceeds of \$2,176 with expected closing on August 30, 2018.

Pursuant to notice to call provided on July 5, 2018, we redeemed \$2,589 of our Prospect Capital InterNotes® at par maturing on February 15, 2020, with a weighted average rate of 4.0%. Settlement of the call occurred on August 15, 2018. We have provided notice to call on August 8, 2018 with settlement on September 15, 2018, \$26,771 of our Prospect Capital InterNotes® at par maturing between March 15, 2020 and September 15, 2020, with a weighted average rate of 4.77%.

On August 28, 2018, we announced the declaration of monthly dividends in the following amounts and with the following dates:

\$0.06 per share for September 2018 to holders of record on September 28, 2018 with a payment date of October 18, 2018.

\$0.06 per share for October 2018 to holders of record on October 31, 2018 with a payment date of November 21, 2018.

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PROSPECTUS SUPPLEMENT

February 8, 2019

Incapital LLC
Citigroup
RBC Capital Markets