

PROSPECT CAPITAL CORP

Form 497

November 28, 2016

The information in this preliminary pricing supplement is not complete and may be changed. This preliminary pricing supplement and the accompanying prospectus supplement and prospectus are not offers to sell these securities and are not soliciting an offer to buy these securities in any jurisdiction where the offer or sale is not permitted.

Subject to completion

Preliminary Pricing Supplement dated

November 28, 2016

Prospect Capital Corporation

Prospect Capital InterNotes®

5.000% Notes due 2021 (the "Notes")

Filed under Rule 497, Registration Statement No. 333-213391

Preliminary Pricing Supplement No. 449 — Dated Monday, November 28, 2016

(To: Prospectus Dated November 3, 2016, and Prospectus Supplement Dated November 10, 2016)

CUSIP Number	ISIN Number	Principal Amount	Selling Price	Gross Concession	Net Proceeds	Coupon Type	Coupon Rate	Coupon Frequency	Maturity Date	1st Coupon Date	1st Am
74348YUP4	US74348YUP4	\$100,000,000	100.000%	1.250%	\$	Fixed	5.000%	Semi-Annual	12/15/2021	6/15/2017	\$25

Redemption Information: Callable at 100.000% on 12/15/2017 and every coupon date thereafter.

Trade Date: Monday, December 5, 2016 @ 12:00 PM ET

Settle Date: Thursday, December 8, 2016

Minimum Denomination/Increments: \$1,000.00/\$1,000.00

Initial trades settle flat and clear SDFS: DTC Book Entry only

The Notes will be issued pursuant to the Indenture, dated as of February 16, 2012, as amended and supplemented by that certain Four Hundred Forty-Ninth Supplemental Indenture dated as of December 8, 2016.

The date from which interest shall accrue on the Notes is Thursday, December 8, 2016. The "Interest Payment Dates" for the Notes shall be June 15 and December 15 of each year, commencing June 15, 2017; the interest payable on any Interest Payment Date, will be paid to the Person in whose name the Notes (or one or more predecessor Notes) is registered at the close of business on the Regular Record Date (as defined in the Indenture) for such interest, which shall be June 1 or December 1, as the case may be, next preceding such Interest Payment Date.

The Notes will be redeemable in whole or in part at any time or from time to time, at the option of Prospect Capital Corporation, on or after December 15, 2017 at a redemption price of \$1,000 per Note plus accrued and unpaid interest payments otherwise payable for the then-current semi-annual interest period accrued to, but excluding, the date fixed for redemption and upon not less than 30 days nor more that 60 days prior notice to the noteholder and the trustee, as described in the prospectus.

Prospect Capital Corporation is a financial services company that lends to and invests in middle market, privately-held companies. We are organized as an externally-managed, non-diversified closed-end management investment company that has elected to be treated as a business development company under the Investment Company Act of 1940. Prospect Capital Management L.P. manages our investments and Prospect Administration LLC provides the administrative services necessary for us to operate.

This preliminary pricing supplement relates only to the securities described in the accompanying prospectus supplement and prospectus, is only a summary of changes and should be read together with the accompanying prospectus supplement and prospectus, including among other things the section entitled "Risk Factors" beginning on page S-8 of such prospectus supplement and page 10 of such prospectus. This preliminary pricing supplement and the accompanying prospectus supplement and prospectus contain important information you should know before investing in our securities. Please read it before you invest and keep it for future reference. We file annual, quarterly and current reports, proxy statements and other information about us with the Securities and Exchange Commission, or the "SEC." This information is available free of charge by contacting us at 10 East 40<sup>th</sup> Street, 42<sup>nd</sup> Floor, New York, NY 10016 or by telephone at (212) 448-0702. The SEC maintains a website at [www.sec.gov](http://www.sec.gov) where such information

is available without charge upon written or oral request. Our internet website address is [www.prospectstreet.com](http://www.prospectstreet.com). Information contained on our website is not incorporated by reference into this prospectus supplement or the accompanying prospectus and you should not consider information contained on our website to be part of this prospectus supplement or the accompanying prospectus.

Neither the SEC nor any state securities commission has approved or disapproved of these securities or passed on the adequacy or accuracy of this preliminary pricing supplement. Any representation to the contrary is a criminal offense. Obligations of Prospect Capital Corporation and any subsidiary of Prospect Capital Corporation are not guaranteed by the full faith and credit of the United States of America. Neither Prospect Capital Corporation nor any subsidiary of Prospect Capital Corporation is a government-sponsored enterprise or an instrumentality of the United States of America.

InterNotes<sup>®</sup> is a registered trademark of Incapital Holdings LLC.

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Recent Developments:

On November 17, 2016, we received a partial repayment of \$9.2 million of our loans previously outstanding with National Property REIT Corp. (“NPRC”), and its wholly-owned subsidiaries and \$19.1 million as a return of capital on our equity investment in NPRC.

On November 25, 2016, we issued \$2.9 million in aggregate principal amount of our Prospect Capital InterNotes® for net proceeds of \$2.9 million.

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Filed pursuant to Rule 497  
File No. 333-213391

PROSPECTUS SUPPLEMENT

(To Prospectus dated November 3, 2016)

Prospect Capital Corporation

Prospect Capital InterNotes®

We may offer to sell our Prospect Capital InterNotes® from time to time. The specific terms of the notes will be set prior to the time of sale and described in a pricing supplement. You should read this prospectus supplement, the accompanying prospectus and the applicable pricing supplement carefully before you invest. We may offer other debt securities from time to time other than the notes under our Registration Statement or in private placements.

We may offer the notes to or through agents for resale. The applicable pricing supplement will specify the purchase price, agent discounts and net proceeds of any particular offering of notes. The agents are not required to sell any specific amount of notes but will use their reasonable best efforts to sell the notes. We also may offer the notes directly. We have not set a date for termination of our offering.

The agents have advised us that from time to time they may purchase and sell notes in the secondary market, but they are not obligated to make a market in the notes and may suspend or completely stop that activity at any time. Unless otherwise specified in the applicable pricing supplement, we do not intend to list the notes on any stock exchange.

Investing in the notes involves certain risks, including those described in the “Risk Factors” section beginning on page S-8 of this prospectus supplement and page 10 of the accompanying prospectus.

This prospectus supplement and the accompanying prospectus contain important information you should know before investing in our securities. Please read it before you invest and keep it for future reference. We file annual, quarterly and current reports, proxy statements and other information about us with the Securities and Exchange Commission, or the “SEC.” This information is available free of charge by contacting us at 10 East 40<sup>th</sup> Street, 42<sup>nd</sup> Floor, New York, NY 10016 or by telephone at (212) 448-0702. The SEC maintains a website at [www.sec.gov](http://www.sec.gov) where such information is available without charge upon written or oral request. Our internet website address is [www.prospectstreet.com](http://www.prospectstreet.com).

Information contained on our website is not incorporated by reference into this prospectus supplement or the accompanying prospectus and you should not consider information contained on our website to be part of this prospectus supplement or the accompanying prospectus.

Neither the SEC nor any state securities commission has approved or disapproved of these securities or passed on the adequacy or accuracy of this prospectus supplement. Any representation to the contrary is a criminal offense. Obligations of Prospect Capital Corporation and any subsidiary of Prospect Capital Corporation are not guaranteed by the full faith and credit of the United States of America. Neither Prospect Capital Corporation nor any subsidiary of Prospect Capital Corporation is a government-sponsored enterprise or an instrumentality of the United States of America.

We may sell the notes to or through one or more agents or dealers, including the agents listed below.

Incapital LLC Citigroup RBC Capital Markets

Prospectus Supplement dated November 10, 2016.

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## FORWARD-LOOKING STATEMENTS

This prospectus supplement and the accompanying prospectus may contain forward-looking statements within the meaning of Section 21E of the Securities Exchange Act of 1934, as amended, or the “Exchange Act,” which involve substantial risks and uncertainties. Forward-looking statements predict or describe our future operations, business plans, business and investment strategies and portfolio management and the performance of our investments and our investment management business. These forward-looking statements are not historical facts, but rather are based on current expectations, estimates and projections about our industry, our beliefs, and our assumptions. Words such as “intends,” “intend,” “intended,” “goal,” “estimate,” “estimates,” “expects,” “expect,” “expected,” “project,” “projected,” “projects,” “seeks,” “anticipates,” “anticipated,” “should,” “could,” “may,” “will,” “designed to,” “foreseeable future,” “believe,” “believe in,” “scheduled” and variations of these words and similar expressions are intended to identify forward-looking statements. Our actual results or outcomes may differ materially from those anticipated. Readers are cautioned not to place undue reliance on these forward looking statements, which speak only as of the date the statement was made. We undertake no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. These statements are not guarantees of future performance and are subject to risks, uncertainties, and other factors, some of which are beyond our control and difficult to predict and could cause actual results to differ materially from those expressed or forecasted in the forward-looking statements, including without limitation:

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

Although we believe that the assumptions on which these forward-looking statements are based are reasonable, any of those assumptions could prove to be inaccurate, and as a result, the forward-looking statements based on those assumptions also could be inaccurate. Important assumptions include our ability to originate new loans and investments, ability to obtain certain margins and levels of profitability and the availability of additional capital. In light of these and other uncertainties, the inclusion of a projection or forward-looking statement in this prospectus supplement and the accompanying prospectus, respectively, should not be regarded as a representation by us that our plans and objectives will be achieved. These risks and uncertainties include those described or identified in “Risk Factors” and elsewhere in this prospectus supplement and the accompanying prospectus, respectively. You should not

place undue reliance on these forward-looking statements, which apply

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only as of the date of this prospectus supplement or the accompanying prospectus, as applicable. These forward-looking statements do not meet the safe harbor for forward-looking statements pursuant to Section 27A of the Securities Act of 1933, as amended, or the “Securities Act.”

You should rely only on the information contained in this prospectus supplement, including any pricing supplement included hereto, and the accompanying prospectus. We have not, and the agent(s) or dealer(s) has not, authorized any other person to provide you with information that is different from that contained in this prospectus supplement, including any pricing supplement included hereto, or the accompanying prospectus. If anyone provides you with different or inconsistent information, you should not rely on it. We are not, and the agents are not, making an offer of these securities in any jurisdiction where the offer is not permitted. You should assume that the information appearing in this prospectus supplement, including any pricing supplement included hereto, and the accompanying prospectus is accurate only as of their respective dates and we assume no obligation to update any such information. Our business, financial condition and results of operations may have changed since those dates. Although we undertake no obligation to revise or update any forward-looking statements, whether as a result of new information, future events or otherwise, you are advised to consult any additional disclosures that we may make directly to you or through reports that we have filed with the SEC, including annual reports on Form 10-K, quarterly reports on Form 10-Q and current reports on Form 8-K.

This prospectus supplement, including any pricing supplement included hereto, supersedes the accompanying prospectus to the extent it contains information that is different from or in addition to the information in that prospectus.

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## PROSPECTUS SUMMARY

This section summarizes the legal and financial terms of the notes that are described in more detail in “Description of Notes” beginning on page S-16. Final terms of any particular notes will be determined at the time of sale and will be contained in the pricing supplement, which will be included with this prospectus supplement, relating to those notes. The terms in that pricing supplement may vary from and supersede the terms contained in this summary and in “Description of Notes.” In addition, you should read the more detailed information appearing elsewhere in this prospectus supplement, the accompanying prospectus and in that pricing supplement.

The terms “we,” “us,” “our” and “Company” refer to Prospect Capital Corporation; “Prospect Capital Management,” “Investment Adviser” and “PCM” refer to Prospect Capital Management L.P., formerly Prospect Capital Management LLC; and “Prospect Administration” and the “Administrator” refer to Prospect Administration LLC.

### The Company

Prospect Capital Corporation is a financial services company that primarily lends to and invests in middle market privately-held companies. We are a closed-end investment company incorporated in Maryland. We have elected to be regulated as a business development company (“BDC”) under the Investment Company Act of 1940 (the “1940 Act”). As a BDC, we have elected to be treated as a regulated investment company (“RIC”) under Subchapter M of the Internal Revenue Code of 1986 (the “Code”). We were organized on April 13, 2004 and were funded in an initial public offering completed on July 27, 2004. We are one of the largest BDCs with approximately \$6.3 billion of total assets as of September 30, 2016.

We are externally managed by our investment adviser, Prospect Capital Management. Prospect Administration provides administrative services and facilities necessary for us to operate.

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

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

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

**Control Investments in Corporate Operating Companies** – This strategy involves acquiring controlling stakes in non-financial operating companies. Our investments in these companies are generally structured as a combination of yield-producing debt and equity. We provide enhanced certainty of closure to our counterparties, give the seller

personal liquidity and generally look for management to continue on in their current roles. This strategy has comprised approximately 10%-15% of our business.

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

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

**Real Estate Investments** – We make investments in real estate through our wholly-owned tax-efficient real estate investment trust (“REIT”) National Property REIT Corp. (“NPRC”), the surviving entity of the May 23, 2016 merger with American Property REIT Corp. and United Property REIT Corp. Our real estate investments are in various classes of fully developed and occupied real estate properties that generate current yields. We seek to identify properties that have historically high occupancy and steady cash flow generation. NPRC co-invests with established and experienced property managers that manage such properties after acquisition. This investment strategy has comprised approximately 5%-10% of our business.

**Investments in Syndicated Debt** – On an opportunistic basis, we make investments in loans and high yield bonds that have been sold to a syndicate of buyers. Here we look for investments with attractive risk-adjusted returns after we have completed a fundamental credit analysis. These investments are purchased with a long term, buy-and-hold outlook and we look to provide significant structuring input by providing anchoring orders. This strategy has comprised approximately 5%-10% of our business.

**Aircraft Leasing** – We invest in debt as well as equity in aircraft assets subject to commercial leases to credit-worthy airlines across the globe. These investments present attractive return opportunities due to cash flow consistency from long-lived assets coupled with hard asset collateral. We seek to deliver risk-adjusted returns with strong downside protection by analyzing relative value characteristics across the spectrum of aircraft types of all vintages. Our target portfolio includes both in-production and out-of-production jet and turboprop aircraft and engines, operated by airlines across the globe. This strategy comprised approximately 1% of our business.

**Online Lending** – We make investments in loans originated by certain consumer loan and small and medium sized business (“SME”) loan facilitators. We purchase each loan in its entirety (i.e., a “whole loan”). The borrowers are consumers and SMEs. The loans are typically serviced by the facilitators of the loans. This investment strategy has comprised approximately 4%-8% of our business.

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

We hold many of our control investments in a two-tier structure consisting of a holding company and one or more related operating companies for tax purposes. These holding companies serve various business purposes including concentration of management teams, optimization of third party borrowing costs, improvement of supplier, customer, and insurance terms, and enhancement of co-investments by the management teams. In these cases, our investment, which is generally equity in the holding company, the holding company’s equity investment in the operating company and any debt from us directly to the operating company structure represents our total exposure for the investment. As of September 30, 2016, as shown in our Consolidated Schedule of Investments, the cost basis and fair value of our investments in controlled companies were each \$1.9 billion. This structure gives rise to several of the risks described in our public documents and highlighted elsewhere in this prospectus supplement. We consolidate all wholly-owned and substantially wholly-owned holding companies formed by us for the purpose of holding our controlled investments in operating companies. There is no significant effect of consolidating these holding companies as they hold minimal assets other than their investments in the controlled operating companies. Investment company accounting prohibits the consolidation of any operating companies.

As of September 30, 2016, we had investments in 123 portfolio companies. The aggregate fair value as of September 30, 2016 of investments in these portfolio companies held on that date is approximately \$6.1 billion. Our portfolio

across all our performing interest-bearing investments had an annualized current yield of 12.8% as of September 30, 2016.

Recent Developments

Investment Transactions

On October 4, 2016, we made a \$40.0 million second lien senior secured investment to support the recapitalization of Coinstar, LLC, an automated network of self-service coin counting machines.

On October 5, 2016, Focus Brands, Inc. repaid the \$18.0 million loan receivable to us.

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On October 7, 2016, we made an \$11.5 million second lien senior secured debt investment in Dunn Paper Holdings, Inc, a leading specialty packaging supplier, in support of an acquisition of the company.

On October 14, 2016, Trinity Services Group, Inc. repaid the \$134.6 million loan receivable to us.

On October 14, 2016, Security Alarm Financing Enterprise, L.P. repaid the \$25.0 million loan receivable to us.

On October 14, 2016, Harbortouch repaid the \$27.7 million loan receivable to us.

On October 14, 2016, we provided \$22.5 million of second lien senior secured debt to support the refinancing of Vivid Seats LLC, a secondary marketplace for entertainment tickets.

On October 14, 2016, we received a partial repayment of \$60.8 million for the NPRC and its wholly-owned subsidiaries' loan previously outstanding and \$2.2 million as a return of capital on the equity investment in NPRC.

On October 20, 2016, we made a \$50.0 million second lien senior secured debt investment in Rocket Software, Inc. to support an acquisition and dividend recapitalization.

On October 31, 2016, System One Holdings, LLC repaid the \$104.6 million loan receivable to us.

On November 1, 2016, we made a \$13.0 million second lien secured investment to support an acquisition of K&N Parent, Inc., a leader in aftermarket automotive performance filtration products.

#### Debt and Equity

On November 3, 2016, our Registration Statement on Form N-2 was declared effective by the SEC. Under this Shelf Registration Statement, we can issue up to \$5.0 billion of additional debt and equity securities in the public market.

During the period from October 1, 2016 through November 10, 2016 we issued \$16.2 million aggregate principal amount of Prospect Capital InterNotes® for net proceeds of \$16.0 million.

#### Dividends

On November 8, 2016, we announced the declaration of monthly dividends in the following amounts and with the following dates:

\$0.08333 per share for November 2016 to holders of record on November 30, 2016 with a payment date of December 22, 2016;

\$0.08333 per share for December 2016 to holders of record on December 30, 2016 with a payment date of January 19, 2017; and

\$0.08333 per share for January 2017 to holders of record on January 31, 2017 with a payment date of February 16, 2017.

The Offering Issuer	Prospect Capital Corporation
Purchasing Agent	Incapital LLC
Agents	Citigroup Global Markets Inc. and RBC Capital Markets, LLC. From time to time, we may sell the notes to or through additional agents.
Title of Notes	Prospect Capital InterNotes®
Amount	We may issue notes from time to time in various offerings up to \$1.5 billion, the aggregate principal amount authorized by our board of directors for notes. As of November 10, 2016, \$1.1 billion aggregate principal amount of notes has been issued. We have, from time to time, repurchased certain notes and, therefore, as of November 10, 2016, \$954.6 million aggregate principal amount of notes were outstanding. There are no limitations on our ability to issue additional indebtedness in the form of Prospect Capital InterNotes® or otherwise other than under the 1940 Act and the asset coverage requirement under our credit facility.
Denominations	The notes will be issued and sold in denominations of \$1,000 and multiples of \$1,000 (unless otherwise stated in the pricing supplement).
Status	The notes will be our direct unsecured senior obligations and will rank equally in right of payment with all of our other unsecured senior indebtedness from time to time outstanding.
Maturities	Each note will mature 12 months or more from its date of original issuance.
Interest	Notes may be issued with a fixed or floating interest rate; a floating interest rate note will be based on the London Interbank Offered Rate (“LIBOR”). Interest on each fixed or floating interest rate note will be payable either monthly, quarterly, semi-annually or annually on each interest payment date and on the stated maturity date. Interest also will be paid on the date of redemption or repayment if a note is redeemed or repaid prior to its stated maturity in accordance with its terms. Interest on the notes will be computed on the basis of a 360-day year of twelve 30-day months, often referred to as the 30/360 (ISDA) day count convention.
Principal	The principal amount of each note will be payable on its stated maturity date at the corporate trust office of the paying agent or at any other place we may designate.
Redemption and Repayment	Unless otherwise stated in the applicable pricing supplement, a note will not be redeemable at our option or be repayable at the option of the holder prior to its stated maturity date. The notes will not be subject to any sinking fund.
Survivor’s Option	Specific notes may contain a provision permitting the optional repayment of those notes prior to stated maturity, if requested by the authorized representative of the beneficial owner of those notes, following the death of the beneficial owner of the notes, so long as the notes were owned by the beneficial owner or his or her estate at least six months prior to the request. This feature is referred to as a “Survivor’s Option.” Your notes will not be repaid in this manner unless the pricing supplement for your notes provides for the Survivor’s Option. If the pricing supplement for your notes provides for the Survivor’s Option, your right to exercise the Survivor’s Option will be subject to limits set by us on (1) the permitted dollar amount of total exercises by all holders of notes in any calendar year, and



(2) the permitted dollar amount of an individual exercise by a holder of a note in any calendar year. Additional details on the Survivor's Option are described in the section entitled "Description of Notes—Survivor's Option."

Sale and  
Clearance

We will sell notes in the United States only. Notes will be issued in book-entry only form and will clear through The Depository Trust Company. We do not intend to issue notes in certificated form.

Trustee

The trustee for the notes is U.S. Bank National Association, under an indenture dated as of February 16, 2012, as amended and as supplemented from time to time.

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Selling  
Group

The agents and dealers comprising the selling group are broker-dealers and securities firms. Each of the Purchasing Agent, Citigroup Global Markets Inc. and RBC Capital Markets, LLC entered into a Sixth Amended and Restated Selling Agent Agreement with us dated November 10, 2016 (as amended, the “Selling Agent Agreement”). Additional agents appointed by us from time to time in connection with the offering of the notes contemplated by this prospectus supplement will become parties to the Selling Agent Agreement. Dealers who are members of the selling group have executed a Master Selected Dealer Agreement with the Purchasing Agent. The agents and the dealers have agreed to market and sell the notes in accordance with the terms of those respective agreements and all other applicable laws and regulations. You may contact the Purchasing Agent at [info@incapital.com](mailto:info@incapital.com) for a list of selling group members.

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## SELECTED CONDENSED FINANCIAL DATA

You should read the condensed consolidated financial information below with the Consolidated Financial Statements and notes thereto included in this prospectus supplement and the accompanying prospectus. Financial information below for the years ended June 30, 2016, 2015, 2014, 2013 and 2012 has been derived from the financial statements that were audited by our independent registered public accounting firm. The selected consolidated financial data at and for the three months ended September 30, 2016 and 2015 has been derived from unaudited financial data. Interim results for the three months ended September 30, 2016 are not necessarily indicative of the results that may be expected for the year ending June 30, 2017. Certain reclassifications have been made to the prior period financial information to conform to the current period presentation. See “Management’s Discussion and Analysis of Financial Condition and Results of Operations” starting on page S-24 for more information.

	For the Three Months Ended September 30,		For the Year Ended June 30,				
	2016	2015	2016	2015	2014	2013	2012
(in thousands except data relating to shares, per share and number of portfolio companies)							
Performance Data:							
Interest income	\$ 171,650	\$ 191,303	\$ 731,618	\$ 748,974	\$ 613,741	\$ 435,455	\$ 219,536
Dividend income	2,384	3,215	26,501	7,663	26,837	82,705	64,881
Other income	5,798	5,733	33,854	34,447	71,713	58,176	36,493
Total investment income	179,832	200,251	791,973	791,084	712,291	576,336	320,910
Interest and credit facility expenses	(41,669 )	(41,957 )	(219,305 )	(170,660 )	(130,103 )	(76,341 )	(38,534 )
Investment advisory expense	(50,522 )	(55,764 )	(167,719 )	(225,277 )	(198,296 )	(151,031 )	(82,507 )
Other expenses	(8,722 )	(11,288 )	(33,821 )	(32,400 )	(26,669 )	(24,040 )	(13,185 )
Total expenses	(100,913 )	(109,009 )	(420,845 )	(428,337 )	(355,068 )	(251,412 )	(134,226 )
Net investment income	78,919	91,242	371,128	362,747	357,223	324,924	186,684
Realized and unrealized (losses) gains	2,447	(63,425 )	(267,766 )	(16,408 )	(38,203 )	(104,068 )	4,220
Net increase in net assets from operations	\$ 81,366	\$ 27,817	\$ 103,362	\$ 346,339	\$ 319,020	\$ 220,856	\$ 190,904
Per Share Data:							
Net increase in net assets from operations(1)	\$ 0.23	\$ 0.08	\$ 0.29	\$ 0.98	\$ 1.06	\$ 1.07	\$ 1.67
Distributions declared per share	\$(0.25 )	\$(0.25 )	\$(1.00 )	\$(1.19 )	\$(1.32 )	\$(1.28 )	\$(1.22 )
Average weighted shares	357,527,279	356,962,242	356,134,297	353,648,522	300,283,941	207,069,971	114,394,554

outstanding for  
the period  
Assets and  
Liabilities  
Data:

Investments	\$6,109,596	\$6,430,900	5,897,708	\$6,609,558	\$6,253,739	\$4,172,852	\$2,094,221	
Other assets(4)	149,894	97,427	338,473	144,356	166,520	237,758	145,340	
Total assets(4)	6,259,490	6,528,327	6,236,181	6,753,914	6,420,259	4,410,610	2,239,561	
Amount drawn on credit facility	44,000	156,700	—	368,700	92,000	124,000	96,000	
Convertible notes(4)	908,240	1,220,093	1,074,361	1,218,226	1,219,676	827,246	435,787	
Public notes(4)	736,821	541,889	699,368	541,490	637,584	340,611	96,820	
InterNotes®(4)	930,814	858,457	893,210	811,180	766,781	353,538	19,838	
Amount owed to Prospect Administration and Prospect Capital Management	52,810	5,577	55,914	6,788	2,211	6,690	8,571	
Other liabilities	151,196	131,590	77,411	104,481	83,825	102,031	70,571	
Total liabilities(4)	2,823,881	2,914,306	2,800,264	3,050,865	2,802,077	1,754,116	727,587	
Net assets	\$3,435,609	\$3,614,021	3,435,917	\$3,703,049	\$3,618,182	\$2,656,494	\$1,511,974	
Investment Activity Data:								
No. of portfolio companies at period end	123	131	125	131	142	124	85	
Acquisitions	\$347,150	\$345,743	\$979,102	\$1,867,477	\$2,933,365	\$3,103,217	\$1,120,659	
Sales, repayments, and other disposals	\$114,331	\$436,919	\$1,338,875	\$1,411,562	\$767,978	\$931,534	\$500,952	
Total return based on market value(2)	6.7	% —	% 21.8	% (20.8	)% 10.9	% 6.2	% 27.2	%
Total return based on net asset value(2)	2.8	% 2.0	% 7.2	% 11.5	% 11.0	% 10.9	% 18.0	%
Weighted average annualized yield at end of period(3)	12.8	% 13.0	% 13.2	% 12.7	% 12.1	% 13.6	% 13.9	%

(1) Per share data is based on the weighted average number of common shares outstanding for the period presented (except for dividends to shareholders which is based on actual rate per share).

(2) Total return based on market value is based on the change in market price per share between the opening and ending market prices per share in each period and assumes that dividends are reinvested in accordance with our

dividend reinvestment plan. Total return based on net asset value is based upon the change

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in net asset value per share between the opening and ending net asset values per share in each period and assumes that dividends are reinvested in accordance with our dividend reinvestment plan.

(3) Excludes equity investments and non-performing loans.

We have changed our method of presentation relating to debt issuance costs in accordance with ASU 2015-03, Interest - Imputation of Interest (Subtopic 835-30). Unamortized deferred financing costs of \$40,526, \$44,140, \$57,010, \$37,607, and \$15,693 previously reported as an asset on the Consolidated Statements of Assets and Liabilities for the years ended June 30, 2016, 2015, 2014, 2013, and 2012, respectively, and \$42,152 for the period ended September 30, 2015 have been reclassified as a direct deduction to the respective Unsecured Notes. See Critical Accounting Policies and Estimates for further discussion.

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## RISK FACTORS

Your investment in the notes will involve certain risks. This prospectus supplement and the accompanying prospectus do not describe all of those risks.

You should, in consultation with your own financial and legal advisors, carefully consider the following discussion of risks before deciding whether an investment in the notes is suitable for you. The notes will not be an appropriate investment for you if you are not knowledgeable about significant features of the notes or financial matters in general. You should not purchase the notes unless you understand, and know that you can bear, these investment risks.

Our amount of debt outstanding will increase as a result of this offering. Our current indebtedness could adversely affect our business, financial condition and results of operations and our ability to meet our payment obligations under the notes and our other debt.

As of November 10, 2016, we and our subsidiaries had approximately \$2.6 billion of unsecured senior indebtedness outstanding and as our credit facility was undrawn, no secured indebtedness outstanding.

The use of debt could have significant consequences on our future operations, including:

- making it more difficult for us to meet our payment and other obligations under the notes and our other outstanding debt;

- resulting in an event of default if we fail to comply with the financial and other restrictive covenants contained in our debt agreements, which event of default could result in all of our debt becoming immediately due and payable;

- reducing the availability of our cash flow to fund investments, acquisitions and other general corporate purposes, and limiting our ability to obtain additional financing for these purposes;

- subjecting us to the risk of increased sensitivity to interest rate increases on our indebtedness with variable interest rates, including borrowings under our amended senior credit facility; and

- limiting our flexibility in planning for, or reacting to, and increasing our vulnerability to, changes in our business, the industry in which we operate and the general economy.

Any of the above-listed factors could have an adverse effect on our business, financial condition and results of operations and our ability to meet our payment obligations under the notes and our other debt.

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

A downgrade, suspension or withdrawal of the rating assigned by a rating agency to us or the notes, if any, could cause the liquidity or market value of the notes to decline significantly.

Our credit ratings are an assessment by rating agencies of our ability to pay our debts when due. Consequently, real or anticipated changes in our credit ratings will generally affect the market value of the notes. These credit ratings may not reflect the potential impact of risks relating to the structure or marketing of the notes. Credit ratings are not a recommendation to buy, sell or hold any security, and may be revised or withdrawn at any time by the issuing organization in its sole discretion. Neither we nor the underwriters undertake any obligation to maintain the ratings or to advise holders of notes of any changes in ratings.

The notes will be rated by Standard & Poor's Ratings Services, or "S&P," and Kroll Bond Rating Agency, Inc., or "Kroll."

There can be no assurance that their rating will remain for any given period of time or that such rating will not be lowered or withdrawn entirely by S&P or Kroll if in their respective judgment future circumstances relating to the basis of the rating, such as adverse changes in our company, so warrant.

The notes will be effectively subordinated to any existing and future secured indebtedness and structurally subordinated to existing and future liabilities and other indebtedness of our subsidiaries.

The notes will be our general, unsecured obligations and will rank equally in right of payment with all of our existing and future unsubordinated, unsecured indebtedness, including without limitation, the \$129.5 million aggregate

principal amount of 5.375% Convertible Notes due 2017 (the “2017 Notes”), the \$200.0 million aggregate principal amount of 5.75% Convertible

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Notes due 2018 (the “2018 Notes”), the \$200.0 million aggregate principal amount of 5.875% Convertible Notes due 2019 (the “2019 Notes”), the \$300.0 million aggregate principal amount of 5.00% Unsecured Notes due 2019 (the “5.00% 2019 Notes”), the \$392.0 million aggregate principal amount of 4.75% Convertible Notes due 2020 (the “2020 Notes”), the \$250.0 million aggregate principal amount of 5.875% Unsecured Notes due 2023 (the “2023 Notes”) and the \$199.3 million aggregate principal amount of 6.25% Unsecured Notes due 2024 (the “2024 Notes”). The 2016 Notes were repaid on maturity of August 15, 2016. As a result, the notes will be effectively subordinated to our existing and future secured indebtedness (including indebtedness that is initially unsecured to which we subsequently grant security) to the extent of the value of the assets securing such indebtedness and structurally subordinated to any existing and future liabilities and other indebtedness of our subsidiaries. Effective subordination means that in any liquidation, dissolution, bankruptcy or other similar proceeding, the holders of any of our existing or future secured indebtedness and the secured indebtedness of our subsidiaries may assert rights against the assets pledged to secure that indebtedness in order to receive full payment of their indebtedness before the assets may be used to pay other creditors. Structural subordination means that creditors of a parent entity are subordinate to creditors of a subsidiary entity with respect to the subsidiary’s assets. These liabilities may include indebtedness, trade payables, guarantees, lease obligations and letter of credit obligations. The notes do not restrict us or our subsidiaries from incurring indebtedness, including senior secured indebtedness in the future, nor do they limit the amount of indebtedness we can issue that is equal in right of payment to the notes. As of November 10, 2016, our credit facility was undrawn. Our credit facility is secured by certain of our assets and the indebtedness thereunder is therefore effectively senior to the notes to the extent of the value of such assets.

Each of the 2017 Notes, the 2018 Notes, the 2019 Notes, the 5.00% 2019 Notes, the 2020 Notes, the 2023 Notes and the 2024 Notes may be due prior to their maturities. We do not currently know whether we will be able to replace any of the 2017 Notes, the 2018 Notes, the 2019 Notes, the 5.00% 2019 Notes, the 2020 Notes, the 2023 Notes or the 2024 Notes upon their respective maturities, or if we do, whether we will be able to do so on terms that are as favorable as such notes. In the event that we are not able to replace the 2017 Notes, the 2018 Notes, the 2019 Notes, the 5.00% 2019 Notes, the 2020 Notes, the 2023 Notes or the 2024 Notes at the time of their respective maturities, this could have a material adverse effect on our liquidity and ability to fund new investments, our ability to make distributions to our stockholders, our ability to repay the notes and our ability to qualify as a regulated investment company, or “RIC.”

The indenture and supplemental indentures under which the notes will be issued will contain limited protection for holders of the notes.

The indenture and supplemental indentures (collectively, the “indenture”) under which the notes will be issued offer limited protection to holders of the notes. The terms of the indenture and the notes do not restrict our or any of our subsidiaries’ ability to engage in, or otherwise be a party to, a variety of corporate transactions, circumstances or events that could have an adverse impact on your investment in the notes. In particular, the terms of the indenture and the notes will not place any restrictions on our or our subsidiaries’ ability to:

issue securities or otherwise incur additional indebtedness or other obligations, including (1) any indebtedness or other obligations that would be equal in right of payment to the notes, (2) any indebtedness or other obligations that would be secured and therefore rank effectively senior in right of payment to the notes to the extent of the values of the assets securing such debt, (3) indebtedness of ours that is guaranteed by one or more of our subsidiaries and which therefore is structurally senior to the notes and (4) securities, indebtedness or obligations issued or incurred by our subsidiaries that would be senior to our equity interests in our subsidiaries and therefore rank structurally senior to the notes with respect to the assets of our subsidiaries, in each case other than an incurrence of indebtedness or other obligation that would cause a violation of Section 18(a)(1)(A) as modified by Section 61(a)(1) of the 1940 Act or any successor provisions;

pay dividends on, or purchase or redeem or make any payments in respect of, capital stock or other securities ranking junior in right of payment to the notes;

sell assets (other than certain limited restrictions on our ability to consolidate, merge or sell all or substantially all of our assets);

enter into transactions with affiliates;

create liens (including liens on the shares of our subsidiaries) or enter into sale and leaseback transactions;

•make investments; or

•create restrictions on the payment of dividends or other amounts to us from our subsidiaries.

In addition, the indenture will not require us to offer to purchase the notes in connection with a change of control or any other event.

Furthermore, the terms of the indenture and the notes do not protect holders of the notes in the event that we experience changes (including significant adverse changes) in our financial condition, results of operations or credit ratings, as they do not require that we or our subsidiaries adhere to any financial tests or ratios or specified levels of net worth, revenues, income, cash

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flow, or liquidity other than certain limited restrictions on dividends and certain board structures or default provisions mandated by the 1940 Act.

Our ability to recapitalize, incur additional debt and take a number of other actions that are not limited by the terms of the notes may have important consequences for you as a holder of the notes, including making it more difficult for us to satisfy our obligations with respect to the notes or negatively affecting the trading value of the notes.

Certain of our current debt instruments include more protections for their holders than the indenture and the notes. See in the accompanying prospectus “Risk Factors—Risks Relating to Our Business—The Notes present other risks to holders of our common stock, including the possibility that the Notes could discourage an acquisition of the Company by a third party and accounting uncertainty” and “—In addition to regulatory restrictions that restrict our ability to raise capital, our credit facility contains various covenants which, if not complied with, could accelerate repayment under the facility, thereby materially and adversely affecting our liquidity, financial condition and results of operations.” In addition, other debt we issue or incur in the future could contain more protections for its holders than the indenture and the notes, including additional covenants and events of default. The issuance or incurrence of any such debt with incremental protections could affect the market for and trading levels and prices of the notes.

We may choose to redeem notes when prevailing interest rates are relatively low.

If your notes will be redeemable at our option, we may choose to redeem your notes from time to time, especially when prevailing interest rates are lower than the rate borne by the notes. If prevailing rates are lower at the time of redemption, you would not be able to reinvest the redemption proceeds in a comparable security at an effective interest rate as high as the interest rate on the notes being redeemed. Our redemption right also may adversely impact your ability to sell your notes as the optional redemption date or period approaches.

Survivor’s Option may be limited in amount.

We will have a discretionary right to limit the aggregate principal amount of notes subject to the Survivor’s Option that may be exercised in any calendar year to an amount equal to the greater of \$2.0 million or 2% of the outstanding principal amount of all notes outstanding as of the end of the most recent calendar year. We also have the discretionary right to limit to \$250,000 in any calendar year the aggregate principal amount of notes subject to the Survivor’s Option that may be exercised in such calendar year on behalf of any individual deceased beneficial owner of notes. Accordingly, no assurance can be given that exercise of the Survivor’s Option for the desired amount will be permitted in any single calendar year.

We cannot assure that a trading market for your notes will ever develop or be maintained.

In evaluating the notes, you should assume that you will be holding the notes until their stated maturity. The notes are a new issue of securities. We cannot assure you that a trading market for your notes will ever develop, be liquid or be maintained. Many factors independent of our creditworthiness affect the trading market for and market value of your notes. Those factors include, without limitation:

• the method of calculating the principal and interest for the notes;

• the time remaining to the stated maturity of the notes;

• the outstanding amount of the notes;

• the redemption or repayment features of the notes; and

• the level, direction and volatility of interest rates generally.

There may be a limited number of buyers when you decide to sell your notes. This may affect the price you receive for your notes or your ability to sell your notes at all.

Your investment in the floating rate notes will involve certain risks not associated with an investment in conventional debt securities. You should consider carefully the following discussion of risks before you decide that an investment in the floating rate notes is suitable for you.

Floating rate notes present different investment considerations than fixed rate notes. For notes with only floating rates, the rate of interest paid by us on the notes for each applicable interest period is not fixed, but will vary depending on LIBOR and accordingly could be substantially less than the rates of interest we would pay on fixed rate notes of the same maturity. Additionally, the notes may change the interest rate or interest rate formula in relation to LIBOR at one or more points during the term of such notes (often referred to as a “step up” feature) or may switch from floating to

fixed rate or from a fixed to a floating rate during the term of the notes. Consequently, the return on the notes may be less than returns otherwise payable on fixed rate debt securities issued by us with similar maturities whose interest rates cannot change. The variable interest rate on

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the notes, while determined, in part, by reference to LIBOR, may not actually pay at such rates. Furthermore, we have no control over any fluctuations in LIBOR.

If the relevant pricing supplement specifies a maximum rate, the interest rate for any interest period will be limited by the maximum rate. The maximum rate will limit the amount of interest you may receive for each such interest period, even if the fixed or floating rate component, as adjusted by any spread factor, if applicable, and/or a spread, if applicable, would have otherwise resulted in an interest rate greater than the maximum rate. As a result, if the interest rate for any interest period without taking into consideration the maximum rate would have been greater than the maximum rate, the notes will provide you less interest income than an investment in a similar instrument that is not subject to a maximum interest rate.

Our most recent NAV was calculated on September 30, 2016 and our NAV when calculated effective December 31, 2016 and thereafter may be higher or lower.

Our NAV per share is \$9.60 as of September 30, 2016. NAV per share as of December 31, 2016 may be higher or lower than \$9.60 based on potential changes in valuations, issuances of securities, repurchases of securities, dividends paid and earnings for the quarter then ended. Our Board of Directors has not yet determined the fair value of portfolio investments at any date subsequent to September 30, 2016. Our Board of Directors determines the fair value of our portfolio investments on a quarterly basis in connection with the preparation of quarterly financial statements and based on input from independent valuation firms, the Investment Adviser, the Administrator and the Audit Committee of our Board of Directors.

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

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

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

As of September 30, 2016, we were in compliance with these covenants. However, our continued compliance with these covenants depends on many factors, some of which are beyond our control. Accordingly, there are no assurances that we will continue to comply with the covenants in our credit facility. Failure to comply with these covenants would result in a default under this facility which, if we were unable to obtain a waiver from the lenders thereunder, could result in an acceleration of repayments under the facility and thereby have a material adverse impact on our business, financial condition and results of operations.

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

At our 2015 annual meeting of stockholders held on December 4, 2015 and continued until January 8, 2016, our stockholders approved our ability, subject to the condition that the maximum number of shares salable below net asset value pursuant to this authority in any particular offering that could result in such dilution is limited to 25% of our then outstanding common stock immediately prior to each such offering, to sell shares of our common stock at any level of discount from net asset value per share during the 12 month period following January 8, 2016. The issuance or sale by us of shares of our common stock or securities to subscribe for or are convertible into shares of our common stock at a discount to net asset value poses a risk of dilution to our stockholders. In particular, stockholders who do not purchase additional shares of common stock at or below the discounted price in proportion to their current ownership will experience an immediate decrease in net asset value per share (as well as in the aggregate net asset value of their shares of common stock if they do not participate at all). These stockholders will also experience a disproportionately greater decrease in their participation in our earnings and assets and their voting power than the increase we experience in our assets, potential earning power and voting interests from such issuance or sale. In addition, such sales may adversely affect the price at which our common stock trades. We have sold shares of our common stock at prices below net asset value per share in the past and may do so to the future. We have not sold any shares of our

common stock at prices below net asset value per share since December 3, 2014.

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## DESCRIPTION OF NOTES

The following description of the particular terms of the notes being offered supplements and, to the extent inconsistent with or otherwise specified in an applicable pricing supplement, replaces the description of the general terms and provisions of the debt securities set forth under the heading “Description of Our Debt Securities” in the accompanying prospectus. Unless otherwise specified in an applicable pricing supplement, the notes will have the terms described below. Capitalized terms used but not defined below have the meanings given to them in the accompanying prospectus and in the indenture relating to the notes.

The notes being offered by this prospectus supplement, the accompanying prospectus and the applicable pricing supplement will be issued under an indenture, dated as of February 16, 2012, as amended and as supplemented from time to time. U.S. Bank National Association was appointed as trustee, as successor to American Stock Transfer & Trust Company, LLC, pursuant to an Agreement of Resignation, Appointment and Acceptance dated as of March 9, 2012. The indenture is more fully described in the accompanying prospectus. The indenture does not limit the aggregate amount of debt securities that may be issued under it and provides that the debt securities may be issued under it from time to time in one or more series. The following statements are summaries of the material provisions of the indenture and the notes. These summaries do not purport to be complete and are qualified in their entirety by reference to the indenture, including for the definitions of certain terms. From time to time we may offer other debt securities either publicly or through private placement having maturities, interest rates, covenants and other terms that may differ materially from the terms of the notes described herein and in any pricing supplement.

The notes constitute a single series of debt securities for purposes of the indenture and are unlimited in aggregate principal amount under the terms of the indenture. Our board of directors has authorized the issuance and sale of the notes from time to time, up to an aggregate principal amount of \$1.5 billion. As of November 10, 2016, \$1.1 billion aggregate principal amount of notes has been issued. We have, from time to time, repurchased certain notes and, therefore, as of November 10, 2016, \$954.6 million aggregate principal amount of notes were outstanding.

Notes issued in accordance with this prospectus supplement, the accompanying prospectus and the applicable pricing supplement will have the following general characteristics:

- the notes will be our direct unsecured senior obligations and will rank equally with all of our other unsecured senior indebtedness from time to time outstanding;
- the notes may be offered from time to time by us through the Purchasing Agent and each note will mature on a day that is at least 12 months from its date of original issuance;
- each note may be issued with a fixed or floating interest rate; any floating interest rate will be based on LIBOR;
- the notes will not be subject to any sinking fund; and
- the minimum denomination of the notes will be \$1,000 (unless otherwise stated in the pricing supplement).

In addition, the pricing supplement relating to each offering of notes will describe specific terms of the notes, including but not limited to:

- the stated maturity;
- the denomination of your notes;
- the price at which we originally issue your notes, expressed as a percentage of the principal amount, and the original issue date;
- whether your notes are fixed rate notes or floating rate notes;
- if your notes are fixed rate notes, the annual rate at which your notes will bear interest, or the periodic rates in the case of notes that bear different rates at different times during the term of the notes, and the interest payment dates, if different from those stated below under “—Interest Rates—Fixed Rate Notes;”
- if your notes are floating rate notes, the interest rate, spread or spread multiplier or initial base rate, maximum rate and/or minimum rate; if there is more than one spread to be applied at different times during the term of the notes for your interest rate, which spread during which periods applies to your notes; and the interest reset, determination, calculation and payment dates, all of which we describe under “—Interest Rates—Floating Rate Notes” below;
- if applicable, the circumstances under which your notes may be redeemed at our option or repaid at the holder’s option before the stated maturity, including any redemption commencement date, repayment date(s), redemption price(s) and redemption period(s), all of which we describe under “—Redemption and Repayment” below;

whether the authorized representative of the holder of a beneficial interest in the notes will have the right to seek repayment upon the death of the holder as described under “—Survivor’s Option;”  
any special U.S. federal income tax consequences of the purchase, ownership and disposition of the notes; and  
any other significant terms of your notes, which could be different from those described in this prospectus supplement and the accompanying prospectus, but in no event inconsistent with the indenture.

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We may at any time purchase notes at any price or prices in the open market or otherwise. Notes so purchased by us may, at our discretion, be held, resold or surrendered to the trustee for cancellation.

#### Types of Notes

We may issue either of the two types of notes described below. Notes may have elements of each of the two types of notes described below. For example, notes may bear interest at a fixed rate for some periods and at a floating rate in others.

**Fixed Rate Notes.** Notes of this type will bear interest at one or more fixed rates described in your pricing supplement.

Fixed rate notes will bear interest from their original issue date or from the most recent date to which interest on the notes has been paid or made available for payment. Interest will accrue on the principal of fixed rate notes at the fixed rate or rates per annum stated in your pricing supplement during the applicable time periods as stated in your pricing supplement, until the principal is paid or made available for payment. Each payment of interest due on an interest payment date or the maturity will include interest accrued from and including the last date to which interest has been paid, or made available for payment, or from the issue date if none has been paid or made available for payment, to but excluding the interest payment date or maturity. We will compute interest on fixed rate notes on the basis of a 360-day year of twelve 30-day months (the 30/360 (ISDA) day count convention) unless your pricing supplement provides that we will compute interest on a different basis. We will pay interest on each interest payment date and at maturity as described below under “—Payments of Principal and Interest.” Notes may be offered that switch from a fixed rate to a floating rate or from a floating rate to a fixed rate during the term of the notes.

**Floating Rate Notes.** Notes of this type will bear interest at rates that are determined by reference to an interest rate formula based on LIBOR. In some cases, the rates may also be adjusted by adding or subtracting a spread in relation to LIBOR or multiplying by a spread multiplier and may be subject to a minimum rate and/or a maximum rate. The various interest rate formulas and these other features are described below in “—Interest Rates—Floating Rate Notes.” If your notes are floating rate notes, the formula and any adjustments that apply to the interest rate will be specified in your pricing supplement.

Floating rate notes will bear interest from their original issue date or from the most recent date to which interest on the notes has been paid or made available for payment. Interest will accrue on the principal of floating rate notes at a rate per annum determined according to the interest rate formula stated in your pricing supplement during the applicable interest rate periods as stated in your pricing supplement, until the principal is paid or made available for payment. We will pay interest on each interest payment date and at maturity as described below “—Payments of Principal and Interest.” Notes may be offered that switch from a fixed rate to a floating rate or from a floating rate to a fixed rate during the term of the notes.

#### Interest Rates

This subsection describes the different kinds of interest rates that may apply to your notes, as specified in your pricing supplement.

**Fixed Rate Notes.** Fixed rate notes will bear interest from their original issue date or from the most recent date to which interest on the notes has been paid or made available for payment. Interest will accrue on the principal of fixed rate notes at the fixed yearly rate or rates stated in your pricing supplement during the applicable time periods as stated in your pricing supplement, until the principal is paid or made available for payment. Your pricing supplement will describe the interest periods and relevant interest payment dates on which interest on fixed rate notes will be payable. Each payment of interest due on an interest payment date or the maturity will include interest accrued from and including the last date to which interest has been paid, or made available for payment, or from the issue date if none has been paid or made available for payment, to but excluding the interest payment date or the maturity. We will compute interest on fixed rate notes on the basis of a 360-day year of twelve 30-day months (the 30/360 (ISDA) day count convention), unless your pricing supplement provides that we will compute interest on a different basis. We will pay interest on each interest payment date and at maturity as described below under “—Payments of Principal and Interest.”

**Floating Rate Notes.** Floating rate notes will bear interest at rates that are determined by reference to an interest rate formula based on LIBOR. In some cases, the rates may also be adjusted by adding or subtracting a spread in relation to LIBOR or multiplying by a spread multiplier and may be subject to a minimum rate and/or a maximum rate. If your

note is a floating rate note, the formula and any adjustments that apply to the interest rate will be specified in your pricing supplement.

Each floating rate note will bear interest from its original issue date or from the most recent date to which interest on the note has been paid or made available for payment. Interest will accrue on the principal of a floating rate note at a rate per annum determined according to the interest rate formula stated in the pricing supplement during the applicable interest rate period specified in your pricing supplement, until the principal is paid or made available for payment. We will pay interest on each interest payment date and at maturity as described below under “—Payment of Principal and Interest.”

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In addition, the following will apply to floating rate notes.

#### Initial Base Rate

Unless otherwise specified in your pricing supplement, for floating rate notes, the initial base rate will be the applicable LIBOR base rate in effect from and including the original issue date to but excluding the initial interest reset date. We will specify the initial LIBOR base rate in your pricing supplement.

#### Spread or Spread Multiplier

In some cases, the base rate for floating rate notes may be adjusted:

• by adding or subtracting a specified number of basis points, called the spread, with one basis point being 0.01%; or

• by multiplying the base rate by a specified percentage, called the spread multiplier.

If you purchase floating rate notes, your pricing supplement will specify whether a spread or spread multiplier will apply to your notes and, if so, the amount of the applicable spread or spread multiplier and any increases or decreases in the spread or spread multiplier during the term of your notes.

#### Maximum and Minimum Rates

The actual interest rate, after being adjusted by the spread or spread multiplier, may also be subject to either or both of the following limits:

• a maximum rate—i.e., a specified upper limit that the actual interest rate in effect at any time may not exceed; and/or

• a minimum rate—i.e., a specified lower limit that the actual interest rate in effect at any time may not fall below.

If you purchase floating rate notes, your pricing supplement will specify whether a maximum rate and/or minimum rate will apply to your notes and, if so, what those rates are.

Whether or not a maximum rate applies, the interest rate on floating rate notes will in no event be higher than the maximum rate permitted by New York law, as it may be modified by U.S. law of general application. Under current New York law, the maximum rate of interest, with some exceptions, for any loan in an amount less than \$250,000 is 16% and for any loan in the amount of \$250,000 or more but less than \$2,500,000 is 25%, per year on a simple interest basis. These limits do not apply to loans of \$2,500,000 or more.

The rest of this subsection describes how the interest rate and the interest payment dates will be determined, and how interest will be calculated, on floating rate notes.

#### Interest Reset Dates

Except as otherwise specified in your pricing supplement, the rate of interest on floating rate notes will be reset, by the calculation agent described below, daily, weekly, monthly, quarterly, semi-annually or annually (each, an “interest reset period”). The date on which the interest rate resets and the reset rate becomes effective is called the interest reset date. Except as otherwise specified in your pricing supplement, the interest reset date will be as follows:

• for floating rate notes that reset daily, each London business day (as defined below);

• for floating rate notes that reset weekly, the Wednesday of each week;

• for floating rate notes that reset monthly, the third Wednesday of each month;

• for floating rate notes that reset quarterly, the third Wednesday of each of four months of each year as specified in your pricing supplement;

• for floating rate notes that reset semi-annually, the third Wednesday of each of two months of each year as specified in your pricing supplement; and

• for floating rate notes that reset annually, the third Wednesday of one month of each year as specified in your pricing supplement.

For floating rate notes, the interest rate in effect on any particular day will be the interest rate determined with respect to the latest interest reset date that occurs on or before that day. There are several exceptions, however, to the reset provisions described above.

Interest reset dates are subject to adjustment, as described below under “—Business Day Conventions.”

The base rate in effect from and including the original issue date to but excluding the first interest reset date will be the initial base rate. For floating rate notes that reset daily or weekly, the base rate in effect for each day following the fifth business

day before an interest payment date to, but excluding, the interest payment date, and for each day following the fifth business day before the maturity to, but excluding, the maturity, will be the base rate in effect on that fifth business day.

#### Interest Determination Dates

The interest rate that takes effect on an interest reset date will be determined by the calculation agent for the LIBOR base rates by reference to a particular date called an interest determination date. Except as otherwise specified in your pricing supplement, the interest determination date relating to a particular interest reset date will be the second London business day preceding the interest reset date. We refer to an interest determination date for LIBOR notes as a LIBOR interest determination date.

#### Interest Calculation Date

The interest rate that takes effect on a particular interest reset date will be determined by reference to the corresponding interest determination date or interest reset date, as applicable. For some notes, however, the calculation agent will set the rate on a day no later than the corresponding interest calculation date. Unless otherwise specified in your pricing supplement, the interest calculation date for rates to which a calculation date applies will be the business day immediately preceding the date on which interest will next be paid (on an interest payment date or the maturity, as the case may be). The calculation agent need not wait until the relevant interest calculation date to determine the interest rate if the rate information it needs to make the determination is available from the relevant sources sooner.

#### Interest Rate Calculations

Interest payable on floating rate notes for any particular interest period will be calculated as described below using an interest factor, expressed as a decimal, applicable to each day during the applicable interest period, unless otherwise specified in your pricing supplement.

Calculations relating to floating rate notes will be made by the calculation agent, an institution that we appoint as our agent for this purpose. We have initially appointed U.S. Bank National Association as our calculation agent for any floating rate notes. We may specify a different calculation agent in your pricing supplement. The applicable pricing supplement for your floating rate note will name the institution that we have appointed to act as the calculation agent for that note as of its original issue date. We may appoint a different institution to serve as calculation agent from time to time after the original issue date of your floating rate note without your consent and without notifying you of the change. Absent manifest error, all determinations of the calculation agent will be final and binding on you and us, without any liability on the part of the calculation agent.

For floating rate notes, the calculation agent will determine, on the corresponding interest calculation date or interest determination date, as described below, the interest rate that takes effect on each interest reset date. In addition, the calculation agent will calculate the amount of interest that has accrued during each interest period—i.e., the period from and including the original issue date, or the last date to which interest has accrued (which may be the interest payment date or any interest reset date in accordance with the business day convention), to but excluding the next date to which interest will accrue (which may be the interest payment date or any interest reset date in accordance with the business day convention). For each interest period, the calculation agent will calculate the amount of accrued interest by multiplying the face amount of the floating rate note by an accrued interest factor for the interest period. Such accrued interest rate factor is determined by multiplying the applicable interest rate for the period by the day count fraction. The day count fraction will be determined in accordance with the 30/360 (ISDA) day count convention, where the number of days in the interest period in respect of which payment is being made is divided by 360, calculated on a formula basis as follows:

where:

“Y1” is the year, expressed as a number, in which the first day of the interest period falls;

“Y2” is the year, expressed as a number, in which the day immediately following the last day included in the interest period falls;

“M1” is the calendar month, expressed as a number, in which the first day of the interest period falls;

“M2” is the calendar month, expressed as a number, in which the day immediately following the last day included in the interest period falls;



“D1” is the first calendar day, expressed as a number, of the interest period, unless such number would be 31, in which case D1 will be 30; and

“D2” is the calendar day, expressed as a number, immediately following the last day included in the interest period, unless such number would be 31 and D1 is greater than 29, in which case D2 will be 30.

Upon the request of the holder of any floating rate note, the calculation agent will provide the interest rate then in effect, and, if determined, the interest rate that will become effective on the next interest reset date with respect to such floating rate note.

All percentages resulting from any calculation relating to any note will be rounded upward or downward, as appropriate, to the next higher or lower one hundred-thousandth of a percentage point, e.g., 9.876541% (or .09876541) being rounded down to 9.87654% (or .0987654) and 9.876545% (or .09876545) being rounded up to 9.87655% (or .0987655). All amounts used in or resulting from any calculation relating to any note will be rounded upward or downward to the nearest cent.

#### Sources and Corrections

If we refer to a rate as set forth on a display page, other published source, information vendor or other vendor officially designated by the sponsor of that rate, if there is a successor source for the display page, other published source, information vendor or other official vendor, we refer to that successor source as applicable as determined by the calculation agent. When we refer to a particular heading or headings on any of those sources, those references include any successor or replacement heading or headings as determined by the calculation agent.

If the applicable rate is based on information obtained from a Reuters screen, that rate will be subject to the corrections, if any, published on that Reuters screen within one hour of the time that rate was first displayed on such source.

#### LIBOR Calculation

LIBOR, with respect to the base rate and any interest reset date, will be the London interbank offered rate for deposits in U.S. dollars for the index maturity specified in your pricing supplement, appearing on the Reuters screen LIBOR page as of approximately 11:00 A.M., London time, on the relevant LIBOR interest determination date.

If the rate described above does not so appear on the Reuters screen LIBOR page, then LIBOR will be determined on the basis of the rates at which deposits in U.S. dollars are offered by four major banks in the London interbank market selected by the calculation agent at approximately 11:00 A.M., London time, on the relevant LIBOR interest determination date, to prime banks in the London interbank market for a period of the specified index maturity, beginning on the relevant interest reset date, and in a representative amount. The calculation agent will request the principal London office of each of these major banks to provide a quotation of its rate. If at least two quotations are provided, LIBOR for the relevant interest reset date will be the arithmetic mean of the quotations.

If fewer than two of the requested quotations described above are provided, LIBOR for the relevant interest reset date will be the arithmetic mean of the rates quoted by major banks in New York City selected by the calculation agent, at approximately 11:00 A.M., New York City time (or the time in the relevant principal financial center), on the relevant interest reset date, for loans in U.S. dollars (or the index currency) to leading European banks for a period of the specified index maturity, beginning on the relevant interest reset date, and in a representative amount.

If no quotation is provided as described in the preceding paragraph, then the calculation agent, after consulting such sources as it deems comparable to any of the foregoing quotations or display page, or any such source as it deems reasonable from which to estimate LIBOR or any of the foregoing lending rates, shall determine LIBOR for that interest reset date in its sole discretion.

For the purpose of this section, we define the term “index maturity” as the interest rate period of LIBOR on which the interest rate formula is based as specified in your pricing supplement.

In all cases, if the stated maturity or any earlier redemption date or repayment date with respect to any note falls on a day that is not a business day, any payment of principal, premium, if any, and interest otherwise due on such day will be made on the next succeeding business day, and no interest on such payment shall accrue for the period from and after such stated maturity, redemption date or repayment date, as the case may be.

#### Business Days

The term “London business day” will apply to your floating rate notes, as specified in your pricing supplement, and it means each Monday, Tuesday, Wednesday, Thursday and Friday that is not a day on which banking institutions in London generally are authorized or obligated by law, regulation or executive order to close and is also a day on which dealings in the applicable index currency are transacted in the London interbank market.

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**Business Day Convention**

The business day convention that will apply to your notes is the “following business day convention.” The “following business day convention” means, for any interest payment date or interest reset date, other than the maturity, if such date would otherwise fall on a day that is not a business day, then such date will be postponed to the next day that is a business day.

**Payment of Principal and Interest**

Principal of and interest on beneficial interests in the notes will be made in accordance with the arrangements then in place between the paying agent and The Depository Trust Company (referred to as “DTC”) and its participants as described under “Registration and Settlement—The Depository Trust Company.” Payments in respect of any notes in certificated form will be made as described under “Registration and Settlement—Registration, Transfer and Payment of Certificated Notes.”

Interest on each note will be payable either monthly, quarterly, semi-annually or annually on each interest payment date and at the note’s stated maturity or on the date of redemption or repayment if a note is redeemed or repaid prior to maturity. Interest is payable to the person in whose name a note is registered at the close of business on the regular record date before each interest payment date. Interest due at a note’s stated maturity or on a date of redemption or repayment will be payable to the person to whom principal is payable.

We will pay any administrative costs imposed by banks in connection with making payments in immediately available funds, but any tax, assessment or governmental charge imposed upon any payments on a note, including, without limitation, any withholding tax, is the responsibility of the holders of beneficial interests in the note in respect of which such payments are made.

**Payment and Record Dates for Interest**

Interest on the notes will be paid as follows:

Interest Payment Frequency	Interest Payment Dates
Monthly	Fifteenth day of each calendar month, beginning in the first calendar month following the month the note was issued.
Quarterly	Fifteenth day of every third month, beginning in the third calendar month following the month the note was issued.
Semi-annually	Fifteenth day of every sixth month, beginning in the sixth calendar month following the month the note was issued.
Annually	Fifteenth day of every twelfth month, beginning in the twelfth calendar month following the month the note was issued.

The regular record date for any interest payment date will be the first day of the calendar month in which the interest payment date occurs, except that the regular record date for interest due on the note’s stated maturity date or date of earlier redemption or repayment will be that particular date. For the purpose of determining the holder at the close of business on a regular record date when business is not being conducted, the close of business will mean 5:00 P.M., New York City time, on that day.

Interest on a note will be payable beginning on the first interest payment date after its date of original issuance to holders of record on the corresponding regular record date.

“Business day” means any day, other than a Saturday or Sunday, that is neither a legal holiday nor a day on which banking institutions are authorized or required by law or regulation to close in The City of New York.

**Redemption and Repayment**

Unless we otherwise provide in the applicable pricing supplement, a note will not be redeemable or repayable prior to its stated maturity date.

If the pricing supplement states that the note will be redeemable at our option prior to its stated maturity date, then on such date or dates specified in the pricing supplement, we may redeem those notes at our option either in whole or from time to time in part, upon not less than 30 nor more than 60 days’ written notice to the holder of those notes.

If the pricing supplement states that your note will be repayable at your option prior to its stated maturity date, we will require receipt of notice of the request for repayment at least 30 but not more than 60 days prior to the date or dates specified in





the pricing supplement. We also must receive the completed form entitled “Option to Elect Repayment.” Exercise of the repayment option by the holder of a note is irrevocable.

Since the notes will be represented by a global note, DTC or its nominee will be treated as the holder of the notes; therefore DTC or its nominee will be the only entity that receives notices of redemption of notes from us, in the case of our redemption of notes, and will be the only entity that can exercise the right to repayment of notes, in the case of optional repayment. See “Registration and Settlement.”

To ensure that DTC or its nominee will timely exercise a right to repayment with respect to a particular beneficial interest in a note, the beneficial owner of the interest in that note must instruct the broker or other direct or indirect participant through which it holds the beneficial interest to notify DTC or its nominee of its desire to exercise a right to repayment. Because different firms have different cut-off times for accepting instructions from their customers, each beneficial owner should consult the broker or other direct or indirect participant through which it holds an interest in a note to determine the cut-off time by which the instruction must be given for timely notice to be delivered to DTC or its nominee. Conveyance of notices and other communications by DTC or its nominee to participants, by participants to indirect participants and by participants and indirect participants to beneficial owners of the notes will be governed by agreements among them and any applicable statutory or regulatory requirements.

The redemption or repayment of a note normally will occur on the interest payment date or dates following receipt of a valid notice. Unless otherwise specified in the pricing supplement, the redemption or repayment price will equal 100% of the principal amount of the note plus unpaid interest accrued to the date or dates of redemption or repayment. We may at any time purchase notes at any price or prices in the open market or otherwise. We may also purchase notes otherwise tendered for repayment by a holder or tendered by a holder’s duly authorized representative through exercise of the Survivor’s Option described below. If we purchase the notes in this manner, we have the discretion to either hold, resell or surrender the notes to the trustee for cancellation.

#### Survivor’s Option

The “Survivor’s Option” is a provision in a note pursuant to which we agree to repay that note, if requested by the authorized representative of the beneficial owner of that note, following the death of the beneficial owner of the note, so long as the note was owned by that beneficial owner or the estate of that beneficial owner at least six months prior to the request. The pricing supplement relating to each offering of notes will state whether the Survivor’s Option applies to those notes.

If a note is entitled to a Survivor’s Option, upon the valid exercise of the Survivor’s Option and the proper tender of that note for repayment, we will, at our option, repay or repurchase that note, in whole or in part, at a price equal to 100% of the principal amount of the deceased beneficial owner’s interest in that note plus unpaid interest accrued to the date of repayment.

To be valid, the Survivor’s Option must be exercised by or on behalf of the person who has authority to act on behalf of the deceased beneficial owner of the note (including, without limitation, the personal representative or executor of the deceased beneficial owner or the surviving joint owner with the deceased beneficial owner) under the laws of the applicable jurisdiction.

The death of a person holding a beneficial ownership interest in a note as a joint tenant or tenant by the entirety with another person, or as a tenant in common with the deceased holder’s spouse, will be deemed the death of a beneficial owner of that note, and the entire principal amount of the note so held will be subject to repayment by us upon request. However, the death of a person holding a beneficial ownership interest in a note as tenant in common with a person other than such deceased holder’s spouse will be deemed the death of a beneficial owner only with respect to such deceased person’s interest in the note.

The death of a person who, during his or her lifetime, was entitled to substantially all of the beneficial ownership interests in a note will be deemed the death of the beneficial owner of that note for purposes of the Survivor’s Option, regardless of whether that beneficial owner was the registered holder of that note, if entitlement to those interests can be established to the satisfaction of the trustee. A beneficial ownership interest will be deemed to exist in typical cases of nominee ownership, ownership under the Uniform Transfers to Minors Act or Uniform Gifts to Minors Act, community property or other joint ownership arrangements between a husband and wife. In addition, a beneficial ownership interest will be deemed to exist in custodial and trust arrangements where one person has all of the beneficial ownership interests in the applicable note during his or her lifetime.

We have the discretionary right to limit the aggregate principal amount of notes as to which exercises of the Survivor's Option shall be accepted by us from authorized representatives of all deceased beneficial owners in any calendar year to an amount equal to the greater of \$2,000,000 or 2% of the principal amount of all notes outstanding as of the end of the most recent calendar year. We also have the discretionary right to limit to \$250,000 in any calendar year the aggregate principal amount of notes as to which exercises of the Survivor's Option shall be accepted by us from the authorized representative of

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any individual deceased beneficial owner of notes in such calendar year. In addition, we will not permit the exercise of the Survivor's Option except in principal amounts of \$1,000 and multiples of \$1,000.

An otherwise valid election to exercise the Survivor's Option may not be withdrawn. Each election to exercise the Survivor's Option will be accepted in the order that elections are received by the trustee, except for any note the acceptance of which would contravene any of the limitations described in the preceding paragraph. Notes accepted for repayment through the exercise of the Survivor's Option normally will be repaid on the first interest payment date that occurs 20 or more calendar days after the date of the acceptance. For example, if the acceptance date of a note tendered through a valid exercise of the Survivor's Option is September 1, 2017, and interest on that note is paid monthly, we would normally, at our option, repay that note on the interest payment date occurring on October 15, 2017, because the September 15, 2017 interest payment date would occur less than 20 days from the date of acceptance. Each tendered note that is not accepted in any calendar year due to the application of any of the limitations described in the preceding paragraph will be deemed to be tendered in the following calendar year in the order in which all such notes were originally tendered. If a note tendered through a valid exercise of the Survivor's Option is not accepted, the trustee will deliver a notice by first-class mail to the registered holder, at that holder's last known address as indicated in the note register, that states the reason that note has not been accepted for repayment. With respect to notes represented by a global note, DTC or its nominee is treated as the holder of the notes and will be the only entity that can exercise the Survivor's Option for such notes. To obtain repayment pursuant to exercise of the Survivor's Option for a note, the deceased beneficial owner's authorized representative must provide the following items to the broker or other entity through which the beneficial interest in the note is held by the deceased beneficial owner:

- a written instruction to such broker or other entity to notify DTC of the authorized representative's desire to obtain repayment pursuant to exercise of the Survivor's Option;
- appropriate evidence satisfactory to the trustee (a) that the deceased was the beneficial owner of the note at the time of death and his or her interest in the note was owned by the deceased beneficial owner or his or her estate at least six months prior to the request for repayment, (b) that the death of the beneficial owner has occurred, (c) of the date of death of the beneficial owner, and (d) that the representative has authority to act on behalf of the beneficial owner;
- if the interest in the note is held by a nominee of the deceased beneficial owner, a certificate satisfactory to the trustee from the nominee attesting to the deceased's beneficial ownership of such note;
- written request for repayment signed by the authorized representative of the deceased beneficial owner with the signature guaranteed by a member firm of a registered national securities exchange or of the Financial Industry Regulatory Authority, Inc. or a commercial bank or trust company having an office or correspondent in the United States;
- if applicable, a properly executed assignment or endorsement;
- tax waivers and any other instruments or documents that the trustee reasonably requires in order to establish the validity of the beneficial ownership of the note and the claimant's entitlement to payment; and
- any additional information the trustee reasonably requires to evidence satisfaction of any conditions to the exercise of the Survivor's Option or to document beneficial ownership or authority to make the election and to cause the repayment of the note.

In turn, the broker or other entity will deliver each of these items to the trustee, together with evidence satisfactory to the trustee from the broker or other entity stating that it represents the deceased beneficial owner.

The death of a person owning a note in joint tenancy or tenancy by the entirety with another or others shall be deemed the death of the holder of the note, and the entire principal amount of the note so held shall be subject to repayment, together with interest accrued thereon to the repayment date. The death of a person owning a note by tenancy in common shall be deemed the death of a holder of a note only with respect to the deceased holder's interest in the note so held by tenancy in common; except that in the event a note is held by husband and wife as tenants in common, the death of either shall be deemed the death of the holder of the note, and the entire principal amount of the note so held shall be subject to repayment. The death of a person who, during his or her lifetime, was entitled to substantially all of the beneficial interests of ownership of a note, shall be deemed the death of the holder thereof for purposes of this provision, regardless of the registered holder, if such beneficial interest can be established to the satisfaction of the trustee and us. Such beneficial interest shall be deemed to exist in typical cases of nominee ownership, ownership

under the Uniform Gifts to Minors Act, the Uniform Transfers to Minors Act, community property or other joint ownership arrangements between a husband and wife and trust arrangements where one person has substantially all of the beneficial ownership interest in the note during his or her lifetime.

We retain the right to limit the aggregate principal amount of notes as to which exercises of the Survivor's Option applicable to the notes will be accepted in any one calendar year as described above. All other questions regarding the eligibility or validity of any exercise of the Survivor's Option will be determined by the trustee, in its sole discretion, which determination will be final and binding on all parties.

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The broker or other entity will be responsible for disbursing payments received from the trustee to the authorized representative. See “Registration and Settlement.”

Forms for the exercise of the Survivor’s Option may be obtained from the Trustee at 100 Wall Street, Suite 1600, New York, NY 10005, Attention: General Counsel.

If applicable, we will comply with the requirements of Section 14(e) of the Exchange Act, and the rules promulgated thereunder, and any other securities laws or regulations in connection with any repayment of notes at the option of the registered holders or beneficial owners thereof.

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## MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

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

References herein to "we," "us" or "our" refer to Prospect Capital Corporation and its subsidiary unless the context specifically requires otherwise.

The following discussion should be read in conjunction with the consolidated financial statements and notes thereto appearing elsewhere in this prospectus supplement and accompanying prospectus. Historical results set forth are not necessarily indicative of our future financial position and results of operations.

### Overview

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

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

On May 15, 2007, we formed a wholly-owned subsidiary Prospect Capital Funding LLC ("PCF"), a Delaware limited liability company and a bankruptcy remote special purpose entity, which holds certain of our portfolio loan investments that are used as collateral for the revolving credit facility at PCF. Our wholly-owned subsidiary Prospect Small Business Lending, LLC ("PSBL") was formed on January 27, 2014 and purchases small business whole loans on a recurring basis from online small business loan originators, including On Deck Capital, Inc. ("OnDeck"). 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: AMU Holdings Inc.; APH Property Holdings, LLC ("APH"); Arctic Oilfield Equipment USA, Inc.; 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; Harbortouch Holdings of Delaware Inc.; MITY Holdings of Delaware Inc.; Nationwide Acceptance Holdings LLC; NMMB Holdings, Inc. ("NMMB Holdings"); 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. On October 10, 2014, concurrent with the sale of the operating company, our ownership increased to 100% of the outstanding equity of ARRM Services, Inc. which was renamed SB Forging Company, Inc. ("SB Forging"). As such, we began consolidating SB Forging on October 11, 2014. 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 dissolved. We collectively refer to these entities as the "Consolidated Holding Companies."

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

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

We currently have nine origination strategies in which we make investments: (1) lending in private equity sponsored transactions, (2) lending directly to companies not owned by private equity firms, (3) control investments in corporate

operating companies, (4) control investments in financial companies, (5) investments in structured credit, (6) real estate investments, (7) investments in syndicated debt, (8) aircraft leasing and (9) online lending. We continue to evaluate other origination strategies in the ordinary course of business with no specific top-down allocation to any single origination strategy.

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

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

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

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

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

**Real Estate Investments** – We make investments in real estate through our wholly-owned tax-efficient real estate investment trust (“REIT”) NPRC, the surviving entity of the May 23, 2016 merger with APRC and UPRC. Our real estate investments are in various classes of fully developed and occupied real estate properties that generate current yields. We seek to identify properties that have historically high occupancy and steady cash flow generation. NPRC co-invests with established and experienced property managers that manage such properties after acquisition. This investment strategy has comprised approximately 5%-10% of our business.

**Investments in Syndicated Debt** – On an opportunistic basis, we make investments in loans and high yield bonds that have been sold to a syndicate of buyers. Here we look for investments with attractive risk-adjusted returns after we have completed a fundamental credit analysis. These investments are purchased with a long term, buy-and-hold outlook and we look to provide significant structuring input by providing anchoring orders. This strategy has comprised approximately 5%-10% of our business.

**Aircraft Leasing** – We invest in debt as well as equity in aircraft assets subject to commercial leases to credit-worthy airlines across the globe. These investments present attractive return opportunities due to cash flow consistency from long-lived assets coupled with hard asset collateral. We seek to deliver risk-adjusted returns with strong downside protection by analyzing relative value characteristics across the spectrum of aircraft types of all vintages. Our target portfolio includes both in-production and out-of-production jet and turboprop aircraft and engines, operated by airlines across the globe. This strategy comprised approximately 1% of our business.

**Online Lending** – We make investments in loans originated by certain consumer loan and small and medium sized business (“SME”) loan facilitators. We purchase each loan in its entirety (i.e., a “whole loan”). The borrowers are consumers and SMEs. The loans are typically serviced by the facilitators of the loans. This investment strategy has comprised approximately 4%-8% of our business.

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

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We hold many of our control investments in a two-tier structure consisting of a holding company and one or more related operating companies for tax purposes. These holding companies serve various business purposes including concentration of management teams, optimization of third party borrowing costs, improvement of supplier, customer, and insurance terms, and enhancement of co-investments by the management teams. In these cases, our investment, which is generally equity in the holding company, the holding company's equity investment in the operating company and any debt from us directly to the operating company structure represents our total exposure for the investment. As of September 30, 2016, as shown in our Consolidated Schedule of Investments, the cost basis and fair value of our investments in controlled companies was \$1,870,228 and \$1,867,823, respectively. This structure gives rise to several of the risks described in our public documents and highlighted elsewhere in this prospectus supplement. We consolidate all wholly-owned and substantially wholly-owned holding companies formed by us for the purpose of holding our controlled investments in operating companies. There is no significant effect of consolidating these holding companies as they hold minimal assets other than their investments in the controlled operating companies. Investment company accounting prohibits the consolidation of any operating companies.

#### First Quarter Highlights

##### Investment Transactions

We seek to be a long-term investor with our portfolio companies. During the three months ended September 30, 2016, we acquired \$140,823 of new investments, completed follow-on investments in existing portfolio companies totaling approximately \$197,888, funded \$3,000 of revolver advances, and recorded paid in kind ("PIK") interest of \$5,439, resulting in gross investment originations of \$347,150. During the three months ended September 30, 2016, we received full repayments on two investments, sold three investments, and received several partial prepayments and amortization payments totaling \$114,331, which resulted in net realized gains totaling \$714. The more significant of these transactions are discussed in "Portfolio Investment Activity."

##### Debt Issuances and Redemptions

During the three months ended September 30, 2016, we issued \$38,917 aggregate principal amount of Prospect Capital InterNotes® for net proceeds of \$38,435. These notes were issued with stated interest rates ranging from 5.00% to 5.50% with a weighted average interest rate of 5.42%. These notes mature between July 15, 2021 and September 15, 2021.

During the three months ended September 30, 2016, we repaid \$1,979 aggregate principal amount of Prospect Capital InterNotes® at par in accordance with the Survivor's Option, as defined in the InterNotes® Offering prospectus. As a result of these transactions, we recorded a loss in the amount of the difference between the reacquisition price and the net carrying amount of the notes, net of the proportionate amount of unamortized debt issuance costs. The net loss on the extinguishment of Prospect Capital InterNotes® in the three months ended September 30, 2016 was \$61.

We repaid the outstanding principal amount of \$167,500, plus interest, on the convertible notes that matured on August 15, 2016. No gain or loss was realized on the transaction.

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 unsecured notes that mature on June 15, 2024 ("2024 Notes Follow-on Program"). During the three months ended September 30, 2016, we issued \$37,901 in aggregate principal amount of our 2024 Notes Follow-on Program for net proceeds of \$37,425 after commissions and offering costs.

##### Equity Issuances

On July 21, 2016, August 18, 2016, and September 22, 2016, we issued 307,564, 310,101, and 317,262 shares of our common stock in connection with the dividend reinvestment plan, respectively.

### “Spin-Offs” of Certain Business Strategies

We previously announced that we intend to unlock value by “spinning off” three “pure play” business strategies - our consumer online lending business, real estate business and structured credit business - to our shareholders in conjunction with rights offering capital raises in which existing Prospect shareholders could elect to participate in each offering or sell their rights. The goals of these “spin-offs” include leverage and earnings neutrality for Prospect. Our primary objective is to maximize the valuation of each offering (declining to proceed with any offering if we find any valuation not to be attractive). The size and likelihood of each of these dispositions, some of which are expected to be partial rather than complete spin-offs, remain to be determined, but we currently expect the collective size of these three dispositions, if any, to be 10% or less of our asset base. Any such dispositions cannot occur unless and until our application for exemptive relief is granted by the SEC. Should the SEC not grant our application for exemptive relief, these dispositions will not occur as initially planned. The consummation of any of the dispositions also depends upon, among other things: market conditions, regulatory and exchange listing approval, and sufficient investor demand. There can be no assurance that we will consummate any of these dispositions.

### Investment Holdings

As of September 30, 2016, we continue to pursue our investment strategy. At September 30, 2016, approximately \$6,109,596, or 177.8%, of our net assets are invested in 123 long-term portfolio investments and CLOs.

During the three months ended September 30, 2016, we originated \$347,150 of new investments, primarily composed of \$158,910 of debt and equity financing to non-controlled portfolio investments, \$119,180 of debt and equity financing to controlled investments, and \$69,060 of subordinated notes in CLOs. Our origination efforts are focused primarily on secured lending to non-control investments to reduce the risk in the portfolio by investing primarily in first lien loans, though we also continue to close select junior debt and equity investments. Our annualized current yield was 13.2% and 12.8% as of June 30, 2016 and September 30, 2016, respectively, across all performing interest bearing investments. The decrease in our current yield is primarily due to increased default rates in the underlying collateral of our CLO investment portfolio. Monetization of equity positions that we hold and loans on non-accrual status are not included in this yield calculation. In many of our portfolio companies we hold equity positions, ranging from minority interests to majority stakes, which we expect over time to contribute to our investment returns. Some of these equity positions include features such as contractual minimum internal rates of returns, preferred distributions, flip structures and other features expected to generate additional investment returns, as well as contractual protections and preferences over junior equity, in addition to the yield and security offered by our cash flow and collateral debt protections.

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

As of September 30, 2016, we own controlling interests in the following portfolio companies: Arctic Energy Services, LLC (“Arctic Energy”); CCPI Inc. (“CCPI”); CP Energy Services Inc. (“CP Energy”); Credit Central Loan Company, LLC (“Credit Central”); Echelon Aviation LLC (“Echelon”); Edmentum Ultimate Holdings, LLC; First Tower Finance Company LLC (“First Tower Finance”); Freedom Marine Solutions, LLC (“Freedom Marine”); Gulf Coast Machine & Supply Company (“Gulf Coast”); MITY, Inc.; NPRC; Nationwide Loan Company LLC (f/k/a Nationwide Acceptance LLC) (“Nationwide”); NMMB, Inc. (“NMMB”); R-V Industries, Inc.; USES Corp. (“USES”); Valley Electric Company, Inc. (“Valley Electric”); and Wolf Energy, LLC. We also own an affiliated interest in Targus International, LLC (“Targus”).

The following shows the composition of our investment portfolio by level of control as of September 30, 2016 and June 30, 2016:

Level of Control	September 30, 2016				June 30, 2016			
	Cost	% of Portfolio	Fair Value	% of Portfolio	Cost	% of Portfolio	Fair Value	% of Portfolio
Control Investments	\$ 1,870,228	29.7%	\$ 1,867,823	30.6%	\$ 1,768,220	29.0%	\$ 1,752,449	29.7%
Affiliate Investments	8,530	0.1%	6,966	0.1%	10,758	0.2%	11,320	0.2%
Non-Control/Non-Affiliate Investments	4,422,436	70.2%	4,234,807	69.3%	4,312,122	70.8%	4,133,939	70.1%
Total Investments	\$ 6,301,194	100.0%	\$ 6,109,596	100.0%	\$ 6,091,100	100.0%	\$ 5,897,708	100.0%

The following shows the composition of our investment portfolio by type of investment as of September 30, 2016 and June 30, 2016:

Type of Investment	September 30, 2016				June 30, 2016			
	Cost	% of Portfolio	Fair Value	% of Portfolio	Cost	% of Portfolio	Fair Value	% of Portfolio
Revolving Line of Credit	\$ 8,850	0.1	\$ 8,850	0.1	\$ 13,274	0.2	\$ 13,274	0.2
Senior Secured Debt	3,259,769	51.7	3,132,687	51.4	3,072,839	50.4	2,941,722	50.0
Subordinated Secured Debt	1,189,830	18.9	1,189,272	19.5	1,228,598	20.2	1,209,604	20.5
Subordinated Unsecured Debt	76,751	1.2	68,966	1.1	75,878	1.2	68,358	1.2
Small Business Loans	15,810	0.3	15,206	0.2	14,603	0.2	14,215	0.2
CLO Residual Interest	1,128,530	18.0	1,031,122	16.9	1,083,540	17.9	1,009,696	17.1
Preferred Stock	137,092	2.2	76,065	1.2	139,320	2.3	78,922	1.3
Common Stock	323,484	5.1	364,418	6.0	298,033	4.9	315,587	5.4
Membership Interest	159,397	2.5	146,679	2.4	159,417	2.6	167,389	2.8
Participating Interest(1)	—	—	72,447	1.2	—	—	70,609	1.2
Escrow Receivable	—	—	2,115	—	3,916	0.1	6,116	0.1
Warrants	1,681	0.0	1,769	—	1,682	—	2,216	—
Total Investments	\$ 6,301,194	100.0	\$ 6,109,596	100.0	\$ 6,091,100	100.0	\$ 5,897,708	100.0

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

The following shows our investments in interest bearing securities by type of investment as of September 30, 2016 and June 30, 2016:

Type of Investment	September 30, 2016				June 30, 2016			
	Cost	% of Portfolio	Fair Value	% of Portfolio	Cost	% of Portfolio	Fair Value	% of Portfolio
First Lien	\$ 3,268,619	57.5	\$ 3,141,537	57.7	\$ 3,079,689	56.1	\$ 2,948,572	56.1
Second Lien	1,189,830	20.9	1,189,272	21.8	1,235,022	22.5	1,216,028	23.1
Unsecured	76,751	1.4	68,966	1.3	75,878	1.4	68,358	1.3
Small Business Loans	15,810	0.3	15,206	0.3	14,603	0.3	14,215	0.3
CLO Residual Interest	1,128,530	19.9	1,031,122	18.9	1,083,540	19.7	1,009,696	19.2
Total Debt Investments	\$ 5,679,540	100.0	\$ 5,446,103	100.0	\$ 5,488,732	100.0	\$ 5,256,869	100.0

The following shows the composition of our investment portfolio by geographic location as of September 30, 2016 and June 30, 2016:

Geographic Location	September 30, 2016				June 30, 2016				
	Cost	% of Portfolio	Fair Value	% of Portfolio	Cost	% of Portfolio	Fair Value	% of Portfolio	
Canada	\$15,000	0.2	% \$7,076	0.1	% \$15,000	0.2	% \$8,081	0.1	%
Cayman Islands	1,128,530	17.9	% 1,031,122	16.9	% 1,083,540	17.8	% 1,009,696	17.1	%
France	9,770	0.2	% 9,127	0.1	% 9,756	0.2	% 9,015	0.2	%
MidWest US	782,615	12.4	% 844,232	13.8	% 804,515	13.2	% 849,029	14.4	%
NorthEast US	814,277	12.9	% 801,335	13.0	% 838,331	13.8	% 824,408	13.9	%
NorthWest US	41,048	0.7	% 39,918	0.7	% 41,317	0.7	% 40,122	0.7	%
Puerto Rico	40,417	0.6	% 40,417	0.7	% 40,516	0.7	% 40,516	0.7	%
SouthEast US	1,541,534	24.5	% 1,614,960	26.5	% 1,498,976	24.6	% 1,531,944	26.0	%
SouthWest US	602,740	9.6	% 518,323	8.5	% 586,701	9.6	% 486,695	8.3	%
Western US	1,325,263	21.0	% 1,203,086	19.7	% 1,172,448	19.2	% 1,098,202	18.6	%
Total Investments	\$6,301,194	100.0	% \$6,109,596	100.0	% \$6,091,100	100.0	% \$5,897,708	100.0	%

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The following shows the composition of our investment portfolio by industry as of September 30, 2016 and June 30, 2016:

Industry	September 30, 2016				June 30, 2016				
	Cost	% of Portfolio	Fair Value	% of Portfolio	Cost	% of Portfolio	Fair Value	% of Portfolio	
Aerospace & Defense	\$60,732	1.0	% \$64,170	1.1	% \$67,518	1.1	% \$69,836	1.2	%
Business Services	403,445	6.4	% 401,369	6.6	% 249,482	4.1	% 246,960	4.2	%
Chemicals	4,968	0.1	% 4,915	0.1	% 4,967	0.1	% 4,819	0.1	%
Commercial Services	110,726	1.8	% 91,387	1.5	% 247,144	4.1	% 219,988	3.7	%
Construction & Engineering	60,833	1.0	% 30,531	0.5	% 60,436	1.0	% 31,091	0.5	%
Consumer Finance	458,387	7.3	% 486,121	8.0	% 449,203	7.4	% 474,652	8.0	%
Consumer Services	233,863	3.6	% 233,677	3.7	% 194,554	3.1	% 197,346	3.2	%
Diversified Financial Services	158,931	2.5	% 158,931	2.6	% 115,648	1.9	% 115,648	2.0	%
Durable Consumer Products	474,130	7.5	% 470,099	7.7	% 457,075	7.5	% 453,795	7.7	%
Food Products	284,576	4.5	% 285,150	4.7	% 287,626	4.7	% 283,172	4.8	%
Healthcare	268,941	4.3	% 270,369	4.4	% 307,136	5.0	% 308,345	5.2	%
Hotels, Restaurants & Leisure	139,686	2.2	% 138,058	2.3	% 139,813	2.3	% 139,954	2.4	%
Machinery	309	—	% 617	—	% 330	—	% 511	—	%
Manufacturing (2)	219,351	3.5	% 181,180	3.0	% 219,503	3.6	% 180,546	3.1	%
Media	370,950	5.9	% 357,250	5.8	% 371,440	6.1	% 357,864	6.1	%
Metal Services & Minerals	9,939	0.2	% 9,004	0.1	% 9,934	0.2	% 8,701	0.1	%
Oil and Gas Production	—	—	% 16	—	% 5,460	0.1	% 6,138	0.1	%
Oil and Gas Services	286,058	4.5	% 143,462	2.3	% 286,105	4.7	% 165,091	2.8	%
Online Lending	463,849	7.4	% 431,791	7.1	% 406,931	6.7	% 377,385	6.4	%
Personal & Nondurable Consumer Products	216,320	3.4	% 198,354	3.2	% 213,585	3.5	% 193,054	3.3	%
Pharmaceuticals	80,052	1.3	% 80,052	1.3	% 70,739	1.2	% 70,739	1.2	%
Property Management	—	—	% —	—	% 3,916	0.1	% 3,900	0.1	%
Real Estate	384,522	6.1	% 563,405	9.3	% 335,048	5.5	% 480,763	8.2	%
Software & Computer Services (2)	133,038	2.1	% 130,640	2.1	% 153,485	2.5	% 151,192	2.6	%
Telecommunication Services	4,393	0.1	% 4,393	0.1	% 4,392	0.1	% 4,392	0.1	%
Textiles, Apparel & Luxury Goods	277,350	4.3	% 277,982	4.5	% 278,552	4.5	% 278,552	4.7	%
Transportation	67,315	1.1	% 65,551	1.1	% 67,538	1.1	% 63,578	1.1	%
Subtotal	\$5,172,664	82.1	% \$5,078,474	83.1	% \$5,007,560	82.2	% \$4,888,012	82.9	%
Structured Finance (1)	1,128,530	17.9	% 1,031,122	16.9	% 1,083,540	17.8	% 1,009,696	17.1	%
Total Investments	\$6,301,194	100.0	% \$6,109,596	100.0	% \$6,091,100	100.0	% \$5,897,708	100.0	%

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

Industry includes exposure to the energy markets through our investments in Gulf Coast and Pinnacle (US)

(2) Acquisition Co. Limited. Including these investments, our overall fair value exposure to the broader energy industry, including oil and gas services and production as noted above, as of September 30, 2016 and June 30, 2016 is \$156,060 and \$183,966, respectively.

### Portfolio Investment Activity

During the three months ended September 30, 2016, we acquired \$140,823 of new investments, completed follow-on investments in existing portfolio companies totaling approximately \$197,888, funded \$3,000 of revolver advances, and recorded PIK interest of \$5,439, resulting in gross investment originations of \$347,150. The more significant of these transactions are briefly described below.

On July 1, 2016, we made an investment of \$7,320 to purchase 19.7% of the subordinated notes in Madison Park Funding IX, Ltd.

On July 22, 2016, we made a \$32,500 Senior Secured Term Loan A and a \$32,500 Senior Secured Term Loan B debt investment in Universal Turbine Parts, LLC, an independent supplier of aftermarket turboprop engines and parts. The \$32,500 Term Loan A bears interest at the greater of 6.75% or LIBOR plus 5.75% and has a final maturity of July 22, 2021. The \$32,500 Term Loan B bears interest at the greater of 12.75% or LIBOR plus 11.75% and has a final maturity of July 22, 2021.

On August 9, 2016, we made an investment of \$29,634 to purchase 71.9% of the subordinated notes in Carlyle Global Market Strategies CLO 2016-3, Ltd. in a co-investment transaction with Priority Income Fund, Inc., a closed-end fund managed by an affiliate of Prospect Capital Management.

On 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 September 6, 2016, we made an investment of \$5,693 to purchase 18.0% of the subordinated notes in California Street CLO IX Ltd. (f/k/a Symphony CLO IX Ltd.).

On September 16, 2016, we made a \$15,000 second lien secured investment in J.D Power and Associates, a global market research company, in support of an acquisition of the company. The second lien term loan bears interest at the greater of 9.50% or LIBOR plus 8.50% and has a final maturity of September 7, 2024.

On September 28, 2016, we have made an additional \$12,523 second lien debt and \$2,098 equity investment in Credit Central. The note bears interest of 10.00% and interest payment in kind of 10.00%, and has a final maturity date of June 26, 2019.

On September 30, 2016, we made an investment of \$26,414 to purchase 50.2% of the subordinated notes in Voya 2016-3, Ltd. in a co-investment transaction with Priority Income Fund, Inc., a closed-end fund managed by an affiliate of Prospect Capital Management.

On September 30, 2016, we made an additional \$22,500 of Senior Secured Term Loan A and \$22,500 of Senior Secured Term Loan B debt investment in Onyx Payments to fund a dividend recapitalization. The \$22,500 Term Loan A bears interest at the greater of 6.00% or LIBOR plus 5.00% and has a final maturity of September 10, 2019. The \$22,500 Term Loan B bears interest at the greater of 13.00% or LIBOR plus 12.00% and has a final maturity of September 10, 2019.

On September 30, 2016, we made a \$10,000 follow-on first lien senior secured debt investment in Matrixx Initiatives, Inc. to fund a dividend recapitalization. The \$5,000 Term Loan A bears interest at the greater of 7.50% or LIBOR plus 6.00% and has a final maturity of August 9, 2018. The \$5,000 Term Loan B bears interest at the greater of 12.50% or LIBOR plus 11.00% and has a final maturity of August 9, 2018.

During the three months ended September 30, 2016, we made seven follow-on investments in NPRC totaling \$55,711 to support the online consumer lending initiative. We invested \$8,357 of equity through NPH and \$47,354 of debt directly to NPRC and its wholly-owned subsidiaries. We also provided \$35,295 of debt and \$11,086 of equity financing to NPRC, which was utilized for the acquisition of Vesper Portfolio JV LLC, a portfolio of student housing properties located in various states throughout the United States. In addition, we provided \$3,093 of equity investment which was used to fund capital expenditures for existing properties.

During the three months ended September 30, 2016, we purchased \$14,777 of small business whole loans from OnDeck.



During the three months ended September 30, 2016, we received full repayments on two investments, sold three investments, and received several partial prepayments and amortization payments totaling \$114,331, which resulted in net realized gains totaling \$714. The more significant of these transactions are briefly described below.

On July 1, 2016, BNN Holdings Corp. (“Biotronic”) was sold. The sale provided net proceeds for our minority position of \$2,365, resulting in a realized gain of \$137. In addition, there is \$652 being held in escrow, which will be recognized as an additional realized gain if and when received.

On August 9, 2016, JHH Holdings, Inc. repaid the \$35,507 loan receivable to us.

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

On September 28, 2016, Rocket Software, Inc. (“Rocket”) repaid the \$20,000 loan receivable to us.

The following table provides a summary of our investment activity for each completed quarter within the three years ending June 30, 2017:

Quarter Ended	Acquisitions(1)	Dispositions(2)
September 30, 2014	714,255	690,194
December 31, 2014	522,705	224,076
March 31, 2015	219,111	108,124
June 30, 2015	411,406	389,168
September 30, 2015	345,743	436,919
December 31, 2015	316,145	354,855
March 31, 2016	23,176	163,641
June 30, 2016	294,038	383,460

September 30, 2016	347,150	114,331
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(1) Includes investments in new portfolio companies, follow-on investments in existing portfolio companies, refinancings and PIK interest.

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

#### Investment Valuation

In determining the range of values for debt instruments, except CLOs and debt investments in controlling portfolio companies, management and the independent valuation firm estimated corporate and security credit ratings and identified corresponding yields to maturity for each loan from relevant market data. A discounted cash flow analysis was then prepared using the appropriate yield to maturity as the discount rate, to determine a range of values. In determining the range of values for debt investments of controlled companies and equity investments, the enterprise value was determined by applying earnings before income tax, depreciation and amortization (“EBITDA”) multiples, the discounted cash flow technique, net income and/or book value multiples for similar guideline public companies and/or similar recent investment transactions. For stressed equity investments, a liquidation analysis was prepared. In determining the range of values for our investments in CLOs, management and the independent valuation firm used a discounted cash flow model. The valuations were accomplished through the analysis of the CLO deal structures to identify the risk exposures from the modeling point of view as well as to determine an appropriate call date. For each CLO security, the most appropriate valuation approach was chosen from alternative approaches to ensure the most accurate valuation for such security. To value a CLO, both the assets and the liabilities of the CLO capital structure are modeled. Our valuation agent utilizes additional methods to validate the results from the discounted cash flow method, such as Monte Carlo simulations of key model variables, analysis of relevant data observed in the CLO market, and review of certain benchmark credit indices. A waterfall engine was used to store the collateral data, generate collateral cash flows from the assets based on various assumptions for the risk factors, distribute the cash flows to the liability structure based on the payment priorities, and discount them back using proper discount rates to expected maturity or call date.

The Board of Directors looked at several factors in determining where within the range to value the asset including: recent operating and financial trends for the asset, independent ratings obtained from third parties, comparable multiples for recent sales of companies within the industry and discounted cash flow models for our investments in CLOs. The composite of all these analyses, applied to each investment, was a total valuation of \$6,109,596.

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

Control investments offer increased risk and reward over straight debt investments. Operating results and changes in market multiples can result in dramatic changes in values from quarter to quarter. Significant downturns in operations can further result in our looking to recoveries on sales of assets rather than the enterprise value of the investment.

Transactions between our controlled investments and us have been detailed in Note 14 to the accompanying consolidated financial statements. Several control investments in our portfolio are under enhanced scrutiny by our senior management and our Board of Directors and are discussed below.

#### Arctic Energy Services, LLC

Prospect owns 100% of the equity of Arctic Oilfield Equipment USA, Inc. (“Arctic Equipment”), a Consolidated Holding Company. Arctic Equipment owns 70% of the equity of Arctic Energy, with Ailport Holdings, LLC (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.

The Board of Directors decreased the fair value of our investment in Arctic Energy to \$20,167 as of September 30, 2016, a discount of \$40,709 to its amortized cost, compared to the discount of \$22,536 to its amortized cost as of June 30, 2016. The decrease in fair value was driven primarily by the impact of current energy market conditions on operating performance.

#### CP Energy Services Inc.

Prospect owns 100% of the equity of CP Holdings, a Consolidated Holding Company. CP Holdings owns 82.3% of the equity of CP Energy, and the remaining 17.7% of the equity is owned by CP Energy management.

As a result of declining operating results and current market conditions, the Board of Directors kept the fair value of our investment in CP Energy consistent at \$76,002 as of September 30, 2016, a discount of \$37,498 from its amortized cost, same as recorded at June 30, 2016.

#### First Tower Finance Company LLC

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

On June 15, 2012, we acquired 80.1% of First Tower businesses. As of September 30, 2016, First Tower had \$457,550 of finance receivables net of unearned charges. As of September 30, 2016, First Tower’s total debt outstanding to parties senior to us was \$392,403.

The Board of Directors decreased the fair value of our investment in First Tower to \$351,853, representing a premium of 8% to its amortized cost basis, as of September 30, 2016, from \$352,666 representing a premium of 8% to its amortized cost basis, as of June 30, 2016. The slight decline in fair value was driven by higher credit losses and reserves for insurance losses, as well as an increase in operating costs. First Tower’s operating costs were higher due to growth in loan originations as the company expands in newer states.

#### Freedom Marine Solutions, LLC

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

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

On October 30, 2015, we restructured our investment in Freedom Marine. Concurrent with the restructuring, we exchanged our \$32,500 senior secured loans for additional membership interest in Freedom Marine.

The Board of Directors decreased the fair value of our investment in Freedom Marine to \$26,671 as of September 30, 2016, a discount of \$14,740 to its amortized cost, compared to a discount of \$14,192 to its amortized cost as of June 30, 2016. The fair value was driven by the continuing challenging environment for the oil and gas industry, which in turn decreased demand for Freedom Marine's vessels.

#### Gulf Coast Machine & Supply Company

We own 100% of the preferred equity of Gulf Coast. Gulf Coast is a provider of value-added forging solutions to energy and industrial end markets.

On November 8, 2013, Gulf Coast issued \$25,950 of convertible preferred stock to Prospect (representing 99.9% of the voting securities of Gulf Coast) in exchange for crediting the same amount to the first lien term loan previously outstanding, leaving a first lien loan balance of \$15,000.

Due to the continued depressed energy markets coupled with lower steel prices and lower margins from increased competition in non-oil and gas forging markets, the Board of Directors only slightly increased the fair value of our investment in Gulf Coast to \$7,394 as of September 30, 2016, a discount of \$51,959 to its amortized cost, compared to the discount of \$53,063 to its amortized cost at June 30, 2016.

#### National Property REIT Corp.

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

During the three months ended September 30, 2016, we provided \$35,295 of debt and \$11,086 of equity financing to NPRC for the acquisition of real estate properties and \$3,093 of equity financing to NPRC to fund capital expenditures for existing properties.

During the three months ended September 30, 2016, we provided \$47,354 and \$8,357 of debt and equity financing, respectively, to NPRC and its wholly-owned subsidiaries to support the online consumer lending initiative.

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 18 to 84 months. As of September 30, 2016, the outstanding investment in online consumer loans by certain of NPRC's wholly-owned subsidiaries was comprised of 103,334 individual loans and had an aggregate fair value of \$728,332. The average outstanding individual loan balance is approximately \$7 and the loans mature on dates ranging from October 31, 2016 to September 24, 2023 with a weighted-average outstanding term of 33 months as of September 30, 2016. Fixed interest rates range from 4.0% to 36.0% with a weighted-average current interest rate of 22.7%. As of September 30, 2016, our investment in NPRC and its wholly-owned subsidiaries relating to online consumer lending had a fair value of \$416,585.

As of September 30, 2016, based on outstanding principal balance, 8.0% of the portfolio was invested in super prime loans (borrowers with a Fair Isaac Corporation ("FICO") score, of 720 or greater), 22.8% of the portfolio in prime loans (borrowers with a FICO score of 660 to 719) and 69.2% of the portfolio in near prime loans (borrowers with a FICO score of 580 to 659).



Loan Type	Outstanding Principal Balance	Fair Value	Interest Rate Range	Weighted Average Interest Rate*
Super Prime	\$ 61,017	\$59,361	4.0% - 34.0%	11.7%
Prime	174,112	166,602	5.3% - 36.0%	15.2%
Near Prime	527,613	502,369	6.0% - 36.0%	26.5%

\*Based on outstanding principal balance of the online consumer loans.

As of September 30, 2016, our investment in NPRC and its wholly-owned subsidiaries had an amortized cost of \$832,561 and a fair value of \$979,990, including our investment in online consumer lending as discussed above. The fair value of \$563,405 relates to NPRC's real estate portfolio was comprised of thirty eight 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 September 30, 2016.

No.	Property Name	City	Acquisition Date	Purchase Price	Mortgage Outstanding
1	Filet of Chicken	Forest Park, GA	10/24/2012	\$ 7,400	\$ —
2	1557 Terrell Mill Road, LLC	Marietta, GA	12/28/2012	23,500	14,829
3	5100 Live Oaks Blvd, LLC	Tampa, FL	1/17/2013	63,400	46,700
4	Lofton Place, LLC	Tampa, FL	4/30/2013	26,000	20,389
5	Arlington Park Marietta, LLC	Marietta, GA	5/8/2013	14,850	9,650
6	NPRC Carroll Resort, LLC	Pembroke Pines, FL	6/24/2013	225,000	181,214
7	APH Carroll 41, LLC	Marietta, GA	11/1/2013	30,600	32,594
8	Cordova Regency, LLC	Pensacola, FL	11/15/2013	13,750	11,375
9	Crestview at Oakleigh, LLC	Pensacola, FL	11/15/2013	17,500	13,845
10	Inverness Lakes, LLC	Mobile, AL	11/15/2013	29,600	24,700
11	Kings Mill Pensacola, LLC	Pensacola, FL	11/15/2013	20,750	17,550
12	Plantations at Pine Lake, LLC	Tallahassee, FL	11/15/2013	18,000	14,092
13	Verandas at Rocky Ridge, LLC	Birmingham, AL	11/15/2013	15,600	10,205
14	Matthews Reserve II, LLC	Matthews, NC	11/19/2013	22,063	19,957
15	City West Apartments II, LLC	Orlando, FL	11/19/2013	23,562	23,339
16	Vinings Corner II, LLC	Smyrna, GA	11/19/2013	35,691	33,006
17	Uptown Park Apartments II, LLC	Altamonte Springs, FL	11/19/2013	36,590	29,832
18	Mission Gate II, LLC	Plano, TX	11/19/2013	47,621	41,695
19	St. Marin Apartments II, LLC	Coppell, TX	11/19/2013	73,078	62,526
20	Atlanta Eastwood Village LLC	Stockbridge, GA	12/12/2013	25,957	19,785
21	Atlanta Monterey Village LLC	Jonesboro, GA	12/12/2013	11,501	9,193
22	Atlanta Hidden Creek LLC	Morrow, GA	12/12/2013	5,098	3,619
23	Atlanta Meadow Springs LLC	College Park, GA	12/12/2013	13,116	10,180
24	Atlanta Meadow View LLC	College Park, GA	12/12/2013	14,354	11,141
25	Atlanta Peachtree Landing LLC	Fairburn, GA	12/12/2013	17,224	13,575
26	APH Carroll Bartram Park, LLC	Jacksonville, FL	12/31/2013	38,000	27,990
27	Plantations at Hillcrest, LLC	Mobile, AL	1/17/2014	6,930	4,858
28	Crestview at Cordova, LLC	Pensacola, FL	1/17/2014	8,500	8,086
29	APH Carroll Atlantic Beach, LLC	Atlantic Beach, FL	1/31/2014	13,025	8,728
30	Taco Bell, OK	Yukon, OK	6/4/2014	1,719	—
31	Taco Bell, MO	Marshall, MO	6/4/2014	1,405	—
32	23 Mile Road Self Storage, LLC	Chesterfield, MI	8/19/2014	5,804	4,350
33	36th Street Self Storage, LLC	Wyoming, MI	8/19/2014	4,800	3,600
34	Ball Avenue Self Storage, LLC	Grand Rapids, MI	8/19/2014	7,281	5,460

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No.	Property Name	City	Acquisition Date	Purchase Price	Mortgage Outstanding
35	Ford Road Self Storage, LLC	Westland, MI	8/29/2014	4,642	3,480
36	Ann Arbor Kalamazoo Self Storage, LLC	Ann Arbor, MI	8/29/2014	4,458	3,345
37	Ann Arbor Kalamazoo Self Storage, LLC	Ann Arbor, MI	8/29/2014	8,927	6,695
38	Ann Arbor Kalamazoo Self Storage, LLC	Kalamazoo, MI	8/29/2014	2,363	1,775
39	Canterbury Green Apartments Holdings LLC	Fort Wayne, IN	9/29/2014	85,500	74,258
40	Abbie Lakes OH Partners, LLC	Canal Winchester, OH	9/30/2014	12,600	10,440
41	Kengary Way OH Partners, LLC	Reynoldsburg, OH	9/30/2014	11,500	11,000
42	Lakeview Trail OH Partners, LLC	Canal Winchester, OH	9/30/2014	26,500	20,142
43	Lakepoint OH Partners, LLC	Pickerington, OH	9/30/2014	11,000	10,080
44	Sunbury OH Partners, LLC	Columbus, OH	9/30/2014	13,000	10,480
45	Heatherbridge OH Partners, LLC	Blacklick, OH	9/30/2014	18,416	15,480
46	Jefferson Chase OH Partners, LLC	Blacklick, OH	9/30/2014	13,551	12,240
47	Goldenstrand OH Partners, LLC	Hilliard, OH	10/29/2014	7,810	8,040
48	Jolly Road Self Storage, LLC	Okemos, MI	1/16/2015	7,492	5,620
49	Eaton Rapids Road Self Storage, LLC	Lansing West, MI	1/16/2015	1,741	1,305
50	Haggerty Road Self Storage, LLC	Novi, MI	1/16/2015	6,700	5,025
51	Waldon Road Self Storage, LLC	Lake Orion, MI	1/16/2015	6,965	5,225
52	Tyler Road Self Storage, LLC	Ypsilanti, MI	1/16/2015	3,507	2,630
53	SSIL I, LLC	Aurora, IL	11/5/2015	34,500	26,450
54	Vesper Tuscaloosa, LLC	Tuscaloosa, AL	9/28/2016	54,500	41,250
55	Vesper Iowa City, LLC	Iowa City, IA	9/28/2016	32,750	24,825
56	Vesper Corpus Christi, LLC	Corpus Christi, TX	9/28/2016	14,250	10,800
57	Vesper Campus Quarters, LLC	Corpus Christi, TX	9/28/2016	18,350	14,175
58	Vesper College Station, LLC	College Station, TX	9/28/2016	41,500	32,058
58	Vesper Kennesaw, LLC	Kennesaw, GA	9/28/2016	57,900	44,727
60	Vesper Statesboro, LLC	Statesboro, GA	9/28/2016	7,500	6,087
61	Vesper Manhattan KS, LLC	Manhattan, KS	9/28/2016	23,250	18,460
				1,450,441	1,164,155

The Board of Directors increased the fair value of our investment in NPRC to \$979,990 as of September 30, 2016, a premium of \$147,429 from its amortized cost, compared to the \$116,557 unrealized appreciation, inclusive of APRC and UPRC, recorded at June 30, 2016. This increase is primarily due to improved operating performance at the property level.

NMMB, Inc.

Prospect owns 100% of the equity of NMMB Holdings, a Consolidated Holding Company. NMMB Holdings owns 96.33% of the fully-diluted equity of NMMB (f/k/a NMMB Acquisition, Inc.), with NMMB management owning the remaining 3.67% of the equity. NMMB owns 100% of Refuel Agency, Inc. ("Refuel Agency"). Refuel Agency owns 100% of Armed Forces Communications, Inc. NMMB is an advertising media buying business.

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

The Board of Directors decreased the fair value of our investment in NMMB to \$9,883, representing a discount of 58% to its amortized cost basis, as of September 30, 2016, from \$10,007, representing a discount of 58% to its amortized cost





basis, as of June 30, 2016. The decrease in fair value was driven by declining revenues from NMMB's print business. The impact of this decline was partially offset by increases in gross profit and EBITDA margins as well as by growth in the digital and out-of-home advertising business lines.

USES Corp.

On June 15, 2016, we provided additional \$1,300 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 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. We own 99.96% of USES as of September 30, 2016. USES provides industrial and environmental services in the Gulf States region. The company offers industrial services, such as tank and chemical cleaning, hydro blasting, waste management, vacuum, safety training, turnaround management, and oilfield. It also offers response/remediation services, including hazardous and non-hazardous material emergency response, oil spill response, industrial fire suppression, disaster response, remediation, demolition and safety training. The company serves pulp paper, oil and gas production, utilities, transportation, refinery, petrochemical, shipping, manufacturing, government, engineering, consulting, spill management and chemical industries.

The first half of 2016 saw the company's revenue suffer due to a pullback in capital and maintenance spending across the energy sector. In addition the company did not benefit from any large emergency response projects. As a result a number of changes have been made to position the company for growth again. The Company has replaced the CEO and CFO. Under the new leadership, the company is now operating under a right sized cost structure. The company is also improving its fleet of equipment with support from Prospect and other financing sources. Management has implemented a new sales strategy that is helping build the company's revenue backlog across multiple end markets and service lines.

Due to increased margin on projects outweighing the effects of the softening energy markets, the Board of Directors determined the fair value of our investment in USES to be \$42,387 as of September 30, 2016, a discount of \$19,339 from its amortized cost, compared to the \$21,440 unrealized depreciation recorded at June 30, 2016.

Valley Electric Company, Inc.

We own 94.99% of Valley Electric as of September 30, 2016. Valley Electric owns 100% of the equity of VE Company, Inc., which owns 100% of the equity of Valley Electric Co. of Mt. Vernon, Inc. ("Valley"). Valley is a leading provider of specialty electrical services in the state of Washington and is among the top 50 electrical contractors in the U.S. The company, with its headquarters in Everett, Washington, offers a comprehensive array of contracting services, primarily for commercial, industrial, and transportation infrastructure applications, including new installation, engineering and design, design-build, traffic lighting and signalization, low to medium voltage power distribution, construction management, energy management and control systems, 24-hour electrical maintenance and testing, as well as special projects and tenant improvement services. Valley was founded in 1982 by the Ward family, who held the company until the end of 2012.

On December 31, 2012, we acquired 96.3% of the outstanding shares of Valley. On June 24, 2014, Prospect and management of Valley formed Valley Electric and contributed their shares of Valley stock to Valley Electric. Valley management made an additional equity investment in Valley Electric, reducing our ownership to 94.99%.

In early 2016, Valley's project backlog and revenue steadily improved primarily due to a more robust construction market in the state of Washington and successful project execution.

Due to the softening of the energy markets partially offset by increased project margins, the Board of Directors determined the fair value of our investment in Valley Electric to be \$30,531 as of September 30, 2016, a discount of \$30,302 from its amortized cost, compared to the \$29,345 unrealized depreciation recorded at June 30, 2016.

Equity positions in our portfolio are susceptible to potentially significant changes in value, both increases as well as decreases, due to changes in operating results and market multiples. Several of our controlled companies experienced such volatility and we recorded corresponding fluctuations in valuations during the three months ended September 30, 2016. See above for discussions regarding the fluctuations in Arctic Energy, CP Energy, First Tower Finance, Freedom Marine, Gulf Coast, NMMB, NPRC, USES and Valley Electric. In total, eight of the controlled investments are valued at the original investment amounts or higher, and nine of the controlled investments have been valued at discounts to the original cost basis. Overall, at September 30, 2016, control investments are valued at \$2,405 below their amortized cost.

Our one affiliate investment, Targus, did not experience a significant change in valuation during the three months ended September 30, 2016 and was valued at \$1,564 below its amortized cost.

With the non-control/non-affiliate investments, generally, there is less volatility related to our total investments because our equity positions tend to be smaller than with our control/affiliate investments, and debt investments are generally not as susceptible to large swings in value as equity investments. For debt investments, the fair value is generally limited on the high side to each loan's par value, plus any prepayment premium that could be imposed. Many of the debt investments in this category have not experienced a significant change in value, as they were previously valued at or near par value. Non-control/non-affiliate investments did not experience significant changes and are generally performing as expected or better. Two of our non-control/non-affiliate investments, Ark-La-Tex Wireline Services ("Ark-La-Tex"), LLC and Spartan Energy Services, Inc. ("Spartan"), are valued at a discount to amortized cost of \$34,377 and \$15,272, respectively, as of September 30, 2016 due to a decline in operating results from softness of the energy markets. During the three months ended September 30, 2016, the value of our CLO residual interest investments decreased by \$23,564 primarily due to a slight increase in defaults and ratings migration in the underlying collateral and an increase in the LIBOR rate. Overall, at September 30, 2016, non-control/non-affiliate investments are valued \$40,572 below their amortized cost, excluding our investments in Ark-La-Tex, Spartan, and CLO investments, as the remaining companies are generally performing as or better than expected.

#### Capitalization

Our investment activities are capital intensive and the availability and cost of capital is a critical component of our business. We capitalize our business with a combination of debt and equity. Our debt as of September 30, 2016 consists of: a Revolving Credit Facility availing us of the ability to borrow debt subject to borrowing base determinations; Convertible Notes which we issued in April 2012, August 2012, December 2012 and April 2014; Public Notes which we issued in March 2013, April 2014, December 2015, and from time to time, through our 2024 Notes Follow-on Program; and Prospect Capital InterNotes® which we issue from time to time. Our equity capital is comprised entirely of common equity.

The following table shows our outstanding debt as of September 30, 2016.

	September 30, 2016					
	Principal Outstanding	Unamortized Discount & Debt Issuance Costs	Net Carrying Value	Fair Value (1)	Effective Interest Rate	
Revolving Credit Facility (2)	\$44,000	\$ 6,834	\$44,000	(3)\$44,000	1ML+2.25%	(6)
2017 Notes	129,500	693	128,807	132,090	(4)5.91	% (7)
2018 Notes	200,000	1,860	198,140	205,450	(4)6.42	% (7)
2019 Notes	200,000	2,682	197,318	206,500	(4)6.51	% (7)
2020 Notes	392,000	8,025	383,975	397,880	(4)5.38	% (7)
Convertible Notes	921,500		908,240	941,920		
2023 Notes	250,000	4,528	245,472	250,000	(4)6.22	% (7)
5.00% 2019 Notes	300,000	2,288	297,712	306,975	(4)5.29	% (7)
2024 Notes	199,281	5,644	193,637	204,303	(4)6.52	% (7)

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Public Notes	749,281		736,821	761,278		
Prospect Capital InterNotes®	945,746	14,932	930,814	952,054	(5)5.71	% (8)
Total	\$2,660,527		\$2,619,875	\$2,699,252		

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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 September 30, 2016.

(2) The maximum draw amount of the Revolving Credit facility as of September 30, 2016 is \$885,000.

(3) Net Carrying Value excludes deferred financing costs associated with the Revolving Credit Facility. See Critical Accounting Policies and Estimates for accounting policy details.

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

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

(6) For the Revolving Credit Facility, we have adjusted the stated rate as the fees 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) debt issuance costs. For the 2024 Notes, the rate presented is a combined effective interest rate of the 2024 Notes and 2024 Notes Follow-on Program.

(8) For the Prospect Capital InterNotes®, the rate presented is the weighted average effective interest rate.

The following table shows the contractual maturities of our Revolving Credit Facility, Convertible Notes, Public Notes and Prospect Capital InterNotes® as of September 30, 2016.

	Payments Due by Period				
	Total	Less than 1 Year	1 – 3 Years	3 – 5 Years	After 5 Years
Revolving Credit Facility	\$44,000	\$ —	\$—	\$44,000	\$—
Convertible Notes	921,500	—	529,500	392,000	—
Public Notes	749,281	—	300,000	—	449,281
Prospect Capital InterNotes®	945,746	8,819	270,957	385,415	280,555
Total Contractual Obligations	\$2,660,527	\$ 8,819	\$1,100,457	\$821,415	\$729,836

The following table shows the contractual maturities of our Revolving Credit Facility, Convertible Notes, Public Notes and Prospect Capital InterNotes® as of June 30, 2016.

	Payments Due by Period				
	Total	Less than 1 Year	1 – 3 Years	3 – 5 Years	After 5 Years
Revolving Credit Facility	\$—	\$—	\$—	\$—	\$—
Convertible Notes	1,089,000	167,500	529,500	392,000	—
Public Notes	711,380	—	—	300,000	411,380
Prospect Capital InterNotes®	908,808	8,819	257,198	360,599	282,192
Total Contractual Obligations	\$2,709,188	\$176,319	\$786,698	\$1,052,599	\$693,572

Historically, we have funded a portion of our cash needs through borrowings from banks, issuances of senior securities, including secured, unsecured and convertible debt securities, or issuances of common equity. For flexibility, we maintain a universal shelf registration statement that allows for the public offering and sale of our debt securities, common stock, preferred stock, subscription rights, and warrants and units to purchase such securities in an amount up to \$5,000,000 less issuances to date. As of September 30, 2016, we can issue up to \$4,730,685 of additional debt and equity securities in the public market under this shelf registration. We may from time to time issue securities pursuant to the shelf registration statement or otherwise pursuant to private offerings. The issuance of debt or equity securities will depend on future market conditions, funding needs and other factors and there can be no assurance that any such issuance will occur or be successful.

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

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#### Revolving Credit Facility

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

On August 29, 2014, we renegotiated the 2012 Facility and closed an expanded five and a half year revolving credit facility (the “2014 Facility” and collectively with the 2012 Facility, the “Revolving Credit Facility”). The lenders have extended commitments of \$885,000 under the 2014 Facility as of September 30, 2016. 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 September 30, 2016, 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 September 30, 2016 and June 30, 2016, we had \$658,173 and \$538,456, respectively, available to us for borrowing under the Revolving Credit Facility, of which the amount outstanding was \$44,000 and \$0, respectively. As additional eligible investments are transferred to PCF and pledged under the Revolving Credit Facility, PCF will generate additional availability up to the current commitment amount of \$885,000. As of September 30, 2016, the investments, including cash and money market funds, used as collateral for the Revolving Credit Facility had an aggregate fair value of \$1,478,009, which represents 23.7% 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 of fees carried over for continuing participants from the previous facility, which are being amortized over the term of the facility in accordance with ASC 470-50, of which \$6,834 remains to be amortized and is included within deferred financing costs on the Consolidated Statements of Assets and Liabilities as of September 30, 2016. During the three months ended September 30, 2016 and September 30, 2015, we recorded \$2,963 and \$3,701, respectively, of interest costs, unused fees and amortization of financing costs on the Revolving Credit Facility as interest expense.

#### Convertible Notes

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

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

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

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On April 16, 2012, we issued \$130,000 aggregate principal amount of convertible notes that mature on October 15, 2017 (the “2017 Notes”), unless previously converted or repurchased in accordance with their terms. The 2017 Notes bear interest at a rate of 5.375% per year, payable semi-annually on April 15 and October 15 of each year, beginning October 15, 2012. Total proceeds from the issuance of the 2017 Notes, net of underwriting discounts and offering costs, were \$126,035. On 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 August 14, 2012, we issued \$200,000 aggregate principal amount of convertible notes that mature on March 15, 2018 (the “2018 Notes”), unless previously converted or repurchased in accordance with their terms. The 2018 Notes bear interest at a rate of 5.75% per year, payable semi-annually on March 15 and September 15 of each year, beginning March 15, 2013. Total proceeds from the issuance of the 2018 Notes, net of underwriting discounts and offering costs, were \$193,600.

On December 21, 2012, we issued \$200,000 aggregate principal amount of convertible notes that mature on January 15, 2019 (the “2019 Notes”), unless previously converted or repurchased in accordance with their terms. The 2019 Notes bear interest at a rate of 5.875% per year, payable semi-annually on January 15 and July 15 of each year, beginning July 15, 2013. Total proceeds from the issuance of the 2019 Notes, net of underwriting discounts and offering costs, were \$193,600.

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

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

	2017 Notes	2018 Notes	2019 Notes	2020 Notes
Initial conversion rate(1)	85.8442	82.3451	79.7766	80.6647
Initial conversion price	\$11.65	\$12.14	\$12.54	\$12.40
Conversion rate at September 30, 2016(1)(2)	87.7516	84.1497	79.8360	80.6670
Conversion price at September 30, 2016(2)(3)	\$11.40	\$11.88	\$12.53	\$12.40
Last conversion price calculation date	4/16/2016	8/14/2016	12/21/2015	4/11/2016
Dividend threshold amount (per share)(4)	\$0.101500	\$0.101600	\$0.110025	\$0.110525

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

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

The conversion price in effect at September 30, 2016 was calculated on the last anniversary of the issuance and (3) will be adjusted again on the next anniversary, unless the exercise price shall have changed by more than 1% before the anniversary.

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 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.

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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 \$29,112 of fees which are being amortized over the terms of the notes, of which \$13,260 remains to be amortized and is included as a reduction within Convertible Notes on the Consolidated Statement of Assets and Liabilities as of September 30, 2016.

During the three months ended September 30, 2016 and September 30, 2015, we recorded \$14,713 and \$18,729, respectively, of interest costs and amortization of financing costs on the Convertible Notes as interest expense.

#### Public Notes

On March 15, 2013, we issued \$250,000 aggregate principal amount of unsecured notes that mature on March 15, 2023 (the "2023 Notes"). The 2023 Notes bear interest at a rate of 5.875% per year, payable semi-annually on March 15 and September 15 of each year, beginning September 15, 2013. Total proceeds from the issuance of the 2023 Notes, net of underwriting discounts and offering costs, were \$243,641.

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 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. During the three months ended September 30, 2016, we issued \$37,901 in aggregate principal amount under our 2024 Notes Follow-on Program for net proceeds of \$37,425 after commissions and offering costs. As of September 30, 2016, total proceeds from the issuance of the 2024 Notes, net of underwriting discounts and offering costs, was \$193,637.

The 2023 Notes, the 5.00% 2019 Notes, and the 2024 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, and the 2024 Notes, we incurred \$13,580 of fees which are being amortized over the term of the notes, of which \$10,366 remains to be amortized and is included as a reduction within Public Notes on the Consolidated Statement of Assets and Liabilities as of September 30, 2016. During the three months ended September 30, 2016 and September 30, 2015, we recorded \$10,780 and \$7,821, respectively, of interest costs and amortization of financing costs on the Public Notes as interest expense.

#### Prospect Capital InterNotes®

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

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

During the three months ended September 30, 2016, we issued \$38,917 aggregate principal amount of Prospect Capital InterNotes® for net proceeds of \$38,435. These notes were issued with stated interest rates ranging from 5.00% to 5.50% with a weighted average interest rate of 5.42%. These notes mature between July 15, 2021 and September 15, 2021.

During the three months ended September 30, 2015, we issued \$48,134 aggregate principal amount of our Prospect Capital InterNotes® for net proceeds of \$47,381. These notes were issued with stated interest rates ranging from 4.63% to 5.25% with a weighted average interest rate of 5.06%. These notes mature between July 15, 2020 and March 15, 2022. The following table summarizes the Prospect Capital InterNotes® issued during the three months ended September 30, 2015.

Tenor at Origination (in years)	Principal Amount	Interest Rate Range	Weighted Average Interest Rate	Maturity Date Range
5	\$ 17,784	4.63%–4.75%	4.74 %	July 15, 2020 – September 15, 2020
6.5	30,350	5.10%–5.25%	5.24 %	January 15, 2022 – March 15, 2022
	\$ 48,134		0.051	

During the three months ended September 30, 2016, we repaid \$1,979 aggregate principal amount of Prospect Capital InterNotes® at par in accordance with the Survivor's Option, as defined in the InterNotes® Offering prospectus. As a result of these transactions, we recorded a loss in the amount of the difference between the reacquisition price and the net carrying amount of the notes, net of the proportionate amount of unamortized debt issuance costs. The net loss on the extinguishment of Prospect Capital InterNotes® in the three months ended September 30, 2016 was \$61. The following table summarizes the Prospect Capital InterNotes® outstanding as of September 30, 2016.

Tenor at Origination (in years)	Principal Amount	Interest Rate Range	Weighted Average Interest Rate	Maturity Date Range
3	\$5,710	4.00%	4.00 %	October 15, 2016
3.5	3,109	4.00%	4.00 %	April 15, 2017
4	45,690	3.75%–4.00%	3.92 %	November 15, 2017 – May 15, 2018
5	297,916	4.25%–5.50%	5.01 %	July 15, 2018 – September 15, 2021
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	109,718	4.25%–5.00%	4.65 %	February 15, 2019 – November 15, 2020
6	2,197	3.38%	3.38 %	April 15, 2021 – May 15, 2021
6.5	40,817	5.10%–5.50%	5.24 %	February 15, 2020 – May 15, 2022
7	192,016	4.00%–6.55%	5.13 %	June 15, 2019 – December 15, 2022
7.5	1,996	5.75%	5.75 %	February 15, 2021
10	37,519	3.85%–7.00%	6.13 %	March 15, 2022 – December 15, 2025
12	2,978	6.00%	6.00 %	November 15, 2025 – December 15, 2025
15	17,325	5.25%–6.00%	5.36 %	May 15, 2028 – November 15, 2028
18	22,238	4.13%–6.25%	5.53 %	December 15, 2030 – August 15, 2031
20	4,452	5.63%–6.00%	5.89 %	November 15, 2032 – October 15, 2033
25	35,015	6.25%–6.50%	6.39 %	August 15, 2038 – May 15, 2039
30	114,924	5.50%–6.75%	6.23 %	November 15, 2042 – October 15, 2043
	\$945,746			

During the three months ended September 30, 2015, we repaid \$628 aggregate principal amount of Prospect Capital InterNotes® at par in accordance with the Survivor's Option, as defined in the InterNotes® Offering prospectus. As a result of these transactions, we recorded a loss in the amount of the difference between the reacquisition price and the

net carrying amount of the notes, net of the proportionate amount of unamortized debt issuance costs. The net loss on the extinguishment of Prospect Capital InterNotes® in the three months ended September 30, 2015 was \$15.

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The following table summarizes the Prospect Capital InterNotes® outstanding as of June 30, 2016.

Tenor at Origination (in years)	Principal Amount	Interest Rate Range	Weighted Average Interest Rate	Maturity Date Range
3	\$5,710	4.00%	4.00 %	October 15, 2016
3.5	3,109	4.00%	4.00 %	April 15, 2017
4	45,690	3.75%–4.00%	3.92 %	November 15, 2017 – May 15, 2018
5	259,191	4.25%–5.75%	4.95 %	July 15, 2018 – June 15, 2021
5.20	4,440	4.63%	4.63 %	August 15, 2020 – September 15, 2020
5.3	2,686	4.63%	4.63 %	September 15, 2020
5	5,000	4.75%	4.75 %	August 15, 2019
5.5	109,808	4.25%–5.00%	4.65 %	February 15, 2019 – November 15, 2020
6	2,197	3.38%	3.38 %	April 15, 2021 – May 15, 2021
6.5	40,867	5.10%–5.50%	5.24 %	February 15, 2020 – May 15, 2022
7	192,076	4.00%–6.55%	5.13 %	June 15, 2019 – December 15, 2022
8	1,996	5.75%	5.75 %	February 15, 2021
10	37,533	3.62%–7.00%	6.11 %	March 15, 2022 – December 15, 2025
12	2,978	6.00%	6.00 %	November 15, 2025 – December 15, 2025
15	17,325	5.25%–6.00%	5.36 %	May 15, 2028 – November 15, 2028
18	22,303	4.13%–6.25%	5.53 %	December 15, 2030 – August 15, 2031
20	4,462	5.63%–6.00%	5.89 %	November 15, 2032 – October 15, 2033
25	35,110	6.25%–6.50%	6.39 %	August 15, 2038 – May 15, 2039
30	116,327	5.50%–6.75%	6.23 %	November 15, 2042 – October 15, 2043
	\$908,808			

In connection with the issuance of Prospect Capital InterNotes®, we incurred \$22,797 of fees which are being amortized over the term of the notes, of which \$14,932 remains to be amortized and is included as a reduction within Prospect Capital InterNotes® on the Consolidated Statement of Assets and Liabilities as of September 30, 2016. During the three months ended September 30, 2016 and September 30, 2015, we recorded \$13,213 and \$11,706, respectively, of interest costs and amortization of financing costs on the Prospect Capital InterNotes® as interest expense.

#### Net Asset Value

During the three months ended September 30, 2016, our net asset value was stable on a dollars basis and decreased by \$0.02 per share, primarily due to distributions to our shareholders exceeding net investment income. Our net investment income decreased primarily from a decrease in interest and other income following the sale of Harbortouch in May 2016. This decrease was partially offset by the increased earnings from new non-control investments during three months ended September 30, 2016 and lower management fees. The following table shows the calculation of net asset value per share as of September 30, 2016 and June 30, 2016.

	September 30, 2016	June 30, 2016
Net assets	\$3,435,609	\$3,435,917
Shares of common stock issued and outstanding	358,042,158	357,107,231
Net asset value per share	\$9.60	\$9.62

#### Results of Operations

Net increase in net assets resulting from operations for the three months ended September 30, 2016 and September 30, 2015 was \$81,366 and \$27,817. During the three months ended September 30, 2016 the \$53,549 increase is primarily due to a \$65,918 favorable increase in net realized and unrealized losses on investments when comparing results for the three months ended September 30, 2016 and September 30, 2015. This \$65,918 increase is due to a favorable decrease in unrealized losses on our investments.

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

#### Investment Income

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

Investment income, which consists of interest income, including accretion of loan origination fees and prepayment penalty fees, dividend income and other income, including settlement of net profits interests, overriding royalty interests and structuring fees, was \$179,832 and \$200,251 for the three months ended September 30, 2016 and September 30, 2015, respectively. Investment income decreased during the three months ended September 30, 2016 as compared to the three months ended September 30, 2015 primarily due to a decrease in interest income. The following table describes the various components of investment income and the related levels of debt investments:

	Three Months Ended September 30,	
	2016	2015
Interest income	\$171,650	\$191,303
Dividend income	2,384	3,215
Other income	5,798	5,733
Total investment income	\$179,832	\$200,251

Average debt principal of performing investments	\$5,688,154	\$6,385,514
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Weighted average interest rate earned on performing debt and equity investments	12.07	%	11.98	%
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Average interest income producing assets decreased from \$6,385,514 for the three months ended September 30, 2015 to \$5,688,154 for the three months ended September 30, 2016. The average interest earned on interest bearing performing assets increased from 11.98% for the three months ended September 30, 2015 to 12.07% for the three months ended September 30, 2016. This increase is primarily due to repayments of lower yielding portfolio investments.

Investment income is also generated from dividends and other income which is less predictable than interest income. Dividend income decreased from \$3,215 for the three months ended September 30, 2015 to \$2,384 for the three months ended September 30, 2016. The \$831 decrease in dividend income is primarily attributed to an overall decrease in the level of dividends received from our controlled portfolio investments. The level of dividends received from our investment in CCPI decreased \$2,659 during the three months ended September 30, 2016 as compared to the same period in the prior year. This decrease in dividend income was partially offset by an increase in the level of dividends received from our investment in Nationwide of \$1,485 during the three months ended September 30, 2016 as compared to the same period in the prior year.

Other income has come primarily from structuring fees, which are generated from originations and will fluctuate as levels of originations and types of originations fluctuate. Income from other sources was \$5,798 and \$5,733 for the three months ended September 30, 2016 and September 30, 2015, respectively, holding consistent at approximately \$0.02 per weighted average shares outstanding. Included within other income is \$4,476 and \$3,642 of structuring fees

for the three months ended September 30, 2016 and 2015, respectively, consistent with a comparable level of originations. Total originations were \$347,150 and \$345,743 for the three months ended September 30, 2016 and September 30, 2015, respectively.

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### Operating Expenses

Our primary operating expenses consist of investment advisory fees (base management and income incentive fees), borrowing costs, legal and professional fees and other operating and overhead-related expenses. These expenses include our allocable portion of overhead under the Administration Agreement with Prospect Administration under which Prospect Administration provides administrative services and facilities for us. Our investment advisory fees compensate the Investment Adviser for its work in identifying, evaluating, negotiating, closing and monitoring our investments. We bear all other costs and expenses of our operations and transactions. Operating expenses were \$100,913 and \$109,009 for the three months ended September 30, 2016 and September 30, 2015, respectively. The net base management fee was \$30,792 and \$32,954 for the three months ended September 30, 2016 and September 30, 2015, respectively. The changes are directly related to the level of our total assets.

The Investment Adviser has entered into a servicing agreement with certain institutions, where we serve as the agent and collect a servicing fee on behalf of the Investment Adviser. We received payments of \$548 and \$462 from these institutions for the three months ended September 30, 2016 and September 30, 2015, respectively, on behalf of the Investment Adviser for providing such services under the servicing agreement. We were given a credit for these payments as a reduction of base management fee payable by us to the Investment Adviser resulting in net total base management fees of \$30,792 and \$32,954 for the three months ended September 30, 2016 and September 30, 2015, respectively. The total gross base management fee incurred to the favor of the Investment Adviser was \$31,340 and \$33,416 for the three months ended September 30, 2016 and September 30, 2015, respectively.

For the three months ended September 30, 2016 and September 30, 2015, we incurred \$19,730 and \$22,810 of income incentive fees, respectively. For the three months ended September 30, 2016, the pre-incentive fee net investment income was \$0.28 per weighted average share (\$0.04 less than three months ended September 30, 2015) due to a year over year decrease in interest income primarily due a decrease in interest and other income due to repayments on investments and a decrease in interest income due to increased default rates in the underlying collateral of our CLO investments. No capital gains incentive fee has yet been incurred pursuant to the Investment Advisory Agreement. During the three months ended September 30, 2016 and September 30, 2015, we incurred \$41,669 and \$41,957, respectively, of interest expenses related to our Revolving Credit Facility, Convertible Notes, Public Notes and Prospect Capital InterNotes® (collectively, our “Notes”). These expenses are related directly to the leveraging capacity put into place for each of those years and the levels of indebtedness actually undertaken in those years.

The table below describes the various expenses of our Notes and the related indicators of leveraging capacity and indebtedness during these years.

	Three Months Ended September 30,		
	2016	2015	
Interest on borrowings	\$35,714	\$37,316	
Amortization of deferred financing costs	3,634	3,556	
Accretion of discount on Public Notes	64	49	
Facility commitment fees	2,257	1,036	
Total interest and credit facility expenses	\$41,669	\$41,957	
Average principal debt outstanding	\$2,667,420	\$2,956,726	
Weighted average stated interest rate on borrowings(1)	5.36	% 5.05	%
Weighted average interest rate on borrowings(2)	6.25	% 5.68	%

(1) Includes only the stated interest expense.

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

Interest expense is relatively stable for the three months ended September 30, 2016 as compared to the three months ended September 30, 2015. The weighted average stated interest rate on borrowings (excluding amortization, accretion and undrawn



facility fees) increased from 5.05% for the three months ended September 30, 2015 to 5.36% for the three months ended September 30, 2016. This increase is primarily due to issuances of the 2024 Notes at higher rates.

The allocation of gross overhead expense from Prospect Administration was \$4,871 and \$5,876 for the three months ended September 30, 2016 and 2015, respectively. Prospect Administration received estimated payments of \$1,338 and \$1,698 directly from our portfolio companies and certain funds managed by the Investment Adviser for legal, tax and portfolio level accounting services during the three months ended September 30, 2016 and 2015, respectively. We were given a credit for these payments as a reduction of the administrative services cost payable by us to Prospect Administration, resulting in net overhead expense of \$3,533 and \$4,178 during the three months ended September 30, 2016 and 2015, respectively. Had Prospect Administration not received these payments, Prospect Administration's charges for its administrative services would have increased by these amounts.

Total operating expenses, net of investment advisory fees, interest and credit facility expenses, allocation of overhead from Prospect Administration ("Other Operating Expenses") was \$5,189 and \$7,110 for the three months ended September 30, 2016 and September 30, 2015, respectively. The decrease of \$1,921 during the three months ended September 30, 2016 is primarily due to a decrease in other general and administrative expenses from tax related expenses in our controlled companies.

#### Net Investment Income

Net investment income represents the difference between investment income and operating expenses. Net investment income was \$78,919 and \$91,242 and for three months ended September 30, 2016 and September 30, 2015, respectively. Net investment income for three months ended September 30, 2016 and September 30, 2015 was \$0.22 and \$0.26 per weighted average share, respectively. During the three months ended September 30, 2016, the decrease is primarily due to a \$19,653, or \$0.06 per weighted average share, decrease in interest and other income due to repayments on investments and a decrease in interest income due to increased default rates in the underlying collateral of our CLO investments. This decrease was offset by a \$5,242, or \$0.02 per weighted average share, decrease in total advisory fees.

#### Net Realized Gains/Losses

During the three months ended September 30, 2016, we recognized a net realized gain of \$714, as compared to the \$2,135 of net realized losses recognized during three months ended September 30, 2015. The net realized gain during the three months ended September 30, 2016 was primarily due to the receipt of bankruptcy proceeds from our investment in New Century Transportation, Inc. of \$936, as well as from the sales of our investments in Biotronic, Big Tex and Nathan's for which we recognized total realized gains of \$514. These gains were offset by the write-off of defaulted loans in our small business lending portfolio of \$740.

#### Net Change in Unrealized Gains (Losses)

Net change in unrealized gains (losses) was \$1,794 and \$(61,275) for the three months ended September 30, 2016 and September 30, 2015, respectively. The variability in results is primarily due to the valuation of equity positions in our controlled company portfolio susceptible to significant changes in value, both increases as well as decreases, due to operating results. For the three months ended September 30, 2016, the \$1,794 change in net unrealized gains was driven primarily due to improved operating performance in our controlled companies comprising \$13,366 of total net change in unrealized gains, along with certain non-controlled investments - Pacific World Corporation, LaserShip, Capstone Logistics Acquisition, Inc., and Arctic Glacier - comprising \$12,093 of total net change in unrealized gains. These combined unrealized gains were partially offset by unrealized losses in our CLO portfolio primarily due to a slight increase in defaults and ratings migration in the underlying collateral and an increase in the LIBOR rate. For the three months ended September 30, 2015, the \$(61,275) net change in unrealized losses was primarily the result of market fluctuations and the competitive environment faced by our energy-related companies. Unrealized losses on our CLO debt and equity investments comprised \$13,053 of total net change in unrealized losses, and unrealized losses on our energy-related investments comprised \$9,100 of total net change in unrealized losses for the three months ended September 30, 2015. Additionally, during the three months ended September 30, 2015, we reduced the value of our investment in Harbortouch by \$17,290 due to then current market developments and our investment in LaserShip by \$4,418 due to declining operating results. The value of our investment in Echelon decreased by \$8,388

due to an early lease termination for one aircraft. Due to an increase in the observed market cap rate for our largest property under NPRC and an increase in the market yield for the online consumer loans, we reduced the value of our investment in NPRC by \$11,025.

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### Financial Condition, Liquidity and Capital Resources

For the three months ended September 30, 2016 and September 30, 2015, our operating activities (used) provided \$(53,833) and \$244,354 of cash, respectively. There were no investing activities for the three months ended September 30, 2016 and September 30, 2015. Financing activities used \$131,725 and \$282,552 of cash during the three months ended September 30, 2016 and September 30, 2015, respectively, which included dividend payments of \$81,596 and \$85,755, respectively.

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

Our primary sources of funds have historically been issuances of debt and equity. More recently, we have and may continue to fund a portion of our cash needs through repayments and opportunistic sales of our existing investment portfolio. We may also securitize a portion of our investments in unsecured or senior secured loans or other assets. Our objective is to put in place such borrowings in order to enable us to expand our portfolio. During the three months ended September 30, 2016, we borrowed \$44,000 and did not make any repayments on the Revolving Credit Facility. As of September 30, 2016, we had, net of deferred financing cost and debt discount, \$908,240 outstanding on the Convertible Notes, \$736,821 outstanding on the Public Notes and \$930,814 outstanding on the Prospect Capital InterNotes®, along with \$44,000 outstanding on the Revolving Credit Facility. (See “Capitalization” above.)

Undrawn committed revolvers and delayed draw term loans to our portfolio companies incur commitment and unused fees ranging from 0.00% to 6.00%. As of September 30, 2016 and June 30, 2016, we had \$42,484 and \$40,560, 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 September 30, 2016 and June 30, 2016.

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

As part of our Repurchase Program, we delivered a notice with our annual proxy mailing on September 23, 2015 and our most recent notice was delivered with a shareholder letter mailing on February 2, 2016. This notice extends for six months after the date that notice is delivered. We did not repurchase any shares of our common stock for the three months ended September 30, 2016. During the three months ended September 30, 2015, we repurchased 4,358,750 shares of our common stock pursuant to our publicly announced Repurchase Program for \$31,530, or approximately \$7.23 weighted average price per share at approximately a 30% discount to net asset value as of June 30, 2015. Our NAV per share was increased by approximately \$0.04 for the three months ended September 30, 2015 as a result of the share repurchases.

On November 3, 2015, our Registration Statement on Form N-2 was declared effective by the SEC. Under this Shelf Registration Statement, we can issue up to \$4,730,685 of additional debt and equity securities in the public market as of September 30, 2016. See Recent Developments for updates to our Registration Statement subsequent to September 30, 2016.

### Off-Balance Sheet Arrangements

As of September 30, 2016, we did not have any off-balance sheet liabilities or other contractual obligations that are reasonably likely to have a current or future material effect on our financial condition, other than those which originate from 1) the investment advisory and management agreement and the administration agreement and 2) the portfolio companies.

### Recent Developments

On October 4, 2016, we made a \$40,000 second lien senior secured investment to support the recapitalization of Coinstar, LLC, an automated network of self-service coin counting machines.

On October 5, 2016, Focus Brands, Inc. repaid the \$18,000 loan receivable to us.

On October 7, 2016, we made an \$11,500 second lien senior secured debt investment in Dunn Paper Holdings, Inc, a leading specialty packaging supplier, in support of an acquisition of the company.

On October 14, 2016, Trinity Services Group, Inc. repaid the \$134,576 loan receivable to us.

On October 14, 2016, Security Alarm Financing Enterprise, L.P. repaid the \$25,000 loan receivable to us.

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On October 14, 2016, Harbortouch repaid the \$27,711 loan receivable to us.

On October 14, 2016, we provided \$22,500 of second lien senior secured debt to support the refinancing of Vivid Seats LLC, a secondary marketplace for entertainment tickets.

On October 14, 2016, we received a partial repayment of \$60,778 for the NPRC and its wholly-owned subsidiaries' loan previously outstanding and \$2,222 as a return of capital on the equity investment in NPRC.

On October 20, 2016, we made a \$50,000 second lien senior secured debt investment in Rocket to support an acquisition and dividend recapitalization.

On October 31, 2016, System One Holdings, LLC repaid the \$104,553 loan receivable to us.

On November 1, 2016, we made a \$13,000 second lien secured investment to support an acquisition of K&N Parent, Inc., a leader in aftermarket automotive performance filtration products.

On November 3, 2016, our Registration Statement on Form N-2 was declared effective by the SEC. Under this Shelf Registration Statement, we can issue up to \$5,000,000 of additional debt and equity securities in the public market.

During the period from October 1, 2016 through November 10, 2016 we issued \$16,177 aggregate principal amount of Prospect Capital InterNotes® for net proceeds of \$15,975.

On November 8, 2016, we announced the declaration of monthly dividends in the following amounts and with the following dates:

\$0.08333 per share for November 2016 to holders of record on November 30, 2016 with a payment date of December 22, 2016;

\$0.08333 per share for December 2016 to holders of record on December 30, 2016 with a payment date of January 19, 2017; and

\$0.08333 per share for January 2017 to holders of record on January 31, 2017 with a payment date of February 16, 2017.

#### Critical Accounting Policies and Estimates

##### Basis of Presentation and Consolidation

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

##### 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 three months ended September 30, 2016.

##### Use of Estimates

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

#### 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.

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

#### Investment Risks

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

##### Market Risk

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

##### Credit Risk

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

##### Liquidity Risk

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

##### Interest Rate Risk

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

##### Prepayment Risk

Many of our debt investments allow for prepayment of principal without penalty. Downward changes in interest rates may cause prepayments to occur at a faster than expected rate, thereby effectively shortening the maturity of the security and making 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 consumer and Small and Medium Sized Business Risk

With respect to our online consumer and 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 consumer and SME loans, and our ability to grow our portfolio of consumer and SME loans, are directly influenced by the business performance and competitiveness of the marketplace loan



origination business of the marketplace lending facilitators from which we purchase consumer and SME loans. In addition, our ability to analyze the risk-return profile of consumer and SME loans is significantly dependent on the marketplace facilitator's 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.

#### Investment Valuation

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

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

- Level 1: Quoted prices in active markets for identical assets or liabilities, accessible by us at the measurement date.
- Level 2: Quoted prices for similar assets or liabilities in active markets, or quoted prices for identical or similar assets or liabilities in markets that are not active, or other observable inputs other than quoted prices.
- Level 3: Unobservable inputs for the asset or liability.

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

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

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

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

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

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



future cash flows or earnings to a range of fair values from which a single estimate may be derived utilizing an appropriate discount rate. The measurement is based on the net present value indicated by current market expectations about those future amounts.

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

Our investments in CLOs are classified as ASC 820 Level 3 securities and are valued using a discounted cash flow model. The valuations have been accomplished through the analysis of the CLO deal structures to identify the risk exposures from the modeling point of view as well as to determine an appropriate call date (i.e., expected maturity). For each CLO security, the most appropriate valuation approach has been chosen from alternative approaches to ensure the most accurate valuation for such security. To value a CLO, both the assets and the liabilities of the CLO capital structure are modeled. Our valuation agent utilizes additional methods to validate the results from the discounted cash flow method, such as Monte Carlo simulations of key model variables, analysis of relevant data observed in the CLO market, and review of certain benchmark credit indices. We use a waterfall engine to store the collateral data, generate collateral cash flows from the assets based on various assumptions for the risk factors, distribute the cash flows to the liability structure based on the payment priorities, and discount them back using appropriate market discount rates. 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, interest rate risk, downgrade risk, and credit spread risk.

#### Valuation of Other Financial Assets and Financial Liabilities

ASC 825, Financial Instruments, specifically ASC 825-10-25, permits an entity to choose, at specified election dates, to measure eligible items at fair value (the "Fair Value Option"). We have not elected the Fair Value Option to report selected financial assets and financial liabilities. See Note 8 in the accompanying Consolidated Financial Statements for further discussion of our financial liabilities that are measured using another measurement attribute.

#### Convertible Notes

We have recorded the Convertible Notes at their contractual amounts. The Convertible Notes were analyzed for any features that would require bifurcation and such features were determined to be immaterial. See Note 5 in the accompanying Consolidated Financial Statements for further discussion.

#### Revenue Recognition

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

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

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

Unpaid accrued interest is generally reversed when a loan is placed on non-accrual status. Interest payments received on non-accrual loans may be recognized as income or applied to the cost basis 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. As of September 30, 2016, approximately 1.6% of our total assets at fair value are in non-accrual status.

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

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Structuring fees and similar fees are recognized as income is earned, usually when paid. Structuring fees, excess deal deposits, net profits interests and overriding royalty interests are included in other income. See Note 10 in the accompanying Consolidated Financial Statements for further discussion.

#### Federal and State Income Taxes

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

If we do not distribute (or are not deemed to have distributed) at least 98% of our annual ordinary income and 98.2% of our capital gains in the calendar year earned, we will generally be required to pay an excise tax equal to 4% of the amount by which 98% of our annual ordinary income and 98.2% of our capital gains exceed the distributions from such taxable income for the year. To the extent that we determine that our estimated current year annual taxable income combined with prior year underdistributed taxable income could be in excess of estimated current year dividend distributions from such combined taxable income, we accrue excise taxes, if any, on estimated excess taxable income. As of September 30, 2016, we accrued \$1,100 for any unpaid potential excise tax liability and have included this amount within other liabilities on the accompanying Consolidated Statements of Assets and Liabilities.

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 ten years.

We follow ASC 740, Income Taxes (“ASC 740”). ASC 740 provides guidance for how uncertain tax positions should be recognized, measured, presented, and disclosed in the consolidated financial statements. ASC 740 requires the evaluation of tax positions taken or expected to be taken in the course of preparing our tax returns to determine whether the tax positions are “more-likely-than-not” of being sustained by the applicable tax authority. Tax positions not deemed to meet the more-likely-than-not threshold are recorded as a tax benefit or expense in the current year. As of September 30, 2016 and for the three months then ended, 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 tax returns for our federal tax years ended August 31, 2013 and thereafter remain subject to examination by the Internal Revenue Service.

#### Dividends and Distributions

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

#### Financing Costs

We record origination expenses related to our Revolving Credit Facility, and Convertible Notes, Public Notes and Prospect Capital InterNotes® (collectively, our “Unsecured Notes”) as deferred financing costs. These expenses are

deferred and amortized as part of interest expense using the straight-line method over the stated life of the obligation for our Revolving Credit Facility. The same methodology is used to approximate the effective yield method for our Prospect Capital InterNotes® and our 2024 Notes Follow-on Program. The effective interest method is used 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,

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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.

For the year ending June 30, 2017, we have changed our method of presentation relating to debt issuance costs in accordance with ASU 2015-03, Interest - Imputation of Interest (Subtopic 835-30). Prior to July 1, 2016, our policy was to present debt issuance costs in Deferred financing costs as an asset on the Consolidated Statements of Assets and Liabilities, net of accumulated amortization. Beginning with the period ended September 30, 2016, we have presented these costs, except those incurred by the Revolving Credit Facility, as a direct deduction to our Unsecured Notes. Unamortized deferred financing costs of \$40,526, \$44,140, \$57,010, \$37,607, and \$15,693 previously reported as an asset on the Consolidated Statements of Assets and Liabilities for the years ended June 30, 2016, 2015, 2014, 2013, and 2012, respectively, have been reclassified as a direct deduction to the respective Unsecured Notes (see Notes 5, 6, and 7 in the accompanying Consolidated Financial Statements for further discussion).

We may record registration expenses related to shelf filings as prepaid expenses. These expenses consist principally of SEC registration fees, legal fees and accounting fees incurred. These prepaid expenses are charged to capital upon the receipt of proceeds from an equity offering or charged to expense if no offering is completed. As of September 30, 2016 and June 30, 2016, 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 March 2016, the FASB issued ASU 2016-06, Derivatives and Hedging (Topic 815): Contingent Put and Call Options in Debt Instruments, which clarifies the requirements for assessing whether contingent call (put) options that can accelerate the payment of principal on debt instruments are clearly and closely related to their debt hosts. ASU 2016-06 is effective for financial statements issued for fiscal years beginning after December 15, 2017, and interim periods within fiscal years beginning after December 15, 2018. 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. 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, 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.

## QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We are subject to financial market risks, including changes in interest rates and equity price risk. Interest rate sensitivity refers to the change in our earnings that may result from changes in the level of interest rates impacting some of the loans in our portfolio which have floating interest rates. Additionally, because we fund a portion of our investments with borrowings, our net investment income is affected by the difference between the rate at which we invest and the rate at which we borrow. As a result, there can be no assurance that a significant change in market interest rates will not have a material adverse effect on our net investment income. See “Risk Factors - Risks Relating to Our Business - Changes in interest rates may affect our cost of capital and net investment income” in the accompanying prospectus.

Our debt investments may be based on floating rates or fixed rates. For our floating rate loans the rates are determined from the LIBOR, EURO Interbank Offer Rate, the Federal Funds Rate or the Prime Rate. The floating interest rate loans may be subject to a LIBOR floor. Our loans typically have durations of one to three months after which they reset to current market interest rates. As of September 30, 2016, 90.1% of the interest earning investments in our portfolio, at fair value, bore interest at floating rates.

We also have a revolving credit facility and certain Prospect Capital InterNotes® issuances that are based on floating LIBOR rates. Interest on borrowings under the revolving credit facility is one-month LIBOR plus 225 basis points with no minimum LIBOR floor and there is no outstanding balance as of September 30, 2016. Interest on five Prospect Capital InterNotes® is three-month LIBOR plus a range of 350 to 300 basis points with no minimum LIBOR floor. The Convertible Notes, Public Notes and remaining Prospect Capital InterNotes® bear interest at fixed rates. The following table shows the approximate annual impact on net investment income of base rate changes in interest rates (considering interest rate flows for floating rate instruments, excluding our investments in CLO residual interests) to our loan portfolio and outstanding debt as of September 30, 2016, assuming no changes in our investment and borrowing structure:

(in thousands)	Interest	Interest	Net	Net
Basis Point Change	Income	Expense	Income	Investment
				Income (1)
Up 300 basis points	\$92,748	\$ 1,363	\$91,384	\$ 73,107
Up 200 basis points	54,474	909	53,565	42,852
Up 100 basis points	18,619	456	18,163	14,531
Down 100 basis points	(220 )	(246 )	26	21

(1) Includes the impact of income incentive fees. See Note 13 to our consolidated financial statements for the period ended

September 30, 2016 for more information on the income incentive fees.

(2) As of September 30, 2016 one and three month LIBOR was 0.53% and 0.85%, respectively.

We may hedge against interest rate fluctuations by using standard hedging instruments such as futures, options and forward contracts subject to the requirements of the 1940 Act. While hedging activities may insulate us against adverse changes in interest rates, they may also limit our ability to participate in the benefits of higher interest rates with respect to our portfolio of investments. During the three months ended September 30, 2016, we did not engage in hedging activities.



## REGISTRATION AND SETTLEMENT

### The Depository Trust Company

All of the notes we offer will be issued in book-entry only form. This means that we will not issue certificates for notes, except in the limited case described below. Instead, we will issue global notes in registered form. Each global note will be held through DTC and will be registered in the name of Cede & Co., as nominee of DTC.

Accordingly, Cede & Co. will be the holder of record of the notes. Each note represented by a global note evidences a beneficial interest in that global note.

Beneficial interests in a global note will be shown on, and transfers are effected through, records maintained by DTC or its participants. In order to own a beneficial interest in a note, you must be an institution that has an account with DTC or have a direct or indirect account with such an institution. Transfers of ownership interests in the notes will be accomplished by making entries in DTC participants' books acting on behalf of beneficial owners.

So long as DTC or its nominee is the registered holder of a global note, DTC or its nominee, as the case may be, will be the sole holder and owner of the notes represented thereby for all purposes, including payment of principal and interest, under the indenture. Except as otherwise provided below, you will not be entitled to receive physical delivery of certificated notes and will not be considered the holder of the notes for any purpose under the indenture.

Accordingly, you must rely on the procedures of DTC and the procedures of the DTC participant through which you own your note in order to exercise any rights of a holder of a note under the indenture. The laws of some jurisdictions require that certain purchasers of notes take physical delivery of such notes in certificated form. Those limits and laws may impair the ability to transfer beneficial interests in the notes.

Each global note representing notes will be exchangeable for certificated notes of like tenor and terms and of differing authorized denominations in a like aggregate principal amount, only if (1) DTC notifies us that it is unwilling or unable to continue as depository for the global notes or we become aware that DTC has ceased to be a clearing agency registered under the Exchange Act and, in any such case we fail to appoint a successor to DTC within 60 calendar days, (2) we, in our sole discretion, determine that the global notes shall be exchangeable for certificated notes or (3) an event of default has occurred and is continuing with respect to the notes under the indenture. Upon any such exchange, the certificated notes shall be registered in the names of the beneficial owners of the global note representing the notes.

The following is based on information furnished by DTC:

DTC will act as securities depository for the notes. The notes will be issued as fully-registered notes registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. Generally, one fully registered global note will be issued for all of the principal amount of the notes.

DTC is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Exchange Act. DTC holds and provides asset servicing for over 2 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues and money market instruments from over 85 countries that DTC's direct participants deposit with DTC.

DTC also facilitates the post-trade settlement among direct participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between direct participants' accounts. This eliminates the need for physical movement of securities certificates. Direct participants include both U.S. and non U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC, in turn, is owned by a number of direct participants of DTC and members of the National Securities Clearing Corporation, Government Securities Clearing Corporation, MBS Clearing Corporation, and Emerging Markets Clearing Corporation, as well as by The New York Stock Exchange, Inc., the American Stock Exchange LLC, and the Financial Industry Regulatory Authority, Inc. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies and clearing corporations that clear through or maintain a custodial relationship with a direct participant, either directly or indirectly. The DTC rules applicable to its participants are on file with the SEC. More information about DTC can be found at [www.dtcc.com](http://www.dtcc.com).

Purchases of the notes under the DTC system must be made by or through direct participants, which will receive a credit for the notes on DTC's records. The beneficial interest of each actual purchaser of each note is in turn to be recorded on the direct and indirect participants' records. Beneficial owners will not receive written confirmation from DTC of their purchase.

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Beneficial owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the direct or indirect participant through which the beneficial owner entered into the transaction. Transfers of beneficial interests in the notes are to be accomplished by entries made on the books of direct and indirect participants acting on behalf of beneficial owners. Beneficial owners will not receive certificates representing their beneficial interests in notes, except in the event that use of the book-entry system for the notes is discontinued.

To facilitate subsequent transfers, all notes deposited by direct participants with DTC will be registered in the name of DTC's partnership nominee, Cede & Co. or such other name as may be requested by an authorized representative of DTC. The deposit of the notes with DTC and their registration in the name of Cede & Co. or such other nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual beneficial owners of the notes; DTC's records reflect only the identity of the direct participants to whose accounts such notes will be credited, which may or may not be the beneficial owners. The direct and indirect participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to direct participants, by direct participants to indirect participants, and by direct participants and indirect participants to beneficial owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial owners of the notes may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the notes, such as redemption, tenders, defaults, and proposed amendments to the security documents. For example, beneficial owners of the notes may wish to ascertain that the nominee holding the notes for their benefit has agreed to obtain and transmit notices to beneficial owners. In the alternative, beneficial owners may wish to provide their names and addresses to the registrar of the notes and request that copies of the notices be provided to them directly. Any such request may or may not be successful.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to the notes unless authorized by a direct participant in accordance with DTC's procedures. Under its usual procedures, DTC mails an Omnibus Proxy to us as soon as possible after the regular record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those direct participants to whose accounts the notes are credited on the record date (identified in a listing attached to the Omnibus Proxy).

We will pay principal and or interest payments on the notes in same-day funds directly to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit direct participants' accounts on the applicable payment date in accordance with their respective holdings shown on DTC's records upon DTC's receipt of funds and corresponding detail information. Payments by participants to beneficial owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of these participants and not of DTC or any other party, subject to any statutory or regulatory requirements that may be in effect from time to time. Payment of principal and interest to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC, is our responsibility, disbursement of such payments to direct participants is the responsibility of DTC, and disbursement of such payments to the beneficial owners is the responsibility of the direct or indirect participant.

We will send any redemption notices to DTC. If less than all of the notes are being redeemed, DTC's practice is to determine by lot the amount of the interest of each direct participant in such issue to be redeemed.

A beneficial owner, or its authorized representative, shall give notice to elect to have its notes repaid by us, through its direct or indirect participant, to the trustee, and shall effect delivery of such notes by causing the direct participant to transfer that participant's interest in the global note representing such notes, on DTC's records, to the trustee. The requirement for physical delivery of notes in connection with a demand for repayment will be deemed satisfied when the ownership rights in the global note representing such notes are transferred by the direct participants on DTC's records.

DTC may discontinue providing its services as securities depository for the notes at any time by giving us reasonable notice. Under such circumstances, if a successor securities depository is not obtained, we will print and deliver certificated notes. We may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). In that event, we will print and deliver certificated notes.

The information in this section concerning DTC and DTC's system has been obtained from sources that we believe to be reliable, but neither we, the Purchasing Agent nor any agent takes any responsibility for its accuracy.

Registration, Transfer and Payment of Certificated Notes

If we ever issue notes in certificated form, those notes may be presented for registration, transfer and payment at the office of the registrar or at the office of any transfer agent designated and maintained by us. We have originally designated

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American Stock Transfer & Trust Company, LLC to act in those capacities for the notes. The registrar or transfer agent will make the transfer or registration only if it is satisfied with the documents of title and identity of the person making the request. There will not be a service charge for any exchange or registration of transfer of the notes, but we may require payment of a sum sufficient to cover any tax or other governmental charge that may be imposed in connection with the exchange. At any time, we may change transfer agents or approve a change in the location through which any transfer agent acts. We also may designate additional transfer agents for any notes at any time. We will not be required to: (1) issue, exchange or register the transfer of any note to be redeemed for a period of 15 days after the selection of the notes to be redeemed; (2) exchange or register the transfer of any note that was selected, called or is being called for redemption, except the unredeemed portion of any note being redeemed in part; or (3) exchange or register the transfer of any note as to which an election for repayment by the holder has been made, except the unrepaid portion of any note being repaid in part.

We will pay principal of and interest on any certificated notes at the offices of the paying agents we may designate from time to time. Generally, we will pay interest on a note by check on any interest payment date other than at stated maturity or upon earlier redemption or repayment to the person in whose name the note is registered at the close of business on the regular record date for that payment. We will pay principal and interest at stated maturity or upon earlier redemption or repayment in same-day funds against presentation and surrender of the applicable notes.

## SUPPLEMENT TO MATERIAL U.S. FEDERAL INCOME TAX CONSIDERATIONS

The following summary of U.S. federal income tax considerations supplements the discussion set forth under the heading “Material U.S. Federal Income Tax Considerations” in the accompanying prospectus and is subject to the qualifications and assumptions set forth therein.

The following is a general summary of U.S. federal income tax considerations generally applicable to the purchase, ownership and disposition of the notes. This discussion is based upon the Code, Treasury Regulations and judicial decisions and administrative interpretations thereof, all as of the date hereof and all of which are subject to change or differing interpretations, possibly with retroactive effect. No ruling from the Internal Revenue Service (“IRS”) has been or will be sought regarding any matter discussed herein. No assurance can be given that the IRS would not assert, or that a court would not sustain, a position contrary to any of the tax aspects set forth below.

This discussion applies only to a holder of notes that acquires the notes pursuant to this offering at their “issue price” within the meaning of the applicable provisions of the Code and who holds the notes as a capital asset (generally, property held for investment) under the Code. This discussion does not address any U.S. federal estate or gift tax consequences or any state, local or non-U.S. tax consequences. In addition, this discussion does not address all aspects of U.S. federal income taxation that may be applicable to investors in light of their particular circumstances, or to investors subject to special treatment under U.S. federal income tax law, including, but not limited to:

- banks, insurance companies or other financial institutions;
- pension plans or trusts;
- U.S. noteholders (as defined below) whose functional currency is not the U.S. dollar;
- real estate investment trusts;
- regulated investment companies;
- persons subject to the alternative minimum tax;
- cooperatives;
- tax-exempt organizations;
- dealers in securities;
- expatriates;
- foreign persons or entities (except to the extent set forth below);
- persons deemed to sell the notes under the constructive sale provisions of the Code; or
- persons that hold the notes as part of a straddle, hedge, conversion transaction or other integrated investment.

If a partnership (including any entity or arrangement treated as a partnership for U.S. federal income tax purposes) owns notes, the tax treatment of a partner in the partnership will depend upon the status of the partner and the activities of the partnership. Partners in a partnership that owns the notes should consult their tax advisors as to the particular U.S. federal income tax consequences applicable to them.

We encourage investors to consult their tax advisors regarding the specific consequences of an investment in our notes, including tax reporting requirements, the applicability of U.S. federal, state or local and foreign tax laws, eligibility for the benefits of any applicable tax treaty and the effect of any possible changes in the tax laws.

### Consequences to U.S. Noteholders

The following is a general summary of U.S. federal income tax consequences generally applicable to you if you are a U.S. noteholder. U.S. federal income tax consequences generally applicable to non-U.S. noteholders are described under “Consequences to Non-U.S. Noteholders” below. For purposes of this summary, the term “U.S. noteholder” means a beneficial owner of a note that is, for U.S. federal income tax purposes (i) an individual who is a citizen or resident of the U.S., (ii) a corporation, or other entity treated as a corporation for U.S. federal income tax purposes, that is created or organized under the laws of the U.S., any of the States or the District of Columbia, (iii) an estate the income of which is subject to U.S. federal income taxation regardless of its source, or (iv) a trust (A) if a court within the U.S. is able to exercise primary supervision over its administration and one or more U.S. persons have the authority to control all substantial decisions of such trust, or (B) that has made a valid election to be treated as a U.S. person for U.S. federal income tax purposes.

### Stated interest and OID on the notes

Except as discussed below, a U.S. noteholder generally will be required to recognize stated interest as ordinary income at the time it is paid or accrued on the notes in accordance with its regular method of accounting for U.S.

federal income tax purposes. In addition, if the notes' "issue price" (the first price at which a substantial amount of the notes is sold to investors) is less than their "stated redemption price at maturity" (the sum of all payments to be made on the notes other than "qualified stated interest") by more than a statutorily defined de minimis threshold, the notes will be issued with original issue discount

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(“OID”) for U.S. federal income tax purposes. The term “qualified stated interest” generally means stated interest that is unconditionally payable at least annually at a single fixed rate or, if certain requirements are met (as described below), certain variable rates.

If the notes are issued with OID, a U.S. noteholder generally will be required to include the OID in gross income as ordinary interest income in advance of the receipt of cash attributable to that income and regardless of such holder’s regular method of tax accounting. Such OID will be included in gross income for each day during each taxable year in which the note is held using a constant yield-to-maturity method that reflects the compounding of interest. This means that the holder will have to include in income increasingly greater amounts of OID over time. Notice will be given in the applicable pricing supplement if we determine that a particular note will be issued with OID. We are required to provide information returns stating the amount of OID accrued on the notes held by persons of record other than certain exempt holders.

If the notes are “step-up notes” (i.e., notes with a fixed interest rate that increases at pre-determined intervals), the tax treatment described in the first sentence under “—Consequences to U.S. Noteholders—Stated interest and OID on the notes” assumes that we will have the right to call the notes at par (plus accrued but unpaid interest) on each date that the interest rate increases. If this is not the case, interest that exceeds the lowest rate payable under the step-up note may not be treated as qualified stated interest and, depending on the amount of such excess, may thus cause the step-up note to be treated as issued with OID, in which case the notes generally would be subject to the OID rules discussed above. Prospective investors are urged to consult their own tax advisors regarding the treatment of step-up notes or similar notes.

If you own a note issued with de minimis OID (i.e., discount that is not OID), you generally must include the de minimis OID in income at the time principal payments on the notes are made in proportion to the amount paid. Any amount of de minimis OID that you have included in income will be treated as capital gain.

#### Short-term notes

Notes that have a fixed maturity of one year or less (“short-term notes”) will be subject to the following special rules. All of the interest on a short-term note is treated as part of the short-term note’s stated redemption price at maturity, thereby giving rise to OID. Thus, all short-term notes will be OID debt securities. OID will be treated as accruing on a short-term debt instrument ratably or, at the election of a U.S. noteholder, under a constant yield method.

A U.S. noteholder that uses the cash method of tax accounting (with certain exceptions) will generally not be required to include OID in respect of the short-term note in income on a current basis, though they may be required to include stated interest in income as the income is received. Such a U.S. noteholder may not be allowed to deduct all of the interest paid or accrued on any indebtedness incurred or maintained to purchase or carry such a short-term note until the maturity of the note or its earlier disposition in a taxable transaction. In addition, such a U.S. noteholder will be required to treat any gain realized on a disposition of the note as ordinary income to the extent of the holder’s accrued OID on the note, and short-term capital gain to the extent the gain exceeds accrued OID. A U.S. noteholder that uses the cash method of tax accounting may, however, elect to include OID on a short-term note in income on a current basis. In such case, the limitation on the deductibility of interest described above will not apply. A U.S. noteholder that uses the accrual method of tax accounting and certain cash method holders generally will be required to include OID on a short-term note in income on a current basis.

#### Floating rate notes

In the case of a note that is a floating rate note (including a note based on LIBOR), special rules apply. In general, if a note qualifies for treatment as a “variable rate debt instrument” under Treasury Regulations and provides for stated interest that is unconditionally payable at least annually at a variable rate that, subject to certain exceptions, is a single “qualified floating rate” or “objective rate,” each as defined below, all stated interest on the note is treated as qualified stated interest. In that case, both the note’s “yield to maturity” and “qualified stated interest” will be determined, for purposes of calculating the accrual of OID, if any, as though the note will bear interest in all periods throughout its term at a fixed rate generally equal to the rate that would be applicable to interest payments on the note on its issue date or, in the case of an objective rate (other than a “qualified inverse floating rate”), the rate that reflects the yield to maturity that is reasonably expected for the note. A U.S. noteholder of a variable rate debt instrument would then recognize OID, if any, that is calculated based on the note’s assumed yield to maturity. If the interest actually accrued or paid during an accrual period exceeds or is less than the assumed fixed interest, the qualified stated interest



allocable to that period is increased or decreased under rules set forth in Treasury Regulations. Special rules apply for determining the amount of OID for other variable rate debt instruments, such as instruments with more than one qualified floating rate or instruments with a single fixed rate and one or more qualified floating rates. U.S. noteholders should consult their own tax advisors with respect to the specific U.S. federal income tax considerations regarding any investment in a note that qualifies a “variable rate debt instrument.”

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A note will generally qualify as a variable rate debt instrument if (a) the note's issue price does not exceed the total noncontingent principal payments by more than the lesser of: (i) .015 multiplied by the product of the total noncontingent principal payments and the number of complete years to maturity from the issue date, or (ii) 15% of the total noncontingent principal payments; (b) the note provides for stated interest, compounded or paid at least annually, only at one or more qualified floating rates, a single fixed rate and one or more qualified floating rates, a single objective rate, or a single fixed rate and a single objective rate that is a qualified inverse floating rate; and (c) the value of the rate on any date during the term of the note is set no earlier than three months prior to the first day on which that value is in effect or no later than one year following that first day.

Generally, a rate is a qualified floating rate if variations in the rate can reasonably be expected to measure contemporaneous fluctuations in the cost of newly borrowed funds in the currency in which the debt instrument is denominated. A rate that equals LIBOR or LIBOR plus or minus a fixed spread is, in general, a qualified floating rate. However, a rate (including a rate based on LIBOR) will generally not be a qualified floating rate if, among other circumstances:

the rate is subject to one or more minimum or maximum rate floors or ceilings or one or more governors limiting the amount of increase or decrease in each case which are not fixed throughout the term of the note and which are reasonably expected as of the issue date to cause the rate in some accrual periods to be significantly higher or lower than the overall expected return on the note determined without the floor, ceiling, or governor; or

the rate is a multiple of a qualified floating rate unless the multiple is a fixed multiple that is greater than 0.65 but not more than 1.35 (provided, however, that if a multiple of a qualified floating rate is not within such limits and thus is not itself a qualified floating rate, it may nevertheless qualify as an "objective rate").

If a note provides for two or more qualified floating rates that are within 0.25 percentage points of each other on the issue date or can reasonably be expected to have approximately the same values throughout the term of the note, the qualified floating rates together constitute a single qualified floating rate.

Generally, an objective rate is a rate that is determined using a single fixed formula that is based on objective financial or economic information such as one or more qualified floating rates. An objective rate is a qualified inverse floating rate if that rate is equal to a fixed rate minus a qualified floating rate and variations in the rate can reasonably be expected to inversely reflect contemporaneous variations in the qualified floating rate. A variable rate will generally not qualify as an objective rate if, among other circumstances, it is reasonably expected that the average value of the variable rate during the first half of the term of the note will be either significantly less than or significantly greater than the average value of the rate during the final half of the term of the note.

If a floating rate note does not qualify as a "variable rate debt instrument," the note generally will be subject to taxation under special rules applicable to contingent payment debt instruments. U.S. noteholders should consult their own tax advisors with respect to the specific U.S. federal income tax considerations regarding such notes.

**Sale, exchange, redemption or other taxable disposition of the notes**

Subject to the special rules for short-term notes discussed above, upon the sale, exchange, redemption or other taxable disposition of a note, a U.S. noteholder generally will recognize capital gain or loss in an amount equal to the difference between (1) the sum of cash plus the fair market value of all other property received on such disposition (except to the extent such cash or property is attributable to accrued but unpaid interest, which, to the extent not previously included in income, generally will be taxable as ordinary income) and (2) its adjusted tax basis in the note. A U.S. noteholder's adjusted tax basis in a note generally will equal the price the U.S. noteholder paid for the note increased by OID (including with respect to a short-term note), if any, previously included in income with respect to that note, and reduced by any cash payments on the note other than qualified stated interest. Such capital gain or loss will be long-term capital gain or loss if, at the time of such taxable disposition, the U.S. noteholder has held the note for more than one year. The deductibility of capital losses is subject to limitations.

**Medicare tax**

Certain U.S. noteholders who are individuals, estates or trusts and whose income exceeds certain thresholds will be required to pay a 3.8% Medicare tax on all or a portion of their "net investment income," which includes interest on the notes and capital gains from the sale or other disposition of the notes.

**Information reporting and backup withholding**

In general, information reporting requirements will apply to certain payments of principal and interest (including OID) and to the proceeds of sale of a note paid to a U.S. noteholder (unless such noteholder is an exempt recipient). A backup

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withholding tax may apply to such payments if a U.S. noteholder fails to provide a taxpayer identification number or certification of exempt status, or if it is otherwise subject to backup withholding.

Any amounts withheld under the backup withholding rules will be allowed as a refund or credit against a U.S. noteholder's United States federal income tax liability provided the required information is timely furnished to the IRS.

Consequences to Non-U.S. Noteholders

The following is a general summary of U.S. federal income tax consequences generally applicable to you if you are a non-U.S. noteholder. A beneficial owner of a note that is not a partnership for U.S. federal income tax purposes (including any entity or arrangement otherwise treated as a partnership for U.S. federal income tax purposes) or a U.S. noteholder is referred to herein as a "non-U.S. noteholder."

Stated interest and OID on the notes

Stated interest and OID, if any, paid or accrued to a non-U.S. noteholder will generally not be subject to U.S. federal income or withholding tax if the interest or OID is not effectively connected with its conduct of a trade or business within the United States and is not considered contingent interest within the meaning of Section 871(h)(4)(A) of the Code (generally relating to interest payments that are determined by reference to the income, profits, receipts, cash flow, changes in the value of non-publicly-traded property or other attributes of, or distributions or similar payments paid by, the debtor or a related party), and the non-U.S. noteholder:

- does not own, actually or constructively, 10% or more of the total combined voting power of all classes of our stock entitled to vote;

- is not a "controlled foreign corporation" with respect to which we are, directly or indirectly, a "related person";

- is not a bank whose receipt of interest on the notes is described in section 881(c)(3)(A) of the Code; and

- provides its name and address, and certifies, under penalties of perjury, that it is not a U.S. person (on a properly executed IRS Form W-8BEN or W-8BEN-E (or other applicable form)), or holds its notes through certain foreign intermediaries and satisfies the certification requirements of applicable Treasury Regulations.

If a non-U.S. noteholder does not qualify for an exemption under these rules, interest income and OID, if any, from the notes may be subject to withholding tax at the rate of 30% (or lower applicable treaty rate). Stated interest and OID, if any, effectively connected with a non-U.S. noteholder's conduct of a U.S. trade or business (and, if required by an applicable income tax treaty, which is attributable to a United States permanent establishment), however, would not be subject to a 30% withholding tax so long as the non-U.S. noteholder provides us or our paying agent an adequate certification (currently on IRS Form W-8ECI); such payments of interest generally would be subject to U.S. federal income tax on a net basis at the rates applicable to U.S. persons generally. In addition, if a non-U.S. noteholder is a foreign corporation and the stated interest and OID, if any, is effectively connected with its conduct of a U.S. trade or business, it may also be subject to a 30% (or lower applicable treaty rate) branch profits tax on its effectively connected earnings and profits for the taxable year, subject to adjustments. To claim the benefit of a tax treaty, a non-U.S. noteholder must provide a properly executed IRS Form W-8BEN or W-8BEN-E (or other applicable form) to us or our paying agent before the payment of stated interest or OID, and may be required to obtain a U.S. taxpayer identification number and provide documentary evidence issued by foreign governmental authorities to prove residence in the foreign country.

Sale, exchange, redemption or other taxable disposition of the notes

Any gain recognized by a non-U.S. noteholder on the sale, exchange, redemption or other taxable disposition of the notes (except with respect to accrued and unpaid interest, which would be taxed as described under "Consequences to Non-U.S. Noteholders—Stated interest and OID on the notes" above) generally will not be subject to U.S. federal income tax unless:

- the gain is effectively connected with its conduct of a U.S. trade or business (and, if required by an applicable income tax treaty, is attributable to a United States permanent establishment); or

- the non-U.S. noteholder is a nonresident alien individual present in the U.S. for 183 or more days in the taxable year within which the sale, exchange, redemption or other disposition takes place and certain other requirements are met.

If a non-U.S. noteholder is a holder described in the first bullet point above, the net gain derived from the sale, exchange, redemption or other taxable disposition of its notes generally will be subject to U.S. federal income tax on a net basis at the rates applicable to U.S. persons generally. In addition, if such non-U.S. noteholder is a foreign corporation, it may also be subject to a 30% (or lower applicable treaty rate) branch profits tax on its effectively

connected earnings and profits for the taxable year, subject to adjustments. If a non-U.S. noteholder is a holder described in the second bullet point above, it will be subject to a flat 30% U.S. federal income tax on the gain derived from the sale, exchange, redemption or other taxable

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disposition of its notes, which may be offset by U.S. source capital losses, even though it is not considered a resident of the United States.

#### Information Reporting and Backup Withholding

Generally, we must report to the IRS and to a non-U.S. noteholder the amount of interest (including OID) on the notes paid to a non-U.S. noteholder and the amount of tax, if any, withheld with respect to those payments if the notes are in registered form. Copies of the information returns reporting such interest payments and any withholding may also be made available to the tax authorities in the country in which a non-U.S. noteholder resides under the provisions of an applicable income tax treaty.

In general, a non-U.S. noteholder will not be subject to backup withholding with respect to payments on the notes that we make to such noteholder provided that we do not have actual knowledge or reason to know that such noteholder is a U.S. person as defined under the Code, and we have received from you the statement described above under the fourth bullet point under “Consequences to Non-U.S. Noteholders—Stated interest and OID on the notes.”

In addition, no information reporting requirements or backup withholding will be required regarding the proceeds of the sale of a note made within the United States or conducted through certain United States-related financial intermediaries, if the payor receives the statement described above and does not have actual knowledge or reason to know that the non-U.S. noteholder is a U.S. person as defined under the Code, or the non-U.S. noteholder otherwise establishes an exemption.

Any amounts withheld under the backup withholding rules will be allowed as a refund or credit against a non-U.S. noteholder’s United States federal income tax liability provided the required information is timely furnished to the IRS. Other withholding rules

Withholding at a rate of 30% will be required on interest in respect of, and after December 31, 2018, on gross proceeds from the sale of, notes held by or through certain foreign financial institutions (including investment funds), unless such institution enters into an agreement with the Secretary of the Treasury to report, on an annual basis, information with respect to shares in, and accounts maintained by, the institution to the extent such shares or accounts are held by certain United States persons or by certain non-U.S. entities that are wholly or partially owned by United States persons and to withhold on certain payments. Accordingly, the entity through which notes are held will affect the determination of whether such withholding is required. An intergovernmental agreement between the United States and an applicable foreign country, or future guidance, may modify these requirements. Similarly, interest in respect of, and after December 31, 2018, gross proceeds from the sale of, notes held by an investor that is a non-financial non-U.S. entity will be subject to withholding at a rate of 30%, unless such entity either (i) certifies to us that such entity does not have any “substantial United States owners” or (ii) provides certain information regarding the entity’s “substantial United States owners,” which we will in turn provide to the Secretary of the Treasury. Non-U.S. noteholders are encouraged to consult with their tax advisors regarding the possible implications of these requirements on their investment in notes.

Non-U.S. noteholders should consult any applicable income tax treaties that may provide for different rules. In addition, non-U.S. noteholders are urged to consult their tax advisors regarding the tax consequences of the purchase, ownership and disposition of the notes.

**CERTAIN CONSIDERATIONS APPLICABLE TO  
ERISA, GOVERNMENTAL AND OTHER PLAN INVESTORS**

A fiduciary of a pension plan or other employee benefit plan (including a governmental plan, an individual retirement account or a Keogh plan) proposing to invest in the notes should consider this section carefully.

A fiduciary of an employee benefit plan subject to the Employee Retirement Income Security Act of 1974, as amended (commonly referred to as “ERISA”), should consider fiduciary standards under ERISA in the context of the particular circumstances of such plan before authorizing an investment in the notes. Such fiduciary should consider whether the investment is in accordance with the documents and instruments governing the plan.

In addition, ERISA and the Code prohibit certain transactions (referred to as “prohibited transactions”) involving the assets of a plan subject to ERISA or the assets of an individual retirement account or plan subject to Section 4975 of the Code (referred to as an “ERISA plan”), on the one hand, and persons who have certain specified relationships to the plan (“parties in interest” within the meaning of ERISA or “disqualified persons” within the meaning of the Code), on the other. If we (or an affiliate) are considered a party in interest or disqualified person with respect to an ERISA plan, then the investment in notes by the ERISA plan may give rise to a prohibited transaction. The purchase and holding of notes by an ERISA plan may be subject to one or more statutory or administrative exemptions from the prohibited transaction rules under ERISA and the Code. Even if the conditions for relief under such exemptions were satisfied, however, there can be no assurance that such exemptions would apply to all of the prohibited transactions that may be deemed to arise in connection with a plan’s investment in the notes.

By purchasing and holding the notes, the person making the decision to invest on behalf of an ERISA plan is representing that the purchase and holding of the notes will not result in a prohibited transaction under ERISA or the Code. Therefore, an ERISA plan should not invest in the notes unless the plan fiduciary or other person acquiring securities on behalf of the ERISA plan determines that neither we nor an affiliate is a party in interest or a disqualified person or, alternatively, that an exemption from the prohibited transaction rules is available. If an ERISA plan engages in a prohibited transaction, the transaction may require “correction” and may cause the ERISA plan fiduciary to incur certain liabilities and the parties in interest or disqualified persons to be subject to excise taxes.

Employee benefit plans that are governmental plans and non-U.S. plans, and certain church plans, are not subject to ERISA requirements. However, non-U.S., federal, state or local laws or regulations governing the investment and management of the assets of such plans may contain fiduciary and prohibited transaction requirements similar to those under ERISA and Section 4975 of the Code discussed above. By purchasing and holding the notes, the person making the decision to invest on behalf of any such plan is representing that the purchase and holding of the notes will not violate any law applicable to such plan that is similar to the prohibited transaction provisions of ERISA or the Code. If you are the fiduciary of an employee benefit plan, whether or not subject to ERISA, and you propose to invest in the notes with the assets of such employee benefit plan, you should consult your own legal counsel for further guidance. The sale of notes to an employee benefit plan is in no respect a representation by us, the Purchasing Agent or any other person that such an investment meets all relevant legal requirements with respect to investments by employee benefit plans generally or any particular plan or that such an investment is appropriate for employee benefit plans generally or any particular plan.

#### USE OF PROCEEDS

Unless otherwise indicated in a pricing supplement for the notes, we expect to use the net proceeds from the sale of the notes initially to maintain balance sheet liquidity, involving repayment of debt under our credit facility, if any, and redemption of outstanding Prospect Capital InterNotes® and other debt, investments in high quality short-term debt instruments or a combination thereof, and thereafter to make long-term investments in accordance with our investment objective. We anticipate that substantially all of the net proceeds from each offering will be used for the above purposes within six months, depending on the availability of appropriate investment opportunities consistent with our investment objective and market conditions.

As of November 10, 2016, our credit facility is undrawn, and based on the assets currently pledged as collateral on the facility, a total of approximately \$593.8 million was available to us for borrowing under our credit facility including outstanding borrowings. Interest on borrowings under the credit facility is one-month LIBOR plus 225 basis points, with no minimum LIBOR floor. Additionally, the lenders charge a fee on the unused portion of the credit facility equal to either 50 basis points if at least 35% of the credit facility is used or 100 basis points otherwise.



## SENIOR SECURITIES

Information about our senior securities is shown in the following table as of each fiscal year ended June 30 since the Company commenced operations and as of September 30, 2016. (All figures in this item are in thousands except per unit data.)

	Total Amount Outstanding(1)	Asset Coverage per Unit(2)	Involuntary Liquidating Preference per Unit(3)	Average Market Value per Unit(4)
<b>Credit Facility</b>				
Fiscal 2017 (as of September 30, 2016, unaudited)	\$ 44,000	\$ 138,549	—	—
Fiscal 2016 (as of June 30, 2016)	—	—	—	—
Fiscal 2015 (as of June 30, 2015)	368,700	18,136	—	—
Fiscal 2014 (as of June 30, 2014)	92,000	69,470	—	—
Fiscal 2013 (as of June 30, 2013)	124,000	34,996	—	—
Fiscal 2012 (as of June 30, 2012)	96,000	22,668	—	—
Fiscal 2011 (as of June 30, 2011)	84,200	18,065	—	—
Fiscal 2010 (as of June 30, 2010)	100,300	8,093	—	—
Fiscal 2009 (as of June 30, 2009)	124,800	5,268	—	—
Fiscal 2008 (as of June 30, 2008)	91,167	5,712	—	—
Fiscal 2007 (as of June 30, 2007)	—	N/A	—	—
<b>2015 Notes(5)</b>				
Fiscal 2015 (as of June 30, 2015)	\$ 150,000	\$44,579	—	—
Fiscal 2014 (as of June 30, 2014)	150,000	42,608	—	—
Fiscal 2013 (as of June 30, 2013)	150,000	28,930	—	—
Fiscal 2012 (as of June 30, 2012)	150,000	14,507	—	—
Fiscal 2011 (as of June 30, 2011)	150,000	10,140	—	—
<b>2016 Notes(6)</b>				
Fiscal 2016 (as of June 30, 2016)	\$ 167,500	\$36,677	—	—
Fiscal 2015 (as of June 30, 2015)	167,500	39,921	—	—
Fiscal 2014 (as of June 30, 2014)	167,500	38,157	—	—
Fiscal 2013 (as of June 30, 2013)	167,500	25,907	—	—
Fiscal 2012 (as of June 30, 2012)	167,500	12,992	—	—
Fiscal 2011 (as of June 30, 2011)	172,500	8,818	—	—
<b>2017 Notes</b>				
Fiscal 2017 (as of September 30, 2016, unaudited)	\$ 129,500	\$47,074	—	—
Fiscal 2016 (as of June 30, 2016)	129,500	47,439	—	—
Fiscal 2015 (as of June 30, 2015)	130,000	51,437	—	—
Fiscal 2014 (as of June 30, 2014)	130,000	49,163	—	—
Fiscal 2013 (as of June 30, 2013)	130,000	33,381	—	—
Fiscal 2012 (as of June 30, 2012)	130,000	16,739	—	—
<b>2018 Notes</b>				
Fiscal 2017 (as of September 30, 2016, unaudited)	\$ 200,000	\$30,481	—	—
Fiscal 2016 (as of June 30, 2016)	200,000	30,717	—	—
Fiscal 2015 (as of June 30, 2015)	200,000	33,434	—	—
Fiscal 2014 (as of June 30, 2014)	200,000	31,956	—	—

Fiscal 2013 (as of June 30, 2013)	200,000	21,697	—	—
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	Total Amount Outstanding(1)	Asset Coverage per Unit(2)	Involuntary Liquidating Preference per Unit(3)	Average Market Value per Unit(4)
<b>2019 Notes</b>				
Fiscal 2017 (as of September 30, 2016, unaudited)	\$ 200,000	\$ 30,481	—	—
Fiscal 2016 (as of June 30, 2016)	200,000	30,717	—	—
Fiscal 2015 (as of June 30, 2015)	200,000	33,434	—	—
Fiscal 2014 (as of June 30, 2014)	200,000	31,956	—	—
Fiscal 2013 (as of June 30, 2013)	200,000	21,697	—	—
<b>5.00% 2019 Notes</b>				
Fiscal 2017 (as of September 30, 2016, unaudited)	\$ 300,000	\$ 20,320	—	—
Fiscal 2016 (as of June 30, 2016)	300,000	20,478	—	—
Fiscal 2015 (as of June 30, 2015)	300,000	22,289	—	—
Fiscal 2014 (as of June 30, 2014)	300,000	21,304	—	—
<b>2020 Notes</b>				
Fiscal 2017 (as of September 30, 2016, unaudited)	\$ 392,000	\$ 15,551	—	—
Fiscal 2016 (as of June 30, 2016)	392,000	15,672	—	—
Fiscal 2015 (as of June 30, 2015)	392,000	17,058	—	—
Fiscal 2014 (as of June 30, 2014)	400,000	15,978	—	—
<b>2022 Notes(7)</b>				
Fiscal 2014 (as of June 30, 2014)	\$ 100,000	\$ 63,912	—	\$ 1,038
Fiscal 2013 (as of June 30, 2013)	100,000	43,395	—	1,036
Fiscal 2012 (as of June 30, 2012)	100,000	21,761	—	996
<b>2023 Notes(9)</b>				
Fiscal 2017 (as of September 30, 2016, unaudited)	\$ 250,000	\$ 24,385	—	—
Fiscal 2016 (as of June 30, 2016)	248,293	24,742	—	—
Fiscal 2015 (as of June 30, 2015)	248,094	26,953	—	—
Fiscal 2014 (as of June 30, 2014)	247,881	25,783	—	—
Fiscal 2013 (as of June 30, 2013)	247,725	17,517	—	—
<b>2024 Notes</b>				
Fiscal 2017 (as of September 30, 2016, unaudited)	\$ 199,281	\$ 30,591	—	\$ 1,025
Fiscal 2016 (as of June 30, 2016)	161,364	38,072	—	951
<b>Prospect Capital InterNotes®</b>				
Fiscal 2017 (as of September 30, 2016, unaudited)	\$ 945,746	\$ 6,446	—	—
Fiscal 2016 (as of June 30, 2016)	908,808	6,760	—	—
Fiscal 2015 (as of June 30, 2015)	827,442	8,081	—	—
Fiscal 2014 (as of June 30, 2014)	785,670	8,135	—	—
Fiscal 2013 (as of June 30, 2013)	363,777	11,929	—	—
Fiscal 2012 (as of June 30, 2012)	20,638	105,442	—	—
<b>All Senior Securities(8)</b>				
Fiscal 2017 (as of September 30, 2016, unaudited)	\$ 2,660,527	\$ 2,291	—	—

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Fiscal 2016 (as of June 30, 2016)	2,707,465	2,269	—	—
Fiscal 2015 (as of June 30, 2015)	2,983,736	2,241	—	—
Fiscal 2014 (as of June 30, 2014)	2,773,051	2,305	—	—
Fiscal 2013 (as of June 30, 2013)	1,683,002	2,578	—	—
Fiscal 2012 (as of June 30, 2012)	664,138	3,277	—	—

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- (1) Total amount of each class of senior securities outstanding at the end of the year/period presented (in 000's).  
The asset coverage ratio for a class of senior securities representing indebtedness is calculated as our consolidated
- (2) total assets, less all liabilities and indebtedness not represented by senior securities, divided by senior securities representing indebtedness. This asset coverage ratio is multiplied by \$1,000 to determine the Asset Coverage Per Unit.
- (3) This column is inapplicable.
- (4) This column is inapplicable, except for the 2022 Notes and the 2024 Notes. The average market value per unit is calculated as an average of quarter-end prices and shown as the market value per \$1,000 of indebtedness.
- (5) We repaid the outstanding principal amount of the 2015 Notes on December 15, 2015.
- (6) We repaid the outstanding principal amount of the 2016 Notes on August 15, 2016.
- (7) We redeemed the 2022 Notes on May 15, 2015.
- (8) While we do not consider commitments to fund under revolving arrangements to be Senior Securities, if we were to elect to treat such unfunded commitments, which were \$42,484 as of September 30, 2016, as Senior Securities for purposes of Section 18 of the 1940 Act, our asset coverage per unit would be \$2,271.
- (9) For all fiscal years ended June 30th, the notes are presented net of unamortized discount.

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## RATIO OF EARNINGS TO FIXED CHARGES

For the three months ended September 30, 2016 and the years ended June 30, 2016, 2015, 2014, 2013 and 2012, the ratios of earnings to fixed charges of the Company, computed as set forth below, were as follows:

	For the three months ended September 30, 2016	For the Year Ended June 30, 2016	For the Year Ended June 30, 2015	For the Year Ended June 30, 2014	For the Year Ended June 30, 2013	For the Year Ended June 30, 2012
Earnings to Fixed Charges(1)	2.95	1.63	3.04	3.45	3.89	5.95

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

Earnings include the net change in unrealized appreciation or depreciation. Net change in unrealized appreciation or depreciation can vary substantially from year to year. Excluding the net change in unrealized appreciation or (1) depreciation, the earnings to fixed charges ratio would be 2.91 for the three months ended September 30, 2016, 3.08 for the year ended June 30, 2016, 2.06 for the year ended June 30, 2015, 3.72 for the year ended June 30, 2014, 4.91 for the year ended June 30, 2013, and 6.79 for the year ended June 30, 2012.

## PLAN OF DISTRIBUTION

Under the terms of the Sixth Amended and Restated Selling Agent Agreement dated November 10, 2016, which we refer to as the “Selling Agent Agreement,” the notes will be offered from time to time by us to the Purchasing Agent for subsequent resale to agents, including Citigroup Global Markets Inc. and RBC Capital Markets, LLC and other dealers who are broker-dealers and securities firms. The agents, including the Purchasing Agent, and the additional agents named from time to time pursuant to the Selling Agent Agreement, are, or will be, parties to the Selling Agent Agreement. The notes will be offered for sale in the United States only. Dealers who are members of the selling group have executed a Master Selected Dealer Agreement with the Purchasing Agent. We also may appoint additional agents to sell the notes. Any sale of the notes through those additional agents, however, will be on the same terms and conditions to which the original agents have agreed. The Purchasing Agent will purchase the notes at a discount ranging from 0.4% to 3.8% of the non-discounted price for each note sold. However, we also may sell the notes to the Purchasing Agent at a discount greater than or less than the range specified above. The discount at which we sell the notes to the Purchasing Agent will be set forth in the applicable pricing supplement. The Purchasing Agent also may sell notes to dealers at a concession not in excess of the discount it received from us. In certain cases, the Purchasing Agent and the other agents and dealers may agree that the Purchasing Agent will retain the entire discount. We will disclose any particular arrangements in the applicable pricing supplement.

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

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

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

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

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

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

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

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recommendations and/or publish or express independent research views in respect of such securities or financial instruments and may hold, or recommend to clients that they acquire, long and/or short positions in such securities and instruments.

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#### DIVIDEND REINVESTMENT AND DIRECT STOCK PURCHASE PLAN

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

No action is required on the part of a registered stockholder to have their cash dividend or distribution reinvested in shares of our common stock. A registered stockholder may elect to receive an entire dividend or distribution in cash by notifying the plan administrator and our transfer agent and registrar, in writing so that such notice is received by the plan administrator no later than the record date for dividends to stockholders. The plan administrator will set up a dividend reinvestment account for shares acquired pursuant to the plan for each stockholder who has not so elected to receive dividends and distributions in cash or who has enrolled in the plan as described herein (each, a “Participant”). The plan administrator will hold each Participant’s shares, together with the shares of other Participants, in non-certificated form in the plan administrator’s name or that of its nominee. Upon request by a Participant to terminate their participation in the plan, received in writing, via the internet or the plan administrator’s toll free number no later than 3 business days prior to a dividend or distribution payment date, such dividend or distribution will be paid out in cash and not be reinvested. If such request is received fewer than 3 business days prior to a dividend or distribution payment date, such dividend or distribution will be reinvested but all subsequent dividends and distributions will be paid to the stockholder in cash on all balances. Upon such termination of the Participant’s participation in the plan, all whole shares owned by the Participant will be issued to the Participant in certificated form and a check will be issued to the Participant for the proceeds of fractional shares less a transaction fee of \$15.00 to be deducted from such proceeds. Those stockholders whose shares are held by a broker or other financial intermediary may receive dividends or distributions in cash by notifying their broker or other financial intermediary of their election.

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

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

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

Participants in the plan have the option of making additional cash payments to the plan administrator for investment in the shares at the then current market price. Such payments may be made in any amount from \$25 to \$10,000 per transaction.

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Participants in the plan may also elect to have funds electronically withdrawn from their checking or savings account each month. Direct debit of cash will be performed on the 10th of each month. Participants may elect this option by submitting a written authorization form or by enrolling online at the plan administrator's website. The plan administrator will use all funds received from participants since the prior investment of funds to purchase shares of our common stock in the open market. We will not use newly-issued shares of our common stock to implement such purchases. Purchase orders will be submitted daily. The Plan Administrator may, at its discretion, submit purchase orders less frequently but no later than 30 days after receipt. The plan administrator will charge each stockholder who makes such additional cash payments \$2.50, plus a \$0.10 per share brokerage commission. Cash dividends and distributions payable on all shares credited to your plan account will be automatically reinvested in additional shares pursuant to the terms of the plan. Brokerage charges for such purchases are expected to be less than the usual brokerage charge for such transactions. Instructions sent by a participant to the plan administrator in connection with such participant's cash payment may not be rescinded.

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

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

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

1. How do I purchase shares if I am not an existing registered holder?

To make an investment online, log on to [www.amstock.com](http://www.amstock.com), click on “Shareholders” followed by “Invest Online,” then select “All Plans” from the left toolbar. Select “Prospect Capital Corporation” Common Stock,” followed by “Invest Now.” Follow the “Steps to Invest,” which will guide you through the six-step investment process. Follow the prompts to provide your banking account number and ABA routing number to allow for the direct debit of funds from your savings or checking account. You will receive a receipt of your transaction upon completion of the investment process, as well as a subsequent e-mail confirming the number of shares purchased and their price (generally within two business days). To invest by mail, complete an Enrollment Application, which can be obtained by calling the Plan Administrator at 1-888-888-0313, and enclose a check made payable to American Stock Transfer & Trust Company, LLC for the value of your investment. The Enrollment Application may also be downloaded from the Plan Administrator’s website ([www.amstock.com](http://www.amstock.com)). The minimum initial investment is \$250.00. The maximum investment is \$10,000.00 per transaction. Once you are a stockholder, the minimum purchase amount is reduced to \$25.00. For purchases made with voluntary contributions, there is a transaction fee of \$2.50 per purchase and a per-share commission of \$0.10, each to be paid by the participants in the Plan. Your cash payment, less applicable service charges, fees and commissions, will be used to purchase shares on the open market for your account. Both full and fractional shares, up to three decimal places, will be credited to your Plan account. The Plan Administrator will commingle net funds (if applicable) with cash payments from all participants to purchase shares in the open market. Purchase orders will be submitted daily. The Plan Administrator may, at its discretion, submit purchase orders less frequently but no later than 30 days after receipt. No interest will be paid by the Plan Administrator pending investment. Instructions sent to the Plan Administrator may not be rescinded. You may also authorize the Plan Administrator, on the enrollment application or the Plan Administrator’s website, to make monthly purchases of a specified dollar amount, by automatic withdrawal from your bank account. Funds will be withdrawn from your bank account, via electronic funds transfer (EFT), on the 10th day of each month (or the next following day if the 10th is not a business day). To terminate monthly purchases by automatic withdrawal, please send the Plan Administrator written, signed instructions, which must be received by the Plan Administrator not less than 3 business days prior to an automatic withdrawal for such termination to take effect prior to such withdrawal. It is your responsibility to notify the Plan Administrator if your direct debit information changes. If a check or ACH withdrawal is returned to the Plan Administrator as “unpaid,” the Plan Administrator will sell shares if already purchased and liquidate additional shares, if necessary, to reimburse itself for any loss incurred, as well as a returned check fee of \$25.00. This is in addition to any other rights the Plan Administrator may have.

Stockholders who purchased their shares through or hold their shares in the name of a broker or financial institution should consult with a representative of their broker or financial institution with respect to their participation in the Plan. Such holders of common stock may not be identified as registered stockholders of Prospect Capital Corporation with the Plan Administrator.

2. How do I purchase additional shares if I am already a registered stockholder?

Additional shares may be purchased at any time. All of the terms outlined in Section #1 above apply, except the minimum investment is only \$25.00. To make an investment online, log on to [www.amstock.com](http://www.amstock.com) and select “Shareholders” followed by “Account Access and General Information,” and finally “Account Access.” You will be prompted to enter your Unique Account ID. If you do not have a Unique Account ID, register directly online and your Unique Account ID will be provided. Follow the prompts when registering for your Unique Account ID. From the left toolbar, select “Purchase Additional Shares” and complete the steps. Optional cash payments may also be mailed to the Plan Administrator using the tear-off portion of your account statement (sent in conjunction with each scheduled dividend) or purchase transaction advice, or via detailed written instructions. You may also authorize the Plan Administrator, on an enrollment application or the Plan Administrator’s website, to make monthly purchases of a specified dollar amount by automatic withdrawal from your bank account. Funds will be withdrawn from your bank account, via electronic funds transfer (EFT), on the 10th day of each month (or the next following day if the 10th is not a business day). To terminate monthly purchases by automatic withdrawal, you must send the Plan Administrator written, signed instructions. It is your responsibility to notify the Plan Administrator if your direct debit information changes. All shares will be purchased in the open market at the current market price.

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## LEGAL MATTERS

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

## INDEPENDENT ACCOUNTING FIRMS

BDO USA, LLP is the independent registered public accounting firm of the Company and National Property REIT Corp. MSPC is the independent registered public accounting firm of Harbortouch Payments, LLC. Hood & Strong LLP is the independent registered public accounting firm of NPH McDowell, LLC. Tidwell Group, LLC is the independent public accounting firm of Michigan Storage, LLC. RSM US LLP is the independent registered public accounting firm of First Tower Finance Company LLC.

## AVAILABLE INFORMATION

We have filed with the SEC a registration statement on Form N-2, together with all amendments and related exhibits, under the Securities Act, with respect to the notes offered by this prospectus supplement and accompanying prospectus. The registration statement contains additional information about us and the notes being registered by this prospectus supplement and accompanying prospectus. We file with or submit to the SEC annual, quarterly and current periodic reports, proxy statements and other information meeting the informational requirements of the Exchange Act. This information and the information specifically regarding how we voted proxies relating to portfolio securities for the period ended June 30, 2016, are available free of charge by contacting us at 10 East 40<sup>th</sup> Street, 42<sup>nd</sup> floor, New York, NY 10016 or by telephone at toll-free (888) 748-0702. You may inspect and copy these reports, proxy statements and other information, as well as the registration statement and related exhibits and schedules, at the Public Reference Room of the SEC at 100 F Street NE, Washington, D.C. 20549. You may obtain information on the operation of the Public Reference Room by calling the SEC at (202) 551-8090. The SEC maintains an Internet site that contains reports, proxy and information statements and other information filed electronically by us with the SEC which are available on the SEC’s Internet site at <http://www.sec.gov>. Copies of these reports, proxy and information statements and other information may be obtained, after paying a duplicating fee, by electronic request at the following E-mail address: [publicinfo@sec.gov](mailto:publicinfo@sec.gov), or by writing the SEC’s Public Reference Section, Washington, D.C. 20549-0102.

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

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Financial Statements

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PROSPECT CAPITAL CORPORATION AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF ASSETS AND LIABILITIES

(in thousands, except share and per share data)

	September 30, 2016 (Unaudited)	June 30, 2016 (Audited)
Assets		
Investments at fair value:		
Control investments (amortized cost of \$1,870,228 and \$1,768,220, respectively)	\$ 1,867,823	\$ 1,752,449
Affiliate investments (amortized cost of \$8,530 and \$10,758, respectively)	6,966	11,320
Non-control/non-affiliate investments (amortized cost of \$4,422,436 and \$4,312,122, respectively)	4,234,807	4,133,939
Total investments at fair value (amortized cost of \$6,301,194 and \$6,091,100, respectively)	6,109,596	5,897,708
Cash	132,240	317,798
Receivables for:		
Interest, net	9,920	12,127
Other	197	168
Prepaid expenses	703	855
Deferred financing costs on Revolving Credit Facility (Note 4)	6,834	7,525
Total Assets	6,259,490	6,236,181
Liabilities		
Revolving Credit Facility (Notes 4 and 8)	44,000	—
Prospect Capital InterNotes® (Notes 7 and 8)	930,814	893,210
Convertible Notes (Notes 5 and 8)	908,240	1,074,361
Public Notes (Notes 6 and 8)	736,821	699,368
Interest payable	33,086	40,804
Due to broker	80,397	957
Due to Prospect Capital Management (Note 13)	51,091	54,149
Due to Prospect Administration (Note 13)	1,719	1,765
Accrued expenses	2,764	2,259
Other liabilities	5,113	3,633
Dividends payable	29,836	29,758
Total Liabilities	2,823,881	2,800,264
Commitments and Contingencies (Note 3)	—	—
Net Assets	\$3,435,609	\$3,435,917
Components of Net Assets		
Common stock, par value \$0.001 per share (1,000,000,000 common shares authorized; 358,042,158 and 357,107,231 issued and outstanding, respectively) (Note 9)	\$ 358	\$ 357
Paid-in capital in excess of par (Note 9)	3,973,957	3,967,397
Accumulated overdistributed net investment income	(11,643 )	(3,623 )
Accumulated net realized loss	(335,465 )	(334,822 )
Net unrealized loss	(191,598 )	(193,392 )
Net Assets	\$3,435,609	\$3,435,917
Net Asset Value Per Share (Note 16)	\$9.60	\$9.62

See notes to consolidated financial statements.



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

	Three Months Ended September 30,	
	2016	2015
Investment Income		
Interest income:		
Control investments	\$45,909	\$51,944
Affiliate investments	—	885
Non-control/non-affiliate investments	86,660	93,708
Structured credit securities	39,081	44,766
Total interest income	171,650	191,303
Dividend income:		
Control investments	2,240	3,213
Non-control/non-affiliate investments	144	2
Total dividend income	2,384	3,215
Other income:		
Control investments	2,940	2,409
Non-control/non-affiliate investments	2,858	3,324
Total other income (Note 10)	5,798	5,733
Total Investment Income	179,832	200,251
Operating Expenses		
Investment advisory fees:		
Base management fee (Note 13)	30,792	32,954
Income incentive fee (Note 13)	19,730	22,810
Interest and credit facility expenses	41,669	41,957
Allocation of overhead from Prospect Administration (Note 13)	3,533	4,178
Audit, compliance and tax related fees	1,395	1,877
Directors' fees	113	94
Other general and administrative expenses	3,681	5,139
Total Operating Expenses	100,913	109,009
Net Investment Income	78,919	91,242
Net Realized and Change in Unrealized Gains (Losses)		
Net realized gains (losses)		
Control investments	—	—
Affiliate investments	137	—
Non-control/non-affiliate investments	572	(2,134 )
Foreign currency transactions	5	(1 )
Net realized gains (losses)	714	(2,135 )
Net change in unrealized gains (losses)		
Control investments	13,345	(39,852 )
Affiliate investments	(2,126 )	105
Non-control/non-affiliate investments	(9,446 )	(21,197 )
Foreign currency translations	21	(331 )
Net change in unrealized gains (losses)	1,794	(61,275 )
Net Realized and Change in Unrealized Gains (Losses)	2,508	(63,410 )

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Net realized losses on extinguishment of debt	(61 )	(15 )
Net Increase in Net Assets Resulting from Operations	\$81,366	\$27,817
Net increase in net assets resulting from operations per share	\$0.23	\$0.08
Dividends declared per share	\$(0.25 )	\$(0.25 )

See notes to consolidated financial statements.

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

(in thousands, except share data)

(Unaudited)

	Three Months Ended September 30,	
	2016	2015
<b>Operations</b>		
Net investment income	\$78,919	\$91,242
Net realized gains (losses)	653	(2,150 )
Net change in unrealized gains (losses)	1,794	(61,275 )
Net Increase in Net Assets Resulting from Operations	81,366	27,817
<b>Distributions to Shareholders</b>		
Distribution from net investment income	(89,428 )	(89,115 )
Net Decrease in Net Assets Resulting from Distributions to Shareholders	(89,428 )	(89,115 )
<b>Common Stock Transactions</b>		
Offering costs from issuance of common stock	—	118
Repurchase of common stock under stock repurchase program	—	(31,530 )
Value of shares issued through reinvestment of dividends	7,754	3,682
Net Increase (Decrease) in Net Assets Resulting from Common Stock Transactions	7,754	(27,730 )
Total Decrease in Net Assets	(308 )	(89,028 )
Net assets at beginning of period	3,435,917	3,703,049
Net Assets at End of Period	\$3,435,609	\$3,614,021
<b>Common Stock Activity</b>		
Shares repurchased under stock repurchase program	—	(4,358,750 )
Shares issued through reinvestment of dividends	934,927	490,473
Net shares issued (repurchased) due to common stock activity	934,927	(3,868,277 )
Shares issued and outstanding at beginning of period	357,107,231	359,090,759
Shares Issued and Outstanding at End of Period	358,042,158	355,222,482

See notes to consolidated financial statements.

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

	Three Months Ended September 30,	
	2016	2015
Operating Activities		
Net increase in net assets resulting from operations	\$81,366	\$27,817
Net realized losses on extinguishment of debt	61	15
Net realized (gains) losses on investments and foreign currency transactions	(714 )	2,135
Net change in unrealized (gains) losses on investments and foreign currency transactions	(1,794 )	61,275
Amortization of discounts and premiums, net	23,439	24,072
Accretion of discount on Public Notes (Note 6)	64	49
Amortization of deferred financing costs	3,631	3,556
Payment-in-kind interest	(5,439 )	(1,279 )
Structuring fees	(3,028 )	(3,556 )
Change in operating assets and liabilities:		
Payments for purchases of investments	(338,683 )	(340,908)
Proceeds from sale of investments and collection of investment principal	114,331	436,919
Decrease in interest receivable, net	2,207	6,029
(Increase) decrease in other receivables	(29 )	1,978
Decrease in prepaid expenses	152	32
Increase in due to broker	79,440	28,475
Decrease in interest payable	(7,718 )	(4,020 )
(Decrease) increase in due to Prospect Administration	(46 )	1,177
Decrease in due to Prospect Capital Management	(3,058 )	(2,388 )
Increase (decrease) in accrued expenses	505	(45 )
Increase in other liabilities	1,480	3,021
Net Cash (Used in) Provided by Operating Activities	(53,833 )	244,354
Financing Activities		
Borrowings under Revolving Credit Facility (Note 4)	44,000	200,000
Principal payments under Revolving Credit Facility (Note 4)	—	(412,000)
Issuances of Public Notes, net of original issue discount (Note 6)	37,466	—
Redemptions of Convertible Notes (Note 5)	(167,500 )	—
Issuances of Prospect Capital InterNotes® (Note 7)	38,917	48,134
Redemptions of Prospect Capital InterNotes®, net (Note 7)	(1,979 )	(628 )
Financing costs paid and deferred	(1,033 )	(891 )
Cost of shares repurchased under stock repurchase program	—	(31,530 )
Offering costs from issuance of common stock	—	118
Dividends paid	(81,596 )	(85,755 )
Net Cash Used in Financing Activities	(131,725 )	(282,552)
Net Decrease in Cash	(185,558 )	(38,198 )
Cash at beginning of period	317,798	110,026
Cash at End of period	\$132,240	\$71,828
Supplemental Disclosures		
Cash paid for interest	\$44,542	\$43,004
Non-Cash Financing Activities		

Value of shares issued through reinvestment of dividends	\$7,754	\$3,682
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See notes to consolidated financial statements.

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

Portfolio Company	Locale / Industry	Investments(1)	September 30, 2016 (Unaudited)		
			Amortized Cost	Fair Value(2)	% of Net Assets
<b>LEVEL 3 PORTFOLIO INVESTMENTS</b>					
Control Investments (greater than 25.00% voting control)(40)					
Arctic Energy Services, LLC(15)	Wyoming / Oil & Gas Services	Class D Units (32,915 units)	\$ 31,640	\$ 20,167	0.6%
		Class E Units (21,080 units)	20,230	—	—%
		Class A Units (700 units)	9,006	—	—%
		Class C Units (10 units)	—	—	—%
CCPI Inc.(16)	Ohio / Manufacturing	Senior Secured Term Loan A (10.00%, due 12/31/2017)(3)	60,876	20,167	0.6%
		Senior Secured Term Loan B (12.00% plus 7.00% PIK, due 12/31/2017)(39)	12,200	12,200	0.4%
		Common Stock (14,857 shares)	9,320	9,320	0.3%
			6,759	20,722	0.5%
CP Energy Services Inc.(17)	Oklahoma / Oil & Gas Services	28,279	42,242	1.2%	
		Series B Convertible Preferred Stock (1,043 shares)	98,273	76,002	2.2%
		Common Stock (2,924 shares)	15,227	—	—%
Credit Central Loan Company, LLC(18)	South Carolina / Consumer Finance		113,500	76,002	2.2%
		Subordinated Term Loan (10.00% plus 10.00% PIK, due 6/26/2019)(13)(39)	<del>40,989</del>	50,510	1.5%
		Class A Shares (10,640,642 shares)(13)	13,731	9,341	0.3%
		Net Revenues Interest (25% of Net Revenues)(13)	—	4,069	0.1%
Echelon Aviation LLC	New York / Aerospace & Defense		56,720	63,920	1.9%
		Senior Secured Term Loan (11.75% (LIBOR + 9.75% with 2.00% LIBOR floor) plus 2.25% PIK, due 3/31/2022)(10)(12)(39)	31,055	31,055	0.9%
		Membership Interest (99%)	19,907	23,988	0.7%
Edmentum Ultimate Holdings, LLC(19)	Minnesota / Consumer Services		50,962	55,043	1.6%
		Second Lien Revolving Credit Facility to Edmentum, Inc. – \$7,834 Commitment (5.00%, due 6/9/2020)(14)	—	—	—%
		Unsecured Senior PIK Note (8.50% PIK, due 6/9/2020)(39)	6,478	6,478	0.2%
		Unsecured Junior PIK Note (10.00% PIK, due 6/9/2020)(39)	<del>29,673</del>	24,766	0.7%
First Tower Finance Company LLC(20)	Mississippi / Consumer Finance	Class A Common Units (370,964 units)	6,577	4,241	0.1%
			36,128	35,485	1.0%
		Subordinated Term Loan to First Tower, LLC (10.00% plus 12.00% PIK, due	256,578	256,578	7.5%



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		6/24/2019)(13)(39)			
		Class A Shares (86,711,625 shares)(13)	70,476	95,275	2.7%
			327,054	351,853	10.2%
Freedom Marine Solutions, LLC(21)	Louisiana / Oil & Gas Services	Membership Interest (100%)	41,411	26,671	0.8%
			41,411	26,671	0.8%
Gulf Coast Machine & Supply Company	Texas / Manufacturing	Senior Secured Term Loan (10.50% (LIBOR + 8.50% with 2.00% LIBOR floor), in non-accrual status effective 1/1/2015, due 10/12/2017)(10)(11)	<del>38,906</del>	7,394	0.2%
		Series A Convertible Preferred Stock (99,900 shares)	25,950	—	—%
			59,353	7,394	0.2%

See notes to consolidated financial statements.

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

Portfolio Company		Locale / Industry Investments(1)	September 30, 2016 (Unaudited)			
			Principal Value	Amortized Cost	Fair Value(2)	% of Net Assets
<b>LEVEL 3 PORTFOLIO INVESTMENTS</b>						
Control Investments (greater than 25.00% voting control)(40)						
MITY, Inc.(22)	Utah / Durable Consumer Products	Senior Secured Note A (10.00% (LIBOR + 7.00% with 3.00% LIBOR floor), due 3/19/2019)(3)(10)(11)	\$ 18,250	\$ 18,250	\$ 18,250	0.5%
		Senior Secured Note B (10.00% (LIBOR + 7.00% with 3.00% LIBOR floor) plus 10.00% PIK, due 3/19/2019)(3)(10)(11)(39)	16,442	16,442	16,442	0.5%
		Subordinated Unsecured Note to Broda Enterprises ULC (10.00%, due on demand)(13)	5,646	7,200	5,646	0.2%
		Common Stock (42,053 shares)		6,849	13,177	0.4%
				48,741	53,515	1.6%
				283,972	283,972	283,972
National Property REIT Corp.(23)	Various / Real Estate	Senior Secured Term Loan A (6.00% (LIBOR + 4.00% with 2.00% LIBOR floor) plus 5.50% PIK, due 4/1/2019)(10)(11)(39)	212,819	212,819	212,819	6.2%
		Senior Secured Term Loan E (11.00% (LIBOR + 9.00% with 2.00% LIBOR floor) plus 5.00% PIK, due 4/1/2019)(10)(11)(39)	135,818	135,818	135,818	4.0%
		Senior Secured Term Loan C to ACL Loan Holdings, Inc. (11.00% (LIBOR + 9.00% with 2.00% LIBOR floor) plus 5.00% PIK, due 4/1/2019)(10)(11)(13)(39)	11,508	11,508	11,508	0.3%
		Senior Secured Term Loan C to American Consumer Lending Limited (11.00% (LIBOR + 9.00% with 2.00% LIBOR floor) plus 5.00% PIK, due 4/1/2019)(10)(11)(13)(39)	—	188,444	267,511	7.7%
		Common Stock (1,656,276 shares)	—	—	68,362	2.0%
		Net Operating Income Interest (5% of Net Operating Income)			832,561	979,990
Nationwide Loan Company LLC(24)	Illinois / Consumer Finance	Senior Subordinated Term Loan to Nationwide Acceptance LLC (10.00% plus 10.00% PIK, due 6/18/2019)(13)(39)	16,819	16,819	16,819	0.5%
		Class A Shares (29,559,899 shares)(13)		16,292	20,690	0.6%
				33,111	37,509	1.1%

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		Senior Secured Note (14.00%, due 5/6/2021)	3,714	3,714	3,404	0.1%
NMMB, Inc.(25)	New York / Media	Senior Secured Note to Armed Forces Communications, Inc. (14.00%, due 5/6/2021)	7,000	7,000	6,416	0.2%
		Series A Preferred Stock (7,200 shares)		7,200	28	—%
		Series B Preferred Stock (5,669 shares)		5,669	35	—%
				23,583	9,883	0.3%
R-V Industries, Inc.	Pennsylvania / Manufacturing	Senior Subordinated Note (10.00% (LIBOR + 9.00% with 1.00% LIBOR floor), due 6/12/2018)(3)(10)(11)	28,622	28,622	28,622	0.8%
		Common Stock (545,107 shares)		5,087	4,824	0.1%
		Warrant (to purchase 200,000 shares of Common Stock, expires 6/30/2017)		1,681	1,769	0.1%
				35,390	35,215	1.0%
USES Corp.(26)	Texas / Commercial Services	Senior Secured Term Loan A (9.00% PIK, in non-accrual status effective 4/1/2016, due 3/31/2019)	26,683	26,158	26,683	0.8%
		Senior Secured Term Loan B (15.50% PIK, in non-accrual status effective 4/1/2016, due 3/31/2019)	36,905	35,568	15,704	0.4%
		Common Stock (268,962 shares)		—	—	—%
				61,726	42,387	1.2%

See notes to consolidated financial statements.

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

Portfolio Company	Locale / Industry	Investments(1)	September 30, 2016 (Unaudited)				
			Principal Value	Amortized Cost	Fair Value(2)	% of Net Assets	
<b>LEVEL 3 PORTFOLIO INVESTMENTS</b>							
<b>Control Investments (greater than 25.00% voting control)(40)</b>							
Valley Electric Company, Inc.(27)	Washington / Construction & Engineering	Senior Secured Note to Valley Electric Co. of Mt. Vernon, Inc. (8.00% (LIBOR + 5.00% with 3.00% LIBOR floor) plus 2.50% PIK, due 12/31/2019)(3)(10)(11)(39)	\$ 10,430	\$ 10,430	\$ 10,430	0.3%	
		Senior Secured Note (10.00% plus 8.50% PIK, due 6/23/2019)(39)	24,199	24,199	20,101	0.6%	
		Common Stock (50,000 shares)		26,204	—	—%	
				60,833	30,531	0.9%	
Wolf Energy, LLC	Kansas / Oil & Gas Production	Senior Secured Promissory Note secured by assets formerly owned by H&M (18.00%, in non-accrual status effective 4/15/2013, due 4/15/2018)	38,257	—	—	—%	
		Membership Interest (100%)	—	—	—	—%	
		Net Profits Interest (8% of Equity Distributions)(4)	—	—	16	—%	
			—	—	16	—%	
			\$ 1,870,228	\$ 1,867,823	\$ 1,867,823	54.3%	
<b>Affiliate Investments (5.00% to 24.99% voting control)(41)</b>							
Targus International, LLC(28)	California / Durable Consumer Products	Senior Secured Term Loan A (15.00% PIK, in non-accrual status effective 10/1/15, due 12/31/2019)(8)		\$ 1,371	\$ 1,263	\$ 1,371	—%
		Senior Secured Term Loan B (15.00% PIK , in non-accrual status effective 10/1/15, due 12/31/2019)(8)		4,113	3,788	4,113	0.2%
		Common Stock (1,262,737 shares)			3,479	1,482	—%
				8,530	6,966	0.2%	
				\$ 8,530	\$ 6,966	0.2%	

See notes to consolidated financial statements.

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

Portfolio Company	Locale / Industry	Investments(1)	September 30, 2016 (Unaudited)		
			Amortized Value	Fair Value(2)	% of Net Assets
<b>LEVEL 3 PORTFOLIO INVESTMENTS</b>					
Non-Control/Non-Affiliate Investments (less than 5.00% voting control)					
AFI Shareholder, LLC (f/k/a Aircraft Fasteners International, LLC)	California / Machinery	Class A Units (32,500 units)	\$ 309	\$ 617	—%
			309	617	—%
ALG USA Holdings, LLC	Pennsylvania / Hotels, Restaurants & Leisure	Second Lien Term Loan (10.25% (LIBOR + 9.00% with 1.25% LIBOR floor), due 2/28/2020)(8)(10)(11)	<del>11,640</del>	11,771	0.3%
			11,640	11,771	0.3%
American Gilsonite Company(29)	Utah / Metal Services & Minerals	Membership Interest (1.93%)	—	—	—%
			—	—	—%
Apidos CLO IX	Cayman Islands / Structured Finance	Subordinated Notes (Residual Interest, current yield 14.72%, due 7/15/2023)(5)(13)	<del>29,625</del>	18,919	0.6%
			19,651	18,919	0.6%
Apidos CLO XI	Cayman Islands / Structured Finance	Subordinated Notes (Residual Interest, current yield 11.36%, due 1/17/2023)(5)(13)	<del>29,137</del>	25,439	0.7%
			29,137	25,439	0.7%
Apidos CLO XII	Cayman Islands / Structured Finance	Subordinated Notes (Residual Interest, current yield 13.25%, due 4/15/2025)(5)(13)	<del>33,070</del>	29,888	0.9%
			33,470	29,888	0.9%
Apidos CLO XV	Cayman Islands / Structured Finance	Subordinated Notes (Residual Interest, current yield 9.22%, due 10/20/2025)(5)(13)	<del>30,624</del>	24,264	0.7%
			30,624	24,264	0.7%
Apidos CLO XXII	Cayman Islands / Structured Finance	Subordinated Notes (Residual Interest, current yield 16.19%, due 10/20/2027)(5)(6)(13)	<del>26,336</del>	24,751	0.7%
			26,735	24,751	0.7%
Arctic Glacier U.S.A., Inc.	Minnesota / Food Products	Second Lien Term Loan (10.50% (LIBOR + 9.25% with 1.25% LIBOR floor), due 11/10/2019)(3)(10)(11)	150,000	149,324	4.3%
			150,000	149,324	4.3%
			<del>20,308</del>	\$ 9,568	0.3%

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Ark-La-Tex Wireline Services, LLC	Louisiana / Oil & Gas Services	Senior Secured Term Loan A (6.50% (LIBOR + 5.50% with 1.00% LIBOR floor), in non-accrual status effective 4/1/2016, due 4/8/2019)(10)(12)			
		Senior Secured Term Loan B (12.50% (LIBOR + 11.50% with 1.00% LIBOR floor), in non-accrual status effective 4/1/2016, due 4/8/2019)(10)(12)	23,239	—	—%
Armor Holding II LLC	New York / Diversified Financial Services	Second Lien Term Loan (10.25% (LIBOR + 9.00% with 1.25% LIBOR floor), due 12/26/2020)(3)(8)(10)(11)	43,945	9,568	0.3%
			<del>6,900</del>	6,912	0.2%
			6,912	6,912	0.2%
Atlantis Health Care Group (Puerto Rico), Inc.	Puerto Rico / Healthcare	Revolving Line of Credit – \$7,000 Commitment (10.25% (LIBOR + 8.25% with 2.00% LIBOR floor), due 8/21/2017)(10)(11)(14)	2,350	2,350	0.1%
		Senior Term Loan (10.25% (LIBOR + 8.25% with 2.00% LIBOR floor), due 2/21/2018)(3)(10)(11)	38,067	38,067	1.1%
Babson CLO Ltd. 2014-III	Cayman Islands / Structured Finance	Subordinated Notes (Residual Interest, current yield 13.09%, due 1/15/2026)(5)(6)(13)	40,417	40,417	1.2%
			<del>42,250</del>	40,630	1.2%
			42,771	40,630	1.2%

See notes to consolidated financial statements.

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

Portfolio Company	Locale / Industry	Investments(1)	September 30, 2016 (Unaudited)		
			Amortized Value	Carrying Value(2)	% of Net Assets
<b>LEVEL 3 PORTFOLIO INVESTMENTS</b>					
Non-Control/Non-Affiliate Investments (less than 5.00% voting control)					
BNN Holdings, Corp.	Michigan / Healthcare	Escrow Receivable	\$ —	—\$486	—%
			—	486	—%
Broder Bros., Co.	Pennsylvania / Textiles, Apparel & Luxury Goods	Senior Secured Term Loan A (7.00% (LIBOR + 5.75% with 1.25% LIBOR floor), due 6/03/2021)(3)(10)(12)	119,999	\$ 119,999	3.5%
		Senior Secured Term Loan B (13.50% (LIBOR + 12.25% with 1.25% LIBOR floor), due 6/03/2021)(10)(12)	120,983	120,983	3.5%
			240,982	240,982	7.0%
Brookside Mill CLO Ltd.	Cayman Islands / Structured Finance	Subordinated Notes (Residual Interest, current yield 12.67%, due 4/17/2025)(5)(13)	<del>20,000</del>	18,083	0.5%
			19,432	18,083	0.5%
California Street CLO IX Ltd. (f/k/a Symphony CLO IX Ltd.)	Cayman Islands / Structured Finance	Preference Shares (Residual Interest, current yield 15.77%, due 4/16/2022)(5)(13)	<del>37,800</del>	34,132	1.0%
			37,813	34,132	1.0%
Capstone Logistics Acquisition, Inc.	Georgia / Business Services	Second Lien Term Loan (9.25% (LIBOR + 8.25% with 1.00% LIBOR floor), due 10/7/2022)(3)(8)(10)(12)	<del>101,320</del>	101,033	2.9%
			101,319	101,033	2.9%
Carlyle Carlyle Global Market Strategies CLO 2016-3, Ltd.	Cayman Islands / Structured Finance	Subordinated Notes (Residual Interest, current yield 15.69%, due 10/20/2029)(5)(6)(13)	<del>32,800</del>	29,717	0.9%
			29,854	29,717	0.9%
Cent CLO 17 Limited	Cayman Islands / Structured Finance	Subordinated Notes (Residual Interest, current yield 12.17%, due 1/30/2025)(5)(13)	<del>18,870</del>	16,504	0.5%
			18,616	16,504	0.5%
Cent CLO 20 Limited	Cayman Islands / Structured Finance	Subordinated Notes (Residual Interest, current yield 9.27%, due 1/25/2026)(5)(13)	<del>30,288</del>	25,591	0.7%
			32,288	25,591	0.7%
Cent CLO 21 Limited	Cayman Islands / Structured Finance	Subordinated Notes (Residual Interest, current yield 8.66%, due 7/27/2026)(5)(6)(13)	<del>38,328</del>	28,947	0.8%
			37,278	28,947	0.8%

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CIFC Funding 2013-III, Ltd.	Cayman Islands / Structured Finance	Subordinated Notes (Residual Interest, current yield 14.62%, due 10/24/2025)(5)(13)	<del>34,700</del>	28,775	0.8%
				31,703	28,775
CIFC Funding 2013-IV, Ltd.	Cayman Islands / Structured Finance	Subordinated Notes (Residual Interest, current yield 15.24%, due 11/27/2024)(5)(13)	<del>33,065</del>	32,209	0.9%
				33,065	32,209
CIFC Funding 2014-IV Investor, Ltd.	Cayman Islands / Structured Finance	Income Notes (Residual Interest, current yield 13.72%, due 10/17/2026)(5)(6)(13)	<del>30,980</del>	29,141	0.8%
				30,980	29,141
Cinedigm DC Holdings, LLC	New York / Software & Computer Services	Senior Secured Term Loan (11.00% (LIBOR + 9.00% with 2.00% LIBOR floor) plus 2.50% PIK, due 3/31/2021)(10)(11)(39)	<del>65,590</del>	65,640	1.9%
				65,590	65,640

See notes to consolidated financial statements.

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

Portfolio Company	Locale / Industry	Investments(1)	September 30, 2016 (Unaudited)			
			Principal Value	Amortized Cost	Fair Value(2)	% of Net Assets
<b>LEVEL 3 PORTFOLIO INVESTMENTS</b>						
Non-Control/Non-Affiliate Investments (less than 5.00% voting control)						
Coverall North America, Inc.	Florida / Commercial Services	Senior Secured Term Loan A (7.00% (LIBOR + 6.00% with 1.00% LIBOR floor), due 11/02/2020)(3)(10)(11)	\$24,000	\$24,000	\$24,000	0.7%
		Senior Secured Term Loan B (12.00% (LIBOR + 11.00% with 1.00% LIBOR floor), due 11/02/2020)(3)(10)(11)	25,000	25,000	25,000	0.7%
				49,000	49,000	1.4%
Crosman Corporation	New York / Manufacturing	Senior Secured Term Loan A (9.22% (LIBOR + 8.70% with .30% LIBOR floor) plus 4.00% PIK, due 8/5/2020)(3)(10)(12)(39)	54,673	54,673	54,673	1.6%
		Senior Secured Term Loan B (16.22% (LIBOR + 15.70% with .30% LIBOR floor) plus 4.00% PIK, due 8/5/2020)(10)(12)(39)	41,656	41,656	41,656	1.2%
				96,329	96,329	2.8%
CURO Group Holdings Corp. (f/k/a Speedy Cash Holdings Corp.)	Canada / Consumer Finance	Senior Unsecured Notes (12.00%, due 11/15/2017)(8)(13)	15,000	15,000	7,076	0.2%
				15,000	7,076	0.2%
Easy Gardener Products, Inc.	Texas / Durable Consumer Products	Senior Secured Term Loan (10.84% (LIBOR + 10.00% with .25% LIBOR floor), due 09/30/2020)(3)(10)(11)	17,325	17,325	17,325	0.5%
				17,325	17,325	0.5%
Empire Today, LLC	Illinois / Durable Consumer Products	Senior Secured Note (11.375%, due 2/1/2017)(8)	50,426	50,189	50,426	1.5%
				50,189	50,426	1.5%
Fleetwash, Inc.	New Jersey / Business Services	Senior Secured Term Loan B (10.50% (LIBOR + 9.50% with 1.00% LIBOR floor), due 4/30/2019)(3)(10)(11)	23,402	23,402	23,402	0.7%
		Delayed Draw Term Loan – \$15,000 Commitment (expires 4/30/2019)(10)(14)	—	—	—	—%
Focus Brands, Inc.	Georgia / Consumer			23,402	23,402	0.7%
		Second Lien Term Loan (10.25% (LIBOR + 9.00% with 1.25% LIBOR	18,000	17,891	18,000	0.5%

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	Services	floor), due 8/21/2018)(8)(10)(12)		17,891	18,000	0.5%
Galaxy XV CLO, Ltd.	Cayman Islands / Subordinated Notes (Residual Structured Finance	Interest, current yield 16.76%, due 4/15/2025)(5)(13)	39,275	28,658	29,503	0.9%
				28,658	29,503	0.9%
Galaxy XVI CLO, Ltd.	Cayman Islands / Subordinated Notes (Residual Structured Finance	Interest, current yield 14.53%, due 11/16/2025)(5)(13)	24,575	18,900	18,168	0.5%
				18,900	18,168	0.5%
Galaxy XVII CLO, Ltd.	Cayman Islands / Subordinated Notes (Residual Structured Finance	Interest, current yield 14.47%, due 7/15/2026)(5)(6)(13)	39,905	30,527	28,779	0.8%
				30,527	28,779	0.8%
Generation Brands Holdings, Inc.	Illinois / Durable Consumer Products	Subordinated Secured Term Loan (11.00% (LIBOR + 10.00% with 1.00% LIBOR floor), due 12/10/2022)(8)(10)(11)	19,000	18,459	19,000	0.6%
				18,459	19,000	0.6%
Global Employment Solutions, Inc.	Colorado / Business Services	Senior Secured Term Loan (10.25% (LIBOR + 9.25% with 1.00% LIBOR floor), due 6/26/2020)(3)(10)(12)	49,250	49,250	49,250	1.4%
				49,250	49,250	1.4%

See notes to consolidated financial statements.

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

Portfolio Company	Locale / Industry	Investments(1)	September 30, 2016 (Unaudited)			
			Principal Value	Amortized Cost	Fair Value(2)	% of Net Assets
<b>LEVEL 3 PORTFOLIO INVESTMENTS</b>						
Non-Control/Non-Affiliate Investments (less than 5.00% voting control)						
Halcyon Loan Advisors Funding 2012-1 Ltd.	Cayman Islands / Finance	Subordinated Notes (Residual Interest, Structured current yield 14.13%, due 8/15/2023)(5)(13)	\$23,188	\$ 17,575	\$ 16,637	0.5%
				17,575	16,637	0.5%
Halcyon Loan Advisors Funding 2013-1 Ltd.	Cayman Islands / Finance	Subordinated Notes (Residual Interest, Structured current yield 9.26%, due 4/15/2025)(5)(13)	40,400	30,747	26,838	0.8%
				30,747	26,838	0.8%
Halcyon Loan Advisors Funding 2014-1 Ltd.	Cayman Islands / Finance	Subordinated Notes (Residual Interest, Structured current yield 8.12%, due 4/18/2026)(5)(13)	24,500	17,613	14,751	0.4%
				17,613	14,751	0.4%
Halcyon Loan Advisors Funding 2014-2 Ltd.	Cayman Islands / Finance	Subordinated Notes (Residual Interest, Structured current yield 8.84%, due 4/28/2025)(5)(6)(13)	41,164	29,585	25,007	0.7%
				29,585	25,007	0.7%
Halcyon Loan Advisors Funding 2015-3 Ltd.	Cayman Islands / Finance	Subordinated Notes (Residual Interest, Structured current yield 12.37%, due 10/18/2027)(5)(6)(13)	39,598	35,736	31,619	0.9%
				35,736	31,619	0.9%
Harbortouch Payments, LLC	Pennsylvania / Business Services	Second Lien Term Loan (10.00% (LIBOR + 9.00% with 1.00% LIBOR floor) plus 3.00% PIK, due 5/31/2023)(3)(10)(11)(39) Escrow Receivable	27,711	27,711	28,404	0.9%
				—	1,629	—%
				27,711	30,033	0.9%
HarbourView CLO VII, Ltd.	Cayman Islands / Finance	Subordinated Notes (Residual Interest, Structured current yield 16.22%, due 11/18/2026)(5)(6)(13)	19,025	14,432	12,806	0.4%
				14,432	12,806	0.4%
Harley Marine Services, Inc.	Washington / Transportation	Second Lien Term Loan (10.50% (LIBOR + 9.25% with 1.25% LIBOR floor), due 12/20/2019)(3)(8)(10)(11)	9,000	8,894	8,352	0.2%
				8,894	8,352	0.2%
Hollander Sleep Products, LLC	Florida / Durable Consumer Products	Senior Secured Term Loan (9.00% (LIBOR + 8.00% with 1.00% LIBOR floor), due 10/21/2020)(3)(10)(12)	21,860	21,860	20,293	0.6%
				21,860	20,293	0.6%
			16,830	16,830	16,830	0.5%

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Inpatient Care Management Company LLC	Florida / Healthcare	Senior Secured Term Loan (11.50% (LIBOR + 10.50% with 1.00% LIBOR floor), due 6/8/2021)(10)(12)					
			16,830	16,830	0.5%		
		Senior Secured Term Loan A (5.50% (LIBOR + 4.50% with 1.00% LIBOR floor), due 3/28/2019)(10)(11)	122,444	122,444	122,444	3.6%	
Instant Web, LLC	Minnesota / Media	Senior Secured Term Loan B (12.00% (LIBOR + 11.00% with 1.00% LIBOR floor), due 3/28/2019)(3)(10)(11)	158,100	158,100	158,100	4.6%	
		Senior Secured Term Loan C-1 (12.75% (LIBOR + 11.75% with 1.00% LIBOR floor), due 3/28/2019)(10)(11)	27,000	27,000	27,000	0.8%	
		Senior Secured Term Loan C-2 (13.50% (LIBOR + 12.50% with 1.00% LIBOR floor), due 3/28/2019)(10)(11)	25,000	25,000	25,000	0.7%	
			332,544	332,544	9.7%		

See notes to consolidated financial statements.

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

Portfolio Company	Locale / Industry	Investments(1)	September 30, 2016 (Unaudited)			
			Principal Value	Amortized Cost	Fair Value(2)	% of Net Assets
<b>LEVEL 3 PORTFOLIO INVESTMENTS</b>						
Non-Control/Non-Affiliate Investments (less than 5.00% voting control)						
InterDent, Inc.	California / Healthcare	Senior Secured Term Loan A (6.25% (LIBOR + 5.50% with 0.75% LIBOR floor), due 8/3/2017)(10)(12)	\$79,317	\$79,317	\$79,317	2.3%
		Senior Secured Term Loan B (11.25% (LIBOR + 10.50% with 0.75% LIBOR floor), due 8/3/2017)(3)(10)(12)	131,125	131,125	131,125	3.8%
JAC Holding Corporation	Michigan / Transportation	Senior Secured Note (11.50%, due 10/1/2019)(8)	2,868	2,868	2,868	0.1%
			2,868	2,868	2,868	0.1%
JD Power and Associates	California / Consumer Services	Second Lien Term Loan (9.50% (LIBOR + 8.50% with 1.00% LIBOR floor), due 9/7/2024)(8)(10)(11)	15,000	14,777	15,000	0.4%
			14,777	15,000	15,000	0.4%
Jefferson Mill CLO Ltd.	Cayman Islands / Structured Finance	Subordinated Notes (Residual Interest, current yield 9.47%, due 7/20/2027)(5)(6)(13)	19,500	16,821	13,174	0.4%
			16,821	13,174	13,174	0.4%
LaserShip, Inc.	Virginia / Transportation	Senior Secured Term Loan A (10.25% (LIBOR + 8.25% with 2.00% LIBOR floor) plus 1.00% PIK, due 3/18/2019)(3)(10)(12)(39)	34,424	34,424	33,667	1.0%
		Senior Secured Term Loan B (10.25% (LIBOR + 8.25% with 2.00% LIBOR floor) plus 1.00% PIK, due 3/18/2019)(3)(10)(12)(39)	21,129	21,129	20,664	0.6%
LCM XIV Ltd.	Cayman Islands / Structured Finance	Income Notes (Residual Interest, current yield 16.10%, due 7/15/2025)(5)(13)	30,500	22,359	21,872	0.6%
			22,359	21,872	21,872	0.6%
Madison Park Funding IX, Ltd.	Cayman Islands / Structured Finance	Subordinated Notes (Residual Interest, current yield 21.72%, due 8/15/2022)(5)(13)	43,110	29,343	28,543	0.8%
			29,343	28,543	28,543	0.8%
Matrixx Initiatives, Inc.	New Jersey / Pharmaceuticals	Senior Secured Term Loan A (7.50% (LIBOR + 6.00% with 1.50% LIBOR floor), due 8/9/2018)(3)(10)(11)	34,490	34,490	34,490	1.0%

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		Senior Secured Term Loan B (12.50% (LIBOR + 11.00% with 1.50% LIBOR floor), due 8/9/2018)(3)(10)(11)	45,562	45,562	45,562	1.3%
Maverick Healthcare Equity, LLC	Arizona / Healthcare	Preferred Units (1,250,000 units)		80,052	80,052	2.3%
		Class A Common Units (1,250,000 units)	1,252	1,990	1,990	0.1%
			—	204	204	—%
			1,252	2,194	2,194	0.1%
Mineral Fusion Natural Brands(30)	Colorado / Personal & Nondurable Consumer Products	Membership Interest (1.43%)	—	197	197	—%
			—	197	197	—%
Mountain View CLO 2013-I Ltd.	Cayman Islands / Structured Finance	Subordinated Notes (Residual Interest, current yield 14.27% due 4/12/2024)(5)(13)	43,650	32,078	29,996	0.9%
				32,078	29,996	29,996
Mountain View CLO IX Ltd.	Cayman Islands / Structured Finance	Subordinated Notes (Residual Interest, current yield 14.52%, due 7/15/2027)(5)(6)(13)	47,830	42,415	38,431	1.1%
				42,415	38,431	38,431

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

Portfolio Company	Locale / Industry	Investments(1)	September 30, 2016 (Unaudited)			
			Principal Value	Amortized Cost	Fair Value(2)	% of Net Assets
<b>LEVEL 3 PORTFOLIO INVESTMENTS</b>						
Non-Control/Non-Affiliate Investments (less than 5.00% voting control)						
NCP Finance Limited Partnership(31)	Ohio / Consumer Finance	Subordinated Secured Term Loan (11.00% (LIBOR + 9.75% with 1.25% LIBOR floor), due 9/30/2018)(3)(8)(10)(12)(13)	\$27,119	\$26,502	\$25,763	0.7%
				26,502	25,763	0.7%
Nixon, Inc.	California / Durable Consumer Products	Senior Secured Term Loan (9.50% plus 3.00% PIK, in non-accrual status effective 7/1/2016, due 4/16/2018)(3)(8)(39)	14,421	14,197	10,877	0.3%
				14,197	10,877	0.3%
Octagon Investment Partners XV, Ltd.	Cayman Islands / Structured Finance	Income Notes (Residual Interest, current yield 13.99%, due 1/19/2025)(5)(13)	32,921	25,527	22,633	0.7%
				25,527	22,633	0.7%
Octagon Investment Partners XVIII, Ltd.	Cayman Islands / Structured Finance	Income Notes (Residual Interest, current yield 16.76%, due 12/16/2024)(5)(6)(13)	28,200	19,391	17,805	0.5%
				19,391	17,805	0.5%
		Revolving Line of Credit – \$3,000 Commitment (9.00% (LIBOR + 8.00% with 1.00% LIBOR floor), due 12/31/2016)(10)(11)(14)	—	—	—	—%
Onyx Payments(32)	Texas / Diversified Financial Services	Senior Secured Term Loan A (6.50% (LIBOR + 5.50% with 1.00% LIBOR floor), due 9/10/2019)(3)(10)(11)	45,130	45,130	45,130	1.3%
		Senior Secured Term Loan A (6.00% (LIBOR + 5.00% with 1.00% LIBOR floor), due 9/10/2019)(10)(11)	25,000	25,000	25,000	0.7%
		Senior Secured Term Loan B (13.50% (LIBOR + 12.50% with 1.00% LIBOR floor), due 9/10/2019)(3)(10)(11)	56,889	56,889	56,889	1.7%
		Senior Secured Term Loan B (13.00% (LIBOR + 12.00% with 1.00% LIBOR floor), due 9/10/2019)(10)(11)	25,000	25,000	25,000	0.7%
				152,019	152,019	4.4%
Pacific World Corporation	California / Personal & Nondurable Consumer	Revolving Line of Credit – \$15,000 Commitment (8.00% (LIBOR + 7.00% with 1.00% LIBOR floor), due 9/26/2020)(10)(12)(14)	5,500	5,500	5,500	0.2%

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	Products	Senior Secured Term Loan A (6.00% (LIBOR + 5.00% with 1.00% LIBOR floor), due 9/26/2020)(10)(12)	97,994	97,994	94,364	2.7%
		Senior Secured Term Loan B (10.00% (LIBOR + 9.00% with 1.00% LIBOR floor), due 9/26/2020)(3)(10)(12)	97,994	97,994	83,137	2.4%
				201,488	183,001	5.3%
Pelican Products, Inc.	California / Durable Consumer Products	Second Lien Term Loan (9.25% (LIBOR + 8.25% with 1.00% LIBOR floor), due 4/9/2021)(3)(8)(10)(12)	17,500	17,487	16,383	0.5%
				17,487	16,383	0.5%
		Revolving Line of Credit – \$1,000 Commitment (9.50% (LIBOR + 8.50% with 1.00% LIBOR floor), due 8/11/17)(10)(11)(14)	—	—	—	—%
PeopleConnect Intermediate, LLC (f/k/a Intelius, Inc.)	Washington / Software & Computer Services	Senior Secured Term Loan A (6.50% (LIBOR + 5.50% with 1.00% LIBOR floor), due 7/1/2020)(3)(10)(11)	20,199	20,199	19,764	0.6%
		Senior Secured Term Loan B (12.50% (LIBOR + 11.50% with 1.00% LIBOR floor), due 7/1/2020)(3)(10)(11)	20,849	20,849	20,154	0.6%
				41,048	39,918	1.2%

See notes to consolidated financial statements.

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